

MANAGEMENT & ACCOUNTING REVIEW

ROR□
EU□

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U N R U D D O U I R U D □
Vc o q k " L c p i i w . " [w u u t k " U c y c p k . " J c u n k p f c { w u q l h h . "
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- *E q t r q t c v g " U q e k c n " T g u r q p u k d k n k v { " R t c e v k e g u " c o q p i " v j g " U o g u " k p "*
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- *G v j k e c n " X c n w g u . " K p v g i t k v { " c p f " K p v g t p c n " E q p v t q n u " k p " R w d n k e " U g e v q t "*
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- *F g v g e v k p i " C e e q w p v k p i " C p q o c n k g u " W u k p i " D g p h q t f o u " N c y < " " G x k f g p e g "*
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- *K p v g i t c v g f " T g r q t v k p i " c p f " H k p c p e k c n " R g t h q t o c p e g < " G x k f g p e g " h t q o "*
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INTRODUCTION

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 IPEXK6KHSUGODUNKDP□

Ethical Climate and Internal Controls

Internal controls may be defined as the whole system of controls, financial and otherwise, established by management in order to carry out the business of the enterprise in an orderly and efficient manner, ensure adherence to management, safeguard the assets and secure as far as possible the completeness and accuracy of the records (Robbins, 1982). The Committee of Sponsoring Organisations(COSO) in 1992, defined internal controls as a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the: Effectiveness and efficiency of operations, Reliability of financial reporting, Compliance with applicable laws and regulations (COSO, Internal Control-Integrated Framework, 1992). The framework groups an organisation’s internal control system into five integrated components (control environment, risk assessment, control activities, information and communication and monitoring) which must be built into business processes across the entire organisation, in its effort to achieve its objectives.

According to the Cambridge Advance Learner’s Dictionary, integrity is the quality of being honest and having strong moral principles that you refuse to change. Integrity is a broader concept and having strong ethical values is part of one’s integrity. Integrity and ethical values are part of the elements of the ethical environment (control environment) according to COSO’s 1992 internal control integrated framework (COSO ,1992)

The control environment is the bedrock of all the control components, the Board and senior management should be setting the right tone at the top, signaling to the rest of the organization their commitment to effective internal controls. Internal controls are people, process oriented and centered.

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WKHMVX

- H1: There is a positive association between the ethical environment and the risk assessment component to the internal control system
- H2: There is a positive association between the ethical environment and the control activities component to the internal control system
- H3: There is a positive association between the ethical environment and the monitoring activities component to the internal control system

METHODOLOGY

Data for the study was collected from questionnaires administered to managers of public sector organisations (including internal audit managers) in Ghana. Our target respondents were chosen simply because of their knowledge of internal controls through their involvement in setting and reviewing internal control procedures. The sample population of

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RESULTS AND DISCUSSIONS

Analysis of absolute means of the risk assessment component revealed that most of the respondents on average had confidence in the risk assessment mechanism of their organisations. However, the correlation results as in Table 1, indicated that the variables that measure the risk assessment construct, negatively associated with the ethical environment.

Table 1: Correlations Statistics (Risk assessment)

		Your organization demonstrates a commitment to integrity and ethical values
Your organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives	Pearson Correlation	-.242*
	Sig. (2-tailed)	.044
	N	70
Your organization sets clear operations objectives which provides focus for management to commit resources to achieve performance goals	Pearson Correlation	-.320**
	Sig. (2-tailed)	.005
	N	70
Your organization considers the potential for fraud in assessing risks to the achievement of objectives	Pearson Correlation	-.289*
	Sig. (2-tailed)	.015
	N	70

** . Correlation is significant at the 0.01 level (2-tailed)

*. Correlation is significant at the 0.05 level (2-tailed)

The demonstration of integrity and ethical values weakly correlate with the identification and assessment of risks relating to objectives, $r(i) = -.242$, $p = .044$. The results also show that the demonstration of integrity and ethical values correlate significantly with clearly set operational objectives which provide focus for management to commit resources to achieve performance goals, $r(ii) = -.320$, $p = .005$. The demonstration of integrity and ethical values was also found to be significantly correlated with whether organisations consider the potential for fraud in assessing risks to the achievement of objectives, $r(iii) = -.289$, $p = .015$.

The most serious obstacle to the achievement of millennium development goals (MDGs) in the African continent is corruption (Isa, 2009). Fraud and corruption are serious problems slowing down the process of achieving MDGs in African countries. Consequently, for demonstration of integrity and ethical values to be negatively associated with fraud risk assessment is a worrying finding. It is noted that, the ethical environment and the risks assessment components both operate at the strategic level (Rae,

6XUDPDQLDP6DQGVWVKHLQYHUVHJHODWLRQVKLSEHWZHHQWKHWZR
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ERPSRQHQWILULDQVHHVH

Table 2: Correlation Statistics (Control activities)

		Your organization demonstrates a commitment to integrity and ethical values
Your organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels	Pearson Correlation	-.294*
	Sig. (2-tailed)	.014
	N	70

*. Correlation is significant at the 0.05 level (2-tailed)

Monitoring covers ongoing and periodic evaluations of the external supervision of internal controls by management or other parties outside the process. Monitoring ensures that controls are operating as intended and that they are appropriately modified as the business environment changes (Arens, Elder, Beasley, 200). The monitoring activities component also was rated high by respondents. The existence of an independent internal audit unit in public sector organisations achieved the maximum mean score. The Internal Audit Agency Act of 2003 requires all public sector organisations to establish independent internal audit units. However, the independence of internal audit units in Public Sector organisations in Ghana is questionable. A survey study which examined the independence of the internal audit function in public sector organisation in Ghana showed that internal auditors did not consider their activities as being independent of political influence (Yagre, 2015).

Table 3: Correlations Statistics (Monitoring)

		Your organization demonstrates a commitment to integrity and ethical values
Your organization selects, develops, and performs on-going and/or separate evaluations to ascertain whether the components of internal control are present and functioning	Pearson Correlation	-.268*
	Sig. (2-tailed)	.025
	N	70
Your organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action	Pearson Correlation	-.274*
	Sig. (2-tailed)	.022
	N	70
Your organization evaluates and communicates internal control deficiencies in a timely manner to senior management and the board of directors, as appropriate.	Pearson Correlation	-.288*
	Sig. (2-tailed)	.016
	N	70
In organization management tracks whether deficiencies are remediated on a timely manner.	Pearson Correlation	-.270*
	Sig. (2-tailed)	.024
	N	70

** . Correlation is significant at the 0.01 level (2-tailed)

* . Correlation is significant at the 0.05 level (2-tailed)

From Table 3, four variables used in the study to measure the monitoring construct, revealed negative association with the ethical environment of public sector organisations. Management’s commitment to integrity and ethical values correlated negatively with i) performance of on-going and/or separate evaluations to ascertain whether the components of internal control are present and functioning $r(i) = -.2$, $p = .025$. This finding suggests that in more ethical environments, managers are less likely to select, and perform on-going and/or separate evaluations to ascertain whether internal controls are present and functioning.

ii) evaluation and communication of internal control deficiencies in a timely manner to those parties responsible for taking corrective action $r(ii) = -.27$, $p = .022$, and iii) whether organisations evaluate and communicate internal control deficiencies in a timely manner to senior management and the board of directors $r(iii) = -.2$, $p = .01$. Management sometimes shows

DODFNDGDLVLFODDWWLWGHZKHKQLQWHUQDOERQWUROGHILFLHQFLH
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RQDWLPHOPDQQHUUMS ZKLVILQGLQJLVGLWVDELQJ□
EHFDMH6HEWLRQRWVKHGLW6HUYLFHEWRIFWSURYLGHV□
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CONCLUSIONS

The study sought to establish the relationship between the perceived commitment to ethical values, integrity of public sector managers and the internal control systems of public sector organisations in Ghana. The study

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