EVALUATION OF INTERNAL FINANCIAL CONTROL SYSTEMS AT PUBLIC HOSPITALS IN GHANA: EVIDENCE FROM KORLE BU TEACHING HOSPITAL

Appiah Daniel, Paul Appiah-Konadu, Fosu Forson and Henry Kwadwo Frimpong

ABSTRACT
The Korle Bu Teaching Hospital has featured consistently in the news for various forms of financial malpractices in recent times and this could be emanating from weaknesses in the institution’s internal financial control system. To this end, the present study sought to evaluate the existing internal financial control systems of the hospital to assess the extent of their effectiveness and efficiency. The population of the study comprises of Board of Directors, Accountants, Internal Auditors, Management and Senior Administrative staff numbering three hundred and nine (309) who play a role in the implementation of internal control policies of the hospital. Sixty (60) respondents were purposively sampled to take part in the study. Descriptive analysis (tables, bar graphs, and pie charts) was used in the analysis of the data. The study revealed that internal financial control measures instituted by the management of Korle Bu Teaching Hospitals are quite effective but the independence of the internal auditor is not guaranteed. The study also brought to light that there is no internal control unit at the hospital to oversee the day-to-day implementation of financial control policies. Based on the findings, we recommend that the management of Korle Bu Teaching Hospital should increase its co-operation and support to the internal audit unit and other departments responsible for the implementation of internal control measures to enhance the effectiveness of internal financial controls. We also recommend that an internal control unit should be established to oversee the implementation of internal financial control policies at the hospital. More so, the independence of the internal auditor should be facilitated as much as possible so as to promote probity and accountability in the financial transactions of the premier teaching hospital of Ghana.

INTRODUCTION
The Committee on Terminology of the American Institute of Certified Public Accountants (CPA, 2004) defines financial controls as the plan of an organisation and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records consequently designed to provide reasonable assurance that transactions are executed in accordance with management’s general or specific authorisation; and that transactions are recorded as necessary to permit preparation of financial statements in conformity with general accepted accounting principles and to maintain accountability for assets. For example, cash is permitted only in accordance with management’s authorization. Internal financial controls are used by organisations to make sure financial information is accurate and valid. The existence of internal financial controls is important because they protect the integrity of an organisation’s financial information and allow stakeholders to measure financial health.

Strong internal controls can also increase the profitability of a company (Krishnan, 2005). Public limited liability companies have shareholders demanding accountability and this puts pressure on management to implement strict internal financial control measures to safeguard assets. However, in public corporations or government owned enterprises, accountability demands are not that strong. In the case of hospitals, taxpayers and donors are usually late in taking action when it comes to demanding proper accountability from management. As a consequence, there have been many cases of fraud and embezzlement in recent times in public hospitals in Ghana probably as a result of weaknesses in their internal financial control systems. One of such institutions which has come into the lime light in this regard in recent times is the Korle Bu Teaching Hospital. A Daily Graphic report on September 21, 2014, indicated that the interim audit report on the 2014 expenditure accounts of the hospital points out that, former board and the management could not account for monies to the tune of GH¢966,116.97. The report tackled issues concerning procurement, cash management, payroll, project management, transport management, management/governance issues and revenue accounts.

*Corresponding author: Paul Appiah-Konadu,
Lecturer, Marshalls University College, Accra-Ghana.
Corporate governance principles and generic guidance on internal financial controls are increasingly judged to be relevant to all organizations whether private or public because they fundamentally outline the way in which the organization can achieve the optimal balance between innovation and control. Strict internal control systems can help to promote proper corporate behaviour on the part of the Board of Directors, Management, Accountants and other spending officers within an organisation. To this end, the present study seeks to evaluate the internal financial control systems in public hospitals in Ghana through the lens of the Korle Bu Teaching Hospital.

**Literature Review**

According to Cunningham (2004) Internal controls consist of all the measures taken by an organization for the purpose of protecting its resources against waste, fraud and inefficiency; ensuring accuracy and reliability of accounting and operating data; ensuring compliance with the policies of the organization; evaluating the level of performance in all units of the organization. This organizational approach provides both profit and non-profit organisations with a common, accepted, and recommended reference point to assess the quality of its internal financial controls. The whole system of financial controls ensure that the business of an enterprise is carried out in an orderly and efficient manner; and to promote strict adherence to management policies, safeguarding the assets and secure as far as possible the completeness and accuracy of financial records (CPA, 2010). Woolf (2009) noted that all commercial transactions in practice entail three fundamental elements:

- **Authorisation** – the initiation of contractual obligations on the company’s behalf, Custody – the handling of assets involved in the transaction, and Recording – the creation of documentary evidence of the transaction and its entry in the accounting records. In the view of Woolf, any entity that follows these three principles will most likely carry out transactions in an efficient and orderly manner and to enhance its growth through safeguarding assets, as well as completeness and accuracy of its financial records. Adu-Gyamfi (2007) points out the following as the reasons why enterprises need internal controls: (1) to stop things such as assets, documents and records from going missing but unduly benefiting individuals either within or outside an organisation, (2) to provide evidence to measure the performance of the enterprise, (3) to prevent or at least minimize business risks, (4) to improve the efficiency and effectiveness of managers of the enterprise, (5) to ensure that assets are protected and safeguarded, and lastly (6) to promote discipline and value for money in the transactions entered into by the enterprise.

Control activities/procedures are policies, procedures and mechanisms that ensure management’s directives are properly carried out (Aikins, 2011; Rezaee, Elam & Sharbatoghlie, 2011). Proper documentation of policies and procedural guidelines in these aspects help to determine how the control activities are to be executed as well as provide adequate information for auditors’ examination of the overall adequacy of control design over financial management practices (Aikins, 2011). Control activities ensure that all necessary actions are taken to address risks so that organizational objectives are achieved. Examples of control activities include; segregation of duties, daily deposit of cash receipts, bank reconciliations and limiting access to check stock. According to (UWFF, 2012) internal control activities are the policies and procedures as well as the daily activities that occur within an internal control system. These activities generally fit into two categories.

**Preventive:** Preventive control activities aim to deter the instance of errors or fraud. Preventive activities include thorough documentation and authorization practices. Preventive control activities prevent undesirable activities from happening, thus require well thought out processes and risk identification.

**Detective:** Detective control activities identify undesirable occurrences after the incidence. The most obvious detective control activity is reconciliation. Bridgen et al. (2007) asserts that no system of controls can be an absolute guarantee against the risk of wrongdoing or honest error. Any system that attempted to reach that goal, especially in a complex organization, would impose costs far out of proportion to the risks and create rigidities for the organization. Thus, the proper goal of the control system should be to provide reasonable assurance that improprieties will not occur or that if they occur, they will be revealed and will be reported to the appropriate authorities.

The Institute of Internal Auditors (IIA) defines internal auditing as; an independent objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic discipline approach to evaluate and improve the effectiveness of risk management, control, and governance processes. According to the IIA, two main types of fraud are particularly common in the financial records of hospitals: (1) diversion of patient fee revenue at point of service, and (2) collusion between hospital purchasing agents and suppliers to divert funds into private pockets (IIA, 2015).

**History of Korle Bu Teaching Hospital**

The Korle Bu Teaching Hospital was established on October 9, 1923 by the Sir Gordon Guggisberg Colonial administration as a general hospital to address the health needs of the indigenous people. The hospital has grown from an initial 200 bed capacity to 2,000 presently. It is currently the third largest hospital in Africa and the leading national referral centre in Ghana. Korle Bu, which means the valley of the Korle lagoon, was established as Population growth and the proven efficacy of hospital-based treatment caused a rise in hospital attendance in the few health centers established by the colonial government mostly in the coastal areas. By 1953, demand for the hospital's services had escalated so high that the government was compelled to set up a committee to study the situation and make recommendations for the expansion of the hospital. The government accepted and implemented the recommendations of the committee which resulted in the construction of new structures, such as the maternity, medical, surgical and child health blocks. This increased the hospital's bed capacity to 1,200. Korle Bu gained teaching hospital status in 1962, when the University of Ghana Medical School (UGMS) was established for the training of medical doctors.
At the moment, the Hospital has 2,000 beds and 17 clinical and diagnostic Departments/Units. It has an average daily attendance of 1,500 patients and about 250 patient admissions. Clinical and diagnostic departments of the hospital include medicine, child health, obstetrics and gynaecology, pathology, laboratories, radiology, anaesthesia, surgery, polyclinic, accident centre and the surgical/medical emergency as well as pharmacy. Other departments include, pharmacy, finance, engineering, general administration. The hospital also provides sophisticated and scientific investigative procedures and specialisation in various fields such as neuro-surgery, dentistry, eye surgery, renal, orthopaedics, oncology, dermatology, cardiothoracic, radiotherapy, radio diagnosis, paediatric surgery and reconstructive plastic surgery and burns. The reconstructive plastic surgery and burn centre, the national cardiothoracic centre and the national centre for radiotherapy and nuclear medicine in particular also draw a sizeable number of their clientele from neighbouring countries such as Nigeria, Burkina Faso and Togo. Korle Bu Teaching Hospital continues to blaze the trail when it comes to the introduction of specialised services. It recently carried out the first ever kidney transplant in Ghana. It is one of the few hospitals in Africa where DNA investigations are carried out. Other specialised services the hospital provides include brachytherapy intervention for the treatment of prostate cancer and keyhole surgeries. Plans are underway to venture into molecular testing and employ the use of cutting edge technology. All these are part of the grand plan to offer a wider spectrum of specialist care to position Ghana as the hub of health tourism within the West Africa sub region (http://kbth.gov.gh).

MATERIALS AND METHODS

According to Mason et al. (2013) the population of a study is the collection of all possible individuals, objects or measurements of interest. The population of this study comprises all Accountants, Internal Auditors, Administrators and other spending officers of the hospital numbering about three hundred and nine (309). Out of this number, sixty (60) respondents were purposively sampled to take part in the study.

Table 3.1. Sampling Guide

<table>
<thead>
<tr>
<th>TARGET GROUP</th>
<th>POPULATION</th>
<th>SAMPLE SELECTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting Staff</td>
<td>234</td>
<td>41</td>
</tr>
<tr>
<td>Internal Audit Staff</td>
<td>11</td>
<td>5</td>
</tr>
<tr>
<td>Administrative Staff</td>
<td>64</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>309</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: Authors’ construct with field data, 2015

Purposive sampling technique was used so as to get respondents who are more relevant to the study Questionnaire was the main instrument used to collect data. Interviews were also conducted with some key officials to get additional information for the analysis. The questions were aimed at collecting information on control environment, risk assessment, information flow/ communication, incidence of fraud and monitoring. Descriptive analysis (tables, bar graph, and pie charts) was used in the analysis of the data. The data analysis involved reducing the raw data into a manageable size and developing summaries. Before the analysis, the data was edited to detect and correct possible errors and omissions that were likely to occur, to ensure consistency in the responses from different respondents.

RESULTS AND DISCUSSION

Background Information of Respondents

Age and Gender of Respondents

The first section of the questionnaire required respondents to provide information on their gender and age. Frequency tables were used in analysing the data gathered from the respondents.

<table>
<thead>
<tr>
<th>Ages</th>
<th>Female</th>
<th>Male</th>
<th>Total/percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-30 years</td>
<td>8</td>
<td>12</td>
<td>20 (33%)</td>
</tr>
<tr>
<td>31-40 years</td>
<td>7</td>
<td>7</td>
<td>14 (23%)</td>
</tr>
<tr>
<td>41-50 years</td>
<td>9</td>
<td>7</td>
<td>16 (27%)</td>
</tr>
<tr>
<td>51-60 years</td>
<td>4</td>
<td>6</td>
<td>10 (17%)</td>
</tr>
<tr>
<td>Above 60 years</td>
<td>0</td>
<td>0</td>
<td>0 (0%)</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>32</td>
<td>60 (100%)</td>
</tr>
</tbody>
</table>

Source: Authors’ construct with field data, 2015

As seen from Table 4.1, both males and females were fairly represented in the sample. Out of the sixty (60) respondents interviewed, 47% were females and 53% were males. This is an indication that the gender distribution of the staff of the hospital is quite balanced. On educational attainment of respondents, it was found that, all the respondents selected for the study had tertiary educational which make them well equipped for their various positions at the hospital.

Grade/Position of Respondents

The role/position of the respondents could influence their assessment of the financial control measures instituted at the hospital. We therefore sought to get representation from the board of directors, management/administrators, accountants and internal auditors. The distribution of the respondents with regard to their roles has been presented in Figure 4.1. (48%), 3% were directors and the remaining 15% were internal auditors. All the categories of respondents have key roles to play in maintaining and enforcing strict adherence to the internal financial control systems at the hospital.

Source: Authors’ construct with field data, 2015

Figure 4.1. Role/Position of Respondents

Existence of Internal Financial Control Systems

To set the ball rolling, we inquired from the respondents if there exist an effective internal financial control system at the Korle Bu Teaching Hospital. All the various categories of respondents acknowledged that there are well-established internal financial control systems to regulate all financial transactions of the institution. This implies that information about the existence of internal financial control measures has been well communicated by management to all staff and those who flout the control procedures have no excuse when subjected to sanctions.
The responses of the respondents on the types of control measures in place at the hospital has been summarized in Table 4.2.

<table>
<thead>
<tr>
<th>TYPES</th>
<th>FREQUENCY</th>
<th>PERCENTAGE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preventive Control</td>
<td>35</td>
<td>58</td>
</tr>
<tr>
<td>Directive Control</td>
<td>16</td>
<td>27</td>
</tr>
<tr>
<td>Detective Control</td>
<td>9</td>
<td>15</td>
</tr>
<tr>
<td>TOTAL</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Authors’ construct with field data, 2015

The analysis shows that 58% of the respondents identified preventive controls as the main type of internal control that exists at the Korle Bu Teaching Hospital, 27% of respondents identified directive controls and 15% said detective control measures dominate all other forms of control measures at the hospital. It is evident that, majority of the respondents (58%) ranked preventive control as the most dominant type of internal control. Preventive controls attempt to deter or prevent undesirable events from occurring. These include separation of duties, proper authorization, adequate documentation and physical control over assets. According to Adu-Gyamfi (2007), preventive control measures help to ensure that assets are protected and safeguarded, and also enhance discipline and value for money in the transactions entered into by a public enterprise such as the Korle Bu Teaching Hospital.

Effectiveness & Efficiency of Internal Financial Control Systems

The mere existence of financial control systems in an organization does not in itself reduce fraud in financial transactions. The control systems must be enforced to make it effective and to achieve minimum levels of fraud. We therefore sought to find out from the respondents their view on the effectiveness of the financial control systems at the Korle Bu Teaching hospital. The responses of the respondents have been summarized in Figure 4.2 and Table 4.3.

![Figure 4.2](source)

**Figure 4.2. Rating the Effectiveness and Efficiency of Internal Financial Control Systems**

From figure 4.2, 76% of the respondents said the internal financial control systems’ effectiveness and efficiency are satisfactory, and 20% of the respondents rated the internal financial control systems as being strong, and 4% rated it as weak. The presentation of findings revealed that the internal financial control systems in Korle Bu Teaching Hospital are satisfactorily effective and efficient. In the view of Lannoye (2011) an internal control provides reasonable assurance not absolute assurance.

Therefore, regardless of how well designed and operated an internal control system is, it cannot provide absolute assurance that all objectives will be met. Our interaction with the respondents revealed that different departments are involved in the issuance of drugs to patients and the collection of money which is a mandate of the hospital pharmacy and the accounts office respectively. The need for regular reconciliation of records of drug sales and cash receipts is therefore required to avert possible cash losses from drug sales. As seen from table 4.3, 92% of the respondents acceded to the fact that there are proper reconciliation systems in place to monitor cash receipts for services rendered. The fact that one person cannot sign a check nor approve expenditure is also an important step towards effective financial control. A more worrying revelation is the fact that all the respondents unanimously agreed that the hospital does not have an internal control unit presently. The absence of an internal control unit could be a contributing factor to the high incidence of cases of financial misappropriation reported at the hospital in recent times. Majority of the respondents agreed to the fact that cases of financial malpractices have risen at the hospital in recent times. Respondents’ responses on incidence of fraudulent acts have been presented in Figure 4.3.

![Figure 4.3](source)

**Figure 4.3. Incidence of Fraudulent Acts**

Specifically, 80% of respondents indicated that there have been fraudulent acts in the organisation in recent times. However, 20% of the employees claimed they have not witnessed any incident of financial misappropriation at the hospital. Sanctioning people who flout internal control rules is one sure way of deterring repeat offenders from perpetuating such acts. We therefore sought the views of respondents on whether staff members including management personnel are sanctioned whenever they flout internal control procedures. The views of the respondents are summarized in Figure 4.4 below.

![Figure 4.4](source)

**Figure 4.4. Sanctions when Internal Financial Controls measures are flouted**
50% of respondents being the majority strongly agree that all categories of employees are sanctioned when controls are flouted. Another 22% of also agreed to the same view above. Notwithstanding, 13% and 5% of employees disagreed and strongly disagreed to the view that staffs including management personnel are sanctioned when control procedures are flouted. There are internal financial control systems in place at the Korle Bu Teaching Hospital and most of the measures are preventive in nature. The financial control measures put in place by management of the hospital to enhance effectiveness of the financial controls are satisfactory but monitoring and compliance are not effective. The study also brought to light that the Korle Bu Teaching Hospital does not have an internal control unit presently. The absence of an internal control unit could be significantly contributing to the high incidence of cases of financial misappropriation reported at the hospital in recent times. Majority of the respondents agreed to the fact that cases of financial malpractices have risen at the hospital in recent times. The finding that the internal audit unit is not independent could also undermine the effectiveness of the financial control system at the hospital.

Policy Recommendations

The effectiveness of internal financial control systems depends on the will on the part of management to implement policies on financial controls. Therefore, the management of Korle Bu Teaching Hospital should increase its co-operation and support to the internal audit unit and other departments responsible for the implementation of internal control measures to enhance the effectiveness of internal financial controls. We also recommend that an internal control unit should be established to oversee the implementation of internal financial control policies at the hospital. Management should also establish measurable indicators to measure the performance of the internal control unit so as to know the impact of the unit in minimizing fraud. Management should establish a system of quality control designed to provide reasonable assurance that the Korle Bu Teaching Hospital management and its personnel comply with regulatory and legal requirements in public administration, public procurement regulations, code of ethics in public service and international auditing standards. More so, it is highly recommended that management keep a well-motivated staff with proper conditions of service so as to make pilfering unattractive.

REFERENCES

Abel-Smith, B. 2002. Health Insurance in Developing Countries: Lessons from Experience, Department of Social Science and Administration, London School of Economics and Political Science, UK.

Daily Graphic, 2014. Audit Report Orders three (3) top ex-Korle Bu Officials to Refund GHc966,000.00, September 21, pp. 4.


******