

**EVALUATING THE EFFECTS OF INTERNAL CONTROL IN THE  
OPERATIONS OF FINANCIAL INSTITUTIONS: A CASE STUDY OF BOND  
SAVINGS AND LOANS.**

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## DECLARATION.

I Afia Afra Adu-Frimpong hereby declare that this submission is my own work towards the Master of Business Administration (Finance) and that, to the best of my knowledge, it contains no materials previously published by any other persons or material which has been accepted for the award of any other degree of the university, except where due acknowledgement has been made in the text

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## DEDICATION

This work is dedicated first and foremost to The Almighty God for seeing me successful throughout my Study. Also to my parents, Mr and Mrs Adu-Frimpong for their unrelenting support. and finally to my loving husband Nakai, for his tolerance and support.



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# KNUST



## ABSTRACT

The major cause of serious banking challenges continues to be ineffective internal control system for core processes. These policies determine the reliability and integrity of data for operational efficiency to achieve strategic goals and objectives. They are established to ensure management has accurate, timely and complete information for effective decision making. The objectives of this study are to: examine the components of internal control system; assess the effectiveness; analyse the challenges of internal control system; and evaluate the effects of the internal control system on the operations of Bond Savings and Loans Ltd. This research adopted descriptive design and quantitative approach. The data collection instrument used was questionnaire. The population of the study were staff of Bond Savings and Loans Ltd in Kumasi. The population size was twelve (12). Data was collected from the entire population. The study discovered that Bond has adopted a hybrid control framework (COSO, CoCo, and CobiT frameworks) and that the Board of Directors and Management of Bond only are responsible for formulating internal control policies. It was revealed that the control systems of Bond are highly strong and effective. The study found out that: the inability of the control system to detect people who do not comply with control policies; inadequate physical control measures and procedures over the company's assets to protect those assets against theft and unauthorised access are some of the challenges of Bond's internal control systems. It was also discovered that the control system had led to positive financial and non-financial performance at Bond. Some of the major recommendations made include: Bond should involve staff in the formulation of control policies and also, the company should conduct regular control system reviews.

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## LIST OF ACRONYMS

COSO	Committee of Sponsoring Organizations of the Headway Commission
CICA	Canadian Institute of Chartered Accountants
COBIT	Control Objectives for Information and Related Technology
BCOBS	Basle Committee on Banking Supervision



## **CHAPTER ONE:**

### **INTRODUCTION**

#### **1.0 BACKGROUND OF STUDY**

There are many definitions of internal control, as it affects the various constituencies (stakeholders) of an organization in various ways and at different levels of aggregation

Internal controls are systematic measures such as reviews, checks and balances, methods and procedures instituted by an organization to conduct its business in an orderly and efficient manner, safeguard its assets and resources, (Business Dictionary.com)

Internal control is —the whole system of controls, financial and otherwise, established in order to provide reasonable assurance of effective and efficient operation, internal financial control and compliance with laws and regulations! (CIMA, 2006)

The internal control process is integrated with all other processes within an organization and is a technique used by managers to help an organization achieve its objectives. (Internal Audit files. Internal control overview August 2007)

Adequate internal controls allow managers to delegate responsibilities with reasonable assurance that what they expect to happen, actually does. The three fundamental elements of management planning, sorting out, guiding and controlling is critical to any effective organisation. However there is a fourth function which is internal control. Internal control is needed to provide accountability for the resources entrusted to them. To defend the advantages, unwavering quality of information and advance operational effectiveness administrators must create internal controls for every activity that they are

in charge. To help an organization achieve its strategic goals and objectives, controls are established, monitored and maintained by people at all levels within the organization.

Internal control must be practical and the expense of implementation ought not to surpass the advantages got from having the control set up. The system of internal control in an organisation is the obligation of directors, administration and staff of the organisation. Such frameworks are for staff to screen and execute them.

The main objective for financial control in an organization is to monitor the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations.

Financial institutions have seen significant change in their mode of operations over the years. They are becoming complex over time, mechanically determined, and worldwide in outlook. In the meantime, stakeholders are more drawn in, looking for greater transparency and responsibility for the integrity of internal control frameworks that bolster business decisions and the administration of the organization.

Most of these institutions have in place control policies to aid the smooth flow of operations. These controls affect financial activity and ensure that the desired return on investment occurs. A system of viable internal control is a basic component in any financial organization.

In line with this the Bank of international settlement (Basel committee) on banking supervision in 1998 designed a framework of principles for the effective supervision of internal control systems in financial institutions. The Committee emphasized that sound internal control was essential to prudent banking operations and to promoting stability

in the financial system as a whole. It stated that heightened interest in internal controls was as a result of significant losses incurred in many finance houses which could have been avoided if the organisations had maintained effective internal control systems.

Such a system helps to ensure that the institution complies with laws and regulations as well as policies, plans, internal rules and procedures, and decrease the risk of unexpected losses or damage to its reputation.

It is clear from the above that internal control is a fundamental component in any organisation and this study seeks to throw light on how internal control policies aid the operational processes of non-banking institutions.

### **1.1 PROBLEM STATEMENT**

Financial institutions are faced with various challenges in their core operations. This hinders the effectiveness of their performance and impedes their profit levels. These issues can be related to poor portfolio management, lack of attention to changes in the economy that can lead to deterioration in the credit ratings of the institution. However the major causes of serious banking challenges continues to be ineffective internal control system for core processes. These policies determine the reliability and integrity of data for operational efficiency to achieve strategic goals and objectives. They are established to ensure management has accurate, timely and complete information for effective decision making. The ineffectiveness of numerous organizations' control frameworks have been highlighted because of the huge financial scandals in recent years and accordingly increased attention on risk management, internal controls, internal audit and their roles in cutting edge institutions. The aim of control policies formulated in financial institutions is to make certain that it gives credit only to customers who satisfy the laid down conditions including payment on time. This is a

fundamental element of control that keeps banks from becoming illiquid because of improper and un-facilitated lending. In spite of these financial control policies, some financial institutions fail within the first five years of operations. The past year has seen unprecedented collapses of micro-finance businesses and other finance houses in the country. The sad thing about this phenomenon is that, some of these companies were licensed by the regulator; Bank of Ghana who was supposed to monitor the activities of these institutions but failed to do so leading to their collapse.

Designing and implementing an effective system of internal control can be challenging. Operating that system effectively and efficiently every day can be daunting. New and rapidly changing business models, greater use and dependence on technology, increasing regulatory requirements and scrutiny demand any system of internal control to be well structured and aid operational processes.

The aim of this research is to determine the extent to which these control policies actual affect operational activities of financial institutions.

## **1.2 RESEARCH OBJECTIVES**

- a. To examine the components of internal control system at Bond Savings and Loans Ltd.
- b. To assess the effectiveness of control policies of Bond Savings and Loans Ltd.
- c. To analyse the challenges of internal control systems at Bond Savings and Loans.
- d. To examine the effects of control policies on the operational activities of Bond Savings and Loans.

### **1.3 RESEARCH QUESTIONS**

- a. What are the components of an internal control system of a Savings and Loans Co. Ltd?
- b. What are the effectiveness of control policies formulated by Savings and Loans Co. Ltd.?
- c. What are the challenges in the internal control systems of Savings and Loans Co. Ltd? control system?
- d. How are control policies managed in Savings and Loans Company Ltd?

### **1.4 SCOPE OF THE STUDY**

The scope of this study is limited geographically and thematically. Geographically, the study concentrates on Bond Savings and Loans Branch in Kumasi. Kumasi Metropolis is the second largest metropolis in Ghana. The population is more than two million with a growth rate of about 4%. Data will not be collected from the other branches of Bond Savings and Loans Ltd. There are many control policies in organisations. Thematically the study focuses on strategic control, management control and operational control including internal control components, internal control effectiveness, internal control challenges, effects of internal control on operations and management systems.

### **1.5 JUSTIFICATION OF THE STUDY**

This study concentrates on internal control systems within savings and loans companies and how the various departments within the company adhere to the policies formulated by management. The results of this study will aid policy makers to re-examine the effectiveness of control policies in reducing risk and ensuring efficiency of operations. It is hoped that findings from this research would help the company to reassess its policies in order to facilitate the achievement of Bond savings and Loans objectives, safeguard assets and enhance its customer service.

## **1.6 Research Methodology**

The research is intended to elicit facts on how effective internal control systems are in financial institutions and how it aids efficiency of operations. Research approach used was quantitative. A case study was used by the researcher in this study and adopted the descriptive research design. A structured questionnaire will be prepared for data collection.

The population of study was staff of Bond Savings and Loans Ltd Kumasi. The population size according to the Branch Manager of Bond Savings and Loans Ltd was twelve (12). Since the population size was small, data was collected from the entire population. Data was analysed using statistical tools like mean, standard deviation, and standard error of mean with the aid of statistical package for social sciences (SPSS) software program. Some of the results were presented using tables and charts.

## **1.7 Organization of the study**

The study was organized into five chapters, Chapter one dealt with the introduction, background of the study, the problem statement, research questions, research objectives, ,scope, justification of the study and research methodology.

Chapter two will deal with review of related literature on internal controls. Chapter three will consider extensively the methodology used for the research.

Chapter four will deal with the analysis of the data, results and discussions. Finally chapter five will address the findings, recommendations and conclusion for the study

## **CHAPTER TWO LITERATURE REVIEW**

### **2.1. Introduction.**

This chapter has been divided into three (3) main sub-sections. These are: Theoretical Literature Review and Framework, empirical literature and conceptual framework.

The literature reviewed here formed the basis for the structured questionnaire.

## **2.2. Theoretical Literature Review on Concept**

The theoretical literature review relates to review of literature from journals and other secondary sources of information. These literature do not relate to a particular research findings. The theoretical literatures reviewed under this section are:

Definition of Internal Control System; Types of Internal Control System;

Effectiveness of Internal Control System; Theoretical Challenges/Limitations of Internal Control System; and Internal Control System Theoretical Frameworks.

### **2.2.1. Definition of Internal Control System.**

Internal control means different things to different people. This causes confusion among business people, legislators, regulators and others resulting in miscommunication and different expectations from the various stakeholders in an organisation. Problems are compounded when the term, if not clearly defined, is written into law, regulation or rule (Committee of Sponsoring Organizations of the Treadway Commission (COSO), 1994). This is especially valid when it comes to the issue of whether control system should be mandatory, advisory, or proprietary based.

COSO (2005) defines internal control as *—a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.*¶

The definition highlights four essential characteristics of internal control (Dionne, 2013).

These are: internal control as a process; People are crucial for strong internal controls; internal control systems only provide reasonable assurance; and that internal control has four main objectives-Accomplish its mission and reach its objectives; Produce accurate, reliable data for decision-making; Comply with statutes, laws and policies; and Safeguard its assets (Dionne, 2013).

The definition as enumerated by COSO (2005) has some few shortcomings. Firstly, COSO's definition sees internal control from the advisory perspective rather than from the mandatory and proprietary perspective. Also, the COSO definition defines internal control as providing reasonable assurance. That is, internal controls cannot possibly detect all errors. Also, the definition does not explicitly mention the four main roles of internal control systems which are the direction, prevention, detection, and correction of errors. Lastly, the definition limits the purpose of internal control to four main objectives.

Schroy (2010) stated that, internal control is —the process affected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives. He added that it is a means by which an —organizations resources are directed, monitored, and measured; and plays an important role in preventing and detecting fraud and protecting the organisation's resources, both physical (for instance, machinery and property) and intangible (reputation or intellectual property such as trade mark). This definition as provided by Schroy (2010) seems to have been modelled around the COSO framework definition and as such suffers a similar fate like the COSO's. What is quite unique in this definition is that Schroy (2010) explicitly stated that internal control systems are there to prevent and detect fraud but it fails to mention the correction of these errors detected.

Based on the above definitions internal control may be summarily defined as —*any system established or adopted by an organisation which may be mandatory, advisory or proprietary in nature for the direction, prevention, detection, and correction of errors for the achievement of specific objectives and goals*”. Thus it is important that for any control system to be instituted, there must first be potential internal control risks.

### **2.2.2. Types of Internal Control System**

There are different types of internal control system (Dittenhofer, 2001; DiNapoli, 2005). According to Dittenhofer (2001), the types of internal controls are; safeguarding assets, separation of duties, supervision, verification, approval and authorization, documentation and reporting. However, other authors such as DiNapoli (2005) have concurred that the types of internal controls include directive controls, preventive controls, compensating controls, detective controls, and corrective activities. These types of internal controls are clarified below.

#### **2.2.2.1. Directive Controls**

According to DiNapoli (1999), directive controls are established to ensure compliance with regulations. He asserted that, management must send message that control procedures are very important to promote directive controls compliance. Directive controls helps to identify that an error has occurred but do not prevent errors.

Directive controls include activities such as audits, inventory taking, reviews, reconciliations, and variance analysis. Directives controls provides evidence about the effectiveness of preventive controls.

#### **2.2.2.2. Preventive Control**

Preventive controls relate to measures taken by a firm to deter noncompliance with policies and procedures. They are proactive controls that help to prevent a loss.

Examples of preventive controls are separation of duties, proper authorization, adequate documentation and physical control over assets, (Di Napoli, 1999).

#### ***2.2.2.3. Compensating Controls***

Compensating controls are intended to make up for a lack of controls elsewhere in the system. For example, firms with an electronic database could maintain a hard copy of the client list in the office library. Such a list would compensate for downtime in electronic systems and difficulties in locating client names in an electronic system. While the list would have to be reprinted from time to time to add new clients would mitigate some of the obsolescence that exists with hard copies (DiNapoli, 1999).

#### ***2.2.2.4. Detective Controls***

Detective controls are set up to discover errors after they have happened. Nonetheless, preventive controls are more critical than detection of occurred errors. Also detective controls don't work legitimately with the absence of penalties (DiNapoli, 1999).

#### **2.2.3. Effectiveness of Internal Control System**

Internal control effectiveness is related to the fluidity of the system's internal interaction and how rooted the system is in the company's processes. One of the important factors that ensure internal control effectiveness and assurance is the institution of —agents of effectiveness| (Ayagre, Appiah-Gyamerah, and Nartey, 2014). These agents of effectiveness are vibrant board and autonomous internal audit office. Even though internal control is procedural, its effectiveness is a state of the process. Ayagre, et al (2014) indicated that it is important to continually evaluate the internal control systems intermittently. Internal control effectiveness are assessed on three levels. These are: 1) the degree to which the directors comprehend that the organization's objectives are

being realised; 2) the reliability of published financial statements; and 3) compliance with appropriate rules and guidelines

According to COSO (1994), an internal control framework can be judged to be viable on the high level Amudo and Inanga (2009) stated that a deficient internal control system is the one that ignores how internal control components can be measured but emphasized on elaborate control framework. CoSO (2011) indicated that the effectiveness of the individual components determines the effectiveness of the entire control structure. Thus the effectiveness of the five control components determines the control framework's effectiveness. Accordingly, evaluating control structure effectiveness must be in tandem with the individual components. However, the effectiveness of control a framework is a subjective decision on the individual components of entire the control system (CoSO, 2011). The internal control evaluator must comprehend the individual workings of the five control elements, the working philosophies of the control elements, and the application of the components throughout the company (Agyare, et al, 2014).

The essence of internal control is to prevent, correct and detect errors and possibly frauds in the business. In view of this, this researcher is of the view that, an effective internal control is the one that is able to: prevent errors from occurring; detect errors if they occurred; and correct detected errors.

COSO (1994) indicated that the control effectiveness levels across different businesses stem from the diverse ways of implementing, controlling, and monitoring systems adopted. The effectiveness of controls are subjective decisions on whether there is a sound assertion that the aims of internal control are being met.

#### **2.2.4. Theoretical Challenges/Limitations of Internal Control System**

No matter how well internal controls are designed, they can only provide reasonable assurance that objectives have been achieved (COSO, 1999). Some limitations are inherent in all internal control systems (Mercer University, 2015). These include:

##### **2.2.4.1 Judgment**

The effectiveness of controls will be limited by decisions made with human judgment under pressures to conduct business based on the information at hand. According to Lannoye (1999) Effective internal control may be limited by the realities of human judgment. Decisions are often made within a limited time frame, without the benefit of complete information, and under time pressures of conducting agency business. These judgment decisions may affect achievement of objectives, with or without good internal control. Internal control may become ineffective if management fails to minimize the occurrence of errors, for example misunderstanding instructions, carelessness, distraction, fatigue, or mistakes (Lannoye, 1999)

##### **2.2.4.2. Breakdowns**

Even well designed internal controls can break down. Employees sometimes misunderstand instructions or simply make mistakes. Errors may also result from new technology and the complexity of computerized information systems.

##### **2.2.4.3. Management Override**

High level personnel may be able to override prescribed policies and procedures for personal gain or advantage. This should not be confused with management intervention, which represents management actions to depart from prescribed policies and procedures for legitimate purposes. According to Lannoye (1999), management may override or disregard prescribed policies, procedures, and controls for improper purposes. Override

practices include misrepresentations to state officials, staff from the central control agencies, auditors or others. Management override must not be confused with management intervention (i.e. the departure from prescribed policies and procedures for legitimate purposes). Intervention may be required in order to process non-standard transactions that otherwise would be handled inappropriately by the internal control system. A provision for intervention is needed in all internal control systems since no system anticipates every condition (Mercer University, 2015).

#### **2.2.4.4. Collusion**

Control systems can be circumvented by employee collusion. Individuals acting collectively can alter financial data or other management information in a manner that cannot be identified by control systems. The effectiveness of segregation of duties lies in individuals' performing only their assigned tasks or in the performance of one person being checked by another. There is always a risk that collusion between individuals will destroy the effectiveness of segregation of duties. For example an individual receiving cash receipts from customers can collude with the one who records these receipts in the customers' records in order to steal cash from the entity (Williams 2009).

#### **2.2.5. Internal Control System Theoretical Frameworks.**

The wide view of controls means that internal controls cover all aspects of an organization and there is a clear need for a way of pulling together control concepts to form an integrated whole, that is a —control framework. Where there are risks to the achievement of objectives, which means failure is a strong possibility, controls have to be put in place to address these risks. If not failure becomes likely (Putra, 2015). At the same time, controls cost money and they have to be worthwhile. A lot depends on the risk appetite and what is considered acceptable as opposed to unacceptable to the

organization and its stakeholders. Poor controls lead to losses, scandals, failures, and they damage the reputation of organizations in whatever sector they are from. Where risks are allowed to run wild and new ventures are undertaken without a means of controlling risk, there are likely to be problems (Putra, 2015). The internal control banner is being waved by many authorities and regulators. The most popular and authoritative bodies on control framework and models are: COSO, CoCo, CobiT and the Basle Committee on Banking Supervision [BCBS] (Putra, 2015).

#### ***2.2.5.1. COSO Control Framework***

According to Putra (2015), in 1985 the American National Commission of Fraudulent Financial Reporting, known as the Treadway Commission, was created through the joint sponsorship of including American Accounting Association, and Institute of Management Accountants (America). Based on its recommendations a task force under the auspices of the Committee of Sponsoring Organizations (COSO) conducted a review of internal control literature. The eventual outcome was the document Internal Control—Integrated Framework. COSO emphasized the responsibility of management for internal control (Putra, 2015). The COSO defines internal control as having five (5) components. These are control environment, risk assessment, information and communication, control activities, and monitoring. COSO (1994) explained the components as follows:

- a. Control Environment. The control environment sets the tone of an association, impacting the control awareness of its people. It is the establishment for every single other part of internal control, giving discipline and structure. Control environment variables incorporate the integrity moral qualities and skill of the entity's people; administration's rationality and working style; the way

administration allocates power and obligation, and composes and builds up its kin; and the consideration and bearing gave by the top **managerial staff**

- b. Risk Assessment. Each element confronts a mixed bag of risks from outer and interior sources that must be surveyed. A precondition to risk assessment is foundation of objectives, connected at distinctive levels and internally consistent. Risk assessment is the distinguishing proof and examination of relevant risks to accomplishment of the objectives, forming a premise for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.
- c. Control Activities. Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.
- d. Information and Communication. Pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the business. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to inform business decision-making and external reporting. Effective communication also must occur in a broader sense, flowing down, across and

up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There is the need for effective communication with external parties, such as customers, suppliers, regulators and shareholders.

- e. Monitoring. Internal control frameworks should be monitored—a process that evaluates the quality of the system's performance over time. This is accomplished through on-going monitoring activities, separate evaluations or a mix of the two. Monitoring occurs in the course of operations. It incorporates regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the adequacy of monitoring procedures. Internal control deficiencies ought to be reported upstream, with serious matters reported to top management and the board.

There is synergy and linkage among these components, shaping an integrated system that responds rapidly to changing conditions. The internal control system is interwoven with the entity's operating activities and exists for basic business reasons (COSO, 1994).

According to Amudo and Inanga (2009), the COSO framework may be relevant to larger organizations, but inappropriate for small ones due to expenses and operational complexity. Administration of small organizations may not require formal internal controls for the reliability of the records and other information, because of their personal

involvement in the operations of the organization. This raises a question whether the controls of small companies should be as complex as those of large companies for them to be effective they asserted that, the COSO framework did not perceive and capture the delicate balance between formal and informal controls in smaller organizations. Moreover, in what capacity can small companies' internal controls be compelling when just a few of the components recommended by COSO are available and yet the controls could still be effective? COSO did not address this question (Amudo and Inanga, 2009). Another problem with the COSO framework is its failure to recognize Information Technology (IT) and People as a major control components. IT is crucial to an internal control framework. Today, organizations use IT for initiation, authorization, recording and processing of transactions. IT ensures effectiveness of internal controls (Amudo and Inanga, 2009). In addition, people are very important in control system. The commitment and capability of people play critical role in whether a control system will be effective or not. On the other hand, COSO's inability to recognize IT and people as a control component inspired other bodies to design and create frameworks to remedy the oversight. Two such frameworks are the Criteria of control (CoCo) and Control Objectives for Information and Related Technology.

#### ***2.2.5.2. CoCo [by CICA] Control Framework***

The CoSO framework allows businesses to go beyond their narrow financial focus to processes, structures, and values that constitute the CoSO framework (Putra, 2015). However, the CoSO mean more to the entire organisation than to individuals. The individual employee is a very important component of control process and yet corporate solutions can be difficult to reach the grassroots. The CoCo framework is another framework that means more to individuals, groups and teams and involves important learning outcomes. CoCo was promulgated by the Canadian Institute of Chartered

Accountants (CICA) (Putra, 2015). Putra (2015) explained the major elements are follows:

- a. Purpose. The model advocates for clear direction and sense of purpose. This includes objectives, mission, vision and strategy; risks and opportunities; policies; planning; and performance targets and indicators. It is important to strong driver for internal control system criteria. Controls focus on objective achievement and thus employees must work to achieve corporate purpose. Control objectives must be set and employees must be work on to own the future direction of the business. The relationship between controls and performance in an entity must be establish.

- b. Commitment.

Employees must be able to appreciate and identify themselves with the corporate's values and identity. Corporate values and identity include trust, ethics, human resource policies, integrity, responsibility, accountability, and authority. Many corporate control failures are due to the divorce of employees from control philosophies of the organisation. Employees must be made a natural element of how entities work. Lack of employees' commitment to control systems may lead to control circumvention. However, a difficult task to establishing control criteria is getting people to buy into the control system.

- c. Capability. Capability. Employees must be resourced in terms of competences and equipment to appreciate and discharge the tenets of the control model This includes knowledge; skills and tools; communication processes; information; co-ordination; and control activities. Where there is a clear objective, and everyone is ready to participate in designing and installing good controls, there is still a need to develop some expertise in this aspect of organizational life.

Capability is about resourcing the control effort by ensuring staff have the right skills, experience and attitudes not only to perform well but also to be able to assess risks and ensure controls make it easier to deal with these risks. Capability can be assisted by training and awareness seminars, either at induction or as part of continuing improvement programs.

- d. Action. Action. This phase involves executing the action that is being controlled. Employees act with a clear purpose, a commitment to meet their targets and the ability to deal with problems and opportunities. Any action that comes after these prerequisites has more chance of leading to a successful outcome.
- e. Monitoring and learning. Monitoring and learning. Control systems must be adequately monitored. The monitoring of control system includes the appraisal of both the internal and external environment. The monitoring include the review of information needs and systems, procedures and control effectiveness. Control systems should not only be monitored and reviewed but the organisation must also learn from the outcomes of the control monitoring and reviews. Monitoring is a hard control in that it fits in with inspection, checking, supervising and examining.

**2.2.5.3. Control Objectives for Information and Related Technology [CobiT]** Cobit (3<sup>rd</sup> edition) deals with information technology (IT) systems and supports security and control to support business practices. Several definitions are applied to this standard including:

- Control: The policies, procedures, practices and organizational structures designed to provide reasonable assurance that business objectives will be

achieved and that undesirable events will be prevented or detected and corrected.

- IT control objective: Statement of the desired results of purpose to be achieved by implementing control procedures in a particular IT activity.
- IT governance: A structure of relationships and processes to direct and control the enterprise in order to achieve the enterprise's goals by adding value while balancing risk versus returns over IT and its processes.

According to Putra (2015), CobiT has four main components (domains) and for these domains there are a further 34 high level control processes. The four main components are: planning and organization; acquisition and implementation; delivery and support; and monitoring.

#### ***2.2.5.4. Basle Committee on Banking Supervision [BCOBS]***

This committee reflects the work on internal controls for banking organizations developed by the Basle committee on Banking Supervision which is a committee of banking supervisory authorities established by the central bank governors of the group of ten countries in 1975. It consists of senior representatives of bank supervisory authorities and central banks from: Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States. It usually meets at the Bank for International Settlements in Basle, where its permanent secretariat is located. The committee has spent some time developing principles of internal control that relate to the banking environment and they developed a Framework for Internal Control Systems in Banking Organizations in September 1998 (Putra, 2015).

The work on internal control provided a good platform for their guidance on operational risk management in February 2003, based on ten key principles (Putra, 2015). According to Basle Committee on Banking Supervision (BCBS, 1998), the ten (10) principles are:

- Principle 1: The board of directors should be aware of the major aspects of the bank's operational risks as a distinct risk category that should be managed, and it should approve and periodically review the bank's operational risk management framework. The framework should provide a firm-wide definition of operational risk and lay down the principles of how operational risk is to be identified, assessed, monitored, and controlled/mitigated.
- Principle 2: The board of directors should ensure that the bank's operational risk management framework is subject to effective and comprehensive internal audit by operationally independent, appropriately trained and competent staff. The internal audit function should not be directly responsible for operational risk management.
- Principle 3: Senior management should have responsibility for implementing the operational risk management framework approved by the board of directors. The framework should be consistently implemented throughout the whole banking organization, and all levels of staff should understand their responsibilities with respect to operational risk management. Senior management should also have responsibility for developing policies, processes and procedures for managing operational risk in all of the bank's material products, activities, processes and systems.
- Principle 4: Banks should identify and assess the operational risk inherent in all material products, activities, processes and systems. Banks should also ensure

that before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is subject to adequate assessment procedures.

- Principle 5: Banks should implement a process to regularly monitor operational risk profiles and material exposures to losses. There should be regular reporting of pertinent information to senior management and the board of directors that supports the proactive management of operational risk.
- Principle 6: Banks should have policies, processes and procedures to control and/or mitigate material operational risks. Banks should periodically review their risk limitation and control strategies and should adjust their operational risk profile accordingly using appropriate strategies, in light of their overall risk appetite and profile.
- Principle 7: Banks should have in place contingency and business continuity plans to ensure their ability to operate on an ongoing basis and limit losses in the event of severe business disruption.
- Principle 8: Banking supervisors should require that all banks, regardless of size, have an effective framework in place to identify, assess, monitor and control/mitigate material operational risks as part of an overall approach to risk management.
- Principle 9: Supervisors should conduct, directly or indirectly, regular independent evaluation of a bank's policies, procedures and practices related to operational risks. Supervisors should ensure that there are appropriate mechanisms in place which allow them to remain apprised of developments at banks.

- Principle 10: Banks should make sufficient public disclosure to allow market participants to assess their approach to operational risk management.

The internal control framework that has been widely used and corroborated on by various authorities such as KPMG, Kansas State University, and University of California is the COSO framework (Oseifuah and Gyekye, 2013). However, the COSO framework has some shortcomings such as its failure to recognize information technology and people as internal control elements. In view of this, the study will develop its own internal control framework by adopting wholly the COSO framework and modifying it with the CoCo and CoBIT frameworks (see conceptual framework) in assessing Bond savings and Loans internal control components.

### **2.3. Empirical Literature Review.**

Empirical literature relates to a review of previous research on the subject area of the current research. The empirical literature reviewed in this study has been presented under: Components of Internal Control System of Companies; Effectiveness of Internal Control Systems of Companies; Empirical Challenges of Internal Control System; and Effects of Internal Control system on Business Operations.

#### **2.3.1. Components of Internal Control System of Companies**

There are various studies carried out to assess the nature of the internal control systems of companies. Some of these studies were carried out in Ghana, Africa, and other parts of the world. These researches came out with different results. In this section, empirical findings relating to components of internal control systems are reviewed.

One of the researches that has been reviewed in this section was conducted by Giriunas

(2009) on the topic —Evaluation of Condition of Internal Control System in the Company. The objectives of this study included to reveal the main factors influencing the internal control system in the company from theoretical aspect and to analyse the condition of internal control system in the companies examined. The study revealed that —The factors of internal control environment, data generation system, information and communication connection, system of indicators, and feedback do actually influence activities of the studied company. Notwithstanding, the study detected that the internal control frameworks of the studied companies analyzed is not satisfactory. Assessment of this study shows that the components of the internal control system of the companies studied are internal control environment, data generation system, information and communication connection, system of indicators, and feedback. This means that Giriunas (2009) used internal control model other than the COSO framework since the components revealed in his studies are quite different from the COSO framework which this current research will adapt.

The second research reviewed under this study was conducted by Oseifuah and Gyekye (2013) on the topic —Internal Control in Small and Microenterprises in the Vhembe District, Limpopo Province, South Africa. The purpose of the study was to investigate the effectiveness of internal controls in SMEs in South Africa. Specifically, the study focuses on SMEs in the Vhembe District of the Limpopo Province. The study found out that internal control practices among small business sector enterprises in the Vhembe District are low, with only 45 percent of the surveyed enterprises having adequate internal control systems in place. The study also found out that the size of business in the sector studied determines the possession of insurance cover (a major component of internal control). A major problem with this study is that the study failed to specifically reveal the different parts of the internal control

framework of the SMEs studied in line with COSO framework or any other framework for comparison purposes. The second limitation of this study is that the study was conducted in South Africa but not in Ghana. In this regard the findings of this study cannot be generalise to cover financial institutions particularly savings and loans companies in Ghana. This is due to the fact that the business environment and culture of South Africa differs from Ghana. In this regard a study into the internal control system of Bond Savings and loans limited will help to appreciate the internal control system of Ghana to that of South Africa.

Another study conducted by Teketel and Berhanu (2009) on the topic —Internal Control in Swedish Small and Medium Size Enterprises, revealed that the components of the internal control system of the seven SMEs investigated are sound control environment, sound risk assessment process, sound operational control activities, effective information and communication system, effective monitoring and evaluation system. The researchers added that the components of the internal control system revealed in the study were in line with the COSO theoretical framework. Even though the study discovered the different parts of the internal control frameworks of the selected SMEs to be in line with the COSO framework, it cannot be gainsay that similar discovery will be made in the current study.

The above researches relate to countries other than Ghana. Thus empirical analysis of findings in Ghana becomes imperative. A recent study conducted by Ayagre and Appiah-Gyamrah (2014) on the topic —The effectiveness of Internal Control Systems of banks: The case of Ghanaian banks discovered that solid controls exist in the control environment and monitoring activities parts of the internal control systems of banks in Ghana. The two components were highly rated by respondents with average means of 4.72 and 4.66 respectively on a five points likert scale. Even though the Authors used

the COSO framework, they focused only on the control environment and the monitoring aspects of the framework. Thus the Authors did not test the control activities, information and communication, and risk assessment. In addition other important internal control components like information technology and people were not assessed.

### **2.3.2. Effectiveness of Internal Control Systems of Companies**

Internal control system becomes important when it is effective. After all, what is the essence of having a well-designed internal control system when it is not able to achieve its stated objectives? In this regard a lot of studies have been carried out to assess the viability of internal control frameworks of various institutions.

Ali (2013) examined the —Contribution of Internal Control System to the Financial Performance of Financial Institution a Case of People's Bank Of Zanzibar Ltdll. A sample of 60 employees of the People's Bank of Zanzibar (PZB) were used. The study findings indicated that the internal controls used in PBZ were effective and satisfactory. Afum (2011) in his study —Evaluation of Internal Controls in Papso Ghana Limitedll discovered that Papso Ghana Limited has effective internal control system and the internal auditor contribute immensely to it, but he is not independent. Analysis from Ali (2013) shows that the majority of respondents (32%), can confirm that adherence to internal control mechanisms in the firm can be described as poor. Another 9% also describes adherence as very poor, while 19% of respondents can describe adherence to be barely acceptable. In the opposite sense, 22% of employees asserted that adherence to the internal controls in the organisation is good while another 18% of employees also described the systems' adherence rate to be very good.

Etuk (2011) assessed five banks internal control systems in Nigeria. The study established that the banks internal control systems have provided reasonable assurance

concerning the Banks operational efficiency and effectiveness. He added that the controls have ensured the preparation of reliable financial reports and guarantees and ensures compliance with appropriate laws and regulations. In spite of the general effectiveness of the observed controls, lapses were also discovered. This was evidenced by high loan default rate and margin loans collateral slackness. The study also discovered an increase in the level of frauds reported by the regulatory authority. These instances indicate control failure (Etuk, 2011).

Ntim-Sarpong (2012) evaluated the —Internal Control System: Challenges and Effects on Management, Staff and Customers of Agricultural Development Bank, Brong-Ahafo Region. The study investigated the possible challenges of implementing an effective and efficient internal control system and its effects on customers' perception of the service rendered by the Agricultural Development Bank in the Brong-Ahafo Region of Ghana. The population of the study consisted of all the employees and customers of the bank in the Brong-Ahafo Region of Ghana. The sample size was 120 employees and 500 customers of the bank selected from the 10 branches of ADB in the Brong-Ahafo Region using quota and convenient sampling techniques. Questionnaires were used to collect data for the study. The study indicated that two out of the six components of the internal control system of the bank per the staff were reported to be strong and the other four were reported to be weak. All the staff respondents indicated that the control environment segment and risk management segment of the internal control framework of the bank were strong. Regarding the other four components, majority of the staff respondents (55%, 59.2%, 90% and 78.3%) indicated that control activities, information communication, monitoring and information technology components respectively were weak. In general terms the internal control system of the bank in the opinion of the management and staff is weak. On the other hand the

customers of the bank gave a somewhat contrasting view to that of the staff. The study asserted that, majority of the customers perceived all the components of internal control frameworks except the information technology component to be strong. However, majority of the respondents (54.4%) perceived the information technology component to be weak. Thus both the customers and employees generally indicated that, the information technology aspect of the internal control system of the bank is weak.

Mensah (2011) study on the topic —Assessing the Effectiveness of Internal Control Systems in Public Institutions – A Case Study of Takoradi Polytechnic indicated the existence of strict supervision, authorization and segregation of duties at Takoradi Polytechnic. The findings revealed that management does not communicate to the staff of new control policies introduced. Again the findings indicated that the control systems at the polytechnic are quite effective and are directed towards the detection and prevention of fraud and error.

A careful analysis of the researches presented in this section show that there is no general agreement on the effectiveness of the internal control systems of the various institutions studied. This may not be quite surprising because, there is no system that is totally effective and that internal controls just ensure reasonable assurance not absolute assurance. Furthermore, COSO (1994) demonstrated that, an internal control system can be judged to be viable on the high level if the board of directors and management have reasonable assurance that: 1. they understand the extent to which the entity's operations objectives are being accomplished, 2. published financial statements are being prepared reliably, and 3. applicable laws and regulations are being complied with. However, the empirical studies revealed with the exception of

Etuk (2011) to some extent did not explicitly used these indicators according to COSO (1994) to evaluate the effectiveness of control systems studied. In addition, none of the

works reviewed was able to establish the effectiveness of the control systems studied by assessing their abilities to direct, prevent, correct and detect errors and possibly frauds in the business. In view of these limitations in the empirical researches reviewed, there is the need for additional research to be conducted in order to establish the effectiveness of control system using the COSO framework and whether they are able to direct, prevent, detect, and correct errors.

### **2.3.3. Empirical Challenges of Internal Control System**

Various studies have revealed challenges that confronts the internal control system of companies. Saha and Arifuzzaman (2011) examined —Management Disclosures on Internal Control in Annual Reports- a Study on Banking Sector: Bangladesh Perspectivel. The study revealed that there are some inherent limitations of internal controls and these limitations are also carefully acknowledged in the respective annual reports. Twenty nine percent (29%) of them pointed out that the systems‘ designs provided only —reasonable assurance of meeting stated objectives. Twenty nine percent said the internal controls‘ cost should not exceed anticipated benefits (Saha and Arifuzzaman, 2011).

Ntim-Sarpong (2012) in his study identified the major challenges that hinder the effective implementation of the internal control system of Agricultural Development Bank in the Brong-Ahafo Region are the desire of management to accomplish certain reporting results, confusion over who is in charge of internal control, indefinite segregation of duties ,personal interest over corporate and public interest, the problem of choosing the right as against the acceptable, the problem of substance of issues as against their legal form, the problem of concern for both the fact and appearance, inappropriate and unreasonable executive compensation, the issue of selecting loose control activities and rejecting tight control procedures, the issue of compliance with

rules and regulations as against principles and values and the changing business environment are challenges inherent in the implementation of the bank.

Even though the Ntim-Sarpong (2012) and Saha and Arifuzzaman (2011) have revealed some of the challenges that constraint internal control systems of their respective case study, these findings cannot be generalise. This is due to the fact that businesses and organisations differ in terms of their culture, philosophy and the general business environment. Thus, even though Ntim-Sarpong (2012) discovered the internal control system challenges of the Agricultural Development Bank in Ghana, it does not mean that the same challenges will confront Bond Savings and Loans Limited in Ghana. In this regard, studying the challenges that confront the internal control system of Bond Savings and Loans Limited will help to assess whether the findings in Ntim-Sarpong (2012) and Saha and Arifuzzaman (2011) are also applicable to the Bond Savings and Loans.

#### **2.3.4. Effects of Internal Control system on Business Operations**

Tunji (2013), in his study —Effective Internal Controls System as Antidote for Distress in the Banking Industry in Nigeria examined the role of effective internal controls system in the reduction or total elimination of distress in the banking sector in Nigeria. A survey research design was adopted in which fifty six workers of selected deposit money banks were used and data were collected using questionnaire. Four research hypotheses were raised and tested; the hypotheses were tested using t-test statistic at a significant level of 5%. The testing of the hypotheses revealed that: existence of effective internal controls system has positive effect on fraud elimination in banks; effectiveness of internal controls system can be accurately ascertained; effective internal controls system has great impact on accuracy and reliability of records of banks and distresses in banks were traced to non-adherence to established internal controls

system (Tunji, 2013). Tunji (2013) study has shown the importance of effective internal control system by correlating effective internal control system to business operational issues such as fraud detection and accuracy and reliability of records. However, Tunji (2013) study differs from this research in two major ways. Firstly, the research design of Tunji (2013) study is causal while this research adopted the descriptive research design. Secondly, the study location of Tunji (2013) was deposit banks in Nigeria but this research focus on Bond Savings and Loans Limited in Kumasi, Ghana.

A similar study conducted by Abiola (2013) in Nigeria on the topic —Internal Control System on Fraud Detection: Nigeria Experience revealed that there is a strong relationship between internal control system and fraud detection. In addition Abiola (2013) found out that proper, well designed employee training techniques improves fraud detection and that adequate employee training on internal control system also has effect on fraud detection.

An earlier study conducted by Schneider and Church (2008) examined the effect of internal control reports on lending officers' assessments of a company's creditworthiness in the United States of America. The researchers gathered data from 111 loan officers and find that their judgments are affected by the auditor's report on the effectiveness of internal controls. The lenders' assessment of the risk of extending a line of credit and the probability of extending the line of credit are negatively affected when the company receives an adverse internal control opinion as compared to an unqualified one. Additional analyses suggest that an adverse internal control opinion weakens the importance assigned to the balance sheet and income statement in lending decisions and reduces lenders' confidence that financial statements are presented fairly in conformance with generally accepted accounting principles (Schneider and Church, 2008). Ali (2013) also discovered that, there is a significant positive relationship

between internal controls and organizational financial performance of the People's Bank of Zanzibar. Ali (2013) further discovered that, internal control activities relate positively with responsibility, reliability of financial reporting and performance, effectiveness, productivity and general organizational objectives inward People's Bank of Zanzibar.

#### **2.4. Conceptual Framework**

The conceptual framework of this study was developed in relation to the research objectives of this study. In assessing the components of the internal control system of Bond Savings and Loans Limited, the COSO framework was adopted. However, two other elements were added to the COSO framework. These other elements are information technology and the commitment and capabilities of the employees (People). These two elements were added because in today's business world information technology (IT) plays critical role in the efficiency and effectiveness of internal control systems. IT issues such as information security, data management, and data mining are all important internal control issues. In addition, people was added because, there can never be effective internal control system without the commitment of workers. Moreover, workers must be trained to develop competences and provided with the necessary resources to be able to adhere and ensure effective internal control system. In this regard, the components of internal control system that will be tested on Bond Savings and Loans Limited are: Control Environment; Risk Assessment; Control Activities; Information and Communication; Monitoring; information technology; and people.

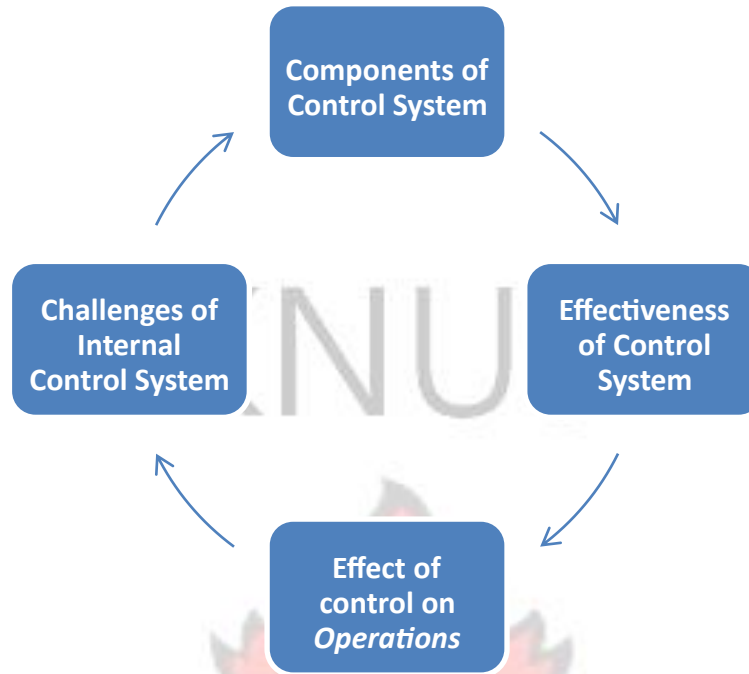
The effectiveness of the internal control system for the purpose of this study will be tested in line with the ability of the control system to direct, prevent, detect, compensate, and correct errors. In addition, the achievement of the entity's operations objectives,

reliability published financial statements, and the compliance of applicable laws and regulations will also be used to test the effectiveness of the control system.

One of the objectives of this study is to assess the challenges of the internal control system of the selected case. In order to meet these objective, theoretical limitations of internal control system such as human judgement, system breakdowns, collusion and management override will be tested. In addition, these challenges: confusion over who is responsible for internal control; indefinite segregation of duties; the issue of selecting loose control activities and rejecting tight control procedures; the issue of compliance with rules and regulations as against principles and values; and the changing business environment as revealed by Ntim-Sarpong (2012) will be tested.

Finally, to ascertain the effects of internal control system on the business operations of Bond Savings and Loans Ltd, constructs such as the effect of internal control system on: fraud elimination; accuracy and reliability of records; lenders' confidence that borrower's financial statements are presented fairly in conformance with generally accepted accounting principles; and organizational financial performance will be tested. The diagrammatic representation of the conceptual framework of this study are presented in Figure 2.1.

**Figure 2.1. Conceptual Framework of the Study**



**(Source: Author's Own Construct, 2015)**

Per figure 2.1, the study proposes that the components of the internal control system of Bond Savings and Loans Ltd are; Control Environment, Risk Assessment, Control Activities, Information and Communication, Monitoring, information technology, and people. In addition, the conceptual framework of this study proposes that the internal control system of the selected case is effective in that it is able to direct, prevent, detect, compensate, and correct errors. Moreover the system helps to achieve the selected case's operational objectives, reliability of financial statements, and the compliance of applicable laws and regulations. Also, the conceptual framework asserted that the challenges of the internal control system of the selected case are human judgement, system breakdowns, management override, confusion over who is responsible for internal control, indefinite segregation of duties, the issue of selecting loose control activities and rejecting tight control procedures, the issue of compliance with rules and regulations as against principles and values; and the changing business environment. Finally, the conceptual framework proposes that the internal control system of Bond

Savings and Loans affects its business operations in terms of fraud elimination, accuracy and reliability of records, lenders' confidence in borrower's financial statements, and organizational financial performance.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY AND ORGANISATIONAL PROFILE**

#### **3.1. Introduction**

This chapter indicates the approaches that were adopted in conducting this study. It highlights research design, population of the study, sample size, sampling technique, data collection instrument, data collection procedure, method of data analysis, as well as a brief profile of Bond Savings and Loans Ltd .

#### **3.2. Research Design**

The research design of this study is descriptive. Descriptive research is to portray an accurate profile of persons, events or situations (Saunders, Lewis and Thornhill, 2007). This study is descriptive because the study sought to describe whether Bond Savings and loans Limited's internal control system has any effect on its business operations. The study is a qualitative research because, it adopted questionnaires and the data collected was analysed using statistical methods. The study also used a case study strategy by focusing on Bond Savings and Loans Limited Kumasi branch. The specific type of case study used was single case holistic. According to Arthur (2012), a case study is an intensive description and analysis of a single individual. According to Saunders, et al (2007) there are four (4) case study strategies based upon two discrete dimensions: single case versus multiple; and holistic case verses embedded case. Saunders, et al (2007) stated that, a holistic research is where the research is concerned with the whole organisation. On the other hand, embedded research is where the

research is concerned with part(s) of the organisation but not the entire organisation. This study is holistic single case holistic because it used only Bond Savings and Loans Company Kumasi branch and studied the entire institution. This means that all employees of Bond Savings and Loans Company Ltd were part of the population of this study. According to Arthur (2012), the advantages of case study research strategy are that: it opens the way for discoveries; they are 'a step to action'; and they generalise either about an instance or from an instance to a class. The disadvantages of case study research strategy include: problem of generalizing from a single unit; it may look deceptively simple; and possible biases in data collection (Arthur, 2012). The study was deductive because, the study adopted a conceptual framework to which data were gathered to confirm or deny. The study also adopted cross-sectional time horizon. Thus data was collected within one year.

### **3.3. Population of the Study**

The population of this study are staff of Bond Savings and Loans Company in Kumasi. The population size to the Branch Manager is twelve (12).

### **3.4. Sample Size**

According to Saunders, et al (2007), for a population size of twenty (20) and below, the entire population should be used. Since the population size of this study was 12, the entire population was used. This means that, no sample size was necessary.

### **3.5. Types of Data Primary and Secondary**

The main instrument used for data collection of primary was questionnaire (See Appendix —A) of the common types of data collection instruments (Hair, Bush, and Ortinau, 2003). Hair, Black, Babin, Anderson and Tatham, (2006) agree and stated that, questionnaire is very effective when data is to be collected from large number of

respondents and when the respondents' anonymity is to be assured. Additionally, the questionnaire was used because it was considered to be more convenient as respondents could answer at their convenience. Both open-ended and closed-ended questions were used. Moreover, questions or statements that sought to test the same construct and have similar responses were put in table form. All these were to make it easier and less time consuming for the respondents to answer. The closed ended questions were in the forms of multiple choice questions, and Likert scale questions.

### **3.6. Data Collection Procedure**

The questionnaire was pilot tested on ten (10) workers of Consumer Finance Company in Kumasi. The pilot testing of the questionnaire enabled the determination of any ambiguities in the questionnaires and the questions improved. The respondents indicated that the questions were understandable. After questions were updated, the questionnaires were distributed among the staff of Bond Savings and Loans. The field data collection took four (4) working days starting from 1st June 2015 to 6th June 2015 (excluding 4th and 5th June 2015 which were weekends). On 1st June 2015, the researcher distributed the questionnaires to Staff of Bond Savings and Loan Ltd at their Adum and Dunkirk branches respectively. Eight (8) questionnaires were distributed to staff at Adum and the remaining four (4) questionnaires distributed to staff at Dunkirk. On 2nd June 2015, the researcher visited the Adum office to retrieve ten (10) completed questionnaires from Adum and Dunkirk leaving two (2) uncompleted questionnaires in Adum. The last two questionnaires were retrieved on 6<sup>th</sup> June 2015 at around 2:30 pm.

### **3.8. Method of Data Analysis**

The empirical data collected were presented in the form of figures and tables. The personal data of respondents was analysed using percentages and frequency. The collected data on internal control (IC) components, challenges of IC, effectiveness of

IC, and effects of IC on operations was analysed using statistical methods like mean, standard deviation, standard error of the mean, and skewness. The analysed data was discussed by comparing the empirical findings to the literature review (that is content analysis). Likert scale statements were assessed on the basis of: strongly agree, agree, neutral, disagree, and strongly disagree. Strongly agree was coded 5, agree coded 4, neutral coded 3, disagree coded 2, and strongly disagree coded 1. The mean for a five point Likert scale is 3.00 (corresponding to neutral response) with a standard deviation (SD of 1.58), and the standard mean of error of 0.71. The standard error of mean is the standard deviation of the sample mean from the population mean. That is the lower the standard error of the mean, the closer the sample mean is to the population mean. Data was analysed at 5% margin of error or 95% confidence level.

### **3.9. Bond Savings and Loans Ltd Profile.**

Bond is a Non-Bank Financial Institution licensed in 2007 under NBFIL law PNDC Law 328 to provide financial services. The company commenced operations as a finance house in 2008 and was able to acquire a Savings and Loans license in its fifth year of operation. The idea to establish a finance house was mooted by seasoned businessman Mr. Krobo Edusei Jnr. of the Safebond Group having realized the need of business for financing solutions that are crafted to meet their specific challenges. From humble beginnings, BOND has confidently navigated through the turbulent courses of the financial services industry with distinction. BOND is now a household name and takes pride in the wide portfolio of loyal customers who have not just passed through its corridors but customers who have been with the company since inception in fulfilment of the proposition to support and be with them every step of the way. As a Savings and Loans Company licensed and supervised by Bank of Ghana, it is an establishment authorized to collect deposits and give loans like any other bank. Bond specializes in

delivering an array financing solutions that best serves the exact needs of the client. The vision of Bond is — to be the choice in the provision of tailored and innovative financing solutions that inspire and generate growth to financially empower all stakeholders to achieve prosperity“. The mission statement is “to provide relationship-based financial services that focus on value-driven, innovative products and services through branch network efficiencies, strong branding and exceptional coordination that deliver stability and ultimately lead to sustainable long term stakeholder value.!



## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION AND DISCUSSION

#### 4.1. Introduction.

The chapter focuses on the presentation, analysis and discussion of empirical data collected through the administration of questionnaires. The presentation and analysis were presented and analysed in line with the divisions of the questionnaire, which was also designed with the exception of personal data, in tandem with the research objectives. Therefore the chapter is presented under the headings; personal data, internal control components, internal control effectiveness, internal control challenges, and effects of internal control on business operations.

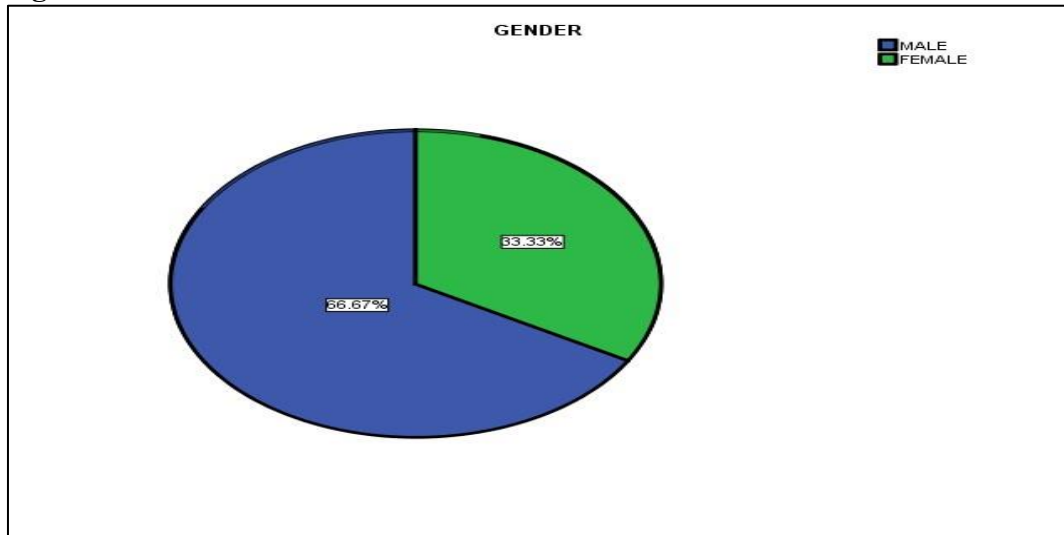
#### 4.2. Respondents Personal Data

This section presents the personal profile of respondents which are respondents; gender, age, educational background, and working experience with Bond Savings and Loans Ltd. These are presented and analysed below.

##### 4.2.1. Gender

The genders of the respondents are presented in figure 4.1.

**Figure 4.1. Gender**



**(Source: Author's Fieldwork, 2015).**

According to Figure 4.1, 66.67% representing 8 respondents are Males whilst 33.33% representing 4 respondents are females. This suggests there are more males in the institution than females. However, since the type of responses solicited through the questionnaire demanded objectivity, the gender orientations of the respondents did not affect the validity and reliability of the responses.

## **.2.2 Age Distribution**

The respondents age's are presented in Figure 4.2.

**Table 4.1.Age Distribution**

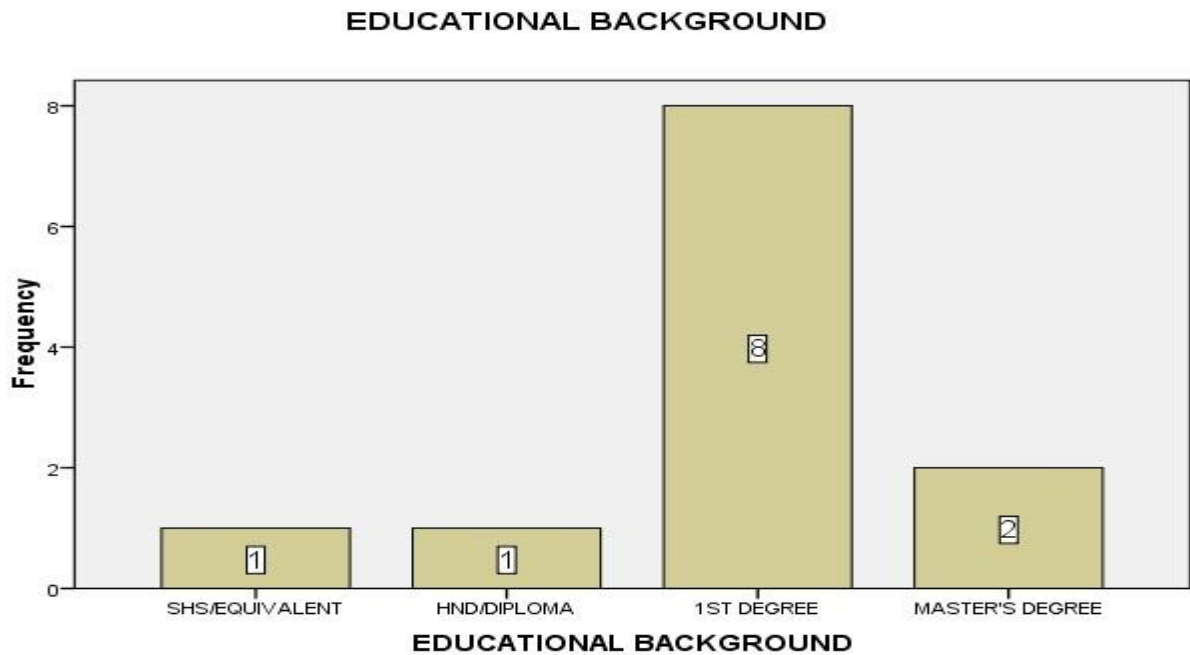
<b>Age Range</b>	<b>Frequency</b>	<b>Percentage</b>
25 years and below	2	16.67%
26-35 years	9	75.00%
36-45 years	1	8.33%
Total	12	100.00%

**(Source: Author's Fieldwork, 2015)**

Per table 4.1, two (2) respondents were 25 years and below while one (1) respondent was 26 – 35 years. On the other hand, nine (9) respondents were 36-45 years old. The data presented in table 4.2 shows that, nine (9) respondents representing 75% are within the modal cohort of 26-35 years. The implication of the data presented in figure 4.2 is that, majority of the respondents are mature enough to work in the institution. This means that, the responses given by the respondents can be relied upon as valid.

## **.2.3. Educational Background**

The educational background of the respondents is presented in Figure 4.3.

**Figure 4.2. Educational Background**

(Source: Author's Fieldwork, 2015).

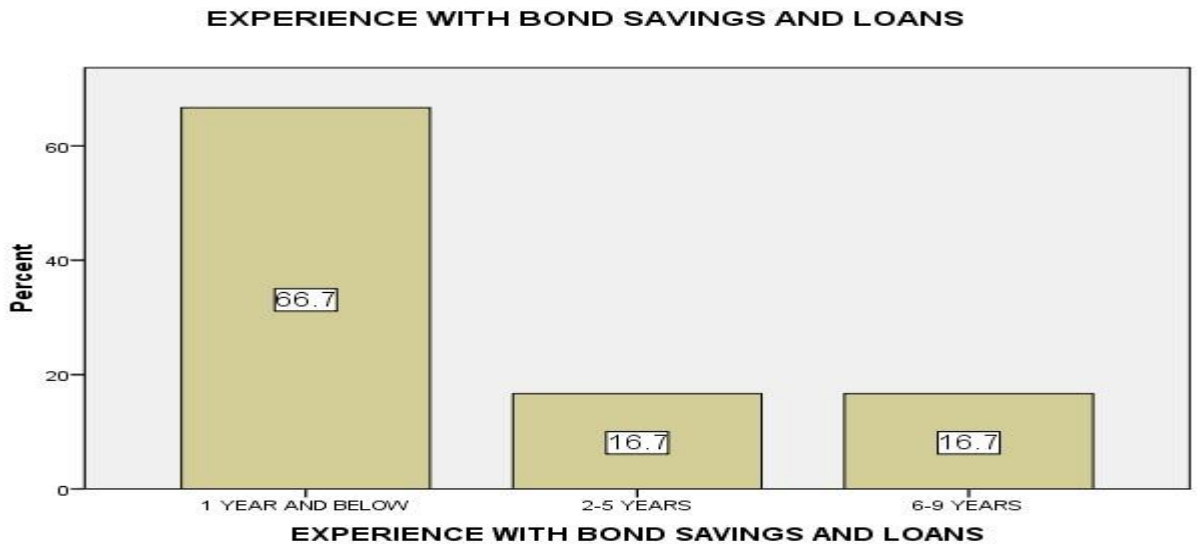
From figure 4.2, one (1) respondent each possessed SHS/Equivalent and HND/Diploma educational qualifications. On the other hand, eight (8) and two (2) respondents possess Bachelor's degree and Master's degree respectively. Cumulatively, ten (10) respondents representing 83.33% possess Bachelor's degree and above. Adding the HND/Diploma holders to the higher degree holders gives 11 respondents representing 91.67% who possess tertiary level educational qualifications. The implication of the information presented in figure 4.3 is that, majority of the respondents are well educated enough to understand the operations of Bond's internal control system on its business operations.

#### **.2.4. Experience with Bond Savings and Loans Ltd.**

#### 4

The number of years that the respondents have worked with Bond Savings and Loans Ltd are presented in Figure 4.3.

**Figure 4.3. Experience with Bond Savings and Loans Ltd**



(Source: Author's Fieldwork, 2015).

From Figure 4.3, 66.7% of the respondents have worked with the company for one year and below. On the other hand, 16.70% each have worked with Bond for 2-5 years and 6-9 years. This means that approximately, 33.3% have worked with Bond for two years or more. The data may suggest that, two-thirds of the respondents have worked with Bond for less than a year and as such may not possess enough experiences to appreciate the internal control issues of the company. However as majority of the respondent's possess tertiary level education they are able to understand the company's internal control issues.

#### **4.3. Bond Savings and Loans Ltd.'s Internal Control System Components.**

The common and effective internal control components identified in the study constituted free flow of information and communication, sound monitoring and evaluation, control procedures and activities, control environment and risks management. The strongest control variables identified by the respondents were; free flow of information and communication, and sound evaluation and monitoring system. These positions were determined based on the analytical framework in

Appendix I. Given a five point Likert scale coded —1 for strongly disagree up to —5 for strongly agree, the position of the respondents on free flow of information and communication, and sound monitoring and evaluation systems were 4.33 each. These indicate high acceptance by the respondents that free flow of information and communication and sound monitoring and evaluation systems are strong components of the company. This indicates high level of transparency between the board of directors, management and staff of Bond Savings and Loans. The standard deviation measures the distance between the sample mean of the responses given by the respondents. The standard deviation for free flow of information and communication was 0.65 whilst the standard deviation for sound monitoring and evaluation system was 0.99. The standard deviation of the variable free flow of information and communication had standard deviation of 0.83. However the mean of all responses on the variable was 0.65.

These standard deviation figures indicate that even though the mean responses of the two variables were strongly accepted by the respondents as strong components of the company's internal control system, the position of each respondent for free flow of information and communication rotated towards its mean than the respondent's position

for sound monitoring and evaluation. The next strong variable identified were on procedures for carrying out management directives by staff ranked (4.25); how staff feel part of the company's arrangements ranked (4.18); how staff are regularly trained and equipped with resources to carry out their duties professionally ranked (4.08); Communication on management philosophy and operating style ranked (4.00). These positions are indicated as strong because per the analytical framework as presented in Appendix I, the positions of the respondents on the five-point Likert scale were 4.00 and above.

In addition the position of the respondents per Appendix I on adequate IT support and infrastructure and regular risk assessments were moderate. This is because the positions of the respondents were 3.75 and 3.67 respectively. (See Annexes) Since these positions were below 4.00 but above 3.00, they indicate the respondents' low acceptance of these internal control components as effective in the company

#### **4.3.1. Responsibility for formulating control policies at Bond.**

The results for who is responsible for formulating the outlined company control policies are presented in Table 4.2

**Table 4.2. Responsibility of formulating control policies.**

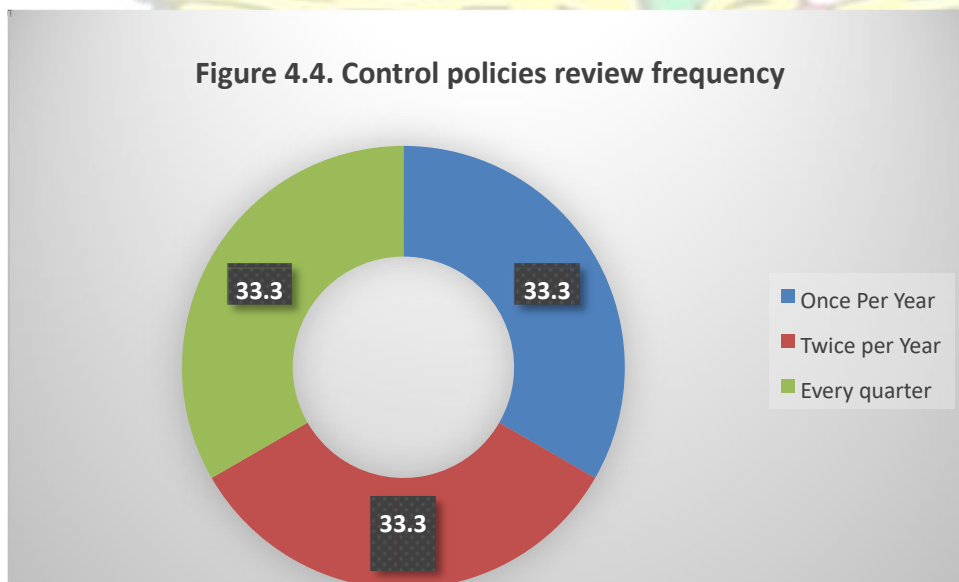
<b>Formulation Responsibility</b>	<b>Frequency</b>	<b>Percentage</b>
Management	2	16.70%
Board and Management	8	66.70%
Board, Management and Staff	2	16.70%
Total	12	100.10%

**(Source: Author's fieldwork, 2015)**

From Table 4.2, 66.7% of the respondents revealed that the Board of Directors and Management of the company are responsible for formulating internal control policies. On the other hand only four respondents indicated that the company's Management and Board as well as Management and Staff are responsible for formulating internal control system. The findings indicate that majority of the respondents are of the opinion that it is the responsibility of the Board of Directors and Management of the company to ensure the internal control policies are formulated. This does not mean staff are not involved in the internal control policies formulation process, but that it is not their responsibility to ensure that they are formulated.

#### 4.3.2. Frequency of control policies review.

The results of the respondents' responses relating to the frequency of control policies review are presented in Figure 4.3.



(Source: Author's fieldwork, 2015).

According to Figure 4.4, 33.33% of the respondents each stated that, Bond Savings and Loans Ltd review its control policies once a year, twice a year, and every quarter respectively. The data presented in Figure 4.3 clearly shows that there is lack of

consensus as to the frequency of control policies review. This may indicate the company does not frequently review its internal control policies. This is because if it was frequently done, staff would have known and not have divergent views on frequency of review.

**4.4. Effectiveness of Bond Savings and Loans Ltd.'s Internal Control System.** The descriptive statistics presented in Appendix II indicate that the position of the respondents on seven (7) out of the eight (8) variables testing the effectiveness of Bond's internal control system was strong. This is by virtue of the fact that the company's internal control systems was effective in ensuring that its activities comply with laws and regulations in the non-bank financial industry. This is evident in the highest mean score of 4.67 recorded. The study also revealed as per the analytical framework presented in Appendix II that the respondents positions with respect to the mean scores were strong on the following indicators; regular control system audits are conducted to ensure that directives are complied with (4.50); errors and risks can easily be detected by the control systems in place ranked averagely as (4.33); the control system helps to achieve the company's operational objectives ranked as (4.33); the control systems in place reduce errors and risks ranked (4.25); the control system enables the preparation of reliable financial statements ranked (4.00); and the company has back-ups for all its activities (4.00). Only the variable —the control systems corrects all detected errors recorded a mean figure of 3.67. This means that the respondents were of the position that Bond's internal control system moderately detects all errors. The entire mean score of 4.22 recorded indicates that the respondents were of the opinion that in general Bond's internal control system is effective

The findings as per Appendix II show similar results in other studies by Afum (2011), Etuk (2011), Ntim-Sarpong (2012), and Ali (2013) which indicated that the internal control systems of organisations they studied were very strong and effective. Also, the study revealed that the effectiveness of Bond's internal control systems and policies are in tandem with COSO (1994) assertion that, an internal control system can be judged to be effective on the high level if the board of directors and management have reasonable assurance that: 1. they understand the extent to which the entity's operational objectives are being achieved, 2. published financial statements are being prepared reliably, and 3. applicable laws and regulations are being complied with. However, this study discovered that the control framework of the company is able to detect the compliance of general laws and regulations than its ability to detect compliance of detailed rules and regulations.

#### **4.5. Challenges of Internal Control System of Bonds Savings and Loans Ltd.**

The respondents saw limited challenges in the internal control system of Bond Savings and Loans Ltd. The reasons being that all the functions are segregated; the control activities are not loose; staff do not make decisions under pressure; top managers do not ignore prescribed policies and procedures; systems do not break down frequently; staff do not collude to circumvent procedures; operational activities are flexible; and there is no confusion over who is responsible for internal control system.

These positions were determined per the analytical framework presented in Appendix III. The mean score which measures the central tendency of the respondents recorded figures below 3.00 giving a five point Likert scale. This implies that the respondents do not agree that major challenges are related to the implementation of internal control policies. This work is dissimilar to the works by Ntim-Sarpong (2012) in Agricultural

Development Bank in the Brong-Ahafo Region that discovered confusion over who is responsible for internal control, indefinite segregation of duties, and loose control activities. The study also showed different findings by Lannoye (1999) that poor Judgment, Management override, system breakdowns, and collusion are some of the theoretical challenges that may confront internal control systems.

However, when the respondents completed the open ended questions some stated some other challenges that confront the internal control system of the company, some of the respondents gave these responses: inability of the control system to detect people who do not comply with control policies; inadequate physical control measures and procedures over the company's assets to protect these assets against theft and unauthorised access; slow level of correspondence between Head office and branches especially over new product launch; lack of proper explanation and unnecessary blame sharing over control system failures; limited and well-equipped supervisors; improper market segmentation, over concentration on corporate market; and poor banking operations software.

#### **4.6. Effect of Bond Savings and Loans Internal Control System on its Business Operations.**

The respondents' position on the effects of the internal control system on the company's operations was that it had led to strong: positive performance; including determination of confidence on borrower's financial records; and fraud elimination See Appendix IV. The mean scores for: the control system has led to positive financial and non-financial performance was ranked 4.33; also the control system helps to determine the level of confidence that the company's Credit officers should place on the financial records of customers was ranked (4.08); also the variable the control system has helped to eliminate fraud in the company was ranked (4.00).

The overall position of the respondents per the analytical framework presented in Appendix IV is that there is a positive effect on the internal control systems and policies of Bond's Savings and Loans Ltd on its business operations. This position was determined due to the 4.00 mean score recorded for the entire constructs studied.

The study is therefore similar to the empirical studies by Tunji (2013), Abiola (2013), Schneider and Church (2008), and Ali (2013) which concluded that effective internal control systems affect business operational issues such as: fraud detection and accuracy, reliability of records; lenders' confidence; organizational financial performance; accountability, reliability of financial reporting and performance, effectiveness, efficiency and overall organizational objectives.

In this study, respondents gave other effects of internal control systems on the operations of the company as:

1. The control system helps to identify measures that can improve stakeholder's access to vital information as well as making it easier for the company to comply with existing legislation.
2. The implementation of international control system has enabled the company to generate adequate and reliable information on both the staff and the customers at large.
3. The control system has given staff easy access to operational information since every staff knows where and who to consult when in need of information relating to an officer's duties.
4. The supervisory aspect (internal controls) of Bond has helped to ensure that staff perform their task properly and as required.

5. The company's internal control system has enhanced the effectiveness and efficiency of its daily operations.
6. The internal control system of Bond has ensured law and order as well as staff and customers discipline in its operations.

The analysis has revealed that a company without well designed internal control systems would perform poorly and would not be able to achieve its goals. This is not to argue that internal control systems are perfect. Although some companies have internal control systems at policy level; they have failed in implementing the policies effectively hence the emergence of operational challenges.



## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS.**

#### **5.1. Introduction.**

Chapter five has been divided into three main sub-sections. These are the summary of the findings, conclusions and recommendations.

#### **5.2. Summary of key Findings.**

The summary of the study is in accordance with the research objectives of this study. Key findings have been divided into four main thematic areas. These are the company's internal control components, effectiveness of Bond's internal control systems, Bond's internal control challenges, and effects of internal control on Bond's operations.

##### **5.2.1. Bond Savings and Loans internal control Policy Formulation.**

The components of the internal control system of the company in descending order are: free flow of information and communication; sound monitoring and evaluation procedures; control procedures and activities which are clearly spelt out; high staff commitment; high staff capability; sound control environment; moderate IT support and infrastructure; and moderate risks assessment. The study also revealed that Bond Savings and Loans has adopted a hybrid control framework (COSO, CoCo, and CobiT frameworks). The study also revealed that the Board of Directors and Management of Bond only are responsible for formulating internal control policies. However, it was found out that there was lack of consensus on the frequency of control policy review at the company by the respondents

##### **5.2.2. Effectiveness of Bond Savings and Loans internal control systems and policies.**

The study discovered that the company ensures that its activities comply with laws and regulations in the non-bank financial industry. It also revealed that regular control system audits are conducted to ensure that directives are complied with and that errors and risks can easily be detected by the control systems in place. Moreover, the study highlighted that the control system has helped to achieve the company's operational objectives and that the control systems in place reduces errors and risks. Additionally, it was revealed that, the control system enables the preparation of reliable financial statements and the Company has back-ups for all its activities. Lastly, it was found out that, the control systems moderately correct all detected errors. In general it was revealed that the control systems of the company are strong and effective.

#### **5.2.3. Challenges to Bond Savings and Loans internal control systems and policies.**

The study found out that: inability of the control system to detect people who do not comply with control policies; inadequate physical control measures and procedures over the company's assets to protect these assets against theft and unauthorised access; slow level of correspondence between Head office and branches especially over new product launch; lack of proper explanation and unnecessary blame sharing over control system failures; lack of sufficient and well-equipped internal control supervisors; improper market segmentation and over concentration on corporate market; and poor banking operations software are some of the internal control policies challenges in the company.

#### **5.2.4. Effects of Bond Savings and Loans internal controls on its business operations.**

The control system has led to positive financial and non-financial performance at Bond. The control system helps to determine the level of confidence that the company's Credit

officers should place on the financial records of customers. It has helped to eliminate fraud in the company. The control system can easily detect creditworthy borrowers. The company's control system has provided the accuracy and reliability of records. The control system has helped identify measures that can secure or improve stakeholder's access to vital information as well as making it easier for the company to comply with existing legislation. The internal control system has enabled Bond to generate adequate and reliable information on both the staff and the customers at large. The control system has enabled staff easy access to operational information since every staff know where and who to consult when in need of information relating to a staff's core duties. The supervisory controls (as part of internal controls) of the company has helped it to ensure that staff perform their task properly and as required. The company's internal control systems have enhanced the effectiveness and efficiency of its daily operations. The internal control system has ensured law and order, and staff and customers discipline at its operational premises.

### **5.3. Conclusion.**

The general purpose of this study was to examine the effects of Bond Savings and Loans internal control systems on its business operations. In order to achieve this purpose, literatures relating to the subject area was reviewed and empirical (field) data from Bond Savings and Loans Limited were collected and analysed as a case study. After the analysis and discussion of the empirical data, it was found out that Bond Savings and Loans has adopted multiple control frameworks (COSO, CoCo, and CobiT frameworks) and that the Board of Directors and Management of Bond only are responsible for formulating internal control policies. It was revealed that the control systems of Bond are highly strong and effective. The study found out that: Inability of the control system to detect people who do not comply with control policies; inadequate physical control measures and procedures over the company's assets to protect

these assets against theft and unauthorised access; and slow level of correspondence between Head office and branches especially over new product launch were some of the challenges of Bond's control systems and policies. Notwithstanding the negative effects of the system, the control system has led to positive financial and non-financial performance at Bond.

#### **5.4. Recommendations.**

Based on the findings of this study, the following recommendations are made:

Staff of Bond Savings and Loans should be involved in the formulation of control policies. Employees must be made a natural element of how entities work and so must be involved in some aspect of policy formulation. This will ensure commitment and they will have a clear view of what is expected of them for the achievement of set targets.

The company should conduct regular control system reviews. This can be done at least semi-annually. Conducting regular control system review will enable the company to determine if the control systems are working effectively and efficiently. The company can learn from the outcome and improve on the policies.

The company should put in place adequate physical control measures and procedures over the company's assets to protect these assets against theft and unauthorised access.

The company's head office should improve the level of correspondence with its branches by releasing information to the branches quickly.

The company should investigate all control failures to determine the cause(s) of the failure for proper explanation to staff.

The company should put in place measures to recruit or train more internal control staff and equip them properly to carry out their functions efficiently. Employees must be competent to discharge control policies, access risks and ensure controls make it easier to deal with these risks.

The company should properly segment its market and target other segments in addition to the corporate market.

Bond should put in place measures to acquire modern non- bank operation software to aid effective operations.

#### **5.4.1. Suggestion for future research**

This study used a case study of Bond's Savings and Loans Ltd in Kumasi. In future, other methodologies could be used to include the other agencies of Bond Savings and Loans Company Ltd. This means that the findings could not be generalised to cover the entire savings and loans companies in Kumasi in particular and Ghana in general. Therefore the expansion of the scope of this study will help research audience to appreciate the impact of control systems and policies on the operations of savings and loans companies in Kumasi in general.

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## APPENDICES

### APPENDIX I

**Table 4.1. Descriptive Statistics of Internal control components**

Control components	N	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
There is free flow of information and communication between: management and staff; and other external stakeholders.	12	3.00	5.00	4.3333	.18803	.65134
The company has sound monitoring and evaluating system to monitor and evaluate activities and staff	12	2.00	5.00	4.3333	.28427	.98473
The company's policies and procedures for carrying out management directives and activities are clearly spelt out to staff	12	1.00	5.00	4.2500	.35086	1.21543
The company has ensured that staff feel part of the company's arrangements	11	2.00	5.00	4.1818	.29598	.98165
The staff are regularly trained and equipped with resources to carry out their duties professionally	12	2.00	5.00	4.0833	.22891	.79296
The company's management philosophy and operating style are clearly spelt out to staff	12	1.00	5.00	4.0000	.36927	1.27920
The company has provided adequate IT support and infrastructure to ensure free flow of activities	12	2.00	5.00	3.7500	.27866	.96531
The company conduct regular risks assessment	12	1.00	5.00	3.6667	.35533	1.23091

Valid N (listwise)/ Average	11	1.00	5.00	4.07	0.29	1.01
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(Source: Author's fieldwork, 2015)

## APPENDIX II

**Table 4.2. Descriptive Statistics of internal control effectiveness**

Internal Control effectiveness	N	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
The company ensures that its activities comply with laws and regulations in the non-bank financial industry.	12	4.00	5.00	4.6667	.14213	.49237
Regular control system audits are conducted to ensure that directives are complied with.	12	4.00	5.00	4.5000	.15076	.52223
Errors and risks can easily be detected by the control systems in place.	12	3.00	5.00	4.3333	.18803	.65134
The control system helps to achieve the company's operational objectives	12	2.00	5.00	4.3333	.28427	.98473
The control systems in place reduce errors and risks	12	2.00	5.00	4.2500	.25000	.86603

The control system enables the preparation of reliable financial statements	12	2.00	5.00	4.0000	.27524	.95346
The company has back-ups for all its activities	12	3.00	5.00	4.0000	.24618	.85280
The control systems correct all detected errors.	12	1.00	5.00	3.6667	.33333	1.15470
Valid N (listwise)/ Average	12	1.00	5.00	4.22	0.23	0.81

(Source: Author's fieldwork, 2015).

### APPENDIX III

**Table 4.3. Descriptive Statistics of internal control Challenges**

Challenges	N	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
Some functions or duties are not definitely segregated	11	1.00	5.00	2.5455	.36590	1.21356
Some of the control activities are loose	12	1.00	5.00	2.5000	.37939	1.31426
Staff decisions are most often made under pressure	12	1.00	4.00	2.4167	.28758	.99620

Top managers sometimes ignores prescribed policies and procedures	12	1.00	5.00	2.4167	.37856	1.31137
There are frequent system breakdowns	12	1.00	5.00	2.3333	.33333	1.15470
Some staff collude to circumvent prescribed policies and procedures	12	1.00	4.00	2.0833	.33616	1.16450
The rules and regulations governing operational activities are not flexible enough	12	1.00	3.00	2.0833	.22891	.79296
There is a confusion over who is responsible for internal control system	12	1.00	3.00	1.5833	.19300	.66856
Valid N (listwise)	11					

(Source: Author's fieldwork, 2015).

## APPENDIX IV

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**Table 4.4. Descriptive Statistics of effect of internal control on business operations**

Effect Constructs	N	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
The control system has led to positive financial and non-financial performance	12	2.00	5.00	4.3333	.25624	.88763
The control system helps to determine the level of confidence that the company's Credit officers should place on the financial records of customers.	12	2.00	5.00	4.0833	.22891	.79296
The control system has help to eliminate fraud in the company	12	2.00	5.00	4.0000	.24618	.85280
The control system can easily detect creditworthy borrowers	12	2.00	5.00	3.8333	.29729	1.02986
The company's control system has provided the accuracy and reliability of records	12	1.00	5.00	3.7500	.32856	1.13818
Valid N (listwise)/Average	12	1.00	5.00	4.00	0.274.00	0.940.274.00

0.940.27

(Source: Author's fieldwork, 2015).

## APPENDIX V

### QUESTIONNAIRE TO PERMANENT STAFF

Dear respondent,

I am conducting a research on the Topic THE EFFECTS OF INTERNAL CONTROL IN THE OPERATIONS OF FINANCIAL INSTITUTIONS: A CASE STUDY OF BOND SAVINGS AND LOANS as part of requirement for the award of MBA at KNUST. I will be grateful if you could participate in my survey. All data are strictly for academic purpose and will be treated with the utmost care and confidential.

#### SECTION A. Personal Data 1.

##### Gender

Male ☐

Female ☐

##### 2. Age

25 Years and below ☐

26-35 years ☐

36-45 Years ☐

56-55 Ears ☐

56 years and above ☐

##### 3. Educational Background SHS/Equivalent ☐

HND/Diploma ☐

1<sup>st</sup> Degree ☐

Master's Degree ☐

Other(s) ☐. If other(s) specify .....

##### 4. How long have you been working Bond Savings and Loans?

1 year and below ☐

2 – 5 years ☐

6 – 9 years ☐

Above 10 years ☐

#### SECTION B. Components of the Internal Control system of Bond Savings and Loans

*Please indicate the extent to which you agree or disagree with the following. You are to assess that on a likert scale of strongly disagree (1) to strongly agree (5). Please tick (✓) appropriately.*

Internal Control System Components Construct	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1.The company's management philosophy and operating style are clearly spelt out to staff					
2. The company's policies and procedures for carrying out management directives and activities are clearly spelt out to staff					
3. The company conduct regular risks assessment					
4. There is free flow of information and communication between: management and staff; and other external stakeholders.					
5. The company has sound monitoring and evaluating system to monitor and evaluate activities and staff					
6. The company has ensured that staff feel part of the company's arrangements					
7. The staff are regularly trained and equipped with resources to carry out their duties professionally					
8. The company has provided adequate IT support and infrastructure to ensure free flow of activities					

9. Who is responsible for formulating control policies at Bond?

- a. Board of Directors only [ ☐ ]
- b. Management only [ ☐ ]
- c. Board and Management only [ ☐ ]
- d. Board, management and staff [ ☐ ]

10. How often are control policies reviewed per year?

- a. Once a year [ ☐ ]
- b. Twice a year [ ☐ ]
- c. Thrice a year [ ☐ ]
- d. Every quarter [ ☐ ]



### SECTION C. Effectiveness of the internal control system.

*Please indicate the extent to which you agree or disagree with the following. You are to assess that on a likert scale of strongly disagree (1) to strongly agree (5). Please tick (✓) appropriately.*

Control System Effectiveness Constructs	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1. The control system helps to achieve the company's operational objectives					
2. The control system enables the preparation of reliable financial statements					
3. The company ensures that its activities comply with laws and regulations in the non-bank financial industry.					
4. Regular control system audits are conducted to ensure that directives are complied with.					
5. The control systems in place reduce errors and risks					
6. Errors and risks can easily be detected by the control systems in place.					
7. The control systems correct all detected errors.					
8. The company has back-ups for all its activities					

#### SECTION D. Challenges of Internal Control System.

Please indicate the extent to which you agree or disagree with the following. You are to assess that on a likert scale of strongly disagree (1) to strongly agree (5). Please tick (✓) appropriately.

Internal Control Challenges Constructs	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1. Staff decisions are most often made under pressure					
2. There are frequent system breakdowns					
3. Top managers sometimes ignores prescribed policies and procedures					
4. Some staff collude to circumvent prescribed policies and procedures					
5. There is a confusion over who is responsible for internal control system					
6. Some functions or duties are not definitely segregated					
7. Some of the control activities are loose					
8. The rules and regulations governing operational activities are not flexible enough					

9. Please, indicate any other challenges that confront your internal control systems

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### SECTION E. Effect of Internal Control system on business operations

Please indicate the extent to which you agree or disagree with the following. You are to assess that on a likert scale of strongly disagree (1) to strongly agree (5). Please tick (✓) appropriately.

Internal Control Effects Constructs	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1. The control system has help to eliminate fraud in the company					
2. The company's control system has provided the accuracy and reliability of records					
3. The control system has led to positive financial and non-financial performance					
4. The control system can easily detect creditworthy borrowers					
5. The control system helps to determine the level of confidence that the company's Credit officers should place on the financial records of customers.					

6. Please, indicate any other effect of the internal control system of Bond savings and Loans on its business operations.

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