

UNIVERSITY OF EDUCATION, WINNEBA

**INTERNAL CONTROL SYSTEMS IN NON-BANK FINANCIAL
INSTITUTIONS: A CASE STUDY OF SOME SELECTED CREDIT UNIONS
IN GHANA**

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MASTER OF BUSINESS ADMINISTRATION

UNIVERSITY OF EDUCATION, WINNEBA

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IN GHANA**

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**A dissertation in the Department of Accounting,
School of Business, submitted to the School of
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of the requirements for the award of the degree of
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DECLARATION

Student's Declaration

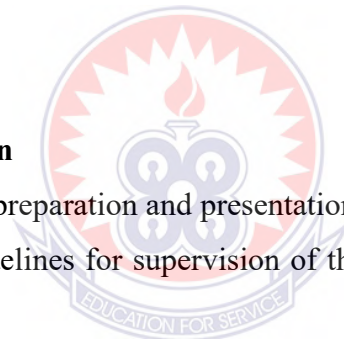
I, Solomon Adutwum Sarpong, hereby declare that this dissertation, with the exception of quotations and references contained in published works which have all been identified and duly acknowledged, is entirely my own original work, and that it has not been submitted, either in part or whole, for another degree elsewhere.

Signature:

Date:

Supervisor's Declaration

I hereby declare that the preparation and presentation of this dissertation were done in accordance with the guidelines for supervision of thesis laid down by the University of Education, Winneba.



Supervisor's Name: Mr. Samuel Gameli Gadzo

Signature:.....

Date:

DEDICATION

This dissertation is dedicated to my lovely father Mr. Edward Sarpong and the entire family for their support in diverse ways throughout my study.



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ABSTRACT

The purpose of this study was to assess the effectiveness of internal control systems in some selected Co-operative Credit Unions in Ghana. A descriptive research design was used for the study whereas quantitative research approach was employed. Stratified random sampling was used to sample one hundred and thirty two (132) respondents from a possible population of one hundred and eighty two (182) after which a structured questionnaire was used to collect a primary data. Descriptive analysis was used by applying the Statistical Package for the Social Sciences (SPSS) to analyze the primary data collected. The findings of the study indicated that the company's Board members are solely mandated to initiate policies on internal controls and ensure that they are fully implemented by the company's management. The findings of the study also revealed that, majority of the respondent accepted that the credit union manager was responsible for authorizing payment on behalf of the union. Nevertheless, just a few respondents believed that the Board is responsible for authorizing payment on behalf of the union, while others said it is the responsibility of both the Manager and the Board. In furtherance, the findings revealed that management supports internal audit's personnel by making sure that internal audit is large enough to efficiently carry out its duties. The study recommended that the management of the credit union should provide the internal audit department with a procurement policy as well as constituting procurement committees to tackle issues concerning procurement with more diligence among others. It is further recommended that management should ensure that adequate training on internal controls is given to the workers and management, effective monitoring and evaluations should be organized intermittently and out operational policies and manuals should be given to members in order to ensure effective implementation of internal controls.

CHAPTER ONE

INTRODUCTION

1.0 Overview

This introductory chapter discusses the background of the study, statement of the problem, purpose and objectives of the study and research questions. It also talks about the significance of the study, delimitations of the study, limitations of the study, and organization of the study.

1.1 Background of the study

A financial institution no matter its nature or magnitude of operations must have an internal control system embedded in its activities in order to aid in achieving organizational goals and objectives (Zietlow, Hankin, Seidner & O'Brien, 2018). An efficient and effective system of control is essential to the management of an organization and serves as a bedrock for a system of effective internal controls. This means that, a control system that is not effective brings about unproductiveness and finally leads to losses (Frazer, 2016). Goloshchapova, Smolentsev, Korelskiy, Rudenko and Sergodeeva, (2017) argue that the internal control system in use in an organization should integrate deeply into the organization's history and culture and be able to respond rapidly to evolving business environment trends. They further stress that a financial institution of whichever form or size should put in place its own system of controls in order to achieve its objectives. A system of effective internal controls is a critical component of company management and a foundation for the safe and sound operation of organizations. However, ineffective internal controls result in ineffective programmes and eventually leads to losses (Frazer, 2016). Badara, (2013) contends that, the system of internal control should be embedded in the operations of

the company and form part of its culture; be capable of responding quickly to evolving risks to the business arising from factors within the company and to changes in the business environment; and include procedures for reporting immediately to appropriate levels of management any significant control failings or weaknesses that are identified together with details of corrective action being undertaken. He further stresses that a sound system of internal control reduces, but cannot eliminate, the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls, and the occurrence of unforeseeable circumstances.

Frazer, (2016) submits that internal control is a dynamic integral process that is continuously adapting to the changes an organization is facing. Consequently, management and personnel at all levels have to be involved in this process to address risks and to provide reasonable assurance of the achievement of the entity's goals and general objectives. An organization needs internal controls to provide greater assurance that they will achieve their objectives; in other words to help the organization succeed in its mission, internal control helps ensure that the directions, policies, procedures, and practices designed and approved by management and the board are put in place and are functioning as desired. The more elaborate the organization, the more the need for internal control to counteract any loss of effectiveness sustained when adding more people and processes to transact business (COSO, 2006). Thus management is required to design and assess internal controls, regardless of the size of business operations. An effective internal control system is a crucial component of the management of a company and serves as bedrock for efficient operations.

Access to financial services is increasingly recognized as an important tool for the poor and a low-income group to save their money, spread their risk, invest in productive and social purposes, and ultimately improve their lives (Ratnawati, 2020). Banks have been established with specific aims and objectives, but ultimately to satisfy the expectations and aspirations of their clients as well as the general public and thereby make profit. In view of the risks associated with bank finance, most banks are unable to satisfy the needs of citizens and households in their respective countries (Ahmad, Green & Jiang, 2020). It is for this reason that Non-Banking Financial Institutions (NBFIs) have been established to reach out to the larger population that could not have access to banking facilities due to lack of requisite collateral security as well as other constraints (Ahorlu, 2014). According to Khumalo (2014), Credit Unions, which are community based, self-supporting and non-discriminatory have become an appropriate tool for financing the poor persons' economic activities for an overall national development.

Credit Unions are financial co-operatives owned and controlled by their members. Members of Credit Unions usually pool resources together and apart from the loans, offer other financial services. Generally, Credit Unions are formed to encourage regular savings, create a source of credit, to promote the welfare of the community as well as to teach sound financial management to members (Credit Unions Association). In short, credit unions are safe, convenient places to access affordable financial services (Amegashie-Viglo & Ahorlu, 2015). They offer a full range of financial services, giving members greater flexibility to meet their individual needs. The operation of credit union schemes in developing countries plays a major role in providing financial support for those outside the scope of the formal banking services in society. Thus the establishments of Credit Unions have become strategic

for managing poverty and for meeting the financial expectations of the marginalized. Credit unions are an important means through which local savings are mobilized, financial intermediation takes place, credit is provided and transformed into productive and development activities. Credit institutions are providing millions of their members around the world with access to financial services. In Africa, the credit union movement is an important channel for poor rural people to have access to financial services (Ratnawati, 2020).

The first working credit union models sprang up in Germany in the 1850s and 1860s (Goglio, S., & Kalmi, 2017) and by the end of the 19th Century had taken root in much of Europe. They drew inspiration from cooperative successes in other sectors, such as retail and agricultural marketing. Similar institutions were independently developed somewhat earlier in Japan, in the early 19th century, by agrarian reformer and economist Ninomiya Sontoku. In that village union in Japan, each person of the village union could borrow interest-free fund for 100 days, while the entire membership shared the cost in case of default (Antwi et al., 2016).

The language related to credit unions can be confusing. In spite of the word 'credit' in their name, even the earliest credit unions usually offered both savings and credit services and often payment and insurance services as well. They were, and are still, known, by (and are still known by) a wide range of names, for example: 'People's Banks', 'Cooperative Banks' and 'Credit Associations' MacPherson (1999). Credit Unions are best identified by their adherence to cooperative principles, especially related to membership and control. A cooperative (or co-op) is a business operated and democratically controlled by its membership of Owners to meet their common needs and aspirations. For example after World War II many organizations were started and controlled by governments in the developing world, and were described as

‘credit unions’ or ‘cooperatives’ by their promoters. However, government control, whether in a capitalist or communist political context, represents a fundamental repudiation of cooperative principles.

These principles include; Voluntary, Open Ownership; Democratic Owner Control; Owner Economic Participation; Autonomy And Independence; Education, Training And Information; Cooperation Among Cooperatives; and Concern For The Community. From this point on credit union flourished in several other European countries (Oczkowski, Krivokapic-Skoko, & Plummer, 2013). Following a meeting sponsored by CUMA (Coopératives’ Utilisation de Matériel Agricole) International in Lesotho in January, 1968 the idea of a National Association in Ghana was conceived (Agyei-Mensah, 2016). A follow-up conference was held in April in Tamale the same year giving birth to the Ghana National Union and Thrift Association, the forerunner of the Ghana Cooperative Credit Unions Association (CUA) Limited. The duties of CUA limited were to promote, educate, organize and support the Credit Union Movement nationally and internationally (Agyei-Mensah, 2016). Notable among the pioneer volunteers were Rev. Father MacNulthy (retired) and Cardinal Peter Dery (the late). The Ghana Co-operative Credit Unions Association (CUA) limited in duly registered with Department of Co-operatives under the Cooperative Societies Decree 252 of 1968 (Agyei-Mensah, 2016).

Presently, the Ghana Co-operative Credit Union operates throughout the ten regions in Ghana and its membership is opened to all registered Credit Unions organized and doing business in Ghana. Prior to this bold experiment, there had been in existence since the 1920’s, Co-operative thrift and Loans Societies founded under the auspices of the then Department of Agriculture and the Department of Trade and Industries. The ultimate aim was to provide financial security for the members and

enhance their total development and by so doing, there is the need to effectively manage risk, control and govern the process of the organisation through the internal control practices (CUA, 2016).

The Ghanaian banking industry has evolved from a highly regulated sector into a largely market driven one. The regulatory and institutional framework has improved considerably yet still Banks in Ghana are facing some challenges as the world deals with one of the deepest financial crisis in the history of the planet(Sarpong,2018). The recent demise of Bank for Housing and Construction and Ghana Co-operative Bank Ltd are test cases of how lapses in internal controls can easily cause the fortunes and death of financial institutions. Internal controls and risk managements, process which are designed to ensure the effectiveness and efficiency of operational activities, reliability of financial information, compliance with applicable rules and regulations and sustainable business growth, have been incorporated into the mundane activities of banks in Ghana. Most banks go through difficulties in recovering facilities granted to customers after expiry (Agyei-Mensah, 2016).

It is possible to achieve all the above-mentioned effects on the economy as a whole through an efficient and effective internal control system to govern all players. Therefore, the research aims to evaluate the effect of internal control systems on Ghana's Non - bank financial institutions.

1.2 Statement of the problem

The growth and development of financial institutions are dependent on the effectiveness and efficiency of its internal controls. Meanwhile, control systems that are not effective can result in ineffective operations and can finally lead to losses (Mohammed,2020).The weaknesses in the internal control systems in the resources

and management of Non-bank financial institutions is a critical area currently lacking attention considering the continuous disregard for control elements therefore subjecting to massive gross in the management, appropriation and accounting for members resources deployed at various Credit Unions in Ghana (Yao, 2020).

Though few studies , Mawanda (2008), (Noel, 2010) ,Ndungu (2013) have confirmed the existence of control mechanisms, most Credit Unions in Ghana seem to show no sign of adherence to proper standards to curb misappropriations, inaccurate and unreliable financial records. The situation also includes the inability to demonstrate compliance to due diligence, procedures and application of standard practices as far as accountability and safeguarding of members assets are concerned. Andani, (2008) claimed that, there is an increasing fraud in the Ghanaian business circles; therefore vigilance is needed to prevent it through good internal controls. Andani, (2008) also pointed out that, 10% of employees will steal, and 10% will not steal, 80% have not decided but when given the opportunity, they will steal hence lack of effective controls is the cause of fraud in Ghanaian business circles and the world at large.

This shows the relevance of international controls submission from The Committee of Sponsoring Organizations of the Tread way Commission (COSO) framework (2006),The International Organization of Supreme Audit Institutions (INTOSAI) (2004) and Gramling (2007). The five components are control environment, information and communication, risk assessment, control activities, and monitoring. For the control system to be considered as effective, at least all the five components of the control system must be present and functional (Rahimet al., 2018). Based on existing literature and the research statement, the researcher will be

conducting the study to determine the presence and effectiveness of the system of internal control systems in some selected Co-operative Credit Unions in Ghana.

1.3 Purpose of the study

The study sought to assess the effectiveness of internal control systems in non-bank financial institutions typically credit unions. The study's findings sought to identify the flaws in credit unions' internal control systems and procedures, as well as recommend modern best practices that, when examined, will help strengthen non-bank financial institutions' internal control systems.

1.4 Objectives of the study

The main objective of the study was to assess the effectiveness of internal control systems in non-bank financial institutions; a case study of some selected credit unions in Ghana.

The specific objectives of the study are to;

1. identify the control system in some selected Credit Unions in Ghana
2. assess the effectiveness of internal control system in some selected Credit Unions in Ghana.
3. examine the adequacy of the risk assessment procedures, monitoring procedures and management commitment to the implementation of internal control policies in Ghana

1.5 Research questions

1. What are the internal control systems of the Co-operative Credit Union Limited in Ghana?
2. What is the effectiveness of internal control systems in the Co-operative Credit Unions?

3. What is the extent of risk assessment procedures, monitoring procedures and management commitment to the implementation of internal control policies in Co-operative Credit Union Limited in Ghana?

1.6 Significance of the study

Recently, so many Credit Unions have emerged and some of them lack the requisite expertise, trained staff and insufficient resources to function and remain in business and thus their incapacity to stay in business for longer periods. A lot of these Unions have closed down and are out of business due to ineffective and inadequate adherence and compliance to internal control systems. This has necessitated the researcher to carry out this study as there are challenges in implementing and monitoring internal controls to make them effective so as to facilitate the achievement of an organization's goals.

In an era where many financial institutions in Ghana are folding up, the findings of the study will be of much interest to managers, banking and non-banking institutions in Ghana especially Credit Unions. The findings of this study will help managers of banking and non-banking as well as other non-financial institutions to design and implement effective and relevant controls system to be able to achieve its corporate goals. The study will also serve as an evaluation for Co-operative Credit Unions as far as its internal controls are concerned.

1.7 Delimitation of the study

The research work covered the effectiveness of internal control system in credit unions in Ghana. Credit unions which were selected to partake in the study are; UEW Co-operative Credit Union, Awutu Effutu Credit Union, Appam Workers Credit Union, Winneba Workers Credit Union. These were the credit unions with the

necessary internal policies, charter, and personnel for effective internal control practices.

1.8 Limitations of the study

During the course of the study, the researcher experienced a variety of challenges. Only 182 employees from selected Credit Unions in the Central Region were studied by the researcher. The study's sample size was likewise small when compared to the total number of people employed by Ghana's several Credit Unions. The findings were less generalizable because the complete or a large population of the study was not studied. As a result, the findings of this study were confined to the perspectives of a few Central Region credit unions. Another issue was some members' unwillingness to complete the questionnaires on time. This had an impact on the study's duration to some extent.

1.9 Organization of the study

This work consists of five chapters. Chapter one, which is the present and the introductory chapter, is made up of the introduction, background of the study, statement of the problem, research objectives and questions, significance of the study, and the scope of the study. Chapter two focused on the literature review, which is about the concept of internal control system. Chapter three discussed the methodology used in the study whereas Chapter four dealt with analysis of the data collected, results and discussion. Chapter five which is the final part was devoted to summary, conclusions and recommendations to the findings identified in chapter four.

CHAPTER TWO

LITERATURE REVIEW

2.0 Overview

This chapter focuses on revised literature under the following sub headings; theoretical review, empirical review, conceptual; framework, review of measurement variables, the need for financial controls, the need for internal and external control audit and the control process.

2.1 Theoretical Review

This research is on the theories that seek to assess the effectiveness of internal control systems in non-bank financial institutions. It includes the Contingency Theory and Systems Theory.

2.1.1 Contingency theory (CT)

The contingency theory, according to Drazin and Van de Ven (1985) and Meyer and Scott (1992), suggest that the optimal way in which a company could be organised is contingent or dependent on the kind of environment in which the company operates. The followers of the contingency theory assert that the theory is based on two assumptions. First, it assumes that no strategy is considered “universally superior” (Goddard, McKillop & Wilson, 2014), and there is no one best way in which a company could be organized (Weigelt, 2013). Of the second assumption, the theory postulates that the choice of approach, structure or control system depends on the contingency circumstances such as the environment, risk profile, strategy, size, the organisational structure and best activities at hand (Abba, Yahaya & Suleiman, 2018; Agyei-Mensah, 2016; Zietlow, et al., 2018).

Concerning the second assumption, Macintosh (1994), Hoque and James (2000), Pfister (2009) and Strong et al., (2014) explain that for an organisation to perform well and achieve its corporate goals, the structure as well as the context of the organisation must match or fit each other. To buttress this argument, Jokipii (2009) points out that several frameworks namely the COSO and Criteria of Control (CoCo) assume the need for dissimilar organisations to have different internal control systems based on their contingency characteristics. This view is analogous with the contingency theory which contends that each organisation has to choose the most appropriate control system by taking into account contingency characteristics (Jokipii, 2009; Guidara, Soumaré & Tchana, 2013).

It is clear from the foregoing that two organisations should not necessarily have similar internal control systems unless the organisations are identical. Thus the need for and specifics of internal control systems may vary in organizational contexts. This argument presented in the internal control systems framework (COSO, 1994) is parallel to the contingency theory. Kroll and Vogel, (2014) note that the “match” also known as “fit” is the drive that stimulates performance. It implies that successfully adapting control systems to suit organisation’s contingency characteristics result in effective internal control systems and better organisational performance (Ahimbisibwe, Cavana & Daellenbach, 2015).

In furtherance, some elements of the contingency theory are related to the components of internal control systems. This denotes that first and foremost, there is a link between the structure of internal control systems and contingency characteristics which define the structure of internal control (Kroll & Vogel, 2014). For this reason, changes in contingency factors imply changes to the structure of internal control

systems so as to enhance its effectiveness, hence organisational performance (Dropulić, 2013).

Specifically, the contingency theory puts forward that companies are not closed systems which could be structured without considering environmental characteristics and the manner in which they affect the company (Strong et al., 2014). Strong et al., (2014) explained that to improve and maintain performance, firms ought to continually assess the risk of interaction with the environment, monitoring processes and the commitment of the organisation to such contingencies. This suggests that internal control as part of organisational structure or design is not static. Additionally, Eriksson-Zetterquist, Müllern, and Styhre (2011) suggest that the theory helps to relax the idea that the only best way to organize a company is meeting shareholders' goal as suggested by the agency theory.

Equally, the implication of fit and misfit between the structure and the contingency variables on business performance enables managers to gain proper insight as to why continual changes ought to be made to organizational design when contingencies features keep changing (Pernot & Roodhooft, 2014). Rae, Sands and Subramaniam, (2017) further opines that when companies either intensify the extent of the internal control implementation or review of the controls, they keep on minimizing the misfit to quasi-misfit and ultimately enhance performance.

Although the contingency theory is well pronounced in establishing links between internal control system and performance (Pock, 2007; Pernot & Roodhooft, 2014), critics of this theory have cited that an organization does not necessarily have to adapt to the external environment (Hodges & Gill, 2014). They argued that it is not always prudent for companies to attain a fit with their contingencies because, as the company changes its structure to match the existing contingencies, the contingencies also keep

changing, and thus, the change in structure of the organization would not deliver the desired fit. As a result, the company may not achieve full fit, but a pseudo fit, a structure that fits the contingencies just partially and not fully.

2.1.2 Systems theory

A system is a set of interrelated and interdependent components that interact in a way to achieve a set goal. These components or sub-systems are inter-dependent and the failure of one component leads to the failure of the whole system. An organization is a complex system which is divided in various sub-systems (Units, divisions, departments, etc.) and hence requires a system of controls over units, divisions, departments, etc. for its effectiveness and survival. An effective internal control system is an integrated system with interrelated components, supporting principles and attributes. Harvey and Brown (1998) identified control environment, accounting system and control procedures as the major components of internal controls. According to Goddard, et al. (2014), an internal control system available to a firm consists of: management oversight and the control culture; risk recognition and assessment; control of activities and segregation of duties; information and communication and monitoring activities and correcting deficiencies (Ayagre, Appiah-Gyamerah, & Nartey, 2014). The paper adopts COSO's 1992 integrated internal control framework. The Committee of Sponsoring Organizations' (COSO), was commissioned in the 1980's by National Commission on Fraudulent Financial Reporting (the Tread way Commission) to identify factors that caused fraudulent corporate financial reports and make recommendations, and has since developed to become a thought leader in enterprise risk management (ERM), internal control, and fraud deterrence (Amudo & Inanga, 2009). In 1992, COSO published a landmark report on internal control: Internal Control - Integrated Framework, referred to as

“COSO”. The framework classifies an organisation’s internal control system in to five integrated components which must be built into business processes across the entire entity, in its efforts to achieve objectives. The components are; 1. control environment, 2. risk assessment, 3. control activities, 4. information and communication and 5. monitoring activities.

2.2 Empirical review

This section reviews the current state of the subject matter. It provides evidence on prior studies. The purpose of the section is to uncover the existing gaps in literature and how the present study contributes to resolving such gaps. Various critiques are drawn in this section. The section also lays the basis for comparison of the results of the present study to existing literature.

2.2.1 Objective one; Empirical review on internal control systems

In Uganda, Mawanda (2008) examined the effect of systems of internal control on financial performance in a higher learning institution by considering internal controls from the perspective of control environment, control activities and internal audit. The measures of financial performance adopted were liquidity, financial reporting and accountability. Mawanda sought to determine the functionality of internal control system, the level of financial performance and the relationship between controls system and financial performance.

Noel (2010) employed competence levels, corporate culture, audit committee quality and management integrity and ethics as the constructs of control environment, and they were measured on a 5-point Likert scale, where 1 indicates strongly disagree and 5 strongly agree. Correspondingly, disclosures and transparency were adopted as constructs of accountability whereas internal checks, reconciliations and audits were

employed as the constructs of monitoring. Both accountability and monitoring were measured using a 5-point Likert scale. The measurements of the level of liquidity in the study included cash ratio and current ratio. The cross sectional survey and mixed research approach along with stratified sampling technique was used to group the sampling units into top management, middle or senior staff and other staff from which a purposive sampling was used to select a sample size of 284 from a population of 700 banking staff in four indigenous commercial banks in Uganda. Data collection was done by administering questionnaires and then descriptive, principal component analysis, correlation and regression analysis were employed to determine the relationship between control environment and levels of liquidity. The results from the correlation analysis revealed that there was a significant positive relationship between control environment and liquidity levels ($r = .293^{**}$, $P\text{-value} < 0.01$). Regression analysis results also showed that control environment, accountability and monitoring significantly impacted on liquidity level.

Noel (2010) also found that the control environment, monitoring and accountability together significantly explained or predicted 19 per cent of the variance in levels of liquidity. Amongst them, monitoring was the most significant predictor. This meant that about 81 per cent of liquidity levels were explained by some other variables not included in the study. Noel recommended that to improve liquidity levels, indigenous Ugandan commercial banks must keep and strengthen their control environment, and their monitoring mechanism. Although Noel (2010) used a relatively large sample size with the appropriate statistical analysis, the R-square was very weak. The weak R-square suggests that other variables needed to be included in explaining the effect of internal controls on liquidity. For example, COSO (2013) internal control framework suggests that well-designed internal control systems

should comprise five components. However, only control environment and monitoring were employed in Noel's study.

2.2.2 Objective two; Empirical review on effectiveness of internal controls

Ndungu (2013), in a similar study, sought to investigate the effect of internal controls on revenue generation in University of Nairobi Enterprise and Services (UNES) using mixed research approach. The target population was the workers of the UNES for the 2013 calendar year. A simple random sampling technique was used to select a sample size of 45 employees from the target population with a 62 percent response rate. Descriptive research design was used for the study and primary data were collected by the use of structured questionnaires, whereas secondary data were collected from management reports and other published documents.

Similarly, Oyoo (2014) examined the effect of systems of internal control on financial performance of micro-finance institutions in Kisumu Central Constituency, Kenya. Internal controls were considered from the perspective of control environment, control activities and information and communication whereas financial performance focused on liquidity. The target population comprised 18 registered micro-finance institutions. Convenient sampling was then used and a total of 7 institutions were chosen representing 35 respondents. Primary data was elicited through self-administered questionnaires while capturing secondary data from annual report and other documents. Oyoo (2014) discovered a positive relationship between internal control and financial performance of micro-finance institutions. It was recommended that microfinance institutions should adopt more efficient management information systems and tighten their debt collection controls.

In Kenya, Chebungwen and Kwasira (2014) conducted a similar research to assess the effect of internal controls on financial performance of Kenyan tertiary training institutions: a study of African institute of research and development studies. The target population was all the 68 workers of the tertiary institution. Due to the size of the target population, a census was employed. Structured questionnaires were used to collect the data. The data obtained from the structured questionnaires was subjected to analysis by using simple descriptive statistics such as percentages, means, median, mode and standard deviations as well as Pearson Product Moment Correlation. Analysis and results of the study indicated that internal audit reports of the institutions tackled the weaknesses in internal control system, thus enhancing the financial performance of the institution. Also, the findings posit that there is a relationship between internal control system and financial performance. The study recommended that tertiary training institutions in Kenya should not only establish an internal audit department but also ensure that the internal audit department is adequately staffed and independent. This would ensure that management interference with the auditors' work is minimized and possibly eradicated, thus minimizing the weaknesses in the internal control system in order to enhance performance.

2.2.3 Objective Three; Empirical Review on the adequacy of the risk assessment procedures, monitoring procedures and management commitment to the implementation of internal control policies.

In a similar study involving Jaffna district organisations of Sri Lanka, Muraleetharan (2011) investigated the impact of internal controls on financial performance. Muraleetharan adapted COSO's five elements of internal control namely, control environment, risk assessment, control activities, information and communication and monitoring. Constructs adopted in measuring financial

performance included profitability, efficiency and liquidity performance indicators. In order to combine the financial performance indicators as well as test the hypothesis, data were collected through self-assessment questionnaire and personal interviews and 181 respondents were drawn from employees who were employed by 47 public and private institutions in Jaffna district. Dimensions employed were tested for reliability and all yielded a Cronbach alpha (α) value of above 0.7. The data were then analyzed with the help of Statistical Package for Social Sciences (SPSS). Chi square and regression statistical tools of analyses were used. The study found that internal control is statistically significant in predicting performance. Of importance is the fact that the study found that internal controls predicts financial performance, even though they are not statistically significant with control environment and information and communication. Muraleetharan (2010) further recommends that attention should be focused on adopting efficient management information system and training of staff. A critical look at the study of Muraleetharan (2011) portrays that Muraleetharan considered all the components of COSO's internal control variables. This makes Muraleetharan's study very comprehensive as compared to those of Mawanda (2008) and Noel (2010). This implies that Muraleetharan's study responds to the weaknesses in the selection of internal control variables chosen by Mawanda and Noel.

In a study involving Elementry School in Bandung, Indonesias, Widyaningsih (2015) evaluated the influence of internal control on accountability. Internal control was measured using COSO's framework. In order to clarify the relationship among variables through hypothesis testing, the exploratory design was relied on. The target population was all primary schools in Bandung. A convenience sampling technique was used to select a sample size of 168 from the entire population. Primary data was collected through questionnaires. The data collection instrument was developed using

Likert scaling. The data obtained from the respondents was subjected to inferential analysis. Specifically the path regression analysis was used. Based on the results, it was concluded that internal control system significantly affected or predicted the variance in accountability. However, risk assessment and information and communication were not statistically significant in predicting the variance in accountability. It was also discovered that the implementation of internal control in primary schools in Bandung were high except on information and communication.

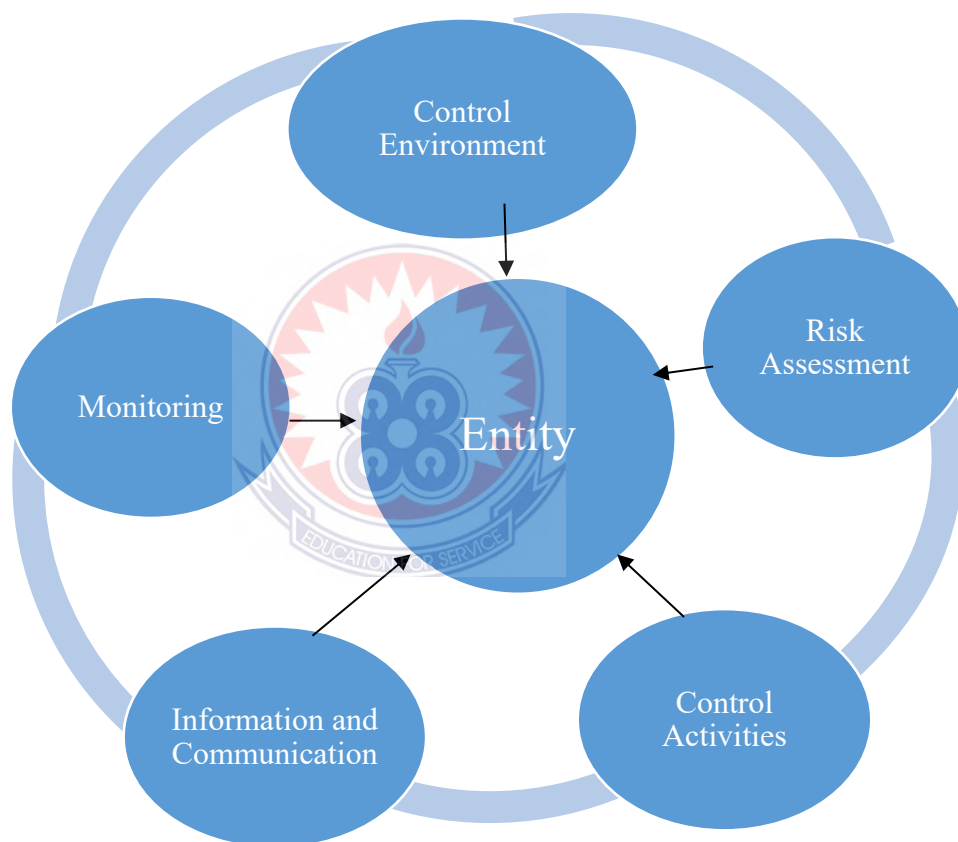


Figure 1: The Conceptual Framework

Source: Researcher's design based on COSO's Internal Control framework

Internal control system is an integrated system, integrated with management processes to achieve overall organizational goals. For an organisation to achieve its organizational objectives, then the five control components of control environment,

risk assessment, control environment, information and communication and monitoring must be integrated into management processes over the entire organization (Subsidiaries, divisions, units). Like the body system, the internal control components and business processes must interact ceaselessly for a healthy, effective internal control system. The seamless and collaborative interaction of an internal control system with business processes is a prerequisite for the effectiveness of an internal control system. Control objectives and measures that are derived from the monitoring and assessment of risks must be integrated into operational business units' business practices (Price Water House Coopers, 2007), through an effective information and communication control component that ensures smooth flow of information to personnel responsible for internal controls across the entity.

2.3 Review of measurement variables

This refers to the elements that constitute a good internal control system (Basle, 1998). He added that a good internal control system comprise of the following factors; control environment; risk assessment; control activities; information and communication; and monitoring.

2.3.1 Control environment

The control environment reflects the board of directors' and management's commitment to internal control. It provides the discipline and structure to the control system. Elements of the control environment include the organization structure of the institution, management's philosophy and operating style, the integrity, ethics, and competence of personnel, the external influences that effect the organization's operations and risk management practices, the attention and direction provided by the board of directors and its committees and the effectiveness of human resources

policies and procedures (Administrator of National Banks, Comptroller's Hand Book, 2001).

Ayagre, et al. (2014) however considers the Control environment to be the attitude toward internal control and control awareness established and maintained by the management and employees of an organization. It is a product of management's governance that is its philosophy, style and supportive attitude, as well as the competence, ethical values, integrity and morale of the people of the organization. The control environment embraces the attitudes and actions regarding control. This environment sets the organizational tone, influences control consciousness, and provides a foundation for an effective system of internal control. The control environment also provides the discipline and structure for achieving the primary objectives of internal control.

Flowing from the above the board of directors should show concern for integrity and ethical values. There must be a code of conduct and this must be adequately communicated to all levels of organization. Also there must be an appropriate structure, which is not dominated by one or a few individuals and an effective oversight by the board of directors. Management also needs to put a mechanism in place to regularly educate and communicate to management and employee the importance on internal controls, and to raise their level of understanding of controls (Fakir et al., 2019).

2.3.2 Risk assessment

Risk assessment is a systematic process for integrating professional judgment about probable adverse conditions and events, and assessing the likelihood of possible losses (financial and non-financial) resulting from their occurrence. Also,

Sudsomboon and Ussahawanitchakit (2009) define risk assessment as the identification and analysis of management relevant risk to the preparation of financial statements. According to Aven (2016), risk assessment implies the following:

- i. Risk identification: A strategic approach to risk assessment depends on identifying risk against key organizational objectives. Risks relevant to those objectives are then considered and evaluated, resulting in a small number of key risks.

Identifying key risks is not only important in order to identify the most important areas to which resources in risk assessment should be allocated, but also in order to allocate responsibility for management of these risks. An entity's performance can be at risk due to internal or external factors at both the entity and activity levels. The risk assessment should consider all risks that might occur (including the risk of fraud and corruption). It is therefore important that risk identification is widespread. Risk identification should be an ongoing, continuous process and should be often integrated with the planning process.

- ii. Risk evaluation: In order to decide how to handle risk, it is essential not only to identify the principle that a certain type of risk exists, but also to evaluate its significance and assess the likelihood of the risk event occurring. One of the key purposes of risk evaluation is to inform management about areas of risk where action needs to be taken.
- iii. Assessment of the risk appetite of the organization: An important issue in considering response to risk is the identification of the "risk appetite" of the entity.

Risk appetite is the amount of risk to which the entity is prepared to be exposed before it decides on the necessary action to take. Decisions about responses to risk have to be taken in conjunction with an identification of amount of risk that can be tolerated. Both inherent and residual risks need to be considered to determine the risk appetite. Inherent risk is the risk to an entity in the absence of any actions management might take to alter either the risk's likelihood or impact. Residual risk is the risk that remains after management responds to the risk. Identification of risk appetite is a subjective issue, but it is nevertheless an important stage in formulating the overall risk strategy.

- iv. Development of responses: a risk profile for the organization needs to be made in developing responses to such risks. Having developed a risk profile, the organization can then consider an appropriate response. Responses to risk can be divided into four categories. In some instances, risk can be transferred, tolerated, treated or terminated. However, in most instances the risk will have to be treated and the entity will need to implement and maintain an effective internal control system to keep risk at an acceptable level. The purpose of treatment is not necessarily to obviate the risk, but more likely to contain it. The procedures that an organization establishes to treat risk are called internal control activities. Risk profiles and related controls have to be regularly revised and reconsidered in order to have the assurance that the risk profile continues to be valid, that responses to risk remain appropriately targeted and proportionate, and justifying controls remain effective as risk change overtime.

2.3.3 Control activities

According to the Administrator of National Banks (2001), control activities are the policies, procedures, and practices established to help ensure that an organization's personnel carry out board and management directives at every business level through the organization. These activities help ensure that the board and management act to control risks that could prevent an organization from attaining its objectives. The New York State controller (1999) defined control activities as tools – both manual and automated – that help identify, prevent or reduce the risks that can impede the accomplishment of the organization's objectives. Management should establish control activities that are effective and efficient.

According to Fakir et al. (2019) control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. He provided the following as example of control activities; top level reviews of actual performance; reviews by management at the functional or activity level; management of human capital; controls over information processing; physical control over vulnerable assets; establishment and review of performance measures and indicators; segregation of duties; proper execution of transaction and events; accurate and timely recording of transactions and events; access restrictions to and accountability for resources and records, and appropriate documentation of transactions. He added that, to be effective, control activities need to; be appropriate (that is, the right control in the right place and corresponding to the risk involved); function consistently according to plan throughout the period (that is, be complied

with carefully by all employees involved and not bypassed when key personnel are away or the workload is heavy); be cost effective (that is, the cost of implementing the control should not exceed the benefits derived); and to be comprehensive, reasonable and should directly relate to the control objectives.

2.3.4 Information and communication

According to the comptroller's Handbook (2001) information and communication are explained as follows; Information and communication are essential to realizing all internal control objectives. A precondition for reliable and relevant information is the prompt recording and proper classification of transactions and events. Relevant information should be identified, captured and communicated in a form and time frame that enables staff to carry out their internal control and other responsibilities (timely communication to the right people). Therefore, the internal control system as such and all transactions and significant events should be fully documented. Management's ability to make appropriate decisions is affected by the quality of information which implies that the information should be appropriate, timely, current, accurate and accessible.

Information and communication are essential to the realization of all the internal control objectives. This can be achieved by developing and maintaining reliable and relevant financial and non-financial information and communicating this information by means of a fair disclosure in timely reports. Information and communication relating to the organization's performance will create the possibility to evaluate the orderliness, ethicality, economy, efficiency and effectiveness of operations. In many cases, certain information has to be provided or communication has to take place in order to comply with laws and regulations. Information is needed at all levels of an organization in order to have effective internal control and achieve

the entity's objectives. Therefore an array of pertinent, reliable and relevant information should be identified, captured and communicated in a form and time frame that enables people to carry out their internal control and other responsibilities.

A precondition for reliable and relevant information is the prompt recording and proper classification of transactions and events. Transactions and events must be recorded promptly when they occur if information is to remain relevant and valuable to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction, including the initiation and authorization, all stages while in process, and its final classification in summary records. It also applies to promptly updating all documentation to keep it relevant. Proper classification of transactions and events is also required to ensure that reliable information is available to management. This means organizing, categorizing, and formatting information from which reports, schedules, and financial statements are prepared. In order to help ensure the quality of information and reporting, the internal control system should be carried in such a way that all transactions and significant events should be fully and clearly documented (e.g. narratives).

2.3.5 Communication

Effective communication should flow down, across, and up the organization, throughout all the components of the entire structure. All personnel should receive a clear message from top management that control responsibilities should be taken seriously. They should understand their own role in the internal control system, as well as how their individual activities relate to the work of others. Also, there is the need to be effective communication with external parties. Information is a basis for communication, which must meet the expectations of groups and individuals, enabling them to carry out their responsibilities effectively (Fakir et al., 2019).

2.3.6 Monitoring

The last component of the internal control system is monitoring. A crucial aspect of any complete system of internal controls is regularly monitoring how effective the internal controls are, in order to find out whether or not they are properly designed and also functioning (Frazer, 2016). Monitoring, according to Aven (2016), is the review of an organization's activities and transactions to assess the quality of performance over time and to determine whether controls are effective. Internal control systems should be monitored to assess the quality of the system's performance over time.

2.4 The need for financial controls

Habeeb (2013) defines financial control methods as the controls that are imminent in organizations operations to ensure that, assets that are financially associated are protected from both internal and external environment as well as from the activities of employees. In other words, these controls are present in organizations to give management the assurance that, the overall objectives will be achieved and risks avoided and prevented. As far as financial controls are concerned, internal audit and external audits are very important concepts.

Oyaro and Angwenyi, (2016), states that an internal control system in existence in a company is that company's financial control system. Making plans in relation to the future, implementing these plans activities to ensure that they are in conformity to plans is budgeting. A budget is defined as a detailed plan indicating how resources are to be acquired and used (Rahim et al., 2018). Goddard et al (2014) explained that aside planning and control being two of the more important functions, a system of budgeting serves as a multi-purpose function. They further argued that, management is solely responsible for selecting the appropriate function for the

enterprise. For instance, they further stated that, companies with a larger scope of activities should focus on the coordination and control aspects of budgeting, whereas smaller companies should be concerned with the aspects of planning. Planning involves establishing goals for an organization whereas control involves ensuring that, these goals will be attained.

2.5 The need for internal control audit

Alzeban, (2019) highlights the duties and responsibilities of internal audit functions to: review compliance with the existing government financial regulations, instructions and procedures. He further evaluate the effectiveness of internal control systems; appraise the economy and effectiveness with which financial and other resources are being used. To review the reliability and integrity of record keeping and reporting on financial and operating information systems; pre-audit payment documents and all documents used in initiating commitments and contract agreements. Also to verify and certify periodical financial reports, such as pending invoices, expenditure information, revenue information, staff information and vehicle returns information. Review and pre-audit annual appropriation accounts, fund accounts and other accounting statements to ensure that accurate accounts are prepared to the required standards.

Again, Chang, et al., (2019) further explained how to investigate irregularities identified or reported on cases leading to wastage of resources or cases of general misuse or misappropriation of financial resources and government property; ensure that revenue and other receipts due to the government are collected promptly, banked immediately and are fully accounted for; carry out spot checks on areas such as revenue and receipts collection points, projects, supply and delivery sites to ensure compliance with procedures and regulations. Review budgetary controls on the

issuance of warrants, commitments, expenditures, revenue collection and accounting from time to time; ensure that government's physical assets are appropriately recorded and kept in safe custody.

Finally review the budgetary reallocation process to ensure legislative and administrative compliance and to advise if and when commitments are entered into when there is no budgetary provision or adequate cash. According to Martin, Sanders and Scalan (2014), internal auditors in control terms are obliged to undertake the following duties: evaluating the protection of assets; enabling self-assessment; evaluating and measuring business risk; performing quality reviews; examining fraudulent activities; assessing the internal control systems; revising and evaluating the processes involved in operation; making sure that laws are abided by and also ensuring that resources are efficiently used.

2.6 The need for external control audit

Even though it is the shareholders of a company and other stakeholders that benefit the most from an audit, it also benefits other stakeholders, such as lenders, creditors, employees etc. In companies where the owners have limited responsibilities there are certain requirements on how the company shall show their financial position to its shareholders and other stakeholders. This is where the auditor's report comes in (FAR, 2006). It is through the process of auditing that the usefulness of financial statements are revealed by various stakeholders since the stakeholders fully rely on the audited financial statements and use it as a basis of decision making (Weigelt, 2013). This indicates that the auditors are needed to be able to get a well-functioning business world and society. Without auditors, the stakeholders would have to perform their own controls of the financial statements in order to trust the company (FAR, 2006).

The audit actually starts when the client prepares the financial statements and makes certain assertions of the numbers. Management is responsible for financial statement while the auditors are responsible to lend credibility to these financial statements. It is the duty of the auditor to check whether these assertions made by management are valid. The professional auditor audits in compliance with policies, laws, regulations, and codes of best practice. The audit process is a well-defined audit methodology that is a useful tool when gathering sufficient appropriate evidence (Hayes et al., 2009).

External auditors ensure the test for assessment fairness supporting financial statements as well as the true and fairness of financial statements. The auditor has to perform tests of controls to see how much of the internal control that can be relied upon. The auditor then decides on more substantive tests. It is important to understand the control system in order to identify the kind of tests to run (nature), the appropriate time to run the test (timing), and the number of tests to perform (extent). An auditor is therefore required to gather sufficient and the most suitable evidence from the audit by performing control and substantive mechanisms in order to be able to draw a sound conclusion on which to base the audit opinion. Examples of procedures to obtain this evidence are physical examination, inspection, inquiries and analytical procedures (Hayes et al., 2009). Before writing the auditor's report, which contains the opinion, the auditor should perform additional audit procedures. Examples of these procedures are identifying subsequent events and report to the board of directors. The last procedure in the audit process is to give an audit opinion. This opinion can be of four types; unqualified, qualified, adverse and disclaimer (Hayes et al., 2009). According to Hayes et al. (2009), an audit is a systematic method

and it follows an organized and renowned plan that is documented and this plan is known as the audit methodology.

Alzeban, (2019) defines the structured audit methodology as: A systematic approach to auditing characterized by a prescribed, logical sequence of procedures, decisions, and documentation steps, and by a comprehensive and integrated set of audit policies and tools designed to assist the auditor in conducting the audit. The audit methodology has to be structured in such way that the auditors can review and analyze all the relevant and important evidence (Hayes et al., 2009) . Even though firms and professional institutes have designed programs to standardize the audit process, the audit methodology tends to be different between different audit firms. Alzeban, (2019) states that, the explanation to these differences is that the audit firms differ in how highly the audit methodology is structured or how much space it provides for individual judgment.

An unmodified audit opinion shall be given when the auditor concludes that the financial statements in all material respects are in accordance with applicable financial reporting framework (ISA 700). If the auditor concludes that the financial reports as a whole contains material misstatements or if not sufficient appropriate audit evidence can be collected to conclude that the financial statements are free from material misstatements, the auditor shall give a modified opinion in accordance with International Standard on Auditing. A modified opinion may be of three types: a qualified opinion, an adverse opinion or a disclaimer of opinion.

2.7 The control process

The control process involves carefully collecting information about a system, process, or group of people in order to make necessary decisions about each. Henry

Fayol is one of the first modern management theorists. In his position as a director of mines, he writes numerous papers over the management theory. In his work, he outlines six primary functions of management, including forecasting; planning; organizing; commanding; coordinating and controlling as well as fourteen managerial principals. In one of his books titled “General and Industrial Management”, Fayol, (1949) presents one of the first definitions of managerial control by describing it as: Control consists of verifying whether everything occurs in conformity with the plan adopted, the instructions issued, and principles established. In other words, control is a managerial function which sets standards, measures the performance and if necessary takes corrective actions. Formulating it in that sense, it ultimately means that to perform control one person enforces power over another. From managerial point of view control is a vital function aiming to achieve a smoothly running working process in the organization. On the other hand, from the employees’ viewpoint it is a disturbing intrusion in their everyday work life. In his view, control is perceived as receiving feedback from the working process and if necessary to make adjustments. According to Fayol (2008), control entails supervisory and adjustment actions, aiming at increasing the efficiency and productivity. Later Mockler (1970) extends the Fayol definition of control into a more thorough one. According to Mockler, control can be defined as a systematic effort by business management to compare performance to predetermined standards, plans, or objectives in order to determine whether performance is in line with these standards and presumably in order to take any remedial action required to see that human and other corporate resources are being used in the most effective and efficient way possible in achieving corporate objectives. In that sense the author puts employees alongside any other resources, measuring their performance in quantitative aspect, rather than in qualitative. If the

human resources perform under the specifications, then their behavior should be corrected and improved.

Control is central to the effectiveness of managers and organizations. In fact the control concept permeates any discussion of how managers can make their operations more successful. Whether financial issues, production problems, or employee performance is being discussed, the need for some form of control system must be recognized if the organization is to function effectively and achieve its goal. The control process is continuous and involves the following basic steps according to Rahim et al., (2019).

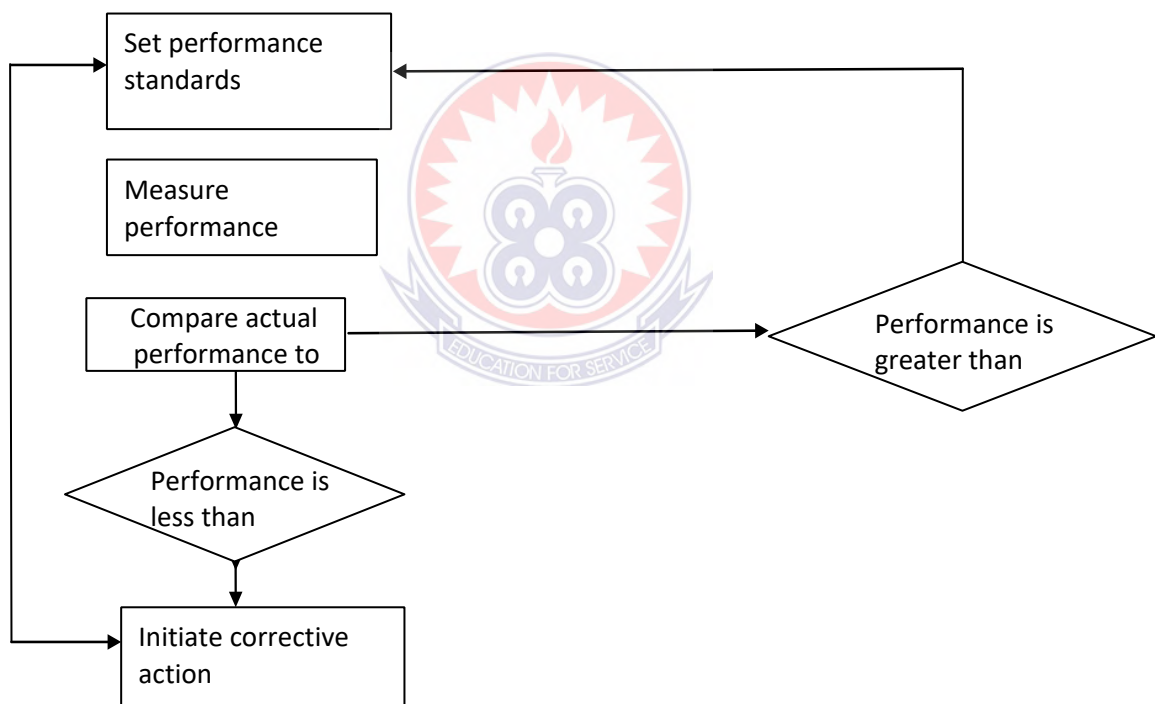


Figure 2. 1: The control process

Source: Steers et al (2006)

Figure 2.1 gives the outline of the control process and it is explained below:

2.7.1 Setting standards of performance in accordance with objectives

The first step in the control process is establishing standards. A control standard is a target against which subsequent performance will be compared. Before setting up performance standards, there is need to set objectives and this is the starting point of planning and controlling. A standard of performance is required and also the performance that management looks out for from employees. Any performance delivered that is below the set standard is looked into. In terms of budget control and monitoring, this implies setting performance standards with regard to monitoring processes, procedures, control measures and processes. The main idea would be to set standards for achieving judicious and effective income and expenditure in the organization, with the intention of spending income on what is budgeted for possible standard. In terms of budget control and monitoring, this implies setting performance standards with regard to monitoring processes, procedures, control measures and processes. The main idea would be to set standards for achieving judicious and effective income and expenditure at the organization, with the intention of spending income on what it was budgeted for. (Martin, 2014).

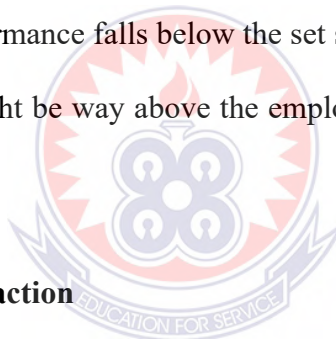
2.7.2 Measuring actual performance

After standards have been set, performance measurement is next. Here, the performance that employees deliver is considered and evaluated. When this is done, it is compared to the standard that was set. Performance measurement can be in the form of observing and studying how employees go about their duties. The actual performance can be measured against historical deliveries of employees in order to estimate the level or extent of variance. After careful measurement of performance, it can be deduced whether the organization has succeeded in its operations. The process of measurement can be such that, it can always be relied on for accuracy of

the performance measured. This implies actually measuring the budget control and monitoring processes in terms of whether they are achieving their purpose. This would answer the question of how well the organization performs with regards to income generation and expenditure against the projected values in the budget (Strong et al., 2014):

2.7.3 Comparing performance to set standards

The financial manager must compare the actual results with a performance standard when this is accurately done, it will help determine whether the organization has achieved its standards and hence achieve its overall objectives. More challenging standards will be set by management when performance exceeds standards but when performance falls below the set standards, then the standard will be revised since they might be way above the employees' capacity (Kroll & Vogel, 2014).



2.7.4 Taking corrective action

This is the final part of the control process. After a careful measurement and comparison of performance by management, corrective action is taken depending on the outcome of it. This is to ensure that, all deviations are investigated to identify its causes and corrective measures taken to that effect. The kind of correction needed is dependent on the extent of deviation. Deviations may be caused by standards that are not realistic or that has been exaggerated. And sometimes this may be caused by setting standards that do not conform to objectives of the organization thereby creating or putting employees in a state of confusion (Guidara, 2013).

2.8 Chapter summary

The study was to examine the effectiveness of internal control for credit unions in Ghana. The contingency theory and system theory was reviewed. The former suggest that the optimal way in which a company could be organized or achieved her goals is contingent or dependent on the kind of environment in which the company operates whereas the latter also suggest that an organization is a complex system which is divided in various sub-systems (Units, divisions, departments, etc.) and hence requires a system of controls over units, divisions, departments, etc. for its effectiveness and survival.

Moreover, we looked at the review of measurement variables where we saw that a good internal control system should comprise of the following factors; control environment; risk assessment; control activities; information and communication; and monitoring. Also, the concept of credit union was reviewed as well as history of credit union, internal control, types and components, roles and responsibilities, and limitations of Internal Control. Empirical evidence established that there is positive relationship between internal control and financial performance.

CHAPTER THREE

METHODOLOGY

3.0 Overview

In this chapter, the methods used for the research, the design of the study, description of the population, sampling technique, sample size, sources of data, data collection instruments, validity and reliability, data collection procedures, data analysis and ethical issues are discussed.

3.1 Research design

According to Zita and Ozougwu (2010), the design of research is what the objectives seek to achieve and also the accurate needs of data. They further stated that, the design of research is the foundation of the mechanisms that can aid in collecting and evaluating the necessary data. The researcher used descriptive research design and also adopted a quantitative approach to the study. Agbehadji et al (2020) also explained as the process by which data is turned into numbers. It gives precision or accuracy to the responses received in the study. Dakurah, (2020) explained that descriptive study designs aims to gain more information about one or more characteristics within a particular field of study. The study sought to assess the effectiveness of internal controls of Credit Unions in Ghana. Ridder, (2017) opines that, for a case study to be accurately utilized situations in real life are looked into.

3.2 Population

Population is the sum total of a collection of samples that are required to provide information. (Tustin et al. 2018). In the study, the collection of sample includes those in senior management positions as well as those occupying general positions especially those in the credit risk department.

The population considered in this study were 182 staff members (CUA Report, 2016) who work in various Credit Unions in Central Region. The population constitutes the junior staffs, senior staffs, management team, board of directors and other members of Credit Unions in Ghana, specifically, the Central Region.

3.3 Sampling technique

As a result of the case study approach, four (4) credit union within central region namely; UEW Co-operative Credit Union, Awutu Effutu Credit Union, Appam Workers Credit Union, Winneba Workers Credit Union were randomly selected with six (6) departments each. Stratified random sampling is meant to all members of the population from which the sample is drawn have an equal chance or equal opportunity to be included (Henn, Weinstein & Foard 2014). Thus, it enables the researcher to further group the credit unions into homogenous groups for the purpose of the research. To further select the various respondents in each selected Credit Union, a quota sampling was used and the ratio method was used to distribute the sample among the various departments. A total of One Hundred and Eighty Two (182) staff members were selected and distributed among the various credit unions. Given the total population of One Hundred and Eighty-Two (182), Taro Yamane sample size determination formula was applied to identify the specific sample to be used for the research. Therefore;

$$n = \frac{N}{1 + N(e)^2}$$

Where N = the population
 n = the sample size
 e = margin of error (5%)

therefore: N = 182
 e = 5 % (0.05)
 = $\frac{182}{1 + 182 (0.05)^2}$

Sample size = 132

3.4 Sample size

According to Rahi and Samar (2017), a sample is a group of people, objects, or items that are taken from a larger population for measurement. The sample should be representative of the population to ensure that we can generalise the findings from the research sample to the population as a whole.

Table 3.1 shows the strata assigned to each department. In this study, the researcher made use of stratified random sampling to retrieve information and data from the respondents. Therefore, the sample size for the study is one hundred and thirty-two (132) and this will be distributed among the Four (4) selected Credit Union in Central Region.



Table 3.1: Sample Distribution by Ratio Method

Credit Union	Department	Number	Total
UEW Co-operative Credit Union	Audit unit	5	33
	Finance/Account	8	
	Customer service	8	
	Credit/Risk	7	
	ICT Department(if applicable)	3	
	Human Resource(if applicable)	2	
Awutu Effutu Credit Union	Audit unit	5	33
	Finance/Account	8	
	Customer service	8	
	Credit/Risk	7	
	ICT Department(if applicable)	3	
	Human Resource(if applicable)	2	
Appam Workers Credit Union	Audit unit	5	33
	Finance/Account	8	
	Customer service	8	
	Credit/Risk	7	
	ICT Department(if applicable)	3	
	Human Resource(if applicable)	2	
Winneba Workers Credit Union	Audit unit	5	33
	Finance/Account	8	
	Customer service	8	
	Credit/Risk	7	
	ICT Department(if applicable)	3	
	Human Resource(if applicable)	2	
Total Respondents			132

Source: Field survey 2021

3.5 Sources of data

The researcher used primary data for the study. The goal was to be able to provide appropriate discussion for the readers in order for them to gain a better understanding of the issue and the various elements involved. The survey results obtained from the respondents through the delivery of questionnaires served as the study's primary data. Original data acquired directly by the researcher for the research

project is referred to as primary data. Thus, a primary data source is an original data source, that is, one in which the data are collected firsthand by the researcher for a specific research purpose or project. Primary data can be collected in a number of ways. However, the most common techniques are self-administered questionnaires, field observation among others. The objectives of the study were to; identify the internal controls systems of credit unions, assess the effectiveness of internal control systems, and to examine the risk assessment procedures, monitoring procedures and management commitment to the implementation of internal control policies in Ghana. The researcher deems it more appropriate that primary data source most importantly questionnaires can be the best source in realizing the goal of the study.

3.6 Data collection instrument

To obtain data, the researcher employed a self-report technique. Self-report procedures are employed when the researcher wants to learn about the participant's ideas, perceptions, attitudes, beliefs, feelings, intentions, plans, experiences, knowledge levels, and recollections, according to Lester and Lester (2017). Questionnaires, scales, and interviews are examples of self-reporting instruments (Lester & Lester, 2017). The study employed a questionnaire method to empirically gather the necessary data to answer the research questions for the study. The primary aim of this research was to examine the effectiveness of the internal controls in nonbank financial institutions typically credit unions. This makes the questionnaire the most appropriate form of research instruments to carry out this particular exercise. The questionnaire was administered to the workers and management. The researcher made use of open-ended and close ended questions. The open-ended type questions allowed for free expression of views and comments whereas closed ended questions were designed yes/no to enable the participant to freely choose at ease. The

questionnaires were administered personally to the sampled staff from the sampling frame, and given some time to fill at their convenience. Moreover, the questionnaires were administered to the Audit, Finance/Account, Customer service, Credit/risk, I.C.T and Human resource department of each selected credit union.

3.7 Validity and reliability of the instruments

Face validity of the questionnaire was carried out by giving it to staffs who were working in Union Rural Bank in the Central Region of Ghana. Their comments and suggestions were considered for review of the questions. The content validity of the questionnaire was ensured by empirical studies as well as the research supervisor who scrutinized the items for their suitability before pre- test. All the necessary corrections in the items were made and declared valid by the supervisor. The construct validity was ensured by critically developing the items or questions within established theoretical framework by employing accepted definitions and construction of concepts and terms. The current researcher also adopted the internal validity check. This was done through ensuring agreements between different parts of the data, matching patterns of results.

Lester and Lester (2017) posit that reliability is the degree to which outcomes are reliable in a period of time and if the outcomes in a research can be replicated using the same method, then the research instrument is reliable. To ensure reliability of the questionnaire, it was pretested on twenty (20) staffs who work in Union Rural Bank in the Central Region and the result was subjected to Cronbach's alpha reliability analysis using Statistical Package for Social Sciences (SPSS) version 25.0 to determine the reliability coefficient (r) in order to establish the reliability of the instrument. A reliability coefficient (r) of 0.769 was obtained and this was deemed as an acceptable measure of reliability because more than 0.70 the threshold value of

acceptability is achieved as a measure of reliability (Lester & Lester, 2017).

3.8 Data collection procedures

To empirically obtain the necessary data to address the study's research questions, this study used a questionnaire. The major goal of this study was to assess the effectiveness of credit union internal controls. As a result, a questionnaire is the most appropriate research instrument for this particular task. The employees were given the questionnaire. The questions used by the researcher were both open-ended and closed-ended. The open-ended questions allowed for unrestricted expression of thoughts and opinions. The questionnaires were presented to the sampled workers from the sampling frame in person, and they were allowed some time to fill them out at their leisure.

3.8 Data analysis

Data analysis is a systematic search for meaning. It is a way to process data so that what has been learned can be communicated to others. Analysis means organizing and interrogating data in ways that allow researchers to see patterns, identify themes, discover relationships, develop explanations, make interpretations, mount critiques, or generate theories. It often involves synthesis, evaluation, interpretation, categorization, hypothesizing, comparison, and pattern finding (Ahorlu, 2014). Quantitative approaches were used to examine the questionnaires that were collected in the field. The Statistical Package for Social Sciences version 25.0 was used to organize, analyze, and interpret the data using descriptive statistics such as frequency, and percentages, as the research was mostly descriptive.

3.9 Ethical issues

General agreements among researchers need to be reached about ethical research considerations. This section briefly outlines some of these broadly agreed-upon norms in ethical research. In doing so, this section explains the most important aspects of ethical research and how these aspects were operationalized and will be included in the current research study. VanWijk, and Harrison, (2013) generally accepts the ethical rights of a participant to be: the right to privacy and voluntary participation; anonymity and confidentiality. Participation in research often disrupts the subject's regular activities and can possibly invade the person's privacy (Choy, 2014). Participation in research must be voluntary and participants must have the option to refuse to divulge certain information about them. Research often requires participants to reveal personal information that may be unknown to their friends and associates (VanWijk & Harrison).

Many people are, however, prepared to divulge this information of a very private nature on condition that their names are not mentioned (Watts, 2009). The researcher cannot generalize the sample survey findings to an entire population unless a substantial majority of the selected sample actually participates (VanWijk & Harrison).

In terms of the present study, the relevant organization is going to be very forthcoming with confidential information and assistance and an agreement will be reached between the researcher and the authorities that, the research data would be used solely for the purpose of the research, and should the researcher wish to publish the thesis, the organization would be consulted. Permission was sought for an introductory letter from the School of Business to go to the sampled credit unions in Central Region., and afterwards they were provided with the opportunity to view the

findings of this research. If revealing their survey responses would injure them in any way, adherence to this norm becomes more important. A respondent may be considered unspecified when the researcher cannot recognize a given response with a given respondent (VanWijk & Harrison).

Generally, anonymity does not constitute a serious constraint on research, as most researchers are interested in group data rather than individual results. The thought of anonymity can be easily overcome by ignoring the names of the participants or classifying the respondents by a code instead of by name (Choy, 2014). In this research study, possibility of anonymity of the respondents will be taken into consideration, as the respondents' details will somewhat unknown to the researcher.



CHAPTER FOUR

RESULTS AND DISCUSSION

4.0 Overview

The section presents the analysis of the data from the respondents of the study. The analysis of the study are in two folds. The first fold presents the demographic information of the respondents of the study. Whiles the second part focuses on the analyses of the responses provided by respondents concerning the major aims of the study which are illustrated in statistical representation using tables for easy interpretation. Although a total of one hundred and thirty (150) questionnaires were administered to employees of the four selected Credit Unions in the Central Region of Ghana, eighteen (18) of the questionnaires had to be rejected due to shortfalls of information needed, leaving the researcher with a total of one hundred and thirty-two (132) questionnaires representing a response rate of 88%. A sample size of this magnitude is good for data analysis since more than 80% of the administered questionnaires were retrieved (Opoku & Adu, 2016). The following sub-sections of the study concentrate on the interpretation and discussion of results based on statistical evidence and literature on the study objectives.

4.1 Demographic characteristics of study participant

This section of the study presents the preliminary analysis of the profile of the respondents sampled for the survey. The biographic data reflects the profile of the respondents in terms of their age, sex, division of the respondents, staff category, academic qualification and working experience.

4.1.1 Demographics

Table 4.1.1 Summary of Frequencies and Percentages of Demographics

Variable	Categories	Frequency (N)	Percentage (%)
Gender	Male	80	60.6
	Female	52	39.4
Age	Below 30 years	72	54.5
	30-39 years	36	27.3
	40-49 years	24	18.2
Staff Category	Risk	6	7.9
	Consumer/Corporate	64	84.2
	Finance	24	11.6
	Internal Audit	8	10.5
	HR	8	10.6
	I.T.	14	18.4
Academic Qualification	HND	32	24.2
	First Degree	88	66.7
	Second Degree	12	9.1
Working Experience	1-5 years	80	60.6
	6-10 years	28	21.2
	11-15 years	24	18.2

Source: Field Survey (2021)

From Table 1 above, it can be seen that out of the total valid questionnaires used for the analysis, 80 respondents are males accounting for 60.6% while the remaining 52 respondents are females, representing 39.4%. It can also be seen that the ages of the respondents range from “below 30” to “40-49” years respectively. With which the most frequent age range was below 30 with a frequency of seventy-two (72) representing 54.5% of the total sample under study. This shows that most of the employees who participated in this study fell within the age bracket of below 30. The next highest frequent age range was 30-39 years with a frequency score of thirty-six

(36) representing 27.3%, and lastly those between the age ranges of 40-49 years with a frequency of twenty-four (24) representing 18.2% of the entire sample population.

With regards to the marital status, the majority of the employees who took part in this study are single with a frequency of eighty-four (84) representing 63.6%. Followed by employees who are married single with a frequency of forty-eight (48) representing 36.4% of the population of the study.

Concerning the academic qualification of the respondents, out of the one hundred and thirty-two (132) valid questionnaires obtained, it was revealed that the majority of the respondents understudy were bachelor degree holders with a frequency of eighty-eight (88) representing 66.7%. Followed up by HND holders with a frequency of thirty-two (32) which represents 24.2% of the sample understudy, and finally master's degree holders with a frequency of twelve (12) representing 9.1% as at the date the data was collected. In addition, the results further show that a higher majority of the respondents 64 representing 84.2% are in the consumer or corporate section of the bank, followed by a slightly higher percentage of 418.4% representing a frequency of 14 for those from the IT department. From the same table it can be seen that 24 respondents representing 11.6% were from the finance department. On the same score, internal audit, risk and HR made up 8, 6 and 8 respondents representing 7.9%, 10.5% and 10.6% respectively.

Finally, with respect to the issue of the working experience of the respondents, the majority of the respondents considered for this study indicate that their working experience was between the ranges of 1-5 years with a frequency of eighty (80) representing 60.6% of the study population. Followed by those with a working experience between the ranges of 6-10 years with a frequency of twenty-eight (28) representing 21.2% and finally those with a working experience between the ranges of

11-15 years with a frequency of twenty-four (24) representing 18.2% of the study population.

4.2 Objective One: Review of Internal Control System

This section of the study presents the analysis of the control environment of the four selected credit unions in the Central region of Ghana. The data on the control environment reflects the existences of internal control systems, individuals responsible for setting them up, code of conduct and ethics regarding financial control systems, policies regarding financial control systems and the number of times management review policies to ensure that proper financial control systems are in place.

4.2.1 Internal Control Systems

Table 2: Types of Control Policies

	Frequency	Percentage
Preventive	47	35.5
Directive	20	15.5
Detective	24	18.4
All of the above	40	30.3

Source: Field Survey (2021)

From Table 2, it can be seen that there exist internal control systems in the four selected credit unions in the Central region of Ghana. Out of the total valid questionnaires used for the analysis, majority of the respondents 47 representing 35.5% were aware of the existence of preventive control system in their various unions. Likewise, 20 respondents representing 15.5% were aware of the existence of directive control systems in their various unions. In addition, 24 respondents representing 18.4% opined to the fact that detective control systems exist in their

various union. Notwithstanding, a hovering 40 respondents representing 30.3% were of the view that preventive, directive and detective control systems exist in the credit unions understudy. This implies that, majority of the respondents are aware of the fact that, preventive control system exist in the credit unions understudy.

4.2.2 Responsibility for Internal Control System Policies

Table 3: Responsibility for Internal Control System Policies

	Frequency	Percentage
Board of Directors	92	69.7
Group Management Team	16	11.9
Regional Management Team	14	10.5
Branch Management Team	10	7.9

Source: Field Survey (2021)

From Table 3, it can be seen that majority of the respondents 92 representing 69.7% indicate that Board of Directors are responsible for setting up the control system policies in the organization. Meanwhile, 16 respondents representing 11.9% said that internal control system policies was set up by the group management team. In addition, 14 respondents representing 10.5% revealed that internal control system policies were set up by the regional management team. Finally, 10 respondents representing 7.9% indicated that internal control system policies were set up by branch management team. This findings implies that vast majority of respondents 92 were of the opinion that the Board of Directors formulates the internal control system policies.

4.2.3 Code of conduct or ethics and policies on financial controls.

Table 4: Code of conduct or ethics and policies on financial controls

	Frequency	Percentage
Yes	132	100
No	0	0

Source: Field Survey (2021)

From Table 4, it can be seen that all the respondents confirmed that there are codes of conducts or ethics and policies on financial controls in the in the credit unions.

4.2.4 Rate of Communication of policies on financial controls and appropriate conducts to staff.

Table 5 Communication of Policies on Financial Controls

	Frequency	Percentage
Once a while	26	19.7
Frequently	106	80.3

Source: Field Survey (2021)

From Table 5, the results of the study revealed that there is a clear indication that the distribution is mostly skewed towards frequent communication of policies regarding the importance of financial controls and appropriate conduct to all staff. About 106 respondents representing 80.3% said there is frequent communication of the financial controls and appropriate conduct of staff while the remaining 19.7% representing 26 respondents indicated that it was done once in a while. It can be deduced from the study that, information relating to internal controls are frequently communicated to all the workers of the credit unions and can be concluded that, the control system is effective.

4.2.5 Review of policies and procedures to ensure proper financial controls.

Table 5: Frequency of Review of policies and procedures to ensure proper financial controls

	Frequency	Percentage
Periodically	57	43.4
Rare	42	31.6
Often	33	25

Source: Field Survey (2021)

The results in Table 5 shows the how often management reviews policies and procedures to ensure that proper financial controls in their organization. From the results it can be seen that majority of the respondents 57 representing 43.4% indicated that review of policies and procedures in the credit unions are done periodically. Meanwhile, 42 respondents representing 31.6% indicated that review of policies and procedures to ensure proper financial controls by the credit unions are rarely done. Finally, 33 respondents representing 25% indicated that the review of the policies and procedures to ensure proper financial controls by the credit unions are often done. In view of the results, it can be concluded that review of policies and procedures in respect of internal control systems to ensure proper financial records are done periodically.

4.3 Control activity

This section of the study presents the analysis of the control activities as well as the policies and procedures adopt to ensure that necessary actions are taken to minimize risks associated with its operational objective. In view of that data relating to policies and procedures to ascertain the level of use of control activities by the company was collected. The data on the control activities reflects the adequacy of physical security for cash and other assets subject to theft, the tracking of the location

and use of equipment, review and approval of financial transactions by key managers as well as the variance analysis used by the company.

4.3.1 Tracking and Protection of Assets

Table 6: Tracking and Protection of Assets

	Frequency	Percentage
Yes	132	100
No	0	0

Source: Field Survey (2021)

From Table 6, it can be seen that all the respondents attested to the fact that there is a system in place to provide enough protection for funds and other resources that are subject to misappropriation. Again all the respondents stated that there is tracking of the location and use of all equipment. It was detected that on the issue of whether individuals who oversee the care prevented from making records with regards to these assets: 96.1% of (73 in absolute terms) responded in the affirmative; whereas 3.9% had no idea.

4.3.2 Review and Approval of Financial Transactions

Table 7: Review and Approval of Financial Transaction

	Frequency	Percentage
Yes	129	97.4
No	3	2.6

Source: Field Survey (2021)

From Table 7, it can be seen that, the data gathered from the field revealed that 129 respondents representing 97.4% indicated that reviews and approval of all financial transactions are done by them or their key managers in the credit unions.

Meanwhile 3 respondents representing 2.6 disagreed. In that respect, all financial transactions are reviewed and approved by the credit unions.

4.3.3 Systems to Protect Physical Assets

Table 8 Systems to Protect Physical Assets

	Frequency	Percentage
Yes	130	98.7
No	2	1.3

Source: Field Survey (2021)

From Table 7, it can be seen that, the data gathered from the field revealed that 130 respondents representing 98.7% indicated that the use of Close Circuit Television systems (CCTV) by the organization. Meanwhile 2 respondents representing 1.3% revealed that they not aware as to whether the unions uses Close Circuit Television systems (CCTV). This findings imply that most of the Credit Unions uses Close Circuit Television (CCTV) systems to protect the physical assets of the unions.

4.3.4 Frequency of Internal Control Systems Report

Table 9 Frequency of Internal Control Systems Report

		Frequency	Percentage
Annually	Yes	125	94.7
	No	7	5.3
Semiannually	Yes	118	89.5
	No	14	10.5
Quarterly	Yes	108	81.6
	No	24	18.4

Source: Field Survey (2021)

From Table 9, the results of the study revealed the frequency of the internal control system Policies. In respect of the annual reporting of the internal control

system policy, the result revealed that 125 respondents representing 94.7% agreed to the fact that internal control system policies are reported annually, likewise 7 respondents representing 5.3% disagreed. In addition, In respect of the semiannual reporting of the internal control system policy, the result revealed that 118 respondents representing 89.5% agreed to the fact that internal control system policies are reported semiannually, likewise 14 respondents representing 10.5% disagreed. Finally, In respect of the quarterly reporting of the internal control system policy, the result revealed that 108 respondents representing 81.6% agreed to the fact that internal control system policies are reported quarterly, likewise 24 respondents representing 18.4% disagreed. The results of the study implies that majority of the respondents indicated that the reports pertaining to internal control systems are done annually.

4.4 Objective Two: The Effectiveness of Internal Control System

Internal control policies, according to COSO framework (2013) should cater for the business environment, management and information. Therefore, this objective is to assess the effectiveness of internal control system in some selected Credit Unions in Ghana.

Table 10 Respondents' Rate of Soundness and Effectiveness of Internal Control System

	Frequency	Percentage
Very Effective	37	28.15
Effective	58	43.7
Average	37	28.15

Source: Field Survey (2021)

With respect to the rate of soundness and effectiveness of internal control systems in the selected Credit Unions, the results in Table 10 revealed that 58

respondents representing 43.7% of the total respondents accepted that it is effective while 37 respondents representing 28.15 believe that it is “very effective” and “average” respectively. None of the respondents accepted that there is no soundness and effective internal control systems.

4.4.1 Rate of Credit Union’s Adherence to Internal Control

Table 11: Respondents’ Rate of Credit Union’s Adherence to Internal Control

	Frequency	Percentage
Below 50	8	5.8
50 – 60	33	25.3
Above 60	91	68.9

Source: Field Survey (2021)

The results from Table 11 shows that 91 respondents out of the total respondents representing 68.9% rated the credit unions adherence to internal control system as above 60. Meanwhile 33 of the respondents representing 25.3% rated them below 50. However, 8 of the respondents representing 5.8% rated the unions below 50. This means that majority of the respondents rated the adherence of the credit unions to the internal control system as high. This implies that the credit unions are always ensuring that their dealings are in conformity with the internal control systems of the organization.

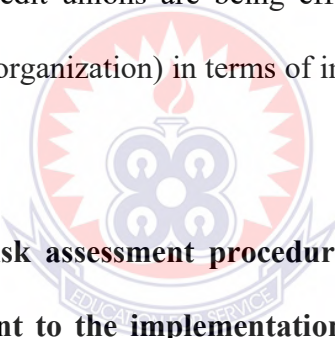
4.4.2 Overall Effectiveness of the Internal Audit Department

Table 12: Respondents’ rate of Overall Effectiveness of the Internal Audit

	Frequency	Percentage
Excellent	8	5.8
Very Good	50	37.9
Good	56	42.1
Poor	19	14.2

Source: Field Survey (2021)

From the Table 12, the results of the data collected from the respondents revealed that 56 respondents representing 42.1% indicated that the overall effectiveness of the internal audit department of the Credit Unions appears to be good. Meanwhile 50 respondents representing 37.9% also indicated that, the overall effectiveness of the internal audit department of the Credit Unions are very good. Likewise 8 respondents representing 5.8% revealed that the overall effectiveness of the internal audit department of the Credit Unions are poor. Nonetheless 19 respondents representing 14.2% indicated that the overall effectiveness of the internal audit department of the Credit Unions are poor. In view of the results, the researcher can conclude that the overall effectiveness of the internal audit department of the Credit Unions is good. These implies that the credit unions are being effective (thus, achieve their stated objectives or goals of the organization) in terms of implementing their internal control systems.



4.5 Objective Three: Risk assessment procedures, monitoring procedures and management commitment to the implementation of internal control policies in Ghana.

This objective sought to examine the risk assessment procedures, monitoring procedures and management commitment to the implementation of internal control policies in Ghana.

Risk Assessment

This section of the study seeks to analyze the risk assessment, the actual essence of internal control systems, and this demonstrates and evaluates the important hazards related to organizations and the objectives of organizations.

Table 13: Risk Assessment

		Frequency	Percentage
	Yes	120	90.8
Are there documented objectives for all the key activities of the organization?	No	2	1.3
	Do not know	10	7.9
	Know	10	7.9
Were all employees levels in the organization represented in establishing the objectives?	Yes	78	59.2
	No	50	38.2
	Do not know	3	2.6
	Know	3	2.6
Have overall strategies for managing important risks been established	Yes	125	94.7
	No	3	2.6
	Do not know	3	2.6
	Know	3	2.6
Have specific assignments and activities necessary to implement the strategies been identified and communicated to the responsible employees?	Yes	109	82.9
	No	17	13.2
	Do not know	5	3.9
	Know	5	3.9

Source: Field Survey (2021)

From Table 13, it can be seen that when employees were asked to indicate whether or not there were documented objectives for risk management of the organization, majority of the respondents 120 representing 90.8% indicated the existence of such objectives. Meanwhile, 2 of the respondents representing 1.3% were those who cited lack of said objectives and 10 respondents representing 7.9% stated that they did not know. Likewise, majority of the respondents 78 representing 59.2% of the total respondents confirmed that all employee levels of the credit union were well represented in establishing the objectives. On the other hand, 50 respondents representing 38.2% said that not all employee levels were represented. Only 3 respondents representing 2.6% did not know about the employee levels representation.

Again, the results as presented in the table depicted that majority of the respondents 125, representing 94.7% stated that the organization has established overall strategies for managing important risks. Nevertheless, 3 respondents representing 2.6% indicated the positive whilst another 3 respondents representing 2.6% did not know that the organization has established such strategies for important risks). With respect to whether the organization had a particular responsibility and conduct needed to enforce plans clearly revealed and conveyed to make employees account for, it was to make specific assignments and activities necessary to implement the strategies being identified and communicated to the responsible employees, it was revealed that majority respondents 109, representing 82.9% responded in the affirmative. Meanwhile, 17 out of the total respondents' representing 13.2% said otherwise. Nonetheless, 5 respondents representing 3.9% were of the view that they did not know. In view of the results from analyzing the data collected, the researcher can conclude that majority of the employees are aware of the fact that, many objectives, policies and strategies have been put in place to manage risks.

4.5 Monitoring of Internal Control Systems

This section of the study seeks to analyze the monitoring of internal control systems which entails the process of assessing the quality of internal control system performance over a time period. The findings in this section proved the validity of the fact that monitoring involves assessing the design and operation of controls on a timely basis and taking corrective actions as needed.

Table 14: Monitoring of Internal Control Systems

		Frequency	Percentage
Do you routinely evaluate the overall effectiveness of your internal control system?	Yes	118	89.5
	Do not Know	14	10.5
Do the branch management and its representatives have complete access to records?	Yes	116	88.2
	Do not know	16	11.8
How often do you normally prepare reports and other returns to management?	Monthly	102	77.6
	Quarterly	26	19.7
	Half-Yearly	3	2.6

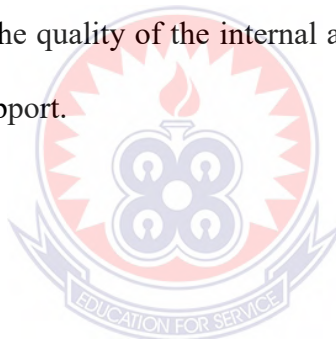
Source: Field Survey (2021)

From Table 14, the results show the distribution of responses from the respondents, thus to ascertain the monitoring of internal controls systems of the credit unions. From the table, the result revealed that majority of respondents 118 representing 89.5 indicated that the credit unions routinely evaluate the overall effectiveness of the organization's internal control system. Meanwhile 14 respondents representing 10.5% indicate that they have no idea as to whether the credit unions routinely evaluate the overall effectiveness of the organization's internal control system. This implied that there is a high level of assessment of the design and operation of controls on a timely basis and taking corrective actions as needed. In respect of branch management and its representatives having complete access to the records, 116 respondents out of the total respondents, representing 88.2% concurred with assertion that management and its representatives had complete access to records. Meanwhile, 16 respondents representing 11.8% were of the view that they do not have any idea. Finally, on the same issue of monitoring of internal controls system, 102 respondents representing 77.6% of the respondents indicated that there is

normally a monthly preparation of reports and other returns to management. Likewise, 26 respondents representing 19.7% indicated that the preparation of reports and other reports to management is done quarterly. Meanwhile, 3 respondents representing 2.6% of the total respondents revealed that the preparation of reports and returns to management are done half-quarterly.

4.6 Management commitment to the implementation of internal control policies

Management commitment to the effective implementation is key to effective internal control practices and therefore, cannot be ignored. Management commitment and factors for effective implementation of internal control policies were assessed. Management commitment to the implementation of internal control policies was assessed by examining the quality of the internal audit, independence of the internal audit and management support.



4.4.1 Internal Audit Quality

Table 15: Internal Audit Quality

		Frequency	Percentage
Established internal audit's objectives were accomplished	Agree	78	60.0
	Do not know	47	35.0
	Disagree	7	5.0
There is communication between internal and external audit	Agree	113	85.3
	Do not know	9	6.8
	Disagree	10	7.9
Internal audit's work was efficiently performed	Agree	116	87
	Do not know	8	6.5
	Disagree	8	6.5
Internal audit's findings are correctly justified	Agree	77	58.4
	Do not know	40	30.0
	Disagree	15	11.6
Internal audit's recommendations can be easily implemented	Agree	94	71.6
	Do not know	19	14.2
	Disagree	16	12.1
Internal audit's report is accurate	Agree	122	85
	Do not know	45	31
	Disagree	23	16

Source: Field Survey (2021)

The results from Table 15 shows that most of the respondents 78, representing 60.0% agreed to the fact that Internal audit objectives were accomplished while 47 respondents representing 35% did not know whether the objectives of the internal audit was achieved or not. Meanwhile 7 respondent representing 5.0% disagreed to the fact that the objectives of the internal audit was achieved. Concerning the communication between internal and external auditors, 113 respondents out of the

total respondents representing 85.3% agreed that it was effective. However, 10 respondents representing 7.9% disagree. Meanwhile, the remaining 9 respondents representing 6.8% indicated that they do not know whether the communication was effective or not.

Again, the results from the Table revealed that majority of the respondent 116 representing 87% agreed to the fact that the work performed by the internal audit team is efficient while 8 respondents representing 6.5% disagree. In the same vein, 8 respondent representing 6.5% indicated that they do not know as to whether the work performed by the internal audit team is efficient or not. In addition, the result proved that the findings of the internal audit team are correctly justified with 77 respondents representing 55.4% attesting to it, while 15 respondents representing 11.6% disagree and 40 respondents representing 30.0% indicated that they do not know.

In respect of the implementation of the recommendations by the internal audit team, 94 respondents representing 71.6% agreed their recommendations can be easily implemented, while 16 respondents representing 12.1% disagreed. The remaining 19 respondents representing 14.2% indicated that they do not know whether the recommendations by the internal audit team can be easily implemented or not. Finally, 112 respondents representing 85% agreed that the report by the internal audit team was accurate, whereas 23 respondents representing 16% disagreed. Meanwhile, 45 respondent, representing 31% did not indicate their stands on the accuracy of the internal auditors reports. These implies that there are high quality of internal audit practices.

4.7.2 Independence of the Internal Audit

Table 16: Independence of Internal Audit

		Frequency	Percentage
Internal audit report to the highest level within the business	Agree	106	80.5
	Do not know	15	11.1
	Disagree	11	8.4
Internal auditors have unrestricted access to all departments and employees in the organization	Agree	100	75.8
	Do not know	11	8.4
	Disagree	21	15.8
Internal auditors participates in the development of the company processes	Agree	132	100
	Do not know	0	0
	Disagree	0	0

Source: Field Survey (2021)

According to Table 16, most of the respondents 106 representing 80.5% agreed that internal audit report to the highest level within the organization, while 11 respondents representing 8.4% disagreed. Meanwhile, 15 respondents representing 11.1% did not know. The same is the case of internal auditors having unrestricted access to all departments in the organization, the results revealed that 100 respondents representing 75.8% agreed, while 21 respondents representing 15.8% disagreed. Meanwhile, 11 respondents, representing 8.4% did not know. Finally, all respondents also agreed to the fact that internal auditors participate in the development of the company process. These findings imply that internal auditors of the credit union are independent in all their dealings.

4.7.3 Management Support

Table 17: Management Support

		Frequency	Percentage
Senior management supports internal audit's personnel	Agree	97	73.7
	Do not know	23	17.3
	Disagree	12	9.0
Internal audit department is large enough to efficiently carry out its duties	Agree	91	69
	Do not know	3	3
	Disagree	38	28
Senior management is aware of Internal audit's needs	Agree	111	84.2
	Do not know	21	15.8
	Disagree	0	0

Source: Field Survey (2021)

According to Table 16, most of the respondents 97 representing 73.7% agreed agree that Senior Management supports Internal Audit's personnel, whiles 12 respondents representing 9% disagreed. Meanwhile, 23 respondents representing 17.3% did not know. The same is the case of internal auditors of internal audit been large enough to efficiently carry out its duties, the results revealed that 91 respondents representing 69% agreed, whiles 38 respondents representing 28% disagreed. Meanwhile, 3 respondents, representing 3% did not know. Finally, 111 respondents, representing 84.2% also agreed to the fact that senior management been aware of internal audit's needs. Nonetheless, the remaining 21 respondents representing 15.8% did not know.

4.7 Discussion of Findings

This study sought to assess the effectiveness of internal control systems in non-bank financial institutions typically credit unions by examining; the internal

control systems in some selected Credit Unions in Ghana, the effectiveness of internal control system in some selected Credit Unions in Ghana and the adequacy of the risk assessment procedures, monitoring procedures and management commitment to the implementation of internal control policies in the selected Co-operative Credit Union Limited Ghana. The results are discussed in detail in the following proceeding subparagraphs.

The objective one of the study sought to identify the internal control systems in the selected Credit Unions in Ghana. The findings of the revealed that all the survey participants were aware of existing control systems in the credit unions. The internal controls system covers preventive, detective and directive policies. It also came out through the study that the company's Board members are solely mandated to initiate policies on internal controls and ensure that they are fully implemented by the company's management. As far as control activities at the selected credit unions is concerned, the study found out that that there is a system in place that makes provision for the protection of assets from theft. Again there is evidence of the tracking of the position and utilization of all assets. The study also revealed that responsibilities and obligations are highly separated in such a way that, those individuals who manage property and resources are not prevented from also keeping records in relation to those assets and that there is a review of all financial transactions and also that these transactions are accepted by the company. Close Circuit Television Systems (CCTV) used by the institution is a positive and needful control system. These findings are consistent with Fakir et al. (2019) assertion that in other for organizations to raise the level of understanding of internal controls systems of their employees, they must put a mechanism in place to regularly educate and communicate to management and the employees the significance of internal controls.

Another by Liu (2019) further add that that review of policies and procedures in respect of internal control systems to ensure proper financial records are done periodically.

The second objective of the study sought to assess the effectiveness of internal control system in the selected Credit Unions in Ghana. Overall, the findings of the study revealed that majority of the respondents were aware that there were two internal control systems in the Credit Unions. Thus, almost half of respondents did not know the types of internal control systems in Credit Unions. Also, it was strongly accepted by majority of the respondent that the Credit Union Manager was responsible for authorizing payment on behalf of the Credit Unions. Nevertheless, few of the respondents hold the view that the authorization of payment on behalf of the unions is in hands of The Board and few of the respondents believed that is the work of both the manager and board. Thus, majority of the respondents know the right person responsible for authorizing payments on behalf of the credit unions in the metropolis. With respect to the rate of soundness and effectiveness of internal control systems in Credit Unions, majority of the respondents accepted that it was effective while the other respondents believe that it is “very effective” and “average” respectively. None of the respondents accepted that there is no soundness and effective internal control systems. Overall effectiveness of the Internal Audit Department of the Credit Unions appears to be good constituting about 80% of the respondents. Few of the respondents said that the Audit Department was very effective and poor respectively. These findings are consistent with the findings of Emasu (2010) who notes that “the effectiveness of internal audit function partly depends on; legal and regulatory framework, placement of the function and its independence, existence of audit committees, resources allocated to the function and

professionalism of internal audit staff. Majority of these requirements were met by the various credit unions, therefore, is not miraculous that the respondents rated it as effective.

The third objective of the study sought to adequacy of the risk assessment procedures, monitoring procedures and management commitment to the implementation of internal control policies in the selected Co-operative Credit Union Limited Ghana. Overall, the findings of the study revealed the following. In relation to risk assessment, the study found out that there were documented objectives for all key activities of the organization and that all employee levels of the company were represented in establishing the objectives. Concerning monitoring of internal controls, the study revealed there is a department of internal audit in the operations of the company. At the branch level, the internal auditors report is submitted to the regional management team. And when this is done, the regional management team also reports to the company's Board of Directors. Also at branch level, the branch managers are responsible for ensuring that internal control measures are adhered to. In respect of management commitment to the implementation of internal control policies. The data analyzed shows that most of the respondents agree that senior management supports internal audit's personnel by making sure that Internal audit is large enough to efficiently carry out its duties. Also, majority of the respondents agreed that senior management was aware of internal audit's needs while few of the respondents do not agree or do not know at all that these internal management support approaches were ensured.

These findings are consistent with Aven (2016) assertion that, it is of great significance to review an organization's activities and transactions to in other to help such organization to assess the quality of performance over time and to determine

whether controls are effective and supported by Morris (2011) assertion that quality of internal audit procedures in practice are necessary since internal auditors cover a wide variety of assignments. Thus, internal control systems should be monitored to assess the quality of the system's performance over time. In furtherance, findings of the study support United States Panel on Audit effectiveness (2000) postulation that the independence of an internal auditor are fundamental to the reliability of their report. As such, perceived independence suggests that the auditor must not act independently, but must be seen to be independent too. They further asserted to this view since the activities of the internal auditors were found to be independent of the management and staff. Moreover, these findings are consistent with Hevesi (2005) postulation that effective control environment includes; the attitude toward internal control and control awareness established and maintained by the management and employees of an organization and supported by Wittington and Pany (2004) who expresses that control environment sets the tone of an organization, influencing the control consciousness of its staff. It is the foundation for all other components of internal control, providing discipline and structure. Therefore, having an effective control environment is a foundation for effective internal control practices.

4.8 Summary of Chapter

The finding of this study has emphasized the importance Internal Control Systems in Credit Unions. The findings of the study revealed that the rate of soundness and effectiveness of internal control systems in Credit Unions was effective. Overall effectiveness of the Internal Audit Department of the Credit Unions appears to be good constituting about 80% of the respondents. Furthermore, data analyzed shows that most of the respondents agree that senior management supports internal audit's personnel by making sure that internal audit is large enough to

efficiently carry out its duties. This findings therefore serve as reference point for Credit Unions who are at a fix as to the most effective strategies to adopt to help to internal control systems.



CHAPTER FIVE

SUMMARY, CONCLUSIONS, RECOMMENDATIONS AND SUGGESTIONS FOR FURTHER STUDIES

5.0 Introduction

In this chapter, the significant findings and the valuable information obtained or achieved by this study have been carefully summarized. The chapter by far is made up of the summary of the research, and the conclusion drawn from this research study. Also, significant recommendations for further studies were given from the analysis of the available data in this study.

Consequently, the main objective of the study was to assess the effectiveness of internal controls in credit unions in the Central Region of Ghana. The study was conducted for the staff or workers, management and the clients of the selected Co-operative Credit Union and. Simple random was employed to select 132 workers each from the various credit unions. In all, 208 respondents was sampled for this study. Questionnaires were the main data collection instruments. Furthermore, the data was analyzed with the help of statistical software known as Statistical Package for Social Sciences (SPSS version 25.0) and interpreted by using percentages and frequencies and presented by using tables, and charts using Excel 2013 version.

5.1 Summary of Findings

Objective one of the study sought to review the control systems in some selected Credit Unions in Ghana credit unions. The findings of study found out that all survey participants were aware of existing control systems in the credit unions. The internal controls system covers preventive, detective and directive policies. It also came out through the study that the company's Board members are solely mandated

to initiate policies on internal controls and ensure that they are fully implemented by the company's management. As far as control activities at the selected credit unions is concerned, the study found out that that there is a system in place that makes provision for the protection of assets from theft. Again there is evidence of the tracking of the position and utilization of all assets. The study also revealed that responsibilities and obligations are highly separated in such a way that, those individuals who manage property and resources are not prevented from also keeping records in relation to those assets and that there is a review of all financial transactions and also that these transactions are accepted by the company. Close Circuit Television Systems (CCTV) used by the institution is a positive and needful control system.

Objective two of the study sought to assess the effectiveness of internal control system in some selected Credit Unions in Ghana. Overall, the findings of the study revealed that majority of the respondents were aware that there were two internal control systems in the Credit Unions. Thus, almost half of respondents did not know the types of internal control systems in Credit Unions. Also, it was strongly accepted by majority of the respondent that the Credit Union Manager was responsible for authorizing payment on behalf of the Credit Unions. Nevertheless, few of the respondents hold the view that the authorization of payment on behalf of the unions is in hands of the Board and few of the respondents believed that is the work of both the manager and board. Thus, majority of the respondents know the right person responsible for authorizing payments on behalf of the credit unions in the metropolis. With respect to the rate of soundness and effectiveness of internal control systems in Credit Unions, majority of the respondents accepted that it was effective while the other respondents believe that it is "very effective" and "average"

respectively. None of the respondents accepted that there is no soundness and effective internal control systems. Overall effectiveness of the Internal Audit Department of the Credit Unions appears to be good constituting about 80% of the respondents. Few of the respondents said that the Audit Department was very effective and poor respectively.

Lastly, the objective three of the study examined the adequacy of risk assessment procedures, monitoring procedures and management commitment to the implementation of internal control policies in the selected Credit Unions in Ghana. Overall, the findings of the study revealed the following. In relation to risk assessment, the study found out that there were documented objectives for all key activities of the organization and that all employee levels of the company were represented in establishing the objectives. Concerning monitoring of internal controls, the study revealed there is a department of internal audit in the operations of the company. At the branch level, the internal auditors report is submitted to the regional management team. And when this is done, the regional management team also reports to the company's Board of Directors. Also at branch level, the branch managers are responsible for ensuring that internal control measures are adhered to. In respect of management commitment to the implementation of internal control policies. The data analyzed shows that most of the respondents agree that senior management supports internal audit's personnel by making sure that internal audit is large enough to efficiently carry out its duties. Also, majority of the respondents agreed that senior management was aware of internal audit's needs while few of the respondents do not agree or do not know at all that these internal management support approaches were ensured.

5.2 Conclusion

Based on the above findings, the study can conclude that the importance of internal control system in the operations of the company cannot be overemphasized. This is due to the fact that, loss of confidence in the financial system of nay affects the economy negatively. Again the internal control system at work in the company must be very active, efficient and effective with regards to the control environment, assessment of risk, activity control and information and communication as well as internal control monitoring. The ineffectiveness of even one of the components can derailed the effectiveness of the other four. However irrespective of the effectiveness of the internal controls, it can only give a reasonable assurance to the achievement of corporate goals and not an absolute assurance.

5.3 Recommendation

Based on the above findings, some of the recommendations made are as follows:

- The internal Audit Personnel should educate the workers and management on the internal control system in the credit union.
- Moreover, the management of the credit union should provide the Internal Audit Department with a procurement policy as well as constituting procurement committees to tackle issues concerning procurement with more diligence among others.
- Lastly, for effective internal control system, the management should ensure that adequate training on internal controls is given to the workers and management, effective monitoring and evaluations should be organized intermittently and out operational policies and manuals should be given to members in order to ensure effective implementation of internal controls.

5.4 Suggestions for Further Research

The study found out that effective internal control is essential for effective production and to achieve firm's set objectives. Therefore, other researchers can examine the effects of internal control system on firm's performance.



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APPENDIX

UNIVERSITY OF EDUCATION, WINNEBA
SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING
RESEARCH QUESTIONNAIRE

Dear Respondent,

This questionnaire is designed to assist the researcher to make an objective assessment on “*Internal Control Systems in Non-Bank Financial Institution*”. This exercise is essentially academic. Your response is of utmost importance and as such your answers would be treated with the utmost confidentiality. Thank you.

SECTION A: PERSONAL BACKGROUND

1. Gender: Male [] Female []
2. Age: Below 30 years [] 30-39 years [] 40-49 years [] 50-60 years [] 60 years and above []
3. Staff Category Risk [] Consumer/Corporate [] Finance [] Internal Audit [] HR [] I.T []
4. Academic Qualification: a. HND [] b. First Degree [] c. Second Degree [] d. Doctorate [] e. Professional []
5. Working Experience 1-5 years [] 6-10 years [] 11-15 years [] 15 years and above []

SECTION B: REVIEW OF INTERNAL CONTROL SYSTEM

7. Are there any internal control systems in Beige Capital Savings and Loans Ltd Ghana Limited?

a. Yes [] b. No []

If yes, what are they?

a. Preventive [] b. Directive [] c. Detective []

d. Other.....

8. Who is responsible for setting them up?

a. Group management team b. Regional management team c. Branch management team

c. Other

9. There exist code of conduct or ethics and policies on financial controls Beige Capital

Savings and Loans Ltd

Yes No

10. Policies regarding the importance of financial controls and appropriate conduct are communicated to all staff

Once a while Frequently Rarely

11. How often does management reviews policies and procedures to ensure that proper financial controls are in place.

Periodically Rarely Very often Often

CONTROL ACTIVITY

12. Do you provide adequate physical security for cash and other assets subject to theft?

a. Yes b. No

13. Do you track the location and use of all equipment?

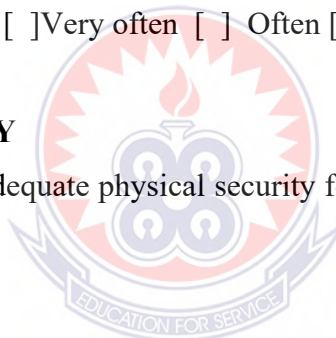
a. Yes b. No

14. Are individuals who control assets prohibited from also recording transactions related to those assets? a. Yes b. No

15. Do you or your key managers review and approve all financial transactions? a. Yes b. No

16. My union uses Close Circuit Television (CCTV) systems to protect physical assets.

1. Yes 2. No 3. Don't Know



SECTION C: EFFECTIVENESS OF INTERNAL CONTROL SYSTEM

17. Are there internal controls in existence at all in your credit union?

- a. Yes [] b. No []

18. How would you assess the soundness and effectiveness of the internal control systems?

- b. Very effective [] b. Effective [] c. Average []

- d. Not effective [] e. not at all []

19. How would you rate adherence to internal controls system out of 100%?

20. How would you rate the overall effectiveness of the internal audit department?

- c. Excellent [] b. Very good [] c. Good []

- d. Average [] e. Below average [] f. Poor []

SECTION D: RISK ASSESSMENT, MONNITORING PROCEDURES AND MANAGEMENT COMMITMENT

Internal audit quality	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree
Established internal audit's objectives were accomplished					
There is communication between internal and external audit					
Internal audit's work was efficiently performed					
Internal audit's findings are correctly justified					
Internal audit's recommendations can be easily implemented					
Internal audit's report is accurate					

Independence of internal audit	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree
Internal audit report to the highest level within the business					
Internal auditors have unrestricted access to all departments and employees in the organization					
internal audit participates in the development of the company processes					

Management support	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree
Senior management supports internal audit's personnel					
Internal audit department is large enough to efficiently carry out its duties					
Senior management is aware of internal audit's needs					

MONITORING OF INTERNAL CONTROL SYSTEMS

1. Do you routinely evaluate the overall effectiveness of your internal control system?

a. Yes [] b. No []

2. Do the branch management and its representatives have complete access to records?

a. Yes [] b. No []

3. How often do you normally prepare reports and other returns to management?

a. Monthly b. Quarterly c. Half-Yearly

d. Other

RISK ASSESSMENT

1. Are there documented objectives for all key activities of the organization?

a. Yes b. No

2. Were all employee levels in the organization represented in establishing the objectives?

a. Yes b. No

3. Have overall strategies for managing important risks been established?

a. Yes b. No

4. Have specific assignments and activities necessary to implement the strategies been identified and communicated to the responsible employees?

a. Yes b. No

