

Examining The Effectiveness Of The Internal Control System Of Driving And Vehicle License Authority In Ghana.

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Abstract

Background: Internal control systems are the most important in every organization. This study seeks to assess the effectiveness of the internal control systems of the Driver & Vehicle Licensing Authority of Ghana. The main objective of this study is to examine the effectiveness of internal control systems and internal auditing duties on the overall governance of DVLA.

Methods: The study incorporated a sample size of 400 people and a stratified sampling approach. A questionnaire was used to gather the data. A statistical package for social scientists (SPSS) tool was used to evaluate and analyze the acquired data.

Results: It was revealed from the study that, Internal Control procedures are not strictly followed by DVLA. Employees' idea about internal control effectiveness in DVLA is a key factor in ensuring Quality Service Delivery (QSD). Effective and efficient internal controls in the Workplace have a better and greater probability of maintaining a culture of high performance, Effective internal controls change into a quality work life for employees.

Conclusion: To improve internal controls in the public sector, financial resources should be made available, a comprehensive internal control policy framework and guidelines for implementing and enforcing internal controls should be developed, regular capacity-building programs should be organized, and an all-inclusive internal control implementation strategy should be ensured.

Keywords: Driver & Vehicle Licensing Authority (DVLA), Internal controls (IC), Quality Service Delivery (QSD), Institute of Chartered Accountants of England and Wales (ICAEW)

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I. Introduction

The internal control system is the major part of any organization. "Internal control is the process designed and affected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. It follows that internal control is designed and implemented to address identified business risks that threaten the achievement of any of these objectives" (David, 2001). According to Millichamp (2002), The Institute of Chartered Accountants of England and Wales (ICAEW), "internal Control system is the whole system of controls, financial or otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard assets and secure as far as possible the completeness and accuracy of records". According to Cunningham (2004), Internal Control Systems start as internal processes with the positive objective of helping an organization meet its set destinations. Management fundamentally gives oversight action; it sets the entity's targets and has general duty over the ICS.

Internal controls refer to the measures instituted by an organization to ensure the attainment of the entity's objectives, goals, and missions (Brennan & Soloman, 2008). They are systems of policies and procedures that protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations, and achieve effective and efficient operations. These systems are not only related to accounting and reporting but also relate to the organization's communication processes, internally and externally, and include procedures for handling funds received and expended by the organization, preparing appropriate and timely financial reporting to board members and officers, conducting the annual audit of the organization's financial statements, maintaining inventory records of real and other properties and their whereabouts (Munene, 2013).

The public sector in Ghana is a unique sector in the economy. It provides different kinds of services to Ghanaian citizens and handles a massive volume of funds daily. For instance, the Driving and Vehicle License Authority as part of the public sector mission is to ensure best practices for licensing drivers and vehicles to promote road safety and environmental sustainability, while pursuing integrity, excellence, professionalism, and reliability in service delivery.

They generate a larger amount of Internal Generated Funds. Due to these facts, the necessity of internal control system in the public sector of Ghana cannot be undermined. A system of tough internal controls can support ensuring that the goals and objectives of DVLA will be met and that the authority will help to attain long-term targets and maintain reliable financial and managerial reporting. Such a system can also help to ensure that the DVLA will comply with laws and regulations as well as policies, plans, internal rules, and procedures and decrease the risk of unexpected losses or damage to the DVLA's reputation. This helps management to safeguard the organization's resources, produce reliable financial reports, and comply with laws and regulations. Meantime it reduces the possibility of substantial errors and irregularities and assists in their timely detection when they do occur. Also, this control system may discover mistakes caused by personal distraction, carelessness, error in judgment, or unclear instructions in addition to fraud or deliberate non-compliance with policies. Therefore, the DVLA staff must have proper knowledge of its internal controls and be consistently applied too. These controls include division of work, job rotation, authority levels, separation custody, and recording and accounting controls. Most professionals and public sector managers believe that internal control is the tool to prevent the risk of a major failure in this sector. This has necessitated research to examine the effectiveness of the internal controls system in the DVLA of Ghana.

There have been calls for effective internal controls in organizations. The effectiveness of the internal control system in this study is defined by the extent of attainment of the objective of the internal control system which includes executing orderly, ethical, economical, efficient, and effective operations, fulfilling accountability, ensuring compliance of DVLA to applicable laws and regulations, and safeguarding resources against losses and misuse (COSO, 1992).” Internal controls are therefore looked upon more and more as a solution to a variety of potential problems in public organizations in Ghana. These risk exposure and cases of fraud have prompted the study to analyze the effectiveness of the internal control system in the DVLA in Ghana. Despite the numerous benefits enshrined in the COSO framework to guide financial reporting and practices, there is a paucity of empirical evidence with regard to the DVLA of Ghana.

The study utilizes the systems theory and the accountability theory. A system is a set of interconnected and interdependent components that work together to accomplish a specific purpose. These components or sub-systems are interconnected, and the failure of one causes the whole system to fail. For its effectiveness and survival, an organization is a complex structure divided into numerous sub-systems that necessitates a system of controls over units, branches, departments, and so on. An integrated internal control system with interrelated elements, supporting values, and attributes is an efficient internal control system. Internal controls are described by Harvey and Brown (1998) as the control environment, accounting system, and control procedures. COSO's 2013 integrated internal management system is included in the research. The Committee of Sponsoring Organizations (COSO) was established in the 1980s by the National Commission on Fraudulent Financial Reporting (the Treadway Commission) to identify and recommend factors that lead to fraudulent corporate financial reports. Since then, COSO has evolved into a thought leader in enterprise risk management (ERM), internal control, and fraud deterrence (Amudo&Inanga, 2009). The structure divides an organization's internal control mechanism into five interconnected elements that must be incorporated into business processes around the board in order to meet goals. Control climate, risk evaluation, control activities, information and communication, and monitoring activities are among the components.

The effectiveness of financial reporting as a major concern to management solely relies on the reliability and accuracy of management financial reports. Accountability has been an important topic that has raised concerns when it comes to corporate governance (Frink & Klimoski, 2004). Managers in their own small way may try to come out with a good and a more convincing report on profits or earnings based on their own discretion all in the name to uphold the good image of the organization, and to ensure some level of assurance on overseeing the financial reporting quality and reliability. Internal control systems will ensure that DVLA is audited to ensure compliance with laydown procedures for public financial management. Auditing protects the shareholders and investors (Kamau & Waweru, 2013).

Internal control elements and business processes, like the body system, must constantly collaborate for a stable, efficient internal control system. An internal control system's effectiveness is dependent on its ability to communicate with business processes in a smooth and collaborative manner. Control priorities and interventions derived from risk monitoring and evaluation must be incorporated into organizational business unit activities through an appropriate knowledge and communication control component that ensures a seamless flow of information to staff responsible for internal controls across the entity (PricewaterhouseCoopers, 2007). The efficacy of an internal control system is determined by how well it interacts with itself and how well it is

integrated into the business processes of the company. According to COSO, an internal control system is high-level effective if the board of directors and management have reasonable assurance that: they understand the extent to which the entity's operations objectives are being met, published financial statements are prepared reliably, and applicable laws and regulations are being followed (COSO, Internal Control-Integrated Framework, 1992).

Specifically, the study will seek to examine the effectiveness of the internal control system of DVLA in Ghana. Further, the study seeks to examine the effectiveness of the ICS in executing orderly, ethical, economical, and efficient operations at DVLA of Ghana, to determine the effectiveness of the ICS in fulfilling accountability at DVLA, and to analyze the effectiveness of the ICS in safeguarding resources against losses and misuse. Moreover, the study will examine the difficulties hindering the effective implementation of the internal control system at the DVLA of Ghana.

The findings of the study will, to a large extent, reveal the extent of implementation of the internal control system at DVLA of Ghana. That is, the study will reveal the extent to which DVLA observes the ICS regarding the control environment, risk assessment, control activities, information and communication, and monitoring & evaluation. This information will be important to the management of the institution in its attempt at ensuring effective financial management at DVLA. It will aid in identifying the gap within the ICS in DVLA. Finally, the findings of this study will be an add-on to the limited pool of resources on the effectiveness of ICS in public sector organizations.

II. Materials and Methods

A positivist philosophical paradigm directed the research. The quantitative approach to analysis was used in this report, with the strength of the approach taken into account. If statistical inference rules are to be used to generalize results to a population, this is the best design (Asiamah et al., 2017). The quantitative analysis method was used because it involved a systematic analytical study of measurable phenomena using mathematical, statistical, or philosophical methods to determine a relationship between variables. A quantitative approach is deemed suitable because it facilitates the collection of information from large groups of people.

In this study, 400 respondents were selected to form part of the study. Due to time and resources, the access sample will be staff of the DLVA offices in Accra and according to Fisher et al. (1970), a sample of 400 is adequate for a population of more than 10,000. Respondents from different branches were chosen using a stratified sampling technique to represent their respective branches in the sample. In addition, due to the strict adherence to the COVID-19 protocols, an online survey was used to administer the questionnaire to the respondents who were chosen. Frequencies, percentages, means, and standard deviations were used to analyze the analysis descriptively using Statistical Package for Social Scientists (SPSS) software.

III. Results

Socio-demographic detail

This section presents the demographic details of the respondents. Details collected from the respondents included their gender, age range, educational level, years working in the organization and position held in the organization. As illustrated, in Table 4.1, most 217 (54.25%) of the respondents were males and 183 (45.75%) were females. This implies that data was collected from both genders in a balanced. Furthermore, out of the 400 respondents, 164 (41.0%) were 20-29 years of age. Meanwhile, 136 (34.0%) of the respondents were 30 to 39 years old, 49 (12.25%) were less than 20 years, 34 (8.5%) were 40 years to 49 years and 17 (4.25%) were 50 years and above. This implies that respondents were adults and were capable of providing eligible responses. Furthermore, most 320 (80.0%) of the respondents had tertiary education and 80 (20.0%) had vocational skills. This indicates that the respondents were educated to have adequate knowledge on the topic of discussion. In the same way, out of the 400 respondents, 170 (42.5%) had worked in their organization for one to four years. Meanwhile, 148 (37.0%) respondents had worked for five to eight years, 49 (12.25%) had worked for less than a year and 33 (8.25%) had worked for nine years or more in their current organization. This denotes that the respondents have much experience working in the organization and have knowledge with regards to their organization. Finally, most 235 (58.75%) of the respondents are junior staff workers. Meanwhile, 98 (24.5%) of the respondents were senior staff members and 67 (16.5%) were in management positions. This result implies that data was collected among all stages in the organizations.

Table 4.1: Demographic detail

	Frequency (n=400)	Percentage (%)
Gender		
Female	183	45.75
Male	217	54.25
Age range		

Less than 20	49	12.25
20-29 years	164	41.0
30-39 years	136	34.0
40 and above	34	8.5
50-59 years	17	4.25
Educational level		
Tertiary	320	80.0
Other (Vocational skills)	80	20.0
Years working in the company		
Less than 1 year	49	12.25
1-4 years	170	42.5
5-8 years	148	37.0
9 years and above	33	8.25
Position in organization		
Junior Staff	235	58.75
Management	67	16.75
Senior Staff	98	24.5

Source: Field Data, 2021

Control environment.

Table 4.2 presents the descriptive results concerning the type of control environment strategies at DVLA. Concerning the Employees with high personal and professional integrity as well as the ethical values are put in place to handle resources at DVLA, the respondents agreed ($x=4.22$) that DVLA has clear objectives, and these have been communicated to provide effective direction to employees on risk assessment and control issues ($x=4.02$) that the staff of DVLA are competent and knowledgeable.

Table 4.2: Control environment

Control environment	n	Min	Max	Mean	Std. Dev	Response Category
Employees with high personal and professional integrity as well as the ethical values are put in place to handle resources at DVLA	400	1.00	5.00	4.02	1.12	Agree
The DVLA has clear objectives, and these have been communicated to provide effective direction to employees on risk assessment and control issues	400	1.00	5.00	3.55	1.42	Agree
Management of the organization lead the fight against resource misappropriation by example (tone at the top)	400	1.00	5.00	3.66	1.47	Agree
The staff of DVLA are competent and knowledgeable	400	1.00	5.00	3.44	1.46	Neutral

Source: Field Data, 2021

Risk Assessment

As shown in Table 4.3 with regards to the risk Assessment, there was a mean of 4.12 with regards to DVLA periodically identifies both external and internal factors which could cause financial fraud (Risk identification). Likewise, DVLA assesses the likelihood of the fraud risk occurrence (Risk assessment) with a mean of 3.55. Similarly, The DVLA estimates the impact of the likely impact of fraud risk (risk evaluation) with a mean of 4.12. Furthermore, DVLA deploys its fraud risk management policy to mitigate the effect of the fraud (risk mitigation) with a mean of 4.15.

Table 4.3: Risk Assessment

Risk Assessment	n	Min	Max	Mean	Std
The DVLA periodically identifies both external and internal factors which could cause financial fraud (Risk identification)	400	1.00	5.00	3.55	1.42
The DVLA assesses the likelihood of the fraud risk occurrence (Risk assessment)	400	1.00	5.00	4.12	1.08
The DVLA estimates the impact of the likely impact of fraud risk (risk evaluation)	400	1.00	5.00	4.15	1.07
The DVLA deploys its fraud risk management policy to mitigate the effect of the fraud (risk mitigation)	400	1.00	5.00	4.22	1.04

Source: Field Data, 2021

Monitoring and Evaluation

From the Table 4.4, it is realized that there was a mean of 4.13 with regards to DVLA monitors ongoing operating activities, DVLA make separate evaluations of ongoing operating projects with a mean of

4.06. Similarly, DVLA audit its accounts to ensure compliance with a mean of 3.98. Furthermore, DVLA reviews its internal control systems to ensure that the are working effectively with a mean of 4.10.

Table 4.4: Monitoring and Evaluation

Monitoring and Evaluation	N	Min	Max	Mean	Std.Dev
The DVLA monitors ongoing operating activities	400	1.00	5.00	4.13	0.99
The DVLA make separate evaluations of ongoing operating projects	400	1.00	5.00	4.06	0.95
The DVLA audit its accounts to ensure compliance	400	1.00	5.00	3.98	0.81
The DVLA reviews its internal control systems to ensure that the are working effectively	400	1.00	5.00	4.10	0.93

Source: Field Data, 2021

Correlation Result of Risk Assessment and Monitoring and Evaluation

Table 4.5 presents the correlation results with regards to Risk Assessment and Monitoring and Evaluation. Results from the table indicate that there is a positive relationship between Risk Assessment and Monitoring, and Evaluation was ($r=0.394$) at a 0.00 significant level.

Table 4.5: Correlation result of Risk Assessment and Monitoring and Evaluation

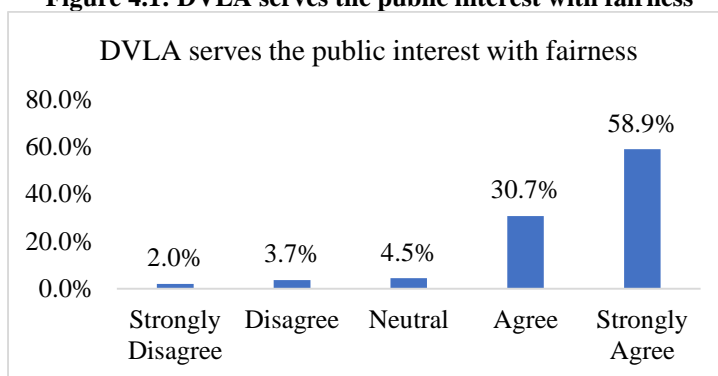
		Risk Assessment	Monitoring and Evaluation
Risk Assessment	Pearson Correlation	1	.394**
	Sig. (2-tailed)		0.000
	N	400	400
Monitoring and Evaluation	Pearson Correlation	.394**	1
	Sig. (2-tailed)	0.000	
	N	400	400

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

Assessment of the Operations of DVLA

As illustrated in Figure 4.1, most 236 (58.9%) of the respondents strongly agreed that DVLA serves the public interest with fairness. Similarly, 123 (30.7%) respondents agreed, 18 (4.5%) were uncertain, 15 (3.7%) disagreed and 8 (2%) strongly disagreed.

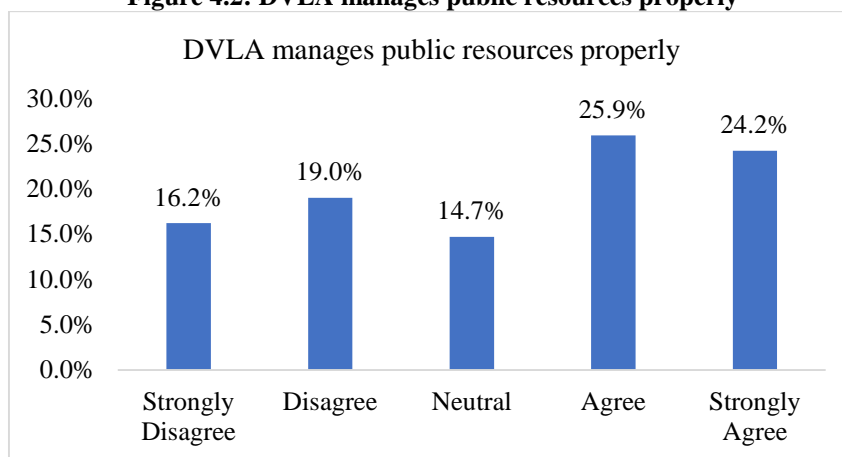
Figure 4.1: DVLA serves the public interest with fairness



Source: Field Data, 2021

As illustrated in Figure 4.2, out of the 400 respondents, 25.9% agreed that DVLA manages public resources properly. Also, 24.2% strongly agreed, 19.0% disagreed, 16.2% strongly disagreed and 14.7% were unsure.

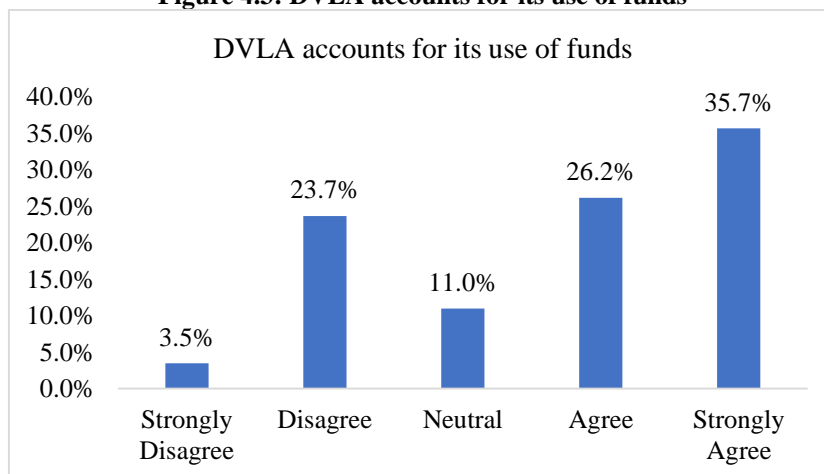
Figure 4.2: DVLA manages public resources properly



Source: Field Data, 2021

As indicated in Figure 4.3, out of the 400 respondents, 143 (35.7%) strongly agreed that DVLA accounts for its use of funds. Likewise, 105 (26.2%) respondents agreed, 95 (23.7%) disagreed, 44 (11.0%) were uncertain and 15 (3.75%) strongly disagreed.

Figure 4.3: DVLA accounts for its use of funds



Source: Field Data, 2021

Challenges that confront internal auditors of DVLA

The study indicates that most often employees do not discuss their complaints and implementation challenges with their supervisors. They were most often reluctant to communicate their challenges and grievances with regards to internal controls to their supervisors for reasons such as disinterest of supervisors and management in their concerns, lack of empathy on the part of supervisors and management staff, and the fact that the supervisors themselves faces similar problems.

Table 4.6: Challenges that confront internal auditors of DVLA

Challenges	Percentage
Inadequate training	56.0
Non-existence of operational policies	31.4
Lack of support from board and management	4.3
Lack of independence	7.3
Total	100

Source: Field Data 2021

Challenges facing Internal Control System

The table indicates the limitation and challenges facing internal control systems at DVLA. From the table, it was realized that resistance to change is the major limitation at DVLA. From the table it is realized that

other factors such as Override of internal controls, Human factor, Inadequate resources and Management use findings for sacking staffs are all factors affecting the internal controls of DVLA.

Table 4.7: Limitations
Limitations to/ challenges facing internal control systems

	Percentage
Resistance to change	73.0
Override of internal controls	5.1
Human factor	4.3
Inadequate resources	3.4
Management use findings for sacking staffs	12.0
Total	100

Source: Field Data 2021

IV. Discussion

The aim of this study was to evaluate the efficacy of internal control mechanisms in Ghana, specifically focusing on the effectiveness of internal controls at DVLA. The literature review highlighted that internal controls are implemented by management to ensure efficient resource utilization, adherence to laws and regulations, and reliable financial reporting. Numerous studies have emphasized the significance of internal controls for both internal and external auditors. Data analysis employed descriptive and inferential statistics. The findings indicate that DVLA has implemented internal controls to safeguard the public interest regarding resource usage. The research identifies factors such as working conditions, wage-related controls, promotions, and transfers that influence management's selection of internal controls. These findings hold importance for all stakeholders of public institutions in the country.

V. Conclusion

Based on the analysis, the following conclusions can be drawn. Strictly adhering to internal control procedures in an organization can lead to inflexible work processes and prolong the consequences of control breaches. Therefore, integrating formal procedures with some flexibility in controls promotes effective management of the organization's human resource capital and enhances internal control implementation. Survey responses indicate that issues related to seniority, promotions, and working conditions are among the primary causes of internal control breaches. The preceding literature review established that perceptions of internal control effectiveness in public services/organizations, such as DVLA, can directly influence service quality. It also revealed that perceptions of internal control effectiveness in public organizations, including DVLA, can influence service quality through employee commitment and behavior.

Another conclusion, which aligns with Kreitner and Kinicki (2008), asserts that the optimal management of internal controls requires a comprehensive understanding of the underlying cognitive processes involved. Therefore, it is crucial for managers of public organizations, particularly at DVLA, to fully grasp organizational justice and equity theories and be aware of their implications when making decisions regarding internal controls, especially those concerning pay, bonuses, fringe benefits, promotions, seniority, etc. The findings of this study will aid policymakers at DVLA and the government in formulating effective internal control policies and measures to enhance operational effectiveness and ensure their successful implementation. Adherence to these recommendations will result in sound control implementation, organizational efficiency, and enhanced capabilities of public sector organizations, ultimately leading to improved overall performance.

VI. Recommendations

Policymakers are committed to enhancing the efficiency, stability, and productivity of public sector organizations, including DVLA, to instill public confidence. Achieving this relies, to some extent, on the formulation of effective internal control policies, which in turn depends on understanding how to manage the organization's personnel. Additionally, top management of many organizations aims to remain focused and competitive, recognizing that the human resource factor is the foremost asset essential for the functioning of all other organizational assets.

To accomplish these objectives, management must thoroughly understand how to acquire and maintain an effective workforce, foster a peaceful and conflict-free work environment, and measure the human capital of the organization within the context of the implemented internal control measures, ensuring efficient and effective operations.

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