

**CHRISTIAN SERVICE UNIVERSITY COLLEGE**

**THE ROLE OF INTERNAL AUDIT TOWARDS EFFECTIVE INTERNAL  
CONTROL SYSTEM IN PRIVATE ORGANISATION**

**BY**

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## **ABSTRACT**

The researcher has always wondered why most private companies not have internal audit as part of their internal control systems governing organization's operations. This could be attributed to the fact that, directors have not realized the need for internal audit unit since private companies are registered with external auditors who will prepare the financial statements at the year end.

Also, audit work has lots of problems and due to an individual ignorance about the role and functions of audit, it even becomes difficult to establish an audit department in most private entities.

Most accountants or accounts staffs always see auditors as police whose duty is to detect and report their observations. This suspicion on the part of accounts staff do not help auditors when forming opinions.

The study begins with an introduction, followed by literature review, methodology, results and discussions and ended with summary, conclusion and recommendations.

The strengths were recommended and reinforced. With respect to the weaknesses however, the author attempted addressing them by making valuable recommendations.

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 BACKGROUND OF THE STUDY**

Over the years, there has been little attention given to the work of audit, as most people do not see the need of auditing in a firm once there is an Accounting Department in a business organization. People, and for that matter those who have contributed resources in an organization for profit or not tend to ignore that, their resources are being managed by stewards of which such stewards are expected to report about their stewardship.

Stewardship presents a report normally called Financial Statement to owners who have pooled resources for business purposes about what they have done with the resources entrusted into their care. After the presentation of such report or statement, there comes whether faithfulness had been exhibited or not. To overcome such impression, there is the need for a third party to perform a function that ensures that stewards act in a fair operations for their owners, hence auditing.

However, the situation is different in most Private Companies as against Public Companies which maintain strong Internal Audit unit. This is because, Public Companies are for the State and not any individual who will be present at all times. The sector is owned by the government of which the financing is either provided by Government, group of individuals or grants from even overseas. Financial statements are always to be provided as to the spending of the resources provided by such contributors. Owners of this sector would only accept the Statement without doubt when and only when it is accompanied with a third person's opinion. This therefore calls for auditing.

In the same way Private Companies, once is established is considered a separate entity from its owners, though the initial capital and other resources required are being provided by the owners. It of this same view that private companies must consider to create an Audit unit in every organization to place checks and orders on the trustees who are managing the resources. Some shareholders are of the view that once the company is registered with an external

auditor at the Registrar Generals Department, there is no need for Internal Audit Unit present at the Company's premises, which is wrong.

To audit is to scrutinize the accounts of an organization by a personnel called "Auditor" in sufficient detail for him to form an opinion on the truth and fairness of the accounts. According to the Auditing Practicing Committee, auditing is an independent examination of, and expression of opinion on the financial statement of an enterprise by an appointed Auditor in pursuance of his appointment and in compliance with the relevant statutory obligations.

Private companies are established by two to twenty groups of individuals who have agreed to bring together resources into a business venture. These resources are handed over to qualified expertise called "management" to manage the day to day operations of the sector, by which this body has to perform some of the following responsibilities;

1. To put in place suitable policies and practices and ensure its compliance
2. To set up internal controls that will safeguard the assets of the company
3. To ensure that weaknesses do not occur in the Accounting Systems
4. To identify Financial weaknesses such as fraud, embezzlement etc.
5. To make effective, efficient and judicious use of both human and material resources entrusted in their hands.

## **1.2 RESEARCH PROBLEM**

There is the general observation that most private companies do not have internal audit unit. This could be attributed to the fact that, directors have not realize the need for internal audit unit sine private companies are registered with external auditors who will prepare the financial statements at the year end.

Also, audit work has lots of problems and due to an individual ignorance about the role and functions of audit, it even becomes difficult to establish an audit department in most entities.

Most accountants or accounts staffs always see auditors as police whose duty is to detect and report their observations. This suspicion on the part of accounts staff do not help auditors when forming opinions. Considering the views outlined above, the researcher has seen the need to research into the problems and come out with the manifold importance of the topic.

### **1.3 OBJECTIVES OF THE RESEARCH**

The objectives of the research are;

- a. To ascertain the Internal Control practices in private companies, especially DBS Industries Limited.
- b. To determine whether the available controls are adequate and are being adhered to.

### **1.4 RESEARCH QUESTIONS**

This research work therefore did seek to answer the following questions:

- i. What are internal controls?
- ii. How it works in practice?
- iii. What factors inhibits its effective implementation?

### **1.5 ORGANISATION OF THE STUDY**

This study has been divided into five chapters under the broad headings of introduction, literature review, methodology, data presentation and analysis, summary, recommendations and conclusions.

Chapter one of the study presents the introduction to the study and deals with topics such as background of the study, problem statement, objectives of the study, research question and organization of the study.

Chapter two presents the literature review. The researcher discussed topics like an over view of internal auditing, definition of internal audit, internal audit roles and objectives and what internal control systems are.

Chapter three presents the methodology adopted for the study starting with introduction, sampling procedures, questionnaire administration and data collection method.

Chapter four covers the results and discussions.

Chapter five highlights the summary, conclusions and recommendations.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 OVERVIEW OF INTERNAL AUDIT**

Internal Audit is an integral part of financial structure of organizations providing independent services. However, most private authorities have not recognize the importance of internal audit unlike larger public authorities have adopted it.

Over the years, however, the precise role of Internal Audit has changed. In the early days, its primary responsibility was concerned with the detection and prevention of errors and fraud, with perhaps an overdue concentration on examination of accounts before payments, collecting income and checking petty claims.

Today Internal Auditing operates in a dynamic environment with an emphasis on reviewing systems of Internal Control. Internal Audit exists within organization to carry out an independent appraisal of the effectiveness of Internal Controls, financial and others operating within each organization.

Over the years, various organizations have produced statements on, and definitions of the role and objectives of Internal Audit. Such organizations include Auditing Practices Committee (now Auditing Practice Board), Consultative Committee of Accounting Bodies (CCAB) etc.

#### **2.2 DEFINITION OF INTERNAL AUDIT**

According to the Auditing Practices Board (APB), Internal Audit is defined as an independent appraisal function establish by the Management of an organization for review of the Internal Control Systems as a service to the Organisation.

Internal Audit is a Management control which functions by measuring and evaluating the effectiveness of other controls within an enterprise or institution. It objectively examines, evaluates and report on the adequacy of Internal Control as a contribution to proper economic, effective and efficient use of resources.

Regrettably, the independent appraisal function has not been accepted by all private organizations. For instance, some private organizations do not have separate Internal Audit sections engaged solely in audit duties. In this case, Internal Audit is part of the departmental systems and procedures which means a consequential loss in audit effectiveness. Some organizations also resort to Out-sourcing Internal Audit. Out-sourcing Internal Audit arises when external Auditors are engaged to conduct periodic review on organization Internal Control Systems to ensure adherence to controls instituted.

## **2.3 INTERNAL AUDIT ROLES AND OBJECTIVES**

The Internal Audit is performed by an Internal Auditor and his audit staff. In “Auditing for you” by I.T. Okai, the author explained audit role as, to provide management with an independent view on the system and procedures and assess whether the standards set achieved in a secured and efficient manner. The work of Internal Audit normally goes beyond the accounting and financial records to obtain full understanding of the organization’s operations. Internal Auditors are not merely concerned with the organizations financial controls. Their work encompasses all of the organizations internal controls, be it financial or non financial. Also, many progressive internal auditing departments provide a wide range of other assurance and consulting services to the management of their organizations.

As organizations become larger and more complex, they encountered additional operation problems that lent themselves to solution by internal auditing. The internal auditors’ role of determining whether operating units in the organization follow authorized accounting and financial policies have readily extended to include the determination of whether they follow all the organizations policies, and whether the established policies provide sound and effective control over all operations.

Normally, Internal Audit operates in one or more of these areas;

- a) To review the accounting systems and other related internal controls.
- b) Examining the financial.
- c) Reviewing the economy, efficiency and effectiveness of the operations of financial and non – financial.
- d) To carry out special investigations.
- e) To report to management about their findings and observations as well as providing reasonable recommendations.

It is the responsibility of every organization to identify its objectives in order to monitor and review performance.

## **2.4 DEFINITION OF INTERNAL CONTROL SYSTEM**

The Auditing Standards defines internal controls as “the whole system of controls, financial or otherwise, established by Management in order to carry on the business of the enterprise in an orderly and efficient manner, to ensure adherence to management policies, safeguard assets as far as possible the completeness and accuracy of the records”.

As already expatiated already, Internal Control System looks at putting certain procedures and policies in place by the Management of an enterprise in order to facilitate the day to day operations, serve as a security to safeguard the properties, ensure effective use of resources and also see to it that such policies and procedures are being observed and practiced by all



staff in that particular business. This area will cover the practices in internal controls in the areas of purchases, revenue, wages and salaries, payments and if possibly banking.

The most aspects of the internal control as defined by the auditing standards are that:

- I. It is the whole system that covers every operations of the organization.
- II. The system is established by the entity's Management possibly with the help of professionals such as Accountant, Engineers Architects etc depending on the entity's business.
- III. That the controls are enforced to ensure orderly operations.
- IV. The controls form part of management policies and decisions.
- V. Its compliance is ensured.
- VI. The controls are intended to safeguard the assets so as to avoid pilfering, misapplication etc.
- VII. There is accuracy and completeness of accounting records.
- VIII. Financial Statements are prepared on time.

Internal Control System (ICS) can be divided or grouped into two areas.

**CONTROL ENVIRONMENT:** Which is the overall awareness, attitudes and actions towards internal control system and the importance attach to it. This control looks at;

- I. The organizational styles.
- II. Organizational structure with respect to allocation of function.
- III. The establishment of lines of reporting.
- IV. The delegation of authority and responsibilities.
- V. The segregation of duties into authorization, approval, execution, custody, recording etc.

**CONTROL PROCEDURES:** These are the policies and procedures as well as the control environment established to enable management know whether their objectives are achieved. The procedures are:

- I. The approval and control of documents such as receipt cheques, cheques counterfoil, local purchase orders (LPOs)etc
- II. Checking of the arithmetic accuracy of records.
- III. Maintenance of proper records and accounts.
- IV. Reconciliation such as Bank Statement, Stores reconciliation etc.
- V. Comparing the results of cash, inventory counts.

- VI. Comparing actual results with budgeted.
- VII. Limiting direct physical access to assets and records only to authorized personnel's.

## **2.5 INTERNAL CONTROL SYSTEM IN PURCHASES**

In business terms, purchase is where goods or services are bought with the prime intention of resale. As far as this study is concern and DBS as a profit making institution, we could say that purchases are where goods or items of raw materials are acquired for the running of the Industry.

The objectives of maintaining I.C.S. in purchases are the following;

- (a) To ensure that all necessary and only necessary goods and services are procured for the organization.
- (b) Goods and services are acquired in an economic manner as possible, taking into accounts the delivery time, type of goods, the quality etc.
- (c) To ensure that all authorized and only authorized invoices are processed for payment.

### **2.5.1 PURCHASING PROCEDURES**

Before an item is procured and invoice passed for payment for item acquired, the following procedures should be ensured;

- (a) **REQUISITION:** The Company does not have strict policies governing material requisition. However, depending on the trade agreement entered into with the foreign suppliers, materials are transported to them on monthly basis.
- (b) **ORDERING:** If materials requested are not available in the store, orders would be placed or sent to not less than two suppliers for quotation or pro forma invoice and the least cost of such materials will be selected among the suppliers.
- (c) **RECEIVING THE GOODS:** In large organization, there is a Goods Receiving Department, which is situated near the entrance where the goods are delivered. The goods are receipted by the goods receiving officer, who then sign the delivery note. The goods are recorded in the Goods Received Voucher (GRV) immediately after the necessary checks are made. Information to be entered in the GRV included:
  - Date of Receipt
  - Suppliers Name
  - Order Number
  - Delivery Note Number
  - Quantities
  - Method of Transport



- (d) RETURN OF GOODS TO SUPPLIER: When goods are received, they are checked for the quantity and quality. Those that do not measure up to the required quality and quantity are returned to the supplier with DÉBIT NOTE, indicating the reduction of amount owed to the supplier.
- (e) THE INVOICE: Sometimes after the goods have been received, the Accounts Department receives an invoice. An invoice is a document, which states the details of goods sold and their prices.

## **2.5.2 AUDITORS ROLES WITH RESPECT TO PURCHASES**

In “Effectiveness of financial controls in public sector financial management (Cape Coast), publication on Auditing government establishment and related establishment, ICA journal, April 1987”, compiled by Kofi Asumadu-Addo(1998), the writer stated that internal auditors are in the organization to appraise, examine, evaluate, and advise management in all aspects of the organizational operation in order to achieve economy, efficiency and effectiveness in the organizational dealings.

To achieve management policies compliance, internal auditors have to carry out the following roles in the purchasing process under the internal control system.

Ordering; Procurement Committee which seeks to the acquisition of goods and services beyond a certain amount should comprise an internal Auditor or a staff from an audit department. An auditor's present should act with all professional manners to select among pro-forma obtain from various suppliers the least of them to be purchased.

(b) Receipt of Goods; Upon receipt of orders placed, the goods should be inspected or verified by the internal auditor as to the quality, quantity, as well as the supplier which was selected to supply the goods before the goods are allowed to be used.

© Return of rejected goods; an auditor should be informed before unwanted goods are returned to the supplier in order to adjust its verification book to conform to the GRV kept by the store keeper

Before and after Auditors certifies all invoices, he should check the following;

- verify that each invoice for goods is supported by a properly signed requisition.

- verify that each invoice for goods is supported by a GRV bearing evidence that the goods that have been inspected and approved as being in good condition and order in agreement with the purchase order.

- verify that capital expenditure requisitions have been made within authorized limits.

- verify that prices are as authorized by examining priced copy order, estimates, or, other evidence.

- verify calculations extensions
- check that invoices have been correctly expense and cost record coded and those entries in the invoice register and cost records correctly reflect the coding.
- Verify that credit notes are supported by goods returned note.
- verify calculations and ensures that additions have been checked.
- verify that appropriate acknowledgement in the form of initials or signatures appear on each document.
- verify that each invoice has been passed for payment, in the form of initials or signatures appear on each document.
- Recording into books of accounts; An internal auditor has to check invoice on purchases passed whether it has been recorded in the book, and if done, is the record properly or accurately dealt with, auditor therefore ensures the following:

(1) Check postings from the invoice register in the purchase ledger account.

(2) verify sequent of;

- . Orders
- . Goods Received Voucher/Notes
- . Copy order
- . Invoice number applied internally

(3) Enquire into missing numbers

(4) Enquire into outstanding orders

(5) Enquire into unmatched GRV

(6) Enquire into unprocessed invoice

(7) Test additions and cross cast invoice register

(8) Test postings to nominal ledger

(9) Scrutinize the invoice register and extraordinary items.

### **2.5.3 VERIFICATION OF PURCHASES AND ASSETS AND THE REASONS TO AUDITORS**

An internal auditor verifies an item acquired or assets obtained by examining the circumstances surrounding its acquisition.

The reasons why an auditor verifies an item procured are;

To ascertain the cost of an item whether it is reasonable.

To be sure of the approval and the authorization

To ascertain the valuation of the assets as it appears on the books particularly the balance sheet.

To ascertain the ownership of the item acquired, either it was procured or personal use for the company as a whole.

To ascertain assets existence; that is its location

To find out the benefit such asset would bring to the school.

### **2.6 INTERNAL CONTROL SYSTEM UNDER THE REVENUE**

#### **2.6.1 Auditors Role in Revenue Collection**

Internal auditor ensures that revenue and other receipts or income to the company are properly collected, identified, recorded and banked intact.

For the internal control in revenue;

All receipts such as remittance, cash sales, credit cards etc. are recorded and banked.

Auditors seek to it that proper receipts are issued to cover all receipts collected.

No disbursements are made from the revenue collected

Payments into bank are done within the stipulated hours.

Only the proper cheques are accepted

Cheques received are deposited at the school Bank Account

Adequate security exists over all cash collected

Revenue collectors are supervised



## **2.7 CHECKING OF BANK RECONCILIATION STATEMENTS**

Internal audit seeks to it that monthly Bank Statements are provided by the company's Bank to the Finance Officer in order to reconcile the cash book transactions.

After the reconciliation has been prepared a copy should be sent to the internal auditor for checking. Internal auditor checks the statement reconciled with the cash book to ascertain that all cash receipted were banked and if so, he also finds out the date collected and the date banked, whether it is in line with the financial Regulations formulated by the company.

Internal Auditor also checks the Reconciliation to ascertain:

- (a) Company's previous bank balance
- (b) Receipt and other income during a particular period
- (c) Payments made through bank
- (d) Closing Balance as compared to the cashbook balance.

## **2.8 INTERNAL CONTROL SYSTEM IN WAGES AND SALARIES**

Internal Auditor carries out audit programme under wages and salaries with the following aims.

- (a) To appraise the approval procedures and see that they are followed.
- (b) That the payments made are corrected and in accordance with Financial Regulations.
- (c) That the records maintained are accurate and adequate
- (d) That proper security is exercised over collection; make up, custody and payments out of cash or cheques.

### **AREA OF AUDIT**

The audit commences where a wages and salary become due ends with the payment to the employees and posting in the financial records.



## **BASIC PROGRAMME CONTROL**

The Auditor reviews the system of control order to verify the following.

- (a) That adequate and up to date record, covering all staff grading and other entitlements are maintained.
- (b) That there is an adequate system for the control of starters and leavers.
- (c) That adequate procedure exist for the authorization of amendments to the records for new starters, leaver's salary.
- (d) That daily, weekly and monthly time records are properly certified
- (e) That any additional payments (overtime, bonus, sick pay etc) are correctly calculated and supported by the correct documentation and are authorized.
- (f) That gross and net pay totals are controlled in the financial records and that payout procedures are clearly defined.

## **2.9 LIMITATIONS TO THE EFFECTIVENESS OF INTERNAL CONTROL**

No Internal Control System can by itself guarantee efficient administration completeness and accuracy of records, nor can it be proved against fraudulent collusion especially on the parts of those holding positions of authority or trust because Internal Control depends on the segregation of duties which can be abused or avoided by collusion.

Authorization controls can be abused by the person in whom the authority is vested. While the competence and integrity of the personnel operating the controls may be ensured by selecting and training. These qualities may differ due to pressure exerted both within and without the enterprise. Human errors due to error of judgment or interpretation to misunderstanding, carelessness, fatigue or distraction may undermine the effectiveness on internal control system.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 INTRODUCTION**

This part of the study discusses the methodology used to gather the required data as well as how such data gathered were presented and analyzed. The general aim of this study was to look at internal audit roles towards internal control practices in DBS Industries Limited. In order to make formidable recommendations and conclusions about the study of this nature, the researcher has devised varying methods of collecting data. These methods are;

- (a) Administration of Questionnaire
- (b) One on One Interviews
- (c) References from books, files, periodicals.

The study was conducted to obtain information on:

- The established internal control systems
- Evaluate the system
- Importance of internal audit

#### **3.2 POPULATION**

The population for this study was all the offices and personnel that are involved in the financial environment of the company. The researcher conducted interviews from five main offices within the company. These sources were used as the “laboratory” for the study. They are the Accounts Office, the Stores/Sales Department, the Production Department, Security Department, and the Recycling Department.

#### **3.3 SAMPLE AND SAMPLING PROCEDURE**

As stated above, by means of purposive sampling methods, experts in the company in the area of internal controls and practices such as the Financial Controller, General/Personnel Manager, Marketing Manager, Production Manager and Security Head, as well as some

supervisors who are involved in the control activities in the company were selected to give information on internal control practices and express their view on the role of internal audit.

At the Accounts Office, the Financial Controller and the Accounts Staffs were the interviewees. Here, the researcher had information on the financial controls of the company. Also, at the General Manager's office, the researcher had information on the history of DBS Industries Limited. Again at the Stores/Sales Department, the Marketing Head and Sales Personnel were the respondents.

### **3.4 QUESTIONNAIRE ADMINISTRATION**

A questionnaire was prepared as a tool to collect the necessary data for this study. Since the study was to examine the internal control practices with respect to internal audit, only one questionnaire was sent out to all the departments in the industry. At the Accounts office, the questionnaire was answered by the financial controller and was assisted by the Accounts clerks.

### **3.5 DATA COLLECTION**

In every research work, one cannot successfully complete it without a definite procedure for the gathering and analysis of data. In this particular research, the case study method was used to gather data to analyze the topic studied. The case studied is DBS Industry Limited.

This approach was chosen because of the exploratory nature of the research. The researcher sets about the study with the aim of using several methods to obtain a database of information, views and opinions about the practices of internal control in the company.

The interview method was used. Personal interviews were conducted and here the researcher interviewed a number of personnel in the accounts, sales department, and other staff. The interview was not structured; however, the various discussions were directed at eliciting information on the internal audit and internal control in the company.

Personal interviews usually allow for flexibility, there is a higher quality of data collected, also ambiguous response were clarified with this approach, as the researcher had the



opportunity to probe further. With personal interviews, non-verbal communication feedback is also obtained from the gestures made by the interviewee.

Another method the researcher fell on to collect relevant data was the use of documentary sources, that is the literature.

### **3.6 DATA ANALYSIS**

With respect to the analysis of the data, the researcher relied on a number of methods to bring out the extent to which internal audit in internal control as practice by DBS Industries Limited is consistent with internal control as prescribed by the literature and also help bring out the extent to which internal audit could be of help to the company.

To analyze the data, the researcher considered the opinion and views of others and made inferences from it. Narrative description was used to analyze the personal interview conducted.

### **3.7 LIMITATIONS TO THE STUDY**

In carrying out the study, a number of problems were encountered which need to be pointed out. In the first place financing the study was involving and very difficult to get the required funds for it.

Again, there are a lot of companies in Ghana, and using only DBS Industries Ltd to represent them in analysis is a great limitation to the study. This therefore means that the study cannot be used to generalize what pertains in all private industries in Ghana.

Time as a limiting factor cannot be left out unmentioned. The lack of time caused the sample size of the companies to be just one.

However, notwithstanding these, limitations, the study covered the basic aspects of internal auditing as relates to internal control practices in DBS Industries Limited.

## **CHAPTER FOUR**

### **RESULTS AND DISCUSSIONS**

#### **4.0 BACKGROUND INFORMATION OF THE COMPANY**

DBS Industries Limited is the first Roofing and Poly Manufacturing Industry to be established in Kumasi. It has worked extremely hard to earn its present reputation as one of the most successful companies in the country. The company has Mr. Daniel Boateng as its Chief Executive Officer who runs the company as the Managing Director.

The company presently has five departments which includes the following

- Sales Department
- Accounts Department
- Recycling Department
- Roofing Department
- Poly Product Department
- Production Department
- General/Personnel Department

It holds about hundred and fifty permanent workers.

DBS Industries Limited's main product lines are long span roofing sheets, one cup rubber, take away rubber, sachet mineral water rubber and door/locks.

#### **4.2 INTERNAL CONTROL PRACTICES IN DBS INDUSTRIES LIMITED**

##### **4.2.1 ACCOUNTS DEPARTMENT**

The information gathered revealed that, the accounts department is responsible for the entire accounting and monetary transactions in the company. The financial controller sees to it that the internal controls governing finance are properly followed which includes;

- Keeping of all accounting records and update them on daily basis.

- That an imprest to be possessed by the accounts office up to a maximum of GH¢1,000.

- Any payment exceeding GH¢500 will have to pass through the cheque book.

- Cash left is kept in safe and locked

- Cash received is accounted for accurately by the sales department and accounts receivable is updated.

Internal control over official receipts and invoices is to keep them in safe and lock at the accounts office. The sales personnel make returns of cash and coins received for the day to the accountant.

The accountant in turn will make book entries in the respective accounts, both nominal and personal accounts.

Cash book records are reconciled with the bank statements on daily basis to ensure proper control on cash and coins.

Cash payment is made by the accountant and this suggests that the accountant issues payment vouchers to effect payment. This will have to be approved by the general manager.

**PAYMENTS TO BANK:** Explanation was provided that the company has some instruction or regulation for banking transaction.

That each days taking is banked the following day.

The banks sometimes dishonor cheques. Such returns are recorded and monitored.

#### **4.2.2 PRODUCTION DEPARTMENT**

##### **RESPONSE ON INTERNAL CONTROL SYSTEM IN PURCHASES**

It was made known that there is an objective of maintaining Internal Control System in purchases in order to obtain quality goods at a minimum amount of money. That procedure prior to purchases include;

That goods purchase are inspected and recorded at both the security entrance and stores department

That some goods purchases are returned if it becomes possible, this practice is not usually experienced in the school.

Approval and authorization of local purchases by the Accountant

**PURCHASE INVOICE:** Before payments are effected on goods purchased, the following steps are carried out;



All invoices received are stamped by the company's security official received stamp. This is to ensure that the goods have actually been received and in good condition as well.

Invoices are compared with the purchase order, goods received notes, quantities and prices. This is to ensure that the goods purchased are of the right quantity, quality and price.

Invoices received are sent to the finance office for payment vouchers to be prepared. Prepared payment vouchers are sent to the Director to effect payments.

**ISSUE OF MATERIALS:** The production department is for receiving and issuing of materials for production. Every job docket will have to pass through the production department for final endorsement before production can start.

#### **4.2.3 GENERAL/PERSONNEL DEPARTMENT**

After the director, the general manager is the next in command. He sees to the entire issues concerning the factory in the absence of the director.

Recruitment is done by the general manager to fill any vacancy in the company. There is no instituted format for employing people.

#### **4.3 MANAGEMENT RESPONSIBILITIES TO INTERNAL CONTROL SYSTEM**

It is the responsibility of management to decide the extent of internal control system, which is appropriate to the enterprise.

The nature and extent of the controls will vary between enterprise to enterprise and also from one part of the enterprise to another.

The controls used will depend on the nature, size and volume of transactions. The degree of controls which management are able to exercise personally, the geographical dispersion of the enterprise and many other factors.

The choice of the controls may reflect a comparison of the cost of operating individual controls with the benefit expected to be derived from them. The operating procedures differ from small enterprise and large enterprise.

Many of the internal control system, which is relevant in the large enterprise, may not be practical to the small or ones.

### **What management should do?**

Management should within its resources introduce appropriate controls to prevent or substantially reduced intentional and unintentional errors in the Accounting System. Ensuring effective segregation of duties to restrict the possibility of intentional errors or fraud.

Authorization and Execution. Authority to initiate the transactions and committing the enterprise to carry out.

Control over the recording of the transactions in the entities records.

Custody of the assets and the determination of their use.

A separate individual should therefore carry out each of the roles enumerated above within each transaction cycle. This is very important to the Auditor and his evaluation techniques are therefore designed to determine any lack of segregation of duties in the control system.

Internal check. This is the check on the day-to-day transaction, which operates continuously as part of the routine system whereby the work of one person is proved independently or complimentary to the work of another. This helps in the prevention and early detection of errors and fraud.

The internal auditor should ensure that verification is done. Usually, there may be audit verification of details prior to funds being finally committed; for instance, verification of prices and other details may be reserved to the internal audit office in connection with a proposed expenditure transaction. There is also the post expenditure or post payment verification, which examines situations often by physical examination so that the auditor may report whether in his opinion real value has been obtained for money.

Pre-audit another function in the internal audit department could also be used as a mechanism to ensure effective internal control system. Pre-audit can briefly be described as the early examination so that the internal auditor could express an opinion as to the propriety of the

proposed transaction and also as to whether there would be compliance with rules and regulation. Pre-auditing also improve internal control.

#### **4.4 OBSERVATION**

The analysis of the internal control practices of DBS Industries Limited revealed the following strengths and weaknesses which have been summarized below:

##### **Strengths of the Internal Controls in Place:**

- i. There is clarity of authority and line relationship.
- ii. Clear cut policies and objectives
- iii. Effective segregation of duties among departmental staffs.
- iv. Presence of competent and qualified by qualification and experience to handle the job.
- v. Adequate workforce.

##### **Weaknesses of the Internal Control Practices:**

- i. High labour turnover
- ii. Difficulty in adhering to policies and procedures
- iii. Above all, the absence of internal audit.

#### **4.5 CONCLUSION**

In the nutshell, it can be said that, DBS Industries Limited has good and sound internal control system I place, However, lack of measures to monitor and control these controls does not justify effective operation. There is therefore, the need to institute internal audit as part of the control measures to safeguard strong implementation of controls put in place.

### **5.3 RECOMMENDATIONS**

The following recommendations are suggested;

The internal controls that have been designed by management should be strengthened.

Controls enforcement should be extended to cover all areas in the company with reference to non financial issues as well as financial.

Monies received and disbursed should pass through Internal Audit for checking and pre auditing of every proposed expenditure to be made to forestall efficient utilization of funds.

More accountants and auditors should be employed to speed up accounting records in order to enable internal auditor to conduct early audit to furnish management with quarterly reports as well as detecting and preventing errors and irregularities as soon as possible.

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**CHRISTIA SERVICE UNIVERSITY COLLEGE**  
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**DEPARTMENT OF ACCOUNTANCY**

**PLEASE RESPOND TO THE QUESTIONS BELOW BY THICKING THE APPROPRIATE ANSWER OR PROVIDE BRIEF ANSWERS WHERE NECESSARY. YOU ARE ASSURED THAT THE INFORMATION PROVIDED IS FOR ACADEMIC PURPOSES ONLY AND WOULD BE TREATED CONFIDENTIALLY.**

QUESTIONNAIRE ADMINISTERED ON THE ROLL OF INTERNAL AUDIT TOWARDS EFFECTIVE INTERNAL CONTROL SYSTEM IN PRIVATE ORGANISATIONS

**CASE STUDY : DBS INDUSTRIES LIMITED**

- (1) What is an Audit?
- (2) What are internal controls?
- (3) Who establishes Internal control?
- (4) What are the Companys main sources of revenue?
- (5) Does the control cover environment with respect to management styles, Organization Structure etc? YES / NO

**INTERNAL CONTROL SYSTEM IN PURCHASES**

- 1(A) Is there any objective for maintaining Internal Control System in purchase? YES / NO
- (B) If yes, outline some of the objectives.
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- ....



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2(A) Is there procedure and polities put in place before purchases could be affected? YES / NO

(B) If yes, what are they?

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4(A) Is there an amount of figures set for the imprested system? YES / NO

(B) If yes, what is the maximum Imprested to be possessed by the accounts?

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5. What amount of money may call for management attention before an item could be purchase

a. YES / NO

6. Is requisitions raised before an item is purchased or issued?

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7. Who authorize requisition?

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8. How can an items(s) be purchased from a particular supplier among other suppliers?

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9. Is Authorition and approval frequently sought from a responsible personnel(s) before purchases are made.

10.(a) Are goods verified on arrival by the Internal Audit Staff?

YES / NO

(b) If yes, why verify such items?

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11. Are goods receipted recorded?

YES / NO

12. Does person who orders the goods also take the recording aspect on the goods arrival?

YES / NO

13.(a) Are purchased goods sometime returned to the supplier

YES / NO

(b) If yes, are they authorized?

YES / NO

14. Are goods returned records regularly reviewed of which no credit note has been received.

YES / NO

### **PURCHASE INVOICE**

15. Are the invoice received stamped and pre-number by the company?

YES / NO

16. Are invoices compared with?

(a) Goods Received Notes? YES / NO

(cb ) Prices and quantities?

17. Is any deviation investigated and action taken?

YES / NO

18. How long does it take for the company to effect payment of goods purchased on credit?

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19. Kindly outline the procedure invoice passes through before is effected.

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