

Assessment of Internal Control on Purchasing and Account Payable in Telecommunication Business. (Case Study of Djibouti Telecom SA).¹

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ABSTRACT

In our uncertain and changeable world, the majority of companies are more concerned about setting up an effective internal control system that can secure certain stability in several areas inside or outside the company environment. Although the implementation of this system is becoming regular in most companies, not many studies is published concerning the internal control on telecommunications companies based on this observation this article aims to demonstrate an assessment of the internal control by focusing precisely on the purchase and account payable cycle and using required information from a telecommunication company based in Djibouti (Capital of the Republic of Djibouti), and illustrate that this control can detect and prevent risks related to this cycle. Data were collected by using some important internal control tools through interviews and several tests specific to this cycle. The result from these methods showed that even though most parts of the procedure related to this cycle is globally respected some important points have to be corrected (i.e., lack of reception department, no written purchase procedure, absence of supplier consultation, accumulation of tasks, and approbation of some purchase order without consulting the budget department). Suggestions is been given to the company such as (i.e., creating a service reception, putting in place a consultation offer sheet, and mitigating functions for the treasury department to avoid the risk of accumulation of duties) according to observations noted. The theoretical and practical implications were discussed.

Keywords: *Purchase, account payable, internal control system.*

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INTRODUCTION

The internal control system is essential for most companies of different sizes, but particularly in large and medium-sized companies. Nowadays it has become a major function in all companies due to important accounting scandals that have occurred in the early 2000s such as the Enron and WorldCom scandals, (Kathleen and Brickey, 2003), both of these companies have recorded an important amount of net loss estimated in billions of dollars during that time. The Sarbanes-Oxley Act 2002 appeared to fix auditing U.S public accounting (John, 2007), by reinforcing investor protection against fraudulent accounting activities and improving the accuracy and trustworthiness of corporate disclosure. With this act weakness incorporating internal control is disclosed so that investors can use them to make a correct decision, (Jafar, 2021). Internal control is defined by the Committee of Sponsoring Organization (COSO) 1992, as ‘‘the process carried out by the governing body, officer, and staff of an organization to provide reasonable assurance as to the achievement of its objectives’’. Internal control represents all mechanisms, rules, and procedures put in place by the company to assure or emphasize the integrity of financial and accounting information, facilitate accountability, and anticipate fraud.

Our principal hypothesis is to consider that the non-respect of the procedure activity of the purchase and accounting department increases the damages and risk related to the purchase and account payable cycle in the Djibouti Telecom S-A company.

The main objective pursued of this research article is to assess internal control on the purchase and account payable of a telecommunications company Djibouti telecom S-A located in Djibouti. For that, the control is mainly focused on the procedure activity related to the cycle of purchase and account payable and determines strength and weakness detected through some internal control techniques. This study, contribution consists of highlighting some important internal control tools by giving an independent and transparent opinion on this system to help the manager of the company to make a better decision concerning the cycle of purchase and account payable. Limitations encountered such as the time, on average an internal control takes 3 months (www. Harvard University.com), in this research due to the limit of the academic semester this control has been executed in 2 and a half months. This research article covers several sections in the first part the literature review is discussed with the main notions of the topic then methods and techniques used are presented after that result and discussion discovered is explained and finally, a recommendation and a conclusion to resume main part of this research are presented at the end of this article.

LITERATURE REVIEW

Evolution of the Telecommunication Companies in Africa

The communication system is an ancient practice that used to exist in past in multiple forms, in human civilization it all started with the use of smoke and home pigeon in Africa, America, and Asia (Muqbil, 2017). However, it is on February 14, 1876, that the first electrical telecommunication system has appeared in Europe and this idea was invented by (Alexander

Graham Bell, Library of Congress, 11/19/2019). In early 1960, the first types of network telecommunication have emerged and they were owned and controlled by the government for several security reasons (Merlin, 2015). This situation has created a certain number of issues for customers, they have faced an increase in the price concerning the network service and bad supply efficiency (Martin, 2001).

At the time of the colonization period European colonialists had imported modern communication materials in Africa such as the telegraph so as to not to develop the African communication system, but for their interest, (Dhliwayo, 2017). The Pan African Telecommunication Network was created (PANAFTTEL) in Dakar Senegal, the main role of this organization is to conceptualize an interconnection between African countries for better development of their economy, (Dhliwayo, 2017). From 1984 to 1994, much African telecommunication sector has been privatized and created separate autonomous regulatory industries (Sanford and Jacqueline, 2001). Even with these decisions undertaken African countries still have an important late compared to the American European or Asian continent in the telecommunication sector.

Concept of the Internal control Based on the Coso Framework

Internal control is a critical notion that has been defined by several notorious organizations in multiple ways with the same meaning such as the International Accounting Standard Board (*IASB*), who defines ‘Internal control as a process designed, implemented, and supervised by those charged with governance, management, and other personnel, to provide reasonable assurance as to the achievement of an entity's objectives concerning the reliability of financial information, the effectiveness, and efficiency of operations, as well as their compliance with applicable laws and regulations’. The Committee of Sponsoring Organization (COSO) 1992, has also defined internal control as ‘the process carried out by the governing body, officer, and staff of an organization to provide reasonable assurance as to the achievement of its objectives’.

Figure1: Representation of COSO Cube Framework



(Source: COSO framework executive summary May 2013).

The COSO framework is one of the most reliable organizations for the establishment of the internal control system in a company. This framework has 5 major components: the control environment consists to assess the tone and top of the management in other word to which degree the internal control system in place is considered by the manager and the employee. Then we have the risk assessment which concerns the extent of capability for a company to evaluate risks that can damage to attain its objectives. Information & communication of a company is the third part of this component they have to be reliable and conform to the law but also the transmission of this information should be done properly to the internal and external actors of the company. The fourth part of this internal control component is to control existing activities by measuring their effectiveness about all policies and procedures and should be in a written manual procedure correctly applied. And monitoring activities by controlling all the above components about their efficiencies is the final step of this component. Usually, these 5 components are referred to as the acronym of CRIME), and 17 principles (Houdini and Christo, 2013).

(Ann, on November 21st, 2019), the COSO framework subdivided the objective of the internal control into 3 principal objectives: First, the operation's objectives for instance performance goals and securing the organization's assets against fraud, and focus on the effectiveness and efficiency of your business operations. Then the reporting objectives for example: including both internal and external financial reporting as well as non-financial reporting, relate to transparency, timeliness, and reliability of the organization's reporting habits. And finally, the Compliance objectives are internal control goals based around adhering to laws and regulations that the organization has to comply with.

According to (Thea, 2020) in general, there are three major types of internal control which are: detective by detecting the issue of the company once they occurred, preventive used to avert errors inaccuracy, or fraud before it happens, and corrective control which is established after the detective control found the issue.

Evaluation of Internal Control on Purchase and Account Payable Cycle

The cycle of Purchase and Account payable is a critical cycle that needs to be reconsidered in most companies nowadays. Purchasing knowledge is an important factor of supplier collaboration and strategic sourcing (McMullen, 2014 and Luzzini, 2015). It consists of acquiring goods or services that the company needs for its different operations or production in return for money from its supplier. On the other hand, the account payable process consists of paying invoices and processing reimbursements, it includes receiving, entering, and improving invoices (Samuel, 2016). The aims followed during the internal control of this cycle are in four particular step: release of order here the internal control system will ensure that orders of merchandise or goods and services are made according to some defined needs of the organization with an optimal quantity and by authorized persons, during the reception of goods ordered by the company should be controlled in terms of quality and quantity, recording debt by checking the principle of three-way matching, and payment of invoice, (Elhamdaoui, 2010-2011).

Figure 2: Purchasing and Account payable Process Steps



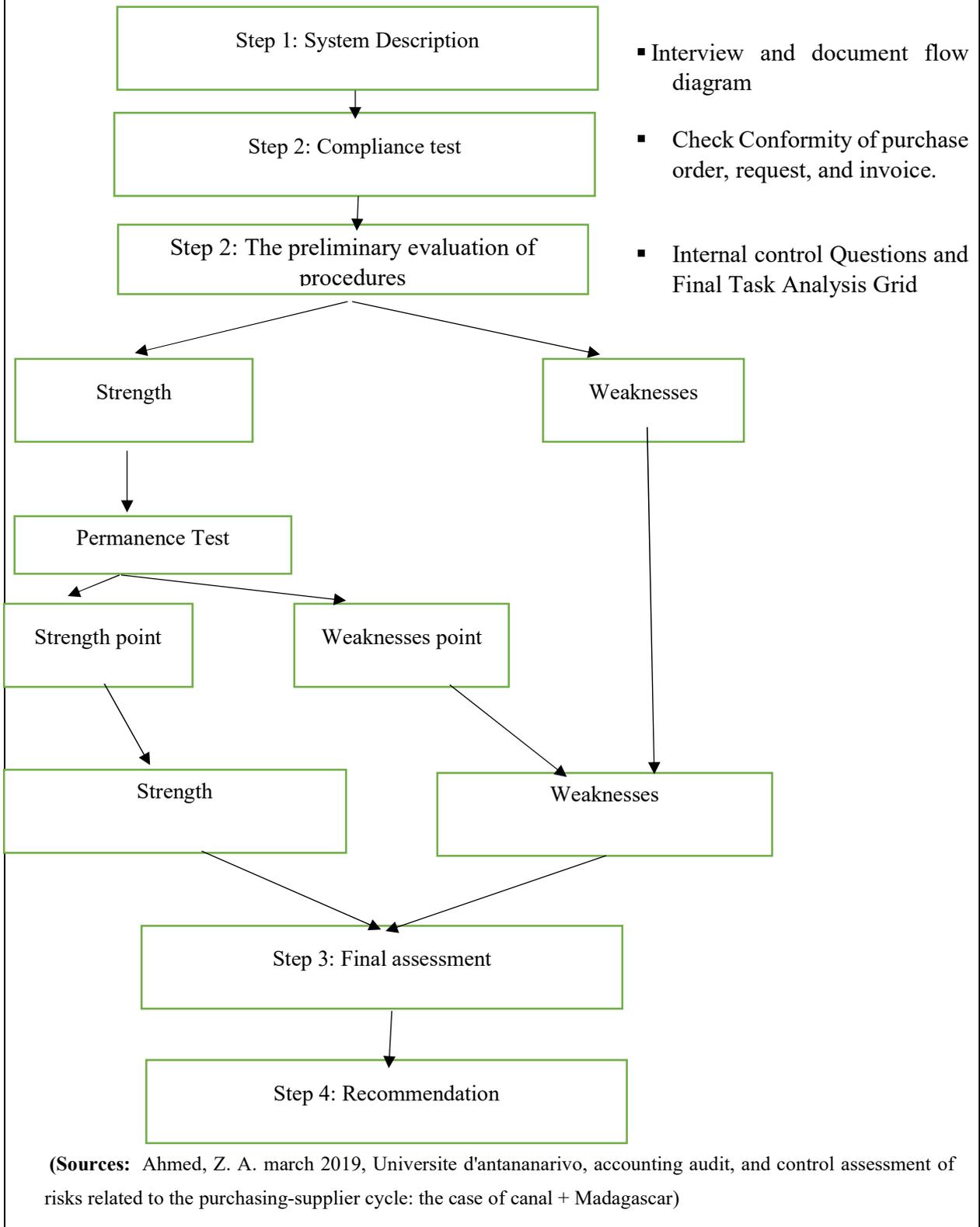
(Source: www.planergy.com Purchasing Process: Steps and Best Practices.com).

RESEARCH METHODOLOGY AND INTERNAL CONTROL TECHNIQUES

This actual investigation is going to be operating in a deductive research approach by buildup hypothesizes which could be refused or accepted and using an evaluating research question. The qualitative data collection method is supposed to be adopted for this current research through a literature review and field research. The random or probability sampling method is practiced in the actual study which means there is an equal probability of selection concerning some documents such as the invoices for better visualization (Hamed, 2016). Since our study is related to the assessment of the internal control system the substantive procedure audit approach is used to describe test evaluating and advising proposition, (international standard on auditing, Dec 15, 2009). Based on our hypothesis there are two main variables concerning this research the first is about the independent variable the value which affects another variable (Satish, 2018), here in our research it concerns the non-respect of procedure activity in the purchase and accounting department. And the second variable is the dependent variable which is the value that may change because of the change in the value of another variable (Olayemi, 2017), in our research, it concerns the increase of risk problem. To better assess this cycle, we have designed the below methods of work based on another similar research topic for better reliability. Four main steps are represented in below figure 3. The first stage consists to describe and get familiar with the company in question via an interview with the head of the accounting department of the company and using a document flow diagram to represent the traffic documents and information between the different functions and responsibility centers (Meryem, 2010), then executing a preliminary evaluation of procedure activity and test on the conformity of the document related, after that based on strengths and weaknesses noticed through internal control questionnaire it seems important to execute a final assessment on the strength not respected, and finally, we conclude our control with giving some recommendation.

Figure 3: Methods of work to assess I-C

Tools for I-C



RESULT

Djibouti telecom S-A is a semi-public company located in Djibouti city created on 20 September 1999 and specialized in the supply of telecom service. With a capital of 4.000.000.000djf and over 1000 employees, it is the only telecom company in the country (www.Djibtel.com.). Generally, a large company such as Djibouti telecom S-A has an important purchase and account payable cycle that needs to be controlled. Based on methods and techniques presented in the above section and after a rigorous internal control on this cycle, research undertaken has shown the following result.

System Description

This step consists to understand how the purchase and account payable cycle works in this company for that an interview is used to gather information and research found that there is not a formal written procedure activity in the purchasing department. Further in this interview, we have noticed that the purchasing department does not proceed with a consultation of a minimum of 3 suppliers before establishing the purchase order. In the same stage, based on the flow diagram which is a diagram to represent the traffic documents and information between the different functions and responsibility centers, (Abderrazek Expert Accountant member de l'OECT) and our observation after a rigorous study of the procedure activity of the accounting department, we observed that there is no consultation of the budget service before the approval of the purchase order.

Compliance test

According to the Institute of (Numeric research methodology, 19/07/2013), a conformity test is based on a final document or the result of an operation and makes it possible to go back to the source through all the intermediate phases and therefore to check the audit trail. It reveals the strengths and weaknesses of internal control. We have applied this test in some of the key accounting documents related to the purchase and account payable cycle. The result shows that the company is respecting the accounting record system of their procedure activity concerning the authorizations but about the purchase request and order sometimes documents are not correctly represented.

Table 1: conformity test on 10 randomly selected purchase order

	DATE	Supp name	p-o numb	Request service name	Object	amount of p-r in (djf)	Authorization by the head department of purchase and need service
1	23/06/21	ACASIAS HOTEL	21-9058/310	D-MONE Y	DINNER IFTAR	203000	yes
2	27/04/2021	QUICK IBRAHIM	-	-	-	92400	Yes

3	9/06/2021	ETS KW	21-8912/310	DI-DT	CAMERA	2920000	yes
4	23/05/21	Rageub travel agency	-	Mobility service	Travel ticket	576800	Yes
5	-	BCB info	9065	DGS	-	84900	Yes
6	6/05/2021	BRIGESTON E	8826	DAL	MOTO for moussa	82962	Yes
7	26/05/2021	Garage gaber	8836	Dal	-	368000	Yes
8	26/05/2021	SVAMC	8821	DAL	-	51810	Yes
9	28/04/2021	CIBIS	-	-	-	-	Yes
10	-	SHERATON HOTEL	21/8324	-	HOTEL EXPENSES	1224810	Yes

Preliminary evaluation on the procedure

One of the key tools used for the evaluation of internal control is the internal control questionnaire they are a self-control question to evaluate the effectiveness of the actual internal control (DEO, 2019-2020), for more efficiency and reliability we have used a previously used question for a similar topic. The below table represents an extract of the Internal control questionnaire concerning the part of return deliveries.

Table 2: Tracking returned deliveries

Objective: To ensure that the returned deliveries are followed to obtain corresponding credits.

QUESTIONS	YES	NO	OBSERVATIONS
1. Are deliveries returned to suppliers subject to a return slip?		✓	The concerned department expressed the need to fix this issue with the supplier via call since there is no reception service
2. If so, are they pre-numbered?		✓	No, they are not due to the lack of a reception department.

(Sources: Ahmed, Z. A. march 2019, Universite d'antananarivo, accounting audit, and control assessment of risks related to the purchasing-supplier cycle: the case of canal + Madagascar.)

We can notice here that deliveries returned to suppliers are not subject to a return slip, In the same step, we put in place a separation of duties grid that showed they were an accumulation of tasks in the treasury department. It is a non-respect of one of the major principles of internal control.

DISCUSSION

Final Assessment

This step concerns the risk and damages that can be engendered from the above results. Regarding the absence of written procedure, risk related could be the imperfection of selection of supplier, wrong analysis of purchase process, interest conflict, fraud practices, and lack of proof concerning the process to present during the internal control for the auditor. Apropos of lack of consulting minimum 3 suppliers, here the company is going to lose the benefits of competition at a low price but also fraud for agreement can be generated. About, not consulting the budget service before the approval of the purchase order damage could relatively be material because of the fake image that the accounting record system will provide. As regards no reception service, risk linked to an absence of receiving service of goods is the likelihood of diversion concerning goods, or probability of agreement between suppliers and the service initiating the purchase. And finally concerning the accumulation of tasks, the level of this risk is classified as a strong risk since we are here emphasizing the principle of separation of tasks. The consequence of this latter is the fact employee will have an important number of tasks which will create a discouragement of efforts made, lead to treatment errors, delays payment of the invoice, or fraud that could affect the activities of the company. Risks noticed in this section have been discussed in the thesis research paper of (Safi, July 2007) and (Ahmed, March 2019) both authors have produced an assessment of the internal control in the cycle of purchase and account payable in two different company.

Recommendation

The first recommendation about the absence of written formal procedure is that good practice in accounting required that for better comprehension and understanding it is preferable to have a written procedure for every department in an organization so that the internal control and the internal audit could be correctly executed otherwise several other issues could be generated from this such as those stated above.

The second recommendation is that company should establish an offer analysis table and send it to a minimum of 3 suppliers to benefit from the best offer and for better transparency. Here in below table 3, we have proposed a sample concerning a representative offer analysis table to select suppliers.

Table 3: Sample of offer analysis table Source author



- Date : _____

- Department name: _____

Criteria wanted	Model of the product	Price	Date of delivery
Name of the supplier			
Supplier 1			
Supplier 2			
Supplier 3			
Supplier 4			

Signature of purchase

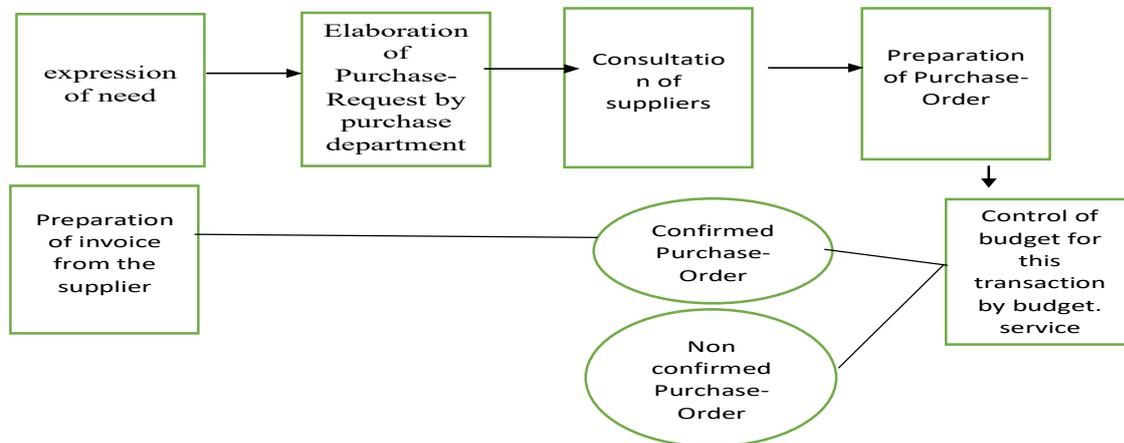
Accounting Agent

Signature of head department accounting

Signature of head department

The third suggestion is that the organization should check here budget before authorizing any operations concerning the purchase, and budget service should be created. According to the document flow diagram, figure 3, below describes the task that needs to be included in the process of this cycle so that procedure activity in the purchasing department represents a reliable image of their function.

Figure 4: Consultation of budget service before approval of the purchase order.



The fourth suggestion is that the company set up a service that ensures the receipt of all deliveries to avoid any risk arising from its absence in the purchase operation.

And the final proposition is that the company should divide its treasury service into two divisions.

The first division will be related to the accounting department and will be in charge of executing the following tasks:

- Records of incomes and Expenses
- Reconciliations of bank statements.

The second division is going to be called treasury and financing and will be linked to the budget department they will be in charge of:

- Recovery
- Placement and financement

CONCLUSION

To resume it is important to remind that good and strong internal controls are essential to assuring the accomplishment of goals and objectives of the company. They provide reliable financial reporting for management decision-making, ensure compliance with applicable laws and provide regulations to avoid the risk of public scandals. Based on what we have seen above, Djibouti telecom S-A is a large business with an important number of employees over a thousand which means the establishment of internal control is mandatory to improve and maintain her performance at a high level. The main goal sought in this article is to demonstrate that implementing an effective internal control system on the purchase and account payable cycle will emphasize the protections against risks related to this cycle. Several internal control techniques are used to detect, analyze, and treat these risks such as interview, Document flow Diagram, Internal control questionnaire,

the grid of separation of the task, and conformity/permanence tests. Five risks have been detected with these methods, for instance, accumulation of tasks in the treasury department here the non-respect of the principle of separation of task has been noticed so it was important for the company to separate the treasury department into 2 divisions one related to the accounting department and the other to the budget department, lack of different supplier selection slips has been remarked so the solution was to present a sample of the supplier selection slips, the absence of a formal written purchase procedure activity caused a severe issue especially during the control of purchase department so it has been advised to this department to respect good account practice that suggests having a written procedure for better transparency and comprehension. And finally approving purchase orders without consulting the service budget creates an important problem in terms of lack of transparency of the image for the company's accounting transaction and the treasury operation during the control. These risks have been treated and given response in detail in the above section concerning the recommendation. Further research could be undertaken about internal control systems to determine whether this system can contribute to improving managerial decisions and procure a competitive advantage for a company.

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