Auditing in Controlling Fraud and Other Financial Irregularities in the Koforidua Regional Hospital, Eastern Region, Ghana.

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Abstract

This research seeks to evaluate the impact of auditing in controlling fraud and other financial irregularities in the Ghana Health Service, case study of, Regional Hospital, Koforidua in the Eastern Region. Fraud in the public institutions especially in the Regional Hospital is ever-increasing problem, and date back to the ages. It poses huge challenge to the survival of many organizations worldwide. The fraud is a threat in the health sector as it denies people access to good quality health care. Auditing, which is a vital part of accounting, is to ensure more transparent, and make public bodies more accountable. The specific objectives of the study are: to examine the role of auditing in controlling fraud and other financial irregularities at Regional Hospital, Koforidua, and to assess the impact of auditing in controlling fraud and other financial irregularities in Koforidua Regional Hospital. Among the methodology in this study include the use of simple random and judgmental sampling technique. The sample size of 226 was
obtained from the respondents and the analysis was taken using SPSS Version 20. Qualitative and quantitative analysis were undertaking from the data by use of tables and charts. It was found out that auditing controls fraud and other financial irregularities where internal control system is effective. Also, some of the respondents were not aware about the controls or code of conduct governing their work and therefore engaged in fraudulent acts or wrongdoings. It is recommended that management should conduct training for all personnel upon hiring on its code of conduct. In addition, appropriate enforcing of a code of conduct, in which employees at all levels are held accountable in the same way will go a long way to curb fraudulent acts at the hospital.

**Keywords:** Auditing, Controlling, Fraud and Other Financial Irregularities, Koforidua Regional Hospital, Ghana.

**INTRODUCTION**

It is said that fraud in business set-ups as well public institutions had been ever-increasing problem, and date back to the ages. This actual fact, poses huge challenge to the survival of many organizations worldwide. The most cited corporate accounting scandals are Enron, WorldCom, and Xeron, which drawn significant attention to the occurrence of fraud, and the resultant outcry for transparency and honesty in financial accounting reporting. Fraud may impact individuals as well as the organizations fraud occur and is thus detrimental to society.

Auditing, which is a vital part of accounting, is to ensure more transparent, and make public bodies more accountable. Traditionally, audits were mainly associated with gaining information about financial systems and the financial records of a company.
Recent auditing has begun to include non-financial subject areas, such as safety, security, information systems performance, and environmental concerns (Kinsley, 2012).

According to Asian Development Bank, as quoted by Mark, Chris, David and Graham (2012), corruption is a behaviour on the part of officials in the public and private sectors, in which they improperly and unlawfully enrich themselves and/or those close to them, or induce others to do so, by misusing the position in which they are placed. The essence of corruption is the abuse of a position for gain.

England and Wales is unique in codifying the offence of fraud with the passage of the Fraud Act 2006. This sets out a number of ways in which fraud can be committed, which include fraud through: false representation (Example could be submission of false invoices for payment); failure to disclose information in order to promote personal interest; and abuse of position (this is where a person in a position of trust uses their position to his or her personal gains at the expense of his or her organisation).

According to European Health Fund and Corruption Network, (2009) and cited in (Mark, et al, 2012), that, an average of 5.59 percent of annual global health spending is lost to fraud, which is an intentional deception that can lead to an unwarranted benefit to the person perpetuating the fraud. Based on World Health Organisation (WHO) estimates that global health care expenditure is about US$4.7 trillion, this translates into about US$260 billion lost globally to fraud and error.
Fraud in the health sector can be a serious and sensitive issue. Medical staff can charge unofficial fees to attend to patients. They may demand bribes for medication which should be free. Corruption also costs lives when fake or sub-standard medications are procured for health facilities. There are several studies, which supported the fact that the burden of fraud in the health sector impacts most on the poor, owing to their financial standings.

Ghana Health Service of Ministry of Health (MOH) is dedicated to bringing quality health care and services to every door step and household with the commitment to achieve optimum quality of life in every community in Ghana. The National Health Insurance (NHI) addresses financial accessibility whilst the improvement in the spread of health infrastructure addresses the geographical accessibility, which are the main challenges to access to health care in Ghana (Ghana Health Service (GHS) 2010 Annual Report). This challenge is aggravated by fraud and other irregularities perpetuated by staff of the Ghana Health Service.

According to the Institute of Chartered Accountants (ICA) Ghana (2005), Ghana had adequate institutional frameworks for the prevention of and control of corruption. According to them, if the law like the Procurement Act, Financial Administration Act and the Internal Audit Agency Act were made to work effectively, corruption in the country would be reduced (Daily Dispatch 2005).

More recent research conducted by Alleyne and Howard (2005), between auditor and users around the responsibility of auditor for fraud detection through interview in
Barbados. The results revealed that there is a wide expectation gap between auditors and users for fraud detection.

Another survey carried out by MC Enroe and Martens (2002) by comparing audit partners’ and investors’ perceptions of auditors’ responsibilities involving various dimensions of the attest function. The results revealed that an expectation gap currently exists: investors have higher expectations for various facts and assurances of the audit than do auditors in the following areas: disclosure, internal control, fraud, and illegal acts. Koh and Woo (2001) investigated the audit expectation gap between auditors and management and found a significant gap, which management expecting more that auditors in the areas of preventing and detecting fraud, illegal acts, errors, and in guaranteeing the accuracy of financial reports. Study conducted by Fadzly and Ahmad (2004) regarding several dimensions of expectation gap in Malaysia. The results revealed evidence of expectation gap in Malaysia from the viewpoint of auditors and other participants, particularly on issues of concerning auditor’s responsibilities. A wide gap was found regarding auditor’s responsibilities in fraud detection and prevention, preparation of financial statements and accounting records.

The main objective of this study was to assess the impact of auditing in controlling fraud and other financial irregularities in the Koforidua Regional Hospital, of the Eastern Region, as a case study.

The specific objectives of the study are:
1. To examine what is fraud and financial irregularities in the Koforidua Regional Hospital

2. To assess the effectiveness of internal controls put in place at the Koforidua Regional Hospital

3. To examine the role of auditing in controlling fraud and other financial irregularities at the Regional Hospital, Koforidua.

4. To assess the impact of auditing in controlling fraud and other financial irregularities in Koforidua Regional Hospital.

The study would help answer the following questions:

1. What is fraud and financial irregularities about?

2. How effective are the internal controls put in place at the Regional Hospital, Koforidua?

3. What effective role does auditing plays in the control of fraud and other financial irregularities at Regional Hospital, Koforidua?

4. What extent has auditing help in controlling fraud and other financial irregularities at Regional Hospital, Koforidua?

However, some auditors strongly disagreed that they were responsible for unraveling fraud as against the public’s strong view that they are responsible for prevention, detection, and control of fraud and other irregularities. It is for this controversy that this research seeks to evaluate the impact of auditing in controlling fraud and other irregularities at a public institution such as the regional Hospital, Koforidua.

METHODOLOGY
The research being a social research made use of both primary and secondary data. The research is also of an explorative nature in that it seeks to examine the impact of auditing in controlling fraud in the health sector. Primary data are collected by the researcher for the first time during the conduct of the research. The researcher employed the use of questionnaire and interviews to solicit information.

The researcher also made use of secondary data, which have been already collected by other agencies and have been processed. These included the use of the Accounting, Finance, Treasury (AFT) Rules, the 2000 Ghana population and housing census, Ghana Health Service (GHS) 2010 Annual Report, GHS website and available records from the Regional Hospital in Koforidua.

The population consists of the totality or aggregate of the observation with which a researcher is concerned. The utmost importance in selecting a population is that it should be clearly defined so that a sample can be accurately identified. Target population is a group of individuals who meets defined set of criteria. The staff of the Regional Hospital, Koforidua is 824 employees. The target population was 800.

The researcher used both the simple random probability and judgmental or purposive non-probability sampling methods. The use of simple random sampling was to avoid bias in the collection data. Simple random sampling offers every employee an equal chance of being selected for interview. The adoption of the judgmental or purposive sampling was based on knowledge that those selected are the key individuals who can give the necessary information required for the study. Thus, purposive sampling was adopted to make use of group of experts (in audit or accounts units) desirable to validate research information.
Given a population of 800 employees, and estimated margin of error of 5%, the sample size computed, was 267 employees, consisting of one hundred and thirteen (113) males and one hundred and fifty-four (154) females. Therefore, sample size of two hundred and twenty seven (267) was drawn from a target population of eight hundred (800) employees of the Regional Hospital, Koforidua. The number of questionnaires sent out to respondents were 267, but 226 were completed and returned, constituting 84.6 per cent, which was used for the analysis. This 84.6 per cent is sufficient to make valid inferences to the characteristics of the population.

The study design made used of both qualitative and quantitative data gathering methods to gather data. Quantitative method in research employs numerical or statistical techniques to collect and analyses data. The qualitative method uses non-numerical techniques for data analysis. Primary data utilizes both the qualitative and quantitative research methods.

The data collected from respondents were carefully checked and edited. Individual items on the questionnaire were edited as regards the responses given by the study was aided by the use of the data analysis programme known as Statistical Package for the Social Sciences (SPSS) Version 20.

RESULTS AND DISCUSSION

As indicated in figure 1, sixty two (62) respondents representing 27% indicated that unauthorised collection of fees at the hospital relates to fraud. Fifty one (51) respondents representing 23% said that assets susceptible to losses and unauthorised uses could be an act of fraud. 21% of the respondents related theft of consumable and supplies at the
hospital as fraudulent activities. Thirty six (36) respondents, representing 16% said the hospital faced the risk of payment for goods and services which are never delivered. Twenty nine (29) respondents representing 13% said that the purchasing substandard drugs could be an act of fraud.

Figure 1  Fraud Risk Exposures to the hospital

In respond to the above question, as indicated in figure 2 below, seventy two (72) respondents representing 32% mentioned that they knew of favouritism as a form of fraud and irregularity common at the hospital. Fifty four (54) respondents making up 24% indicated cash fraud. Forty six (46) respondents representing 20% stated fraud by failing to disclose information; twenty
seven (27) respondents consisting of 12% stated fraud by abuse of position to gain one’s own benefit; while twenty-four (24) respondents representing 11% chose fraud by false representation to profit personally as their perceived understanding of fraudulent activity at the Regional Hospital, Koforidua. People in position of trust often tend to abuse their position for their own personal gains.

**Figure 2** Knowledge of fraud and irregularity at the hospital

![Pie chart showing different types of fraud](image)

- Fraud by abuse of position: 12%
- Fraud by false representation: 11%
- Fraud by failing to disclose information: 20%
- Fraud of claiming allowances for meeting & trips: 1%
- Cash fraud: 24%
- Favouritism: 32%

**Source:** Author’s Data (2013)

There are many examples of fraud by those in positions in trust such as appropriating to themselves colossal fictitious allowances, misuse of asset and arbitrary awarding contracts
to cronies. These responses were corroborated by Ajisebutu, (2006) as he stated amongst others that the key elements of management frauds are material false statement; knowledge of its falsification, and reliance on the false statement by victim; and damage suffered by victim.

The respondents were asked to rank a number of departments/units as to how they view them in terms of vulnerability to fraud. Investigation Services topped the list with forty three (43) respondents represented by 19% as the most vulnerable to fraud, followed by procurement unit with 16.4%, and then followed by pharmacy department with a score of 15.5%. The finance department, which is mostly perceived by many people as most corrupt unit, recorded thirty two (32) respondents, representing 14.2% and the least vulnerable unit being transport, which scored 1.3%. The details are shown in the table below.

**Table 1 Departments most vulnerable to fraud**

<table>
<thead>
<tr>
<th>Department/Unit</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>32</td>
<td>14.2</td>
</tr>
<tr>
<td>OPD</td>
<td>29</td>
<td>12.8</td>
</tr>
<tr>
<td>Investigation Services</td>
<td>43</td>
<td>19</td>
</tr>
<tr>
<td>Human Resource</td>
<td>18</td>
<td>8</td>
</tr>
<tr>
<td>Procurement</td>
<td>37</td>
<td>16.4</td>
</tr>
<tr>
<td>Pharmacy</td>
<td>35</td>
<td>15.5</td>
</tr>
<tr>
<td>Clinical</td>
<td>12</td>
<td>5.3</td>
</tr>
<tr>
<td>Transport</td>
<td>3</td>
<td>1.3</td>
</tr>
<tr>
<td>IT</td>
<td>4</td>
<td>1.8</td>
</tr>
<tr>
<td>Morgue</td>
<td>13</td>
<td>5.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>226</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**Source:** Author’s Data (2013)
The figure 3 below depicted the responses from respondents on their knowledge of the existence of the hospital’s internal control systems. One hundred and seventy nine (179) respondents representing 79.2% said they knew of the internal controls of the hospital. 11.95% stated that they do not know of the internal controls, while 8.85% have no knowledge of the hospital’s controls, bringing the total to 20.8% of the respondents saying that they do not know of the hospital’s internal control system.

**Figure 3  ** Knowledge of hospital internal controls systems

![Knowledge of hospital internal controls systems](image)

Source: Author’s Data (2013)

Figure 4.3: Do you know of the hospital internal control system?

The implication of this is that for every 100 employees, it is likely 21 employees might not know of the internal controls regulating their work to ensure efficient and effective use of resources. This called for the evaluation of the control environment in play. The
control environment sets the tone of an organisation, influencing the control consciousness of its people.

As shown in figure 4 below, the study revealed that one hundred and twenty seven (127) respondents, representing 56.2% stated that only authorized budgets and expenditures are recorded in the accounts records. Eighty three (83) of the respondents constituting 36.7% indicated that imprest up to GHc50.00 needs approval by the hospital director and either head of finance or the administrator of the hospital. This suggests that the management do consider their financial oversight responsibilities very serious. 4% of respondents stated that recording of transactions is done by individuals acting within scope of authority, suggesting no authorized person can access and make recording in the books of accounts. It is clear from the study that internal controls are effective.

Figure 4. Some Controls at the Regional Hospital, Koforidua
CONCLUSION AND RECOMMENDATION

In an attempt to explain what fraud and financial irregularities are about, sixty two (62) respondents representing 27% indicated unauthorised collection of fees; 23% of the respondents indicated that assets susceptible to losses and unauthorised uses is an act of fraud; 21% of the respondents stated theft of consumable and supplies as fraudulent activities; thirty six (36) respondents, representing 16% said the payment for goods and services which are never delivered to the hospital. While 13% of the respondents said the purchase of substandard drugs is an act of fraud against the hospital. Other forms of fraud and financial irregularities are favouritism, cash fraud, failure to disclose information, abuse of position to gain one’s own benefit, and false representation to profit personally. People in position of trust often tend to abuse their position for their own personal gains. This clearly demonstrated the understanding of staff about what fraud is all about in a hospital setup.

The study revealed that majority of the respondents (179 respondents, representing 79.2%) demonstrated their knowledge of the existence of the hospital’s internal control systems. But 20.8% of the respondents do not know of the hospital’s internal control system. The implication of this is that for every 100 employees, 21 employees of the facility do not know of the internal controls regulating their work and to safeguard use of resources. To corroborate the above assertions, 79% of respondents felt that the hospital’s internal controls designed to prevent, detect and control fraud and other
financial irregularities were very effective. Again 21% of the respondents considered the controls as ineffective. Management of the hospital needs to continue their sensitization of staff on the internal controls system. Ineffective or absence of controls could provide opportunities for staff to perpetrate fraud.

The study revealed that 127 respondents, representing 56.2% stated that only authorized budgets and expenditures are captured in the book of accounts. 36.7% of the respondents stated that impress up to GHc50.00 must be approved by the senior management of the hospital. This is an indication strong financial management discipline. It is clear from the study that internal controls are effective. Auditing, as financial monitoring tool is to ensure compliance with hospital’s policies, procedures, and laws and statutory regulations govern its operations.

Some staff of the hospital seemed ignorant about the controls or code of conduct governing their work as such they engaged in fraudulent acts or wrongdoings. It is recommended that management of the Regional Hospital in conjunction of Ghana Health Service should conduct training for all personnel upon hiring, and every year thereafter, concerning the code of conduct.

In addition, appropriate enforcing of a code of conduct, in which employees at all levels are held accountable in the same way will go a long way to curb fraudulent acts at the hospital. It is possible for staff to hide their fraudulent acts in the cost of goods and services from the hospital’s suppliers, especially the largest suppliers. It is recommended for the consideration of the hospital authority to critically review the costing reports on regular basis and pay attention to other signs in the financial reports.
The Regional hospital has effective internal control systems that it operates manually which is susceptible to manipulation through collusion. It is recommended that management should take advantage of simple, cost-effective, fraud-busting computer software tools provided by Microsoft Office Excel and Access designed to prevent and detect fraud. These software tools could effectively go a long way toward protecting the hospital and clients against fraud.

The management should reinforce the rule of ‘first come, first serve’ at the Investigation Services units by putting security men to guard against bypassing the queue. Also management should provide additional seats at Laboratory unit to easy the stress of client waiting for their reports.

Perpetrators of fraud should be properly sanctioned to serve as deterrent or signals to other staff who might be harbouring such intentions. Currently there is only one permanent staff and two (2) other temporary staff at the audit unit. It is recommended that authority of the hospital should engage the services of more professionals and build capacity of the audit staff in forensic audit to fight fraud and other sophisticated misconduct.

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