KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF HUMANITIES AND SOCIAL SCIENCES

SCHOOL OF BUSINESS

ASSESSING THE EFFECTIVENESS OF INTERNAL CONTROL SYSTEM IN FIRST ALLIED SAVINGS AND LOANS LIMITED

BY

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A THESIS SUBMITTED TO THE DAPARTMENT OF ACCOUNTING AND FINANCE, KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, SCHOOL OF BUSINESS, IN PARITAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (ACCOUNTING OPTION)

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DECLARATION

I hereby declare that this submission is my own work towards the Master of Business Administration (Accounting Option) Degree and that, to the best of my knowledge, it contains no material previously published by another person nor 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 research work is first of all dedicated to my Lord and Savior Jesus Christ for his grace, love and protection for me during this course of study.

Secondly, for her support and encouragement throughout the period of my study, I dedicate this piece to my wife, Mrs. Hannah Adofo Larbi.

Finally, it is also dedicated to my children, Kwabena Adofo and Kofi Frimpong Adofo for their immense sacrifice.

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ABSTRACT

This study was to assess the effectiveness of Internal Control Systems at First Allied Savings and Loans Limited (FASL). In order to achieve the set objectives for this study, the COSO framework for assessing the effectiveness of Internal Control Systems was adopted. The study specifically looked at the types of controls adopted at FASL, the effectiveness of the control environment and control procedures of First Allied Savings and Loans Limited, and whether internal control systems are able to achieve its intended objectives. Closed ended questionnaire were developed for data collection from the staff of First Allied Savings and Loans Limited. Upon collecting the necessary data, it was analyzed using Microsoft Excel Office program.

The study revealed that the types of control systems adopted at the company are directive, preventive, compensating and detective controls but the dominant type of control employed in FASL is the preventive control. Again the empirical evidence from the study indicated that, majority of the respondents agree to the assertion that there is an effective control environment and procedures functioning at First Allied Savings and Loans Limited. Finally, all the five objectives of internal controls were examined and it was observed that internal control systems in FASL are able to achieve these five objectives.

In areas where weaknesses were found, it was recommended that management of FASL should lead by example and also, ensuring that the policy manuals reviewed is updated to reflect on the current practices in the company.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Over the years the financial services business has globally face major collapse and catastrophe. According to Basel 2004, collapses of banks is a great concern to Bank of Ghana. Internal control setbacks are ordinary in the financial services industry and that has led to massive monetary losses to these banking industries by rogue clients. In 2012 Hongkong and Shanghai Banking Corporation Holding P.L.C a multinational financial services organization headquartered in London, UK, acknowledged not having enough money laundering checks and was accordingly asked to pay $1.9 billion as a fine after United State of America committee examinations (BBC, 2012). The financial services industry Ghana cannot be left out when talking about bank failures. According to Addo (2000) Bank for Housing and Construction and Co-operative Bank of Ghana became bankrupt in the early 2000, which cost the Ghana Government about over one billion Ghana cedis at the time of liquidation.

The breakdown of an effective internal control system will cause the collapse of many institutions. Internal control is a key feature of an entity's control system and it helps in managing risk. Internal control also guarantees the attainment of corporate goals and protecting stakeholder value (IFAC, 2012). A corporate scandal sometimes involves accounting fraud. A wave of such scandals swept many financial companies such as Royal Bank of Scotland Group, ABN-Amro Bank, Anglo Irish Bank and comparable situations of business failure around the globe. Breakdown of systems of internal control and the ultimate avoidance of controls by corporate directors caused for these business shame.

The systems of internal control will continue to be important at present business structure by every organization. However, McNally (2013) said, business models have transformed considerably, as well as improved use of joint services, subcontract services, greater dependence on know-how, improved shareholder anticipation, etc. have increased the risks business drastically. This encouraged COSO to review its framework in 2013. The research looked at the control environment and control procedures of Internal Control Systems of Ghanaian Banks using COSO's attributes and principles of evaluating internal control systems effectiveness.

Most financial institutions in Ghana have suitable systems in place to guarantee internal control systems effective. This comprises setting up an internal check department, compliance department and risk, monitoring and recovery unit. In light this therefore prompted the researcher to carry out the project on assessing the effectiveness of internal control system at First Allied Savings and Loans Limited.

1.2 The Problem Statement

The growth of the banking and financial services industry is dependent on the effective management of its internal control systems. Under the COSO Framework 2013, in setting objectives of an organization, internal control is considered first. By setting objectives, there should be a need for management to identify risks associated with achieving these objectives. To deal with these risks, those in charge of managing the affairs of the organization might apply definite internal control systems. The success of internal control can be determined by how well the control objectives are achieved and how well the risks are dealt with.

Usually, criteria for controls are established when setting goals, financial plans and other opportunities. Internal control systems exist to maintain performance within the expected limit which is accepted. The company governance concepts in addition rely heavily on the requirement of controls.

To guarantee the effective performance of banking operations, credit delivery and recovery of all facilities granted at expiry, a well-designed internal control systems should be established. To improve the effectiveness of systems of internal control in the financial sector, different laws and regulations have been put in place by the Bank of Ghana and the Government. These laws consist of The Constitution of 1992, Companies Act 1963, (Act 179), Non-Bank Financial Institution Act 2008, (Act 774), Financial Administration Act 2003, (Act 654), Bank of Ghana Act 2002, (Act 673), the Financial Administration Regulation 2004, (LI. 1802) and the Internal audit Agency Act 2003, (Act 658).

In any case, internal controls just give reasonable assurance, not total assurance. This is because it is individuals who operate the internal controls, breakdowns can happen, deliberate circumvention, human error, management override, and collusion among staff who are suppose to act independently can cause failures of the internal control to accomplish objectives. There are few empirical studies addressing the failure caused by human (people) who operates the internal controls in non-banks financial institutions in Ghana.

This project is to assess the extent of failures created by people to the internal controls and effectiveness of internal controls in risk administration in the non-bank financial organizations with a specific reference to First Allied Savings and Loans

Limited (FASL). To help achieve this goal, some specific objectives are needed to determine that, which is discussed in the next section.

1.3 The Objectives of the Study

Generally, the research aims at assessing the effectiveness of internal control system in First Allied Savings and Loans Limited.

The specific objectives of the study attempts to:

1. Examine the types of internal control used in FASL.
2. Assess the effectiveness of control environment and control procedures of First Allied Savings and Loans Limited.
3. Examine whether internal control systems in FASL are able to achieve its intended purposes.

1.4 Research Questions

Connected to the problem, the study seeks to deal with the following questions.

1. What are types of internal control system used by First Allied Savings and Loans Limited?
2. Can Internal Control Systems of FASL ensure effectiveness of the control environment and procedures?
3. How internal control systems designed are able to achieve its intended purpose in First Allied Savings and Loans Limited?

1.5 Overview of Research Methodology

The study used both primary data and review of related works done by other researchers. The researcher used questionnaire and interviews as data gathering tools to obtain primary data. The secondary source was obtained from works done by other researchers such as related books, reliable web portals and academic journal articles. The study used a sample size of 60 respondents. The respondents were under the major departments of First Allied Savings and Loans Limited from the Ashanti, Brong-Ahafo, Eastern Regions and the Head Office. The findings gathered were analyzed by the use of a simple frequency tabulation system with the support of diagrams produced from Microsoft Excel program.

1.6 Significance of the Research

The conceptual framework of this research work will offer a standard against which companies could assess the effectiveness of their systems of internal control. At the same time, the study is to give understanding, ordinary verbal communication and realistic ways for the organizations to develop their systems of internal control.

The outcome of this work will assist banking and financial service institutions to set-up the following control measures in their day to day operations.

Despite the fact that this study is to complete a university obligation, it is anticipated that suggestions will be given to add to policies by the regulators and also equip banking institutions with much problem solving techniques and managerial skills to organize, coordinate, direct and control business activities.

1.7 Scope and Limitation of the Study

The population of this work was Savings and Loans Companies in Ghana. However, it was limited to First Allied Savings and Loans Limited branches in Ashanti, Brong-Ahafo, and Eastern Regions as well as the Head Office in Adum, Kumasi.

The use of FASL for the study has been necessitated because of certain constraints like financial constraints and limited time available.

1.8 Organization of the Study

Chapter one includes background of the study, statement of the problem, research question, research objectives, significant of the study, scope of the study, and the limitation of the study.

Chapter two is the literature review which includes the definitions of internal control, types of controls, objectives of internal controls, internal control components, internal control evaluation, responsible parties for internal controls, importance of effective control systems, internal control drawback and what can occur when controls are weak.

Chapter three (3) is the methodology of the study which consists of the research plan, population for the study, techniques of sampling, data sources, instruments used for the research, data analysis method and the profile of First Allied Savings and Loans Limited. Chapter four focuses on data presentation and data analysis. Chapter five (5) is the synopsis of findings, suggestions and conclusion.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

By nature, companies are owned by shareholders including banks. The owners of the businesses entrust daily management of operations in the hands of appointed officials. These officials are expected to meet their obligations of custody according to the guidelines established by the shareholders. Normally, owners' expectation to get more and reliable management accounts from the appointed officials, but it does not normally happen, according to Millichamp (2000). There are always problems when financial statements to shareholders contain misstatements or not complying with regulations information. The only solution to solve this problem is through the appointment of unbiased person, thus internal auditor or controller, to audit the report as well as draw their conclusions. To help the independent internal auditors to carry out their work in an efficient and orderly manner, the auditors work should be guided auditing standards, which is provided as a yardstick practice in the organization. These policies and procedures set up by management to ensure that reports are held in reserve correctly and could be trusted to detect or prevent fraud or error and other anomalies that can derail operations or even collapse the company. These policies and procedures can be considered as systems of internal control and internal controller acts as the ears as well as the eyes of owners to ensure that systems of internal control are effective and efficient at any time. The internal auditor is therefore, the master controller checking other controls in the company.

2.2 Theoretical Framework

Above the background information has given an organization the rationale for setting up excellent systems of internal control. The researcher now wishes to think about the assorted meanings of internal control systems to clarify the theories in a global perspective.

Confirms the lengthy meaning of the system of internal control, Woolf (1980), and the Audit Committee processes defined system of internal control as the entire system of controls, financial and other reasons set up by senior management in an systematic approach, guarantee that administrative guiding principles are complied with, protect tangible and intangible assets, and ensure the accuracy and completeness of documents.

The definition was also taken by the Auditing Practices Board (2009), ISA 240, which states that system of control is a set of guidelines and processes taken by management to help achieve the goal of management to ensure, as much as possible, systematic implementation of activities, consisting compliance to policy established by management, protection of properties, fraud prevention and detection and the timely presentation of reliable financial statements.

Maxwell and Asika (1991) expanded the definition, because they believed that the concept of internal control is the set of policies guidelines established by the Board to guarantee efficient and orderly conduct of their business and meet internal policies, protection of properties, prevention or detection of fraud, and the timely preparation of reliable financial statements.

Hermason (1999) said that system of internal control is put in place to ensure that properties are protected and management policies are strictly adhered to for the achievement of objectives of the organization.

International Organization of Supreme Audit Institutions (INTOSAI, 2004), definition the internal controls as an integral process that is established by management and company personnel and is designed to manage risk and provide reasonable assurance that in pursuit of its mission, goals following general were achieved: senior management, ethical, economic and efficient operations, responding liabilities in accordance with applicable laws and regulations and protect resources against loss, misuse and damage.

French Institute of Chartered Accountants (1999) defines internal control as the set of security measures that contribute to the control of a company. Its aim is to ensure, firstly, security and the safeguarding of tangible and intangible assets as well as quality information, on the other hand, implementation of instructions given by senior management and promote the improvement of performance. It is highlighted by the organization, procedures and methods of each of the company's operations in order to ensure continuity of the company.

The Financial Markets Authority (AMF, 2007) was of the opinion that internal control is the system of a company, defined and implemented under its responsibility, which includes a set of procedures, behaviors, resources and actions adapted to the individual characteristics of each company contributes to the control of its activities, the effectiveness of its operations and the efficient use of resources enables it to consider, as appropriate significant risks, that they operational, financial or compliance.

Dhillon (2001) considered the internal control system regarding the protection of information assets: He believed that controls are important in computer safekeeping in an organization as numerous faults. Security took place because of insufficient good control structure in organizations. He said the fact that the law of 2002 Sarbanes-Oxley was passed in reaction to a public protest on ineffective way of assessing procedures of internal control in the organization leading to the main failures of governance and security. It should be noted at this point to reiterate that all the above-mentioned definitions are all concerned about the operating controls in all areas of an organization to reduce error and fraud.

2.3 Conceptual Framework of Internal Control System

The researcher approach this context by restating the Committee of Sponsoring Organizations of the Treadway Commission (COSO) of 2013, the meaning of internal control as a procedure, produced by management (Board of Directors) of the entity and others staff, set up to offer reasonable assurance about the attainment of objectives in the following groupings:

Effectiveness and efficiency of business operations;

Reliability and completeness of financial information and

Compliance with applicable laws and regulations

The definition takes into account the assessment of risk activities of the organization , was establish to accomplish the control goals in the groupings stated above , namely the operations category (as the excellent reputation company, high return on investment, market share growth, introduce fresh products); category of reliability and completeness of financial information (example publication of annual reliable , Interim Financial Reporting , protection of unauthorized use of assets against misuse, theft, vandalism , any acquisition or disposition and preparation of financial statements with regards to Generally Accepted Accounting Principles, and compliance category (compliance with laws and regulations affecting the company, monitoring requirements and organizational policies and procedures that are broad control objectives) .

Louwers et al. (2008) also said that the controls provide only realistic guarantee but not absolute. This is because the controls are handled by humans and human error, intentional circumvention, management override and improper collusion between people who are supposed to work independently can result in failure to achieve the control objectives. They imagine that internal controls can help prevent and detect such human errors caused, but it cannot guarantee that they will never happen.

2.4 Types of Controls

Various researchers have come up with various types controls. MilliChamp (2002) puts the controls types as; segregation of tasks, inspection, approval and permits, asset protection, and reporting. But other writers like Lousteau (2006), State University of New York and DiNapoli (2005), have the same opinion that the types of controls include directional, preventive, compensating and detection controls. Below are the explanations of the types of internal controls:

2.4.1 Directive Controls

Controls which is directive relate to the management of high-level policymakers, senior management, standardization bodies and other responsible persons for example establishing departmental policy or procedures, set spending limits, setting IT configuration standard.

2.4.2 Preventive Control

These controls are designed to stop the happening of an action that is inconsistent with the goals of the controls put in place. They are proactive controls to help check losses.

Examples of preventive checks are given below:

Separation of Approval and Payment: It requires that the staff who approval for payment to a supplier should not be staff designated to sign pay cheques for suppliers. The preventive control is established to reduce the risk of unauthorized payments.

Restrict Access to Computer Systems: This where user IDs and passwords are used by the employees to lodge in to the software application used by the organization. Limiting IT staff who can make changes in the system.

Authorizations, Approvals and Controls: Management allows staff to execute some actions and to perform transactions within appropriate levels. Again, the administration says these transactions or activities require supervisory approval before being executed by employees.

2.4.3 Compensating Controls

This type of controls is designed to compensate for the inadequate of control system in another place. For instance, companies with electronic database may save a hard copy of the clients list and account balances in the office archive. That list would be used whenever there is downtime on the server and it will be difficulty in finding the names of customers in an electronic system.

2.4.4 Detective Controls

The detective controls are designed to discover unauthorized activities or error after its occurrence so that alterations can be made in a judicious manner.

2.5 Objectives of Internal Controls System

Internal control is important procedures established by the Board of Directors and staff of the entity and is set up to tackle risks and to give logical assertions that in pursuit of the operations of the organization. Below are the general objectives to be achieved:

Efficient and effective operations;

Reliability of financial reporting;

Complying with applicable laws and regulations;

Safeguarding assets against loss, misuse and damage;

Prevention and detection of fraud and error.

2.5.1 Efficient and Effective Operations

The operations of the company must be organized well with good moral principles. It is expected the personnel must serve client's interest economical equally and protect properties own but the entity. Efficient can also mean that getting the right quality and quantity of resources at the right time and place, at the lowest cost. The link between input used and output produced achieve the goals of an entity. Effective means the extent to which the output of an activity matches with the intended effects of this activity.

2.5.2 Reliability of Financial Reporting

The term reliability means the presentation of financial statements in accordance with the applicable financial reporting standards, such as 'Generally Accepted Accounting

Principles (GAAP)'; used by management (COSO, 2013; IIA, 2006; AICPA, 2009; and Ratcliffe and Landes, 2009).

However, internal control systems over financial statements reporting consist of the set up and execution of policies and procedures considered crucial by the Board of Directors to offer practical assertion that the financial reports of the entity are reasonably offered in harmony with the accounting methods selected by the Board (COSO 2013; Ratcliffe and Landes 2009).

According to them, these controls are definite guiding principles established and employed to check or identify and resolve errors which, if not corrected or avoided, would make the financial reports not presented moderately. As such the critical assessment of assertions in the financial statements prepared by management is an efficient measure of internal control systems but not an end in itself.

Therefore, management of any organization such as Savings and Loans Companies have both expert and legal responsibility to ensure that details contained in the financial reports is offered reasonably in harmony with IFRS; hence the objectives of internal controls over financial statements is a responsibility of management of an organization.

However, control system over financial statements as Lander (2004) is a procedures established by the monitoring section of the key management of the company and senior financial accountants implemented by top management of the company to give realistic assertions about the financial statements reliability and the financial statements preparation for the external uses in accordance with GAAP.

It is therefore essential to note that there are clear rules and procedures to comply with financial preparation of an entity so as to meet acceptable standards. For such financial statements to be reliable there must internal controls be effective over financial statements with regards recording of transactions, duty, approval and authority for the preparation financial statements of an entity.

In addition, according to Ghana National Auditing Standards, Section 8; an accounting method complemented by internal controls effectiveness may give Board of Directors a realistic guarantee that properties of an entity are protected against improper usage and that the financial reports are reliable to allow the presentation of sound financial statements.

In the same vein, Millichamp (2000c) put forward the following key measures to be adhered to by an entity to ensure effective and reliable financial reporting:
An adequate and built-in system of financial records;

The monetary control and management checks, including budgetary control;
Accounting reports to management and safeguarding the provisional accounts;
Hence, it is necessary that organizations establish effective internal controls in order to achieve the goals of good financial reporting. However, to ensure effective and efficient financial reports, management must make sure that accounting standards and procedures are complied with in the recording of transactions, as well as presentation and financial reports preparation in agreement with specified standards.

2.5.3 Laws and regulations compliance

A well-known society cannot exist in a vacuum likewise an organization also cannot be done in isolation. As such each institution or facility in the world is governed by a set of rules, laws, and regulations to streamline its operations in order to bring sanity and ensure their effectiveness.

According to part 404 of the Securities and Exchange Commission Act of the USA and stated in Arens, et al (2006d) all municipal institutions are mandated to issue report about effectiveness of their control systems; and follow specific laws and regulations in their operations to ensure efficient control over the use of resources.

Similarly, in Ghana there are laws and regulations prescribing the ways in which public sector organizations as those in the private sector should operate so as to enforce compliance and ensure effectiveness of their operations. Some of these are the Ghana National Auditing Standards, the Internal Audit Agency Act 2003 (Act 658), Companies Act 1963 (Act 179) among others are meant to ensure effectiveness and bring sanity to the operations of organizations in Ghana. For instance, the Financial Administration Act 2003 (Act 654) in Ghana, and the other regulations relating to the public and private sector such as the 1992 Constitution; provides that at the expiration of an accounting year, entities prepare their final accounts up to date and submit for audit purposes. It is required an auditor to attest to and issue a statement on the review of the financial records as well as Board of Directors evaluation of internal controls. Thus to give an opinion on internal controls, the auditor must obtain an understanding of and carry out test of controls related to all significant general ledger (GL) balances, classification of records, disclosures and assertions in the accounting statement made by management.

Also, the Internal Audit Agency (Act 658) Act 2003 necessitates that every organization in Ghana should institute an internal audit unit to strengthen the internal controls and prevent fraud and error, and check inaccuracies.

2.5.4 Safeguarding assets against loss, misuse and damage

This fourth objective can be considered as a sub-kind of the first objective, the importance of protecting the assets of an organization must be emphasized. This is due to the fact that the assets of the organization in general, embody tangible and intangible assets and their use in the interests of the organization in general, requires special care. Therefore, the controls are required to ensure that they are optimally utilized and protected assets from the day of purchases till disposal. Other items such as receipts obtained from supplier, information and accounting documentations are the input to achieve accountability and precision of its activities and should be protected.

2.5.5 Prevention and detection of fraud and error

Financial Insights (2008) issued a statement indicating that internal fraud can wreak havoc on institutions of all types and sizes. Implementing rigorous controls to prevent and detect internal fraud threats continues to be a mandatory priority. A lack of effective fraud and theft prevention puts the health of an organization at risk.

A clear and comprehensive internal fraud risk assessment must carefully focus on implementing and enforcing appropriate internal controls for business functions. Institutions must continually review, revise and improve corporate governance to successfully combat internal fraud. For this reason some regulators have either encouraged or required institutions to strengthen internal fraud capabilities by promulgations. (Financial Insights, 2006)

Financial Insights (2006) report suggested some internal fraud prevention initiative to combat internal frauds as:

Setting up controls that minimize the opportunity for unauthorized utilization of organizational resources (including perimeter defense technology such as firewalls, email scanning and ID access);

Defining clear lines of responsibility, providing sufficient employee monitoring, frequently rotating personnel in key positions and segregation financial duties among accounting staff;

The use of systematic recruitment screening and educating staff about the legal implications of being involved in illegal activities to act as a deterrent;
Establish controls such as automated detection systems and advanced technological scan for suspicious behavior and abnormal behavior that may require investigation;
Establish responsibility and ownership of security procedures negligence
Reprimand staff for breaking or not following safety protocol and even minor breaches and Provide confidential and easy to use communication channels for whistleblowers.

Control systems are required to present any financial or operational disagreement that could be the outcome of stealing, fraud or error. These could consist of off-financial position investment or the application of unlawful accounting standards, method of inventory controls and use of assets of an entity.

2.6 Components of Internal Control Systems

The components of internal controls are expected five support the control objectives discussed above, the report issued by the COSO framework anticipates the Board of all organization to set up. These five (5) interrelated internal control components are provided below:

The above five control objectives are also expected to be supported by five components related to each of them, which COSO report expects the management of each organization to establish. These five inter-related components of internal control expected are:

Control environment;

Risk assessment;

Control procedures;

Information and communication systems that link all components as well as

Monitoring.

The collapse of many banks in recent times can be associated with these elements listed above. The successful executions of these components are critical in attaining the objectives of the bank.

2.6.1 Control Environment

The control environment lay down the nature and influence the control awareness of staff. Factors of the control environment comprise the competence of individuals in the organization, integrity, moral standards and are the basis for all other elements of control systems, discipline and structure in which the organizations operate (Lannoye, 1999).

According to Louwers, et al. (2008) control environment also contains, but are not restricted to operating and business styles philosophy; honesty and moral standards of staff and senior management; enforcement of code of conduct; extent of importance for achieving the performance targets; organizational structure of the entity; methods of assigning responsibility and authority; policies and practices of human resource; the commitment of the organization to expertise through education; personnel rewards; composition and function of the Audit Committee and tasks of internal audit unit.

Another key ingredient of the control environment is good corporate governance in an organization; this corporate governance code resulted in the formation of Audit Committee, a subcommittee of the Board which comprises three (3) to six (6) independent non-management Board members. Every audit committee associate must be financial background and one being must expert in finance. The basis for inclusion of non-executive members is to offer unbiased verification on matters relating to audit and management function. This control permits the internal Auditor to report any audit findings to the Board of Directors and executives without fear and intimidation from top management.

The establishment of an Audit Committee allows detailed examination of information and reports without taking the time of all directors. The audit committee is generally responsible for overseeing the financial reporting process and the internal control system. As part of this responsibility, the Audit Committee typically oversees the activities of, and serves as a direct contact for, the internal audit department of the bank and engages and serves as the primary contact for the external auditors.

Compliance with the internal control system in place is heavily dependent on a well-documented and communicated organizational structure shows clearly the lines of responsibility and authority of reporting and provides for effective communication throughout the organization. The division of tasks and responsibilities should ensure that there are no gaps in reporting lines and that an effective level of management control is extended to all levels of the bank and its various activities. It is important that senior management takes steps to ensure that activities are conducted by qualified employees with the necessary expertise and technical capability. Staff in control functions must be properly remunerated. Training and skills must be regularly updated. Management should establish compensation and promotion policies that reward appropriate behaviors and minimize incentives for staff to ignore or override internal control mechanisms.

An essential element of an effective system of internal control is a strong control culture. It is the responsibility of the Board of Directors and Top management to emphasize the importance of internal control through their words and actions. This includes the ethical values that management exhibits in their business, both within and outside of the organization. The attitudes, actions and words of the Board of Directors and management affect the ethics, integrity and other aspects of the bank's control culture.

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This can best be achieved when operational procedures are contained in clearly written documentation that is made available to all relevant staff. It is necessary that all the bank staff to understand the significance of internal control and are actively involved in the process. Reinforcing ethical values, banking organizations should avoid policies and practices that can provide incentives or temptations for inappropriate activities. For instance, such policies and practices include undue emphasis on performance targets or other operational results, particularly short-term ones that ignore longer-term risks; regimes that too dependent on short-term performance compensation; ineffective segregation of duties or other controls that could allow the misuse of resources or conceal poor performance; and more difficult penalties for improper behaviors.

2.6.2 Assessment of Risk

Risk is part of banking business and all financial services providers are concern face both financial and business risks. Every company should take measures to discover risks, assess their effects and think about how to deal with the risk.

A precondition to appraisal of risk is to institute goals and identify the guiding principles and essential measures to guarantee the achievement of the goals. The identification and analyzing of risks is an ongoing procedure and is an important part of internal control system effectiveness. Close attention should pay to identification and analyzing of risks at all levels by management in the organization as well as the required measures to handle risk. Risks can affect the business internally (domestic) and externally. Domestic risks can be treated quickly unlike outside organization risks that need expertise to resolve them. Board of Directors of every organization must always be ready to respond to risk that may disrupt processes by answering the questions below suggested by Louwers, Ramsay, Sinason, and Strawser (2008):

How does management develop control objective and strategies?

Is the board of directors involved?

Is the process formal and subject to review?

Is the process updated periodically to address the current situations?

How does management assess risks?

Is sufficient information gathered?

Are risks viewed in isolation or are they linked?

Are assumptions and forecasts realistic?

Is the risk assessment updated periodically?

Is risk assessment performed at all levels of the entity?

How does management respond to prospects of risks that are significant and likely?

What processes are in place?

What key indicators are monitored?

If other entities are involved in sharing the risk, are they evaluated for soundness?

2.6.3 Control Procedures

Control procedures are intended and executed to reduce the risks identified by the bank during the risk review procedures. Therefore, it is expected that banks and other organizations enforce realistic control measures, automated and manually on the bookkeeping methods for the hindrance, early discovery of frauds and alteration errors.

The control procedures available to financial services providers can be defined are:

Performance reviews: This done through budgeting and budgetary control with feedback actions. Management presents regular and promptly reviews and is likely to identify errors and take remedial measures. Periodic and frequent action to resolve errors minimizes the risk massive errors in the financial statements. Such evaluation is mainly driven by the active and qualified internal audit;

Separation of responsibilities: Authorization, reconciliation, registration, and safekeeping should be executed by one person in a department. The internal audit standards states that one person should serve as a check on another person; therefore responsibilities ought to be separated so that a staff cannot control two or more of the responsibilities stated above within an organization.

Physical control: This focuses on restriction of access to tangible and intangible assets and other vital records, including blank cheques, vouchers, letterheads, securities and inventory.

Senior-level reviews: It is analysing in-depth results and objectives of the organization and other key indicators of actual performance to verify how competent the senior supervisors are. For instance, financial reports may review by senior management showing actual results against the budget. Top management always ask questions after the review results and the subsequent answer from middle levels managers signifies the control procedures weaknesses, misstatements in financial statements or forged conducts;

The Organizational control: each bank must have an organizational chart. This diagram is to set up well-designed departments and the tasks of every department and its employees. The standards of span of control and authority level must be obligatory to guarantee that no over burden of work which can cause incompetence;

Supervisory control: all processes in the organization rely on the effective managers. This control can be internal and external. The internal is the relationship between the officers and their managers; external oversight is the role of the Central Bank (BOG) and the external auditors of the organization. Therefore, it is relevant to note that if these supervisory controls are ineffective, the probability of systemic distress in the banking industry is high.

Approvals and authorizations – Approval and authorization limits of transactions must be there to ensure transaction awareness on the part of management, and facilitate to institute answerability.

Confirmations and reconciliations - Details transactions and output of risk management models used by the bank are vital control procedures. Frequent reconciliations, such as comparing cash lodgements and withdrawals with bank statements, can identify actions and files that require alteration. Therefore, the outcome of these reconciliations and confirmations must be reported to management when issues or potential issues are noticed.

Arithmetical and accounting control: Accounting systems should be established to ensure that all transactions are documented and processed accurately in the ledgers properly. To do this, the Directors of the bank must be accountable, reasonable and they must have high integrity in how to handle the affairs of the banks.

2.6.4 Information and Communication

Adequate and effective distribution of information is crucial in the system of internal controls. All personnel must have an understandable message from senior managers that control everyday jobs. From the financial institution viewpoint, useful information must be accessible, reliable, relevant, fast, current and it must be consistent in format.

A key element of the bank's activities is the management and maintenance of information systems that forms part of their activities. There effectively controlled of electronic information to avoid distraction to business. Since transaction processes and business applications have extended beyond the use of central processing unit computer environments, to distributed systems for critical business functions, the magnitude of risks is high. Controls over information technology should consist of general and application controls. General controls are checks over computer systems and ensure its proper performing. Application controls are computerized software applications and other manual processes that control the business activities.

Information is useless when not communicated effectively. Top managers of banks need to set up effective communication road maps to ensure that the required information reaches the appropriate personnel.

Each staff member should be aware of his or her role expected in the system of internal controls as well as specific activities relate to the task of others. The auditor shall report its findings on the review of the control systems to the audit committee of corrective measures to be taken.

2.6.5 Monitoring

Since banking is an industry in rapid dynamic changes, banks must monitor and assess their internal control systems continuously in the light of changing environment, and must enhance these systems as necessary to maintain their effectiveness. In the complex organizations, the Board must ensure that the monitoring role is structured and defined within the organization.

The COSO framework (2013) says that inspection is the component that evaluates the efficiency of the control systems over time; which carries out ongoing inspection procedures and assessment of internal control such as self-assessments, peer review audit and review of internal audit.

As a guide, Louwers, et al. (2008) listed the followings as examples of tracking controls:

Analysis of objections for amount charged to customer;

The analysis of complaints amount paid to suppliers;

Regulatory reports on fulfillment of laws and regulations;

Accounting managers' supervision of the completeness and accuracy of financial reports;

The regular evaluation of the totality of liabilities and assets (for example inventory reconciliation from the Auditors, payables and receivables confirmations, Internal Auditor inventory count);

Note that the existence of excellent inspection procedures is part of the supervision role of the audit committee of the board. This was the reason why the COSO report stated that, to be effective, the audit committee should remain vigilant and informed on the financial reporting process, including internal controls of the entity. The internal audit function is very vital on inspection of the system of internal controls because it provides an unbiased evaluation of compliance with established policies and procedures. Due to the important nature of their role, internal audit must have a skilled and competent staff that has a clear understanding of their responsibilities and roles.

2.7 Assessment of Internal Controls System

It is important that management of a financial institution to assess the effectiveness of the control systems they have established.

DiNapoli (1999) defined evaluation is a process use to determine whether the activities of the organization are successful in achieving their goals. The intention of assessment is to give management realistic assertion; the control systems are running successfully; and can spot risks to an entity and prospects to improve them.

According to Louwers (2002), the elements of control systems are regarded as benchmarks of control of financial information and the basis of assessment for auditor of control risks are;

Comprehension financial statements checks of the customers and recording that issues,

The initial risk assessment of control, and

Test of controls, reassessment of risk control and use this assessment to plan the rest of the audit work.

2.7.1 Internal Control Effectiveness

A decision as to if the organizations internal control is effective are to consider the level to which the elements are functioning as expected.

According to COSO (2013), internal control can be judged successful in each of the three objectives categories:

They understand the extent, to which they achieve the operational objectives of the organization,

The credibility of the published financial statements is assured,

The laws, regulations and standards are respected.

Similarly, Rittenberg, et al. (2007) said that, effective internal control depends on the presence of the five (5) components in place and working successfully. For the purposes of financial reporting, there is a further principle, namely the concept of a material weakness. If a material weakness remains undetected and unresolved, a significant error could possibly occur in the financial statements of a company, which would have a tangible effect on the valuation of a company.

2.7.2 Evaluation of Controls and Audit Risk Assessment

An important objective of the audits is to be well-organized. This means conducting audit assignment to minimize time and cost whilst quality work is done to find adequate substantial evidence. However, auditors are not required to establish the quality of the control systems of the company. They just require know the control systems to plan for their audit. Thus, understanding basic controls of a client's in order to assess a high control risk areas, and perform the audit.

2.7.3 Confirming understanding

To confirm their understanding of control systems, auditors often have to run tests. This is an operation which is collected and continues through the system to see if all the controls that are intended to be in existence were in operation with respect to the transaction.

2.7.4 Understanding the control system: walk-through tests

Accounting to ISA 315 the auditor required to:

Gain an knowledge of each of the five elements of the client's control systems and

Document the relevant characteristics of the control systems.

Once this knowledge has been acquired, the auditor should confirm that this is correct by performing 'walk-through' tests to ascertain the evidence on the major types of transactions (for example, payroll, purchase transactions, acquisition and disposal of assets and sales transactions).

As explained above, walk-through testing by the auditor is to select a small sample of transactions and track through the various stages of treatment in order to establish whether their understanding of the process is correct.

2.7.5 The purpose of evaluating controls

After establishing control systems that are in place, and if all recorded in the audit working papers, the auditor must now evaluate and establish effective controls. The results of this evaluation will enable the auditor to identify risk control (which is a risk level of the audit). The auditor may decide on an approach or an audit transaction-based system.

The assessment of the accounting and control is a two-step process.

The auditor must establish:

If the controls are effective on paper. This means that if it can assume that controls are properly applied in practice, are they sufficient to address the risk issues identified?

If the controls are applied properly and whether they are really working and operating effectively. The checks may be sufficient if applied correctly, but in practice cannot be applied as they should be.

2.8 Internal Control and Internal Auditing

Internal audit and internal checks are two important tools of internal control systems.

According to the Institute of Internal Auditors (2009), internal auditing is an independent, objective assurance and consulting activity to add value and improve the operations of an organization.

It helps an organization accomplish its objectives by bringing a disciplined, systematic approach to improve and evaluate the effectiveness of risk management, corporate governance and control processes. The overall objectives of the management of internal audit cover activities such as:

Review and evaluate the appropriateness, competence and function of operations and accounting controls and;

Determine the reliability of financial reports and data developed within the organization;

Determine the degree of compliance with established plans, procedures and policies and;

Determine the extent to which the assets of the organization are safeguarded from losses and accounted for and

Evaluating the quality of performance in the execution of assigned responsibilities.

According to Ajayi and Olusona (2007), internal checks, on the other hand, are the daily routine checks to ensure that the work of a employee is harmonizing to that of another employee, hence, the one person working independently tested by another person in the normal course of business operations. Therefore, no employee or group of employees would perform original operation to the end, without involving others. If satisfied in full, the issue of embezzlement or fraud that may derail operation of an organization will not happen again.

Internal check would involve the following;

Somebody confirming that goods have been received and that the price of the invoice is correct;

Somebody else preparing the payment voucher;

The cashier writing out the cheque;

Another person signing the cheque and

One other person with appropriate authority approving the voucher for payment.

2.9 Importance of an Effective Internal Control System

Green (2007) stated that it is widely recognized that the implementation of effective internal controls has direct impacts business performance and more companies invest heavily in internal controls.

According to Berkowitz (2005), managers apply control systems to ensure that programs operating successfully, with reliable financial statements and persons acting for and on behalf of the organization perform these programs in fulfillment with all laws and regulations.

Internal controls are necessary for an entity to achieve its objectives. It guarantees the reliability of the reports of the financial statement, the entity compliance with laws and regulations and to prevent damaged to its reputation. Internal control is necessary not for only the maintenance of financial records of an entity, it is important to manage an organization. For this reason, every employee from top management to the Board of Directors to the External Auditors to the shareholders must be aware in internal controls.

Snell (1992) presented other benefits of internal control (refer table 1).

Table 2.1: Benefits of Internal Control

	Benefits of Internal Control
1	It help staff in their stewardship task
2	It offers directions for existence of basic and constant business controls
3	It describes our tasks for managing internal controls
4	Is an instrument to recognize and evaluate operating controls, financial reporting and regulatory obedience

source: (Snell, 1992)

2.10 Internal Control Systems Limitations

Nothing on this earth is perfect. Regrettably, control systems are never perfect. Internal control systems, no matter how well planned, can only give realistic assurance of achieving the intended objectives. Awareness of management and mitigation of these inbuilt limitations is important for the general achievement of the business objectives.

Minnesota Management & Budget bulletin (Feb. 26, 2013); identify some common limitations that impede the internal control system effectiveness. These are:

2.10.1 Cost versus Benefit

The cost of internal control systems must not outweigh the benefits received. The exorbitant costs prevent the implementation best internal control system according to top managers. The Board of Directors admits certain risks since the cost of the prevention such risks cannot be justified. When judging the cost versus benefits of establishing specific internal control, the Board must consider the intangible and tangible risks to the organization.

2.10.2 Inadequate Segregation of Duties

The segregation of tasks between staff is critical for reducing the risk of mistake or wrong actions. The limited size of personnel can maintain the controls related to safekeeping, record keeping and difficult authorization. If the ideal separation of functions is not possible, using compensating controls, such as independent reviews and supervision can provide the necessary control in the organization.

2.10.3 Control Override

Consistent management override sends the signal that standard procedures are not followed. This should not be baffled with management interference, which stands for management measures to not following policies and procedures established for genuine purposes.

2.10.4 Human Error

Error may come up as a result of staff negligence. Management can help expect certain risks and ultimately fail to design and implement appropriate controls to mitigate these risks.

2.10.5 Collusion

This is where two or more personnel acting in concert to commit and hide an action from discovery may often bypass well-built internal control system. The best deterrents and methods to restrict conspiracy is a control environment that insist on written policies and procedures, adequately monitoring of internal controls and educate staff about the consequences of fraud.

2.10.6 Breakdowns

Even well designed internal controls can break down. Workers some of the time misjudge guidelines or essentially commit errors. Lapses might likewise come about because of new innovation and the complex nature of electronic data frameworks. (Mercer University – United States of America, Georgia

2.11 What can happen when Internal Controls are weak or Non-existent?

Once external or internal auditors recommend improving controls within a department in an organization, they often notice three (3) critical arguments for not implementing their recommendations:

- It is too costly.
- The employees are faithful and controls are not necessary.
- There is not enough staff to have adequate segregation of duties.

If the recommended control application seems to be costly, be sure to think about the total cost of scam that could happen due of the absent controls. Besides, all the funds that would have been lost, consider the time that would have been spent by the internal audit unit to investigate on the issue, and the amount involve when employing new staff.

Finally, the problem of not having sufficient employees or other resources should be discussed with your superior. In most cases, compensating controls may be established in circumstances where one employee has to do all of the operations related to the activities for the unit.

2.12 Empirical Literature Review of Effectiveness of Internal Control System

In a presentation by Siyanbola Trimisiu Tunji (2013) on the topic "effective internal controls system as antidote for distress in the banking industry in Nigeria", the study revealed that the presence of internal control systems in the majority of the banks studied, system is being circumvented due to both knowledge gaps by some of the operators on the lower scale and deliberate action of management and key staff. Studies have demonstrated that well-built internal control system should be constrained to control and prevent effect of fraud and mismanagement. For the work of an internal auditor to be effective in the organization, there is every need for the management to respect the recommendations of the auditors, in their efforts towards checking the effectiveness of the established internal controls systems. A situation where the internal auditors' recommendations are not implemented by those who are to act on them can lead to total collapse of an institution, not just a bank.

Philip Ayagre, Ishmael Appiah-Gyamerah and Joseph Nartey (2014) researched on "the effectiveness of internal control systems of banks: the case of Ghanaian banks". Their findings revealed that, well-built controls exist in the control environment and monitoring activities components of the internal control systems of banks in Ghana.

The study particularly discovered a very strong tone at the top, indicating the Board of Directors commitment to ethical values and integrity. This is in the right direction in curbing what Roger Steare called a "systemic deficit in ethical values" in the banking industry. In the wake of the fraud scandal at Société Générale in 2008, Roger Steare, professor of organizational ethics at Cass Business School in London asserted that “this latest scandal, on top of the massive losses in credit markets, and the ongoing incidence of mis-selling to retail customers, indicates that there is a systemic deficit in ethical values within the banking industry" (Steare, 2008). Perhaps Ghanaian banks are learning from the collapse of Ghana Co-operative Bank and Bank for Housing and Construction and the experiences of their counterparts in the western world. What has happened in the global banking industry over the years may be the result of “illusions of internal controls”. Banks are secretive and until a scandal hits no one really knows the extent of internal control problems that exist in banks and inactive Boards of Directors may be under the impressions of false assurance of internal control effectiveness. They recommended that Boards of banks in Ghana should be very active and ensure continuous ongoing and separate internal control monitoring to ascertain that controls really exist and are functioning properly.

In another presentation by Tang Lai Wah (2011) on “An Empirical Study of the Effectiveness of Internal Control over Financial Reporting: The Effect of Audit Committee Quality and Participation in IT Governance”. He was of the opinion that good corporate governance including effective internal control systems over financial reporting is important for improving economic efficiency and enhancing investor confidence in the financial market. Given that audit committees perform a critical role in reviewing internal control systems, audit committee quality is paramount to the effectiveness of internal control over financial reporting.

The empirical results reveal a positive association between audit committee quality and the effectiveness of internal control of financial reporting. It suggests that an effective audit committee can strengthen the review and monitoring of a company's internal control system. He also indicated that audit committee participation in IT governance have a positive association with the effectiveness of internal control over financial reporting and audit committees should participate in IT governance at board level.

Esoghene (2010) also studied on "Bank fraud in Nigeria; underlying causes, Effect and possible remedies" and he said that bank frauds are now becoming a global phenomenon. Fraud in general, inflicts untold hardship on bank owners, customers and their family members, as most bank failures are associated with large scales of fraud. The prevention and detection of frauds are basically the responsibility of the management, through the establishment of an effective and efficient internal control system.

Again, he was of the opinion that importance of the internal control department/unit of any organization, especially banks cannot be undermined. Since the lack of an effective internal control system, is the major cause of bank frauds. It is then concluded that the management of every bank should create and establish a standard internal control system, strong enough to stand against the wiles of fraud in order to promote continuity of operations and to ensure the liquidity, solvency and going concern concept of the bank.

In the presentation by William Odei Affum (2011) on the topic “evaluation of internal controls in PAPSO Ghana limited”. He said that no organizations can operate effectively without internal control system. This is because the internal control system, which comprises authorization and approval, segregation of duties, physical controls, arithmetical and accounting, management, organization, supervision, personnel, and acknowledgement of performance controls, ensures orderly, efficient and effective operation. For example, the absence of an organizational structure, which defines the formal relationship among groups and individuals in an organization, will be a recipe for chaos since the structure determines the authority, responsibility, and reporting line in an organization.

Secondly, Effective internal control system is a pre - requisite for achieving overall organizational objective. Effective internal controls ensure efficient and effective management, adherence to management policies, asset protection, and complete and accurate records. This results in profitability and achievement of other objectives of the organization.

Effective control system ensures reduction in audit fee. When controls are effective, the external auditors place reliance on them. The external auditors spend few hours to undertake compliance test instead of substantive test which reduces audit fee.

Effective internal control system increases stakeholders' confidence. Stakeholders generally rely on the external auditor's report for assurance of the true and fair view of the company's affairs, and compliance with laws, regulations and accounting standards. Organizations that have effective internal controls do not get qualified audit report since their financial statements are prepared with accurate financial data.

Consistent unqualified audit reports increases stakeholder confidence in such organizations.

Internal controls are as effective as internal auditors. Designing effective internal control system requires the involvement of internal auditors. Again, they undertake periodic review, evaluation, and examination of the control system to determine its effectiveness, efficiency, economy, adequacy and operation over time. It will take an effective internal audit unit to perform the important function above. Therefore, internal controls will be effective if the internal auditor is able to perform its functions effectively.

Designing effective internal control system requires the involvement of internal auditors. Again, they undertake periodic review, evaluation, and examination of the control system to determine its effectiveness, efficiency, economy, adequacy and operation over time. It will take an effective internal audit unit to perform the important function above. Therefore, internal controls will be effective if the internal auditor is able to perform its functions effectively.

2.13 Conclusion

It can be inferred from the above reviews that for every organization to succeed in achieving its goals and objectives it should not only have an evidence of effective internal control systems, and an effective and efficient internal auditor but all parties should be committed to the control processes and periodically have a mechanism to test the internal controls to find out whether they are working well.

Thus, the objectives of a company are in away embodied in that of internal control systems and internal audit department. Therefore, the objective of internal control and internal audit department and for that matter, a company will be defeated if there is weak and inadequate internal control systems and inefficient internal auditor as a result of challenges or limitations. Hence, it will be of great importance to ensure that there is some acceptable degree of perfection in internal control systems and internal audit department which will test the systems periodically to find out whether they exist and are working.

CHAPTER THREE

RESEARCH METHODOLOGY AND ORGANIZATIONAL PROFILE

3.1 Introduction

The overall objective of the study is to ascertain the effectiveness of internal control systems in First Allied Savings and Loans Limited.

This chapter presents the actions and processes that were undertaken to collect data for the study. It gives particulars of how data were gathered and processed for this research work. The discussion was centered under the following sub-headings: Research Design, Population under Study, Sampling Techniques, Sources of Data and Data Collection Instruments. It also describes the respondents and statistical techniques that were used and methods of data analysis.

3.2 Research Design

This research is expected to find out how internal control system is effective in achieving efficiency operations, reliable financial reporting, compliance with applicable laws and regulations, safeguarding tangible and intangible assets and prevention and detection of fraud in the Savings and Loans Companies in Ghana. This is a fact finding exercise, therefore a case study was used.

A case study was chosen for this study. This was because it gives the researcher the opportunity of ascertaining a complete description of the phenomenon under study and provided objectivity and in-depth study within a restricted time frame. This was in line with views of McMillan and Schumacher (1997) who stated that case studies can provide a detailed description and analysis or processes by participants in a particular circumstance. In this study, a single case study approach was employed to assess the effectiveness of internal control system in Fist Allied Savings and Loans

Limited. This approach allows a present-day issues to be examined in detailed and requires no control over the phenomena under investigation.

3.3 Population of Study

The population of the study comprised all employees of First Allied Savings and Loans Limited (FASL) at the Head Office as well as the branches in Ashanti, Eastern and Brong-Ahafo Regions. This includes both junior and senior staff members in all departments.

According to the Head of Administration and Human Resources of FASL, there are thirteen (13) branches in Ashanti, Eastern and Brong-Ahafo Regions excluding Head Office. The target population for this study is the entire staff within the departments of these thirteen (13) branches and the Head Office.

3.4 Sampling Techniques and Procedures

The use of an appropriate sample and sampling procedure is very important in any research and in this regard, the purposive sampling which is one of the non-probability sampling methods was used. Respondents for the study were grouped under departments in the company into as junior/senior staff or management staff.
A total number of 60 respondents were sampled. This includes 44 sampled from the 13 branches and 16 senior staff from Head Office.

Purposive sample technique was used. This was because the information needed could be easily obtained through these staff. The table 3.1 on the next page shows the distribution of the sample size from the various departments.

Table 3.1: Category of Staff within Departments

No	Category of Staff within Departments	Sample Size	Percentage of Sample size
1	Internal Audit Department	5	12
2	Accounts Department	5	12
3	Legal and Compliance Department	2	3
4	Administration & Human Resources	2	3
5	Risk Monitoring and Recovery Dept.	2	3
6	Operations Department	27	42
7	Credit Department	17	25
	TOTAL	**60**	**100**

3.5 Sources of Data

Primary and secondary data were employed in the study. Primary data was obtained from the key staff of all the 13 branches and the Head Office in First Allied Savings and Loans Limited, Ghana. The branches are Adum, Roman Hill, Asafo, Suame, Sokoban, Obuasi – all in Ashanti Region, Brong-AhafoRegion; they have the following branches, Techiman, Berekum, Goaso and Nkoranza. The rest of the branches are Nkawkaw, Mpraeso and Suhum in the Eastern Region and Head Office, Adum-Kumasi.

Secondary data was also obtained from particularly in Auditing and Assurance services, journals, textbooks and other publications on internal controls and auditing.

3.6 Research Instrument

The data collection instrument was mainly questionnaire which was carefully designed to address the main objectives of the study. The questionnaire was made up of closed ended questions. They were administered to the selected staff at the branches and the Head Office based on the sample technique used. In addition to the questionnaire, personal interview was conducted to ascertain whether the responses gathered from the interview was consistent with that of the questionnaire.

The questionnaire was made up of five (5) sections; an introductory section that carried a statement of assurance of the confidentiality of the results of the study and the overall objective of the research. Section one (1) was made up of four (4) questions which dealt with the respondent's background information. Section two (2) was made up of nine (9) questions which dealt with the types of control used in FASL. Section three (3) was made up of ten (10) questions. The variables measured included; whether the employees are conscious of the controls; who is responsible for setting up the controls; have all important policies been formalized and communicated to your personnel. These questions under Section three were meant to measure the effectiveness of control environment of internal control systems. Section four (4) was made up of six (6) questions and dealing with the effectiveness of control procedures of internal control systems in FASL.

Finally, section five (5) was made up of eighteen (18) questions. The questions evaluated how internal controls in FASL have been able to achieve its intended objectives.

3.7 Validity and Reliability

To establish the face validity of the instrument, two (2) representatives from Internal Audit Accounts, Operations and Credit Departments were randomly selected and interviewed to ascertain their familiarity with the variables under investigation, as well as their understanding of the statements. Consequently, fifteen (15) questions were dropped from the original draft of fifty five (55) questions. These questions were dropped to ensure that the statements convey the appropriate meaning as well as measure the variables accurately.

With regards to the content validity, the researcher established it through two means. The expert views of the supervisor of this research work was first considered and secondly, the views of two other colleagues at the workplace with proven competency in the discipline were also taken into consideration in restructuring almost all the statements that were found to be ambiguous. The relevance of the statements in the questionnaire was thus established for its content validity because an item by item scrutiny of the responses as obtained from respondents did not show any evidence of respondents' misunderstanding of any of the question items. Hence, the instrument was deemed to offer a guarantee of validity.

The reliability of the instrument was however established after the same questionnaire was re-administered to the same selected group for the second time. The responses obtained during the second time, did not vary significantly from those of the first time, in other words the second responses were consistent with those obtained from the first time. The instrument could therefore be said to offer a degree of reliability.

3.8 Data Analysis Methods

The method of data analysis used for this study was descriptive statistical method. Tables and simple percentages were used to analyze the information in the questionnaire supplied by the respondents so as to allow accuracy and easy decoding of information, and on this basis, the discussion of findings shall be made.

In analyzing the data supplied by the respondents, frequency tables and simple percentages were used. Their results are presented in chapter four of the study. From these, recommendations were made appropriately on the findings.

3.9 The Profile of First Allied Savings and Loans Limited

First Allied Savings and Loans Limited (FASL or the Institution or the Company) was registered as a private limited liability company on 24th May, 1995 under the Ghana Companies Act, 1963 (Act 179). Institution was incorporated as a Non-Bank Financial Institution to function as a savings and loans company in Ghana. The FASL was granted a working license by the Bank of Ghana (BOG) under Non-Bank Financial Institution Law (PNDCL 328) of 1993 on 27th March, 1996 to accept deposits from the community and offer credit services to consumers and businesses. The Company started business on 25th September, 1996 after it had received a certificate to commence operations on 5th June, 1996.

The First Allied Savings and Loans Limited was established deliberately to engage in micro-finance activities through the mobilization of funds from traders and small business enterprises and provide loans to its target group.

First Allied began from Roman Hill, before moving to Adum, Kumasi where its Head Quarters is located. First Allied has grown steadily over the years from only one branch in 1996 to 23 branches in seven (7) of the ten regions of Ghana. The FASL has been reaching out to its clientele through its branches and a distance banking model.

The vision of FASL

First Allied's vision is to create an excellent institution and be the leader in the provision of quality financial services to the micro and small enterprise sector in Ghana.

The mission of FASL

The mission of FASL is to offer convenient access to efficient, innovative and responsive financial services to the micro and small-scale entrepreneur on a sustainable basis for the mutual benefit of all stakeholders.

In maintaining with our vision and mission First Allied seeks to achieve a strong market-led institution by working together with stakeholders to keep its market leadership and define the future in terms of creating long-term value that provides strong financial returns for all customers involved in the process. In respect of this First Allied seeks to attain the following:

To work closer with customers to create customized financial solutions on a convenient and sustainable basis to generate growth of their businesses through the satisfaction of their financial needs;

To continually direct investment to the highest potential areas across markets in the most effective and efficient way to maximize long-term cash flow, create value-addition and improvement on profit for expansion and better services;

To grow the First Allied brand and leverage this to capture other growth opportunities in the most financially excluded sector of our economy;

To promote deeper financial inclusion by the continuous creation of innovative systems that enables the financially marginalized businesses to have access to tailored-made solutions to the financial needs of their businesses;

To improve on our customer turn-around time by deploying up-to-date technology and also increase proximity to quality banking service through branch expansion.

Major Departments of FASL

The major departments of the bank are; Credits, Operations, Technology and Marketing, Accounts and Finance, Risk and Monitoring and Internal Audit.

The Credit Department aims establishing and monitoring credit policies and procedures that will help the company meet its interest income goals. Department in charge of operations is responsible for in-house accounting, compliance with government laws and regulations and maintenance of customers' records. The Technology and Marketing Department concentrates on product development and support, together with sales and marketing including call center, cards issue, mobile and internet banking products. The department also provides the key support backbone including the data center, technology infrastructure and security. The Finance & Accounts Department is responsible for managing the company's financial properties (Finance) and recording and reporting all its financial statements (Accounting).

The Risk, Monitoring and Recovery Department responsibilities cut across all the business units. Their duty is to identify, assess, and prioritize risks followed by coordination and economical application of resources to monitor, minimize, and control the probability and/or impact of unfortunate events. The Internal Audit Department's responsibility is to evaluate internal controls independently to ensure that the internal controls objectives seek to achieve what it purported to achieve.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF RESULTS

4.1 Introduction

This chapter of the study deals with the presentation, analysis and discussion of the findings based on the research objectives as stated earlier in chapter one.. Out of sixty (60) questionnaires distributed to respondents fifty six (56) of them were retrieved. The responses from the respondents are described, presented and analyzed using a simple tallying of results from the data with the support of diagrams (pie and bar charts, graph and tables) produced from Microsoft Excel Office program.

4.2 Background Information on Respondents

With the general information of sample, the data gathered centered on the demographic variable of respondents and this includes their gender, years of working in the organization and the category of staff (either junior, senior or management staff).

4.2.1 Gender of Respondent

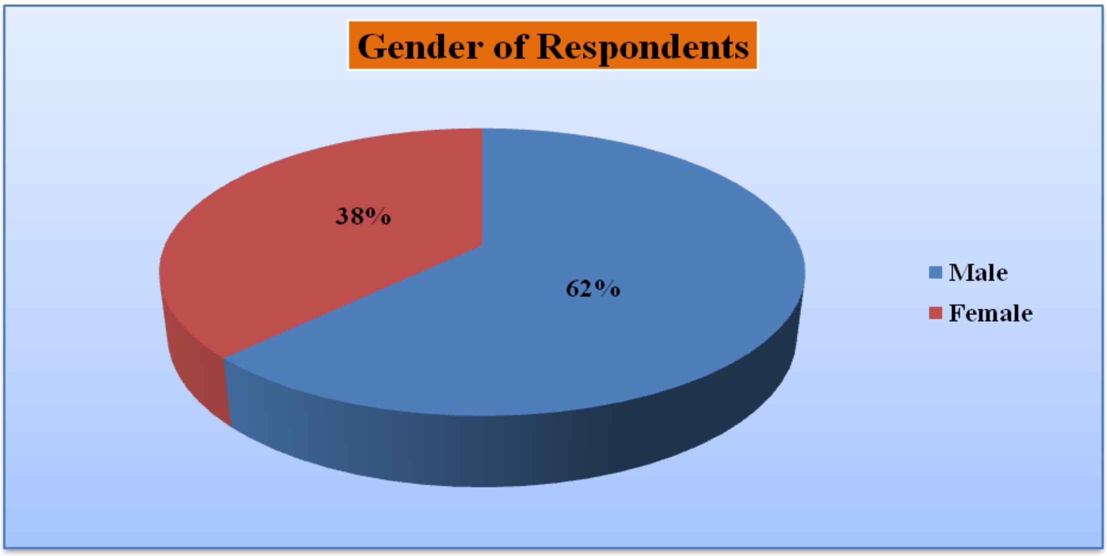

Figure 1: Gender of Respondents

Source: Research Data, 2015.

The data collected under gender was intended for respondents to specify whether male or female and data shows that 62% of the respondents were males whereas 38% of the respondents were female. The gender distribution confirmed that both female and male staffs were represented in the study as indicated on figure 1. This is an indication that, in terms of gender, majority of the respondents was males. The implication was that, the respondents who were selected based on the sampling method were at the positions to give the researcher accurate responds.

4.2.2 Years of Working in the Organization

The facts gathered reveals that 31% of the respondents have worked in the organization for a period below five years, 17% of the respondents had worked for the organization between six to ten years, while 8% of the respondents had worked for a period of 11 to 15 years.

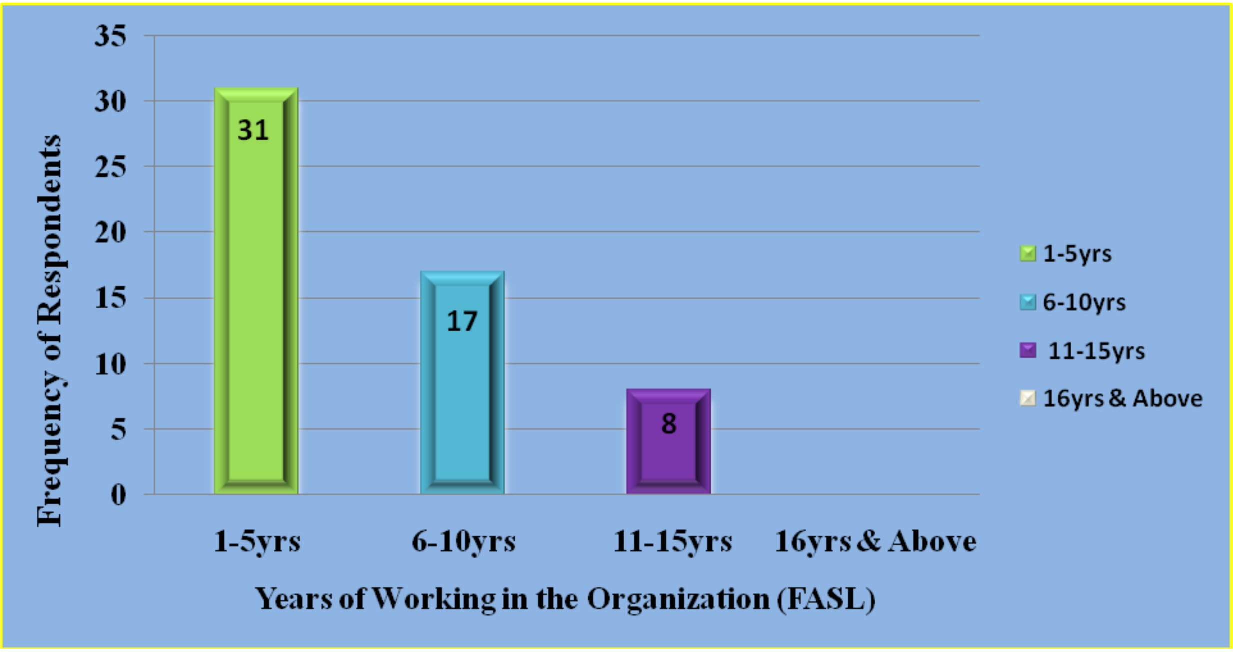

Figure 2: Years of Working in the Organization

Source: Research Data, 2015.

It was evident that majority of the respondents have worked with the organization for a period under 5 years. This does not mean the respondents were not conversant with the internal control systems in FASL. The rationale behind why majority of the respondents have worked in the organization for a period below 5 years can be due to the fact that, there is high rate of staff turnover in non-banks financial institutions in Ghana.

4.2.3 Category of Staff

The information gathered under the category of staff shows that 82% of the respondents were senior staff and they constitute the majority. 11% of the respondents were junior staff while 7% were in the management staff category. This clearly shows that majority of respondents were senior staff members. (See figure 3)

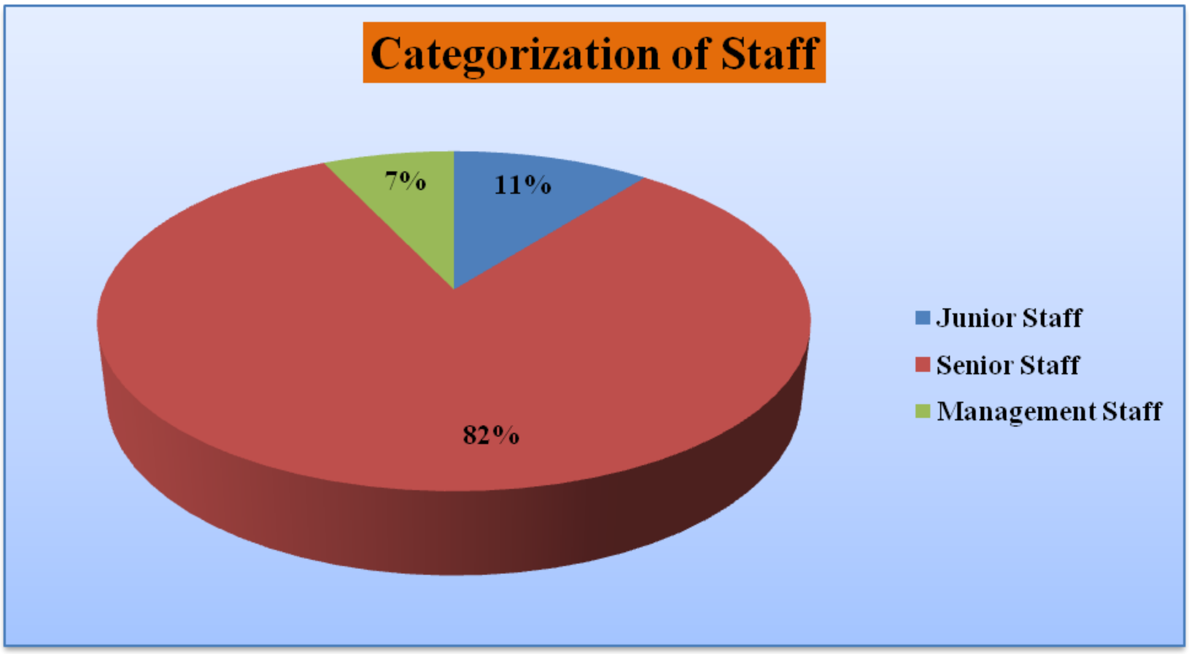

Figure 3: Categorization of Staff

Source: Research Data, 2015.

4.3 Types of Control

The analysis of the questionnaire shows that 87.5% of the respondents identified directive controls as a type of internal control that exists in First Allied Savings and Loans Limited, 94.6% of the respondents identified preventive controls, 87.5% of the respondents indicated that compensating controls existed and 82.1% said there were detective controls. Majority of the respondents ranked preventive control as the most dominant type of internal control. Preventive controls attempts to discourage or prevent unwanted transactions from happening. These consist of proper authorization, adequate documentation, segregation of duties and physical control over tangible and intangible assets. On the other hand, detective controls attempts to discover errors or wrongdoings which have already cropped-up. Instances of detective controls are investigations, interim reviews, reconciliations, periodic stock-taking and audits. Both preventive and detective controls are indispensable to an effective internal control system. (New York State University, 2005).

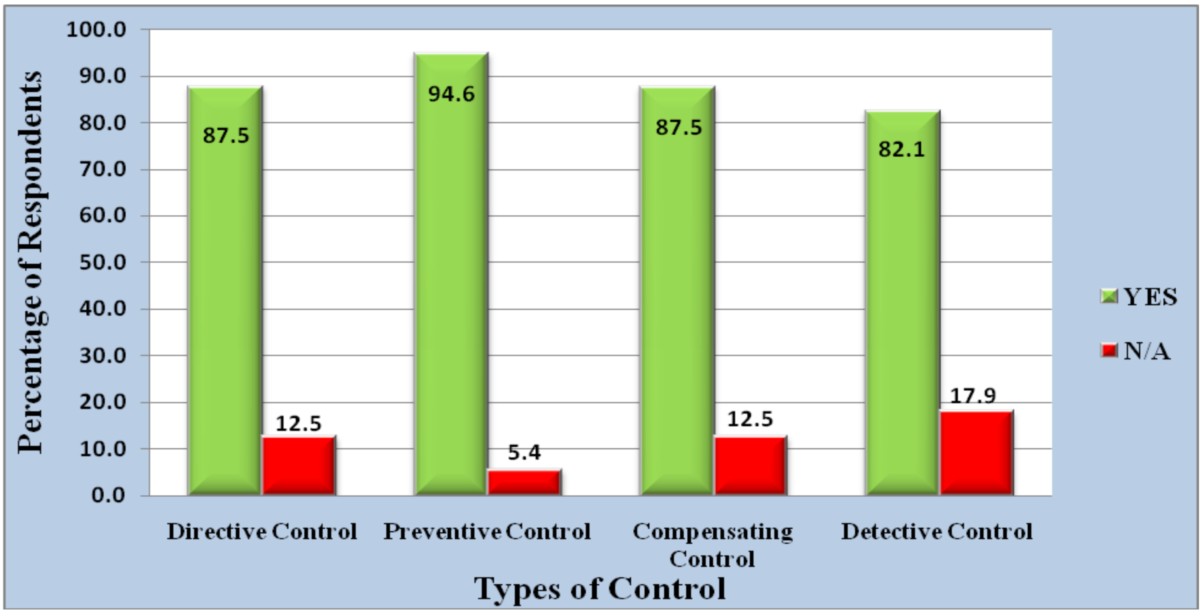

Figure 4: Types of Control

Source: Research Data, 2015.

In another development, 12.5% of the respondents said, directive controls are not in their departments. During the analysis of the questions individually it was evident that some of the employees had neither read the policy manuals nor the policy manuals had not been explained to them. This category of the respondents indicated there are no controls in their department. (See figure 4)

4.4 Analysis of Empirical Data (Effectiveness of Control Environment)

The first question from table 4.1 under control environment was designed to find out whether the company's code of ethical conduct is made available to all employees. It was evident from the study that 31 out of the 56 respondents agree that this is true, 13 of the respondents agreed strongly while 7 disagree to that statement and 5 of the respondents were not sure of that question. This means majority of respondents agreed that the company has a code of ethical conduct which is readily available to all employees.

The second statement from table 4.1 was to find out whether management is commitment to competence and excellence. The data collected revealed that 32 of the respondents agreed, 15 of the respondents strongly agreed. 5 and 2 of the respondents disagree and strongly disagree respectively that there is commitment to competence and excellence. Data gathered shows that majority of respondents agree that management is committed to competence and excellence.

The third question was to ascertain management philosophy and operating style for managing the company. The response given indicated that, 36 of the total respondents agree that management actively follow-up on complaints from customers, operational activities are executed in accordance with applicable laws governing the company and the company has competent internal audit staff that reviews its operations. 14 of the respondents strongly agree and 5 of them were not sure.

The fourth statement from table 4.1 was to find out whether the organization has a chart that clearly depicts lines of authority and responsibility. Data gathered reveals that 30 of the respondents agreed strongly while 18 agreed. Five (5) of the respondents indicated disagree, 2 of the respondents were not sure of that statement and only 1 respondent strongly disagree. Data gathered shows that majority of respondents strongly agree that there is an organizational chart that clearly depicts lines of responsibility and authority in FASL.

Table 4.1: Effectiveness of Control Environment

Control Environment	Frequency					Total Respondents
	Not Sure	Strongly Disagree	Disagree	Agree	Strongly Agree	
Integrity & Ethical Value	5	0	7	31	13	**56**
Commitment to Competence & Excellence	2	2	5	32	15	**56**
Management's Philosophy & Operating Styles	5	0	1	36	14	**56**
Organizational Structure	2	1	5	18	30	**56**
Assignment of Authority & Responsibility	1	0	1	34	20	**56**
Total	**15**	**3**	**19**	**150**	**93**	**280**
Percentage of Respondent	**5**	**1**	**7**	**54**	**33**	**100**

Source: Research Data, 2015.

Finally, the last question which intended to ascertain whether management has provided the required resources to ensure compliance with the requirements of the banking laws and whether there are adequate training opportunities to enhance competency and train staff on new policies and procedures. It was evident that, 34 of the respondents agree. For the rest, 20 strongly agree with 1 disagreeing to that assertion. One (1) of the respondents was not sure of that statement.

Having analyzed the various questions under effectiveness of the control environment, it is appropriate to aggregate these and present it in a single figure for easy assessment. This is presented in the table 4.1 below:

In aggregation, the data presented in figure 5 indicates that majority of the respondents perceive the control environment to be very effective and functional in FASL. This is pinpointing of the fact that 54% of the respondents agreed that there is effective control environment in FASL whilst 33% indicated that they strongly agree the presence of strong control environment within FASL. However, 5% of the respondents were not sure to comment on the statement whereas 7% disagree.

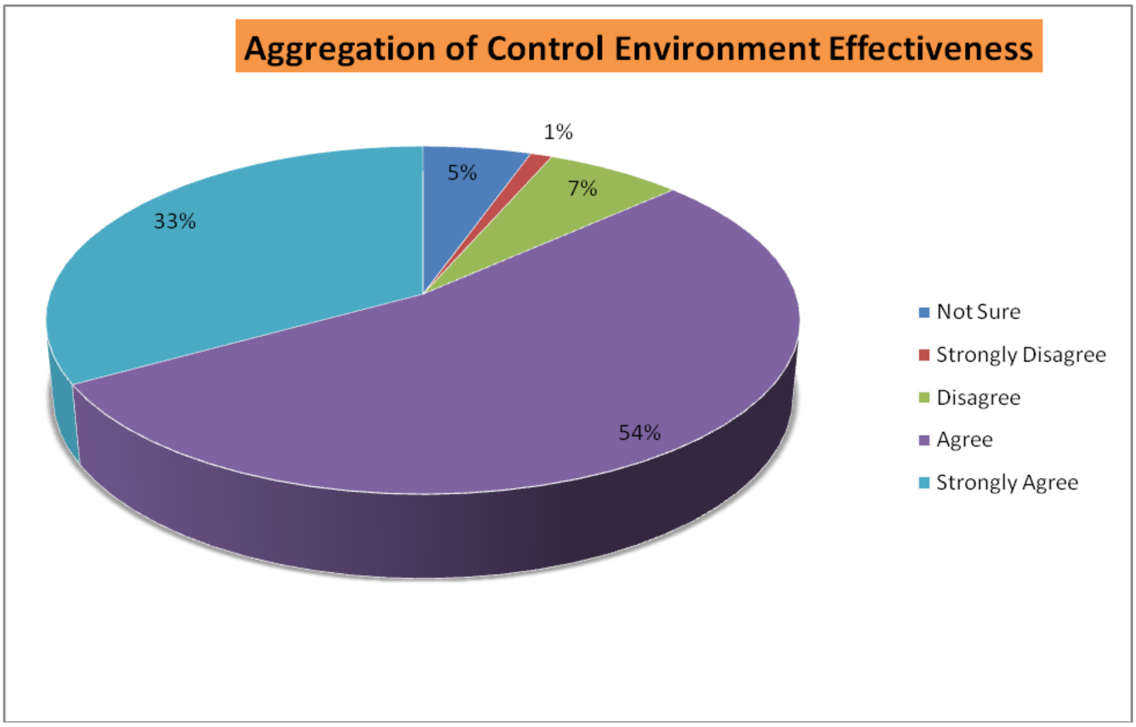

Figure 5: Aggregation of Control Environment Effectiveness

Source: Research Data, 2015.

4.5 Analysis of Empirical Data (Effectiveness of Control Procedures)

The first question (4.1) under the control procedures was to help find out whether management has identified the central part of control procedures that are used to undertake the goals of the institution. The response indicates that, 68% of the respondents agree with this question, 27% strongly agree and 4% were not sure whereas 2% strongly disagree.

The import of item numbered 4.2 on the questionnaire was to ascertain if management has a system in place to measure the effectiveness of the control procedures. It was brought out from the study that, 45% of the respondents strongly agree these procedures are operational at FASL, 48% agree. For the rest, 5% were not sure with 2% disagreeing to that assertion.

Table 4.2: Effectiveness of Control Procedures

No	Description	Percentage of Respondents				
		Not Sure	Strongly Disagree	Disagree	Agree	Strongly Agree
4.1	Management has identified the core control procedures that are used to carry out the goals of the organization.	4	2	0	68	27
4.2	Management has a system in place to measure the effectiveness of the controls procedures.	5	0	2	48	45
4.3	Performance measures for each procedure are obtained timely and at a frequency that permits timely adjustments.	9	2	11	73	5
4.5	Core control procedures are properly documented to facilitate changes.	7	4	2	63	25
4.6	Internal Control documentation is kept up-to-date	9	2	20	59	11

Source: Research Data, 2015.

In assessing the control procedures effectiveness, question 4.3 asked respondents if performance measures for each procedure are obtained timely and at a frequency that permits timely adjustments. The study showed that, 73% agree to this and 5% strongly agree. With the remaining, 11% of the respondents indicated disagree, 9% of the respondents pointed out not sure and 2% of the respondent indicated strongly disagree. The question 4.5 and 4.6 were put together and the researcher wanted to find out if the core control procedures are properly documented to facilitate changes and it is kept up-to-date. It was evident that, 61% of the respondents agree and 18% strongly agree. For the rest, 8% were not sure with 11% disagreeing to that assertion. (See table 3).

Table 4.3: Summary of Control Procedures

Key	Frequency	Percentage of Respondent
Not Sure	4	7
Strongly Disagree	1	2
Disagree	4	7
Agree	35	63
Strongly Agree	12	21
Total	**56**	**100**

Source: Research Data, 2015.

It emerged that majority of the staff perceive control procedures as a component of internal control structure to be very effective in FASL. This is indicated by the fact that 63% of all respondents indicated that they are in agreement with the assertion that there are effective control procedures within the company so far as effective internal control structures are concerned. In addition, a total of 21% of the respondents strongly agree to the assertion that there are effective control procedures in FASL.

However, 7% of respondents disagree; with 2% strongly disagree as well as 7% could not indicate their views on the construct being measured. (See table 4).

This is true because according to Lannoye (2009), an internal control system provide reasonable assurance but not absolute. Therefore, regardless of how well an internal control system is designed and operated, it cannot provide absolute assurance that the entire intentions of management will be met.

4.6 Achievement of Internal Control System

From the figure 6, it is seen that 95% of the respondents agreed that internal control system is capable of ensuring and promoting the effectiveness and efficiency of Bank's (FASL) operations. However, 5% of the respondents did not agree. This means that the bank staff at large holds a belief that internal control system is capable of promoting the effectiveness of various operations in the bank. The 5% respondents who objected to this belief may have a view that internal controls only is insufficient to ensure effective operations of the bank, but to be use in collaboration with other system of control or management or directing the affairs of the bank, such as corporate governance.

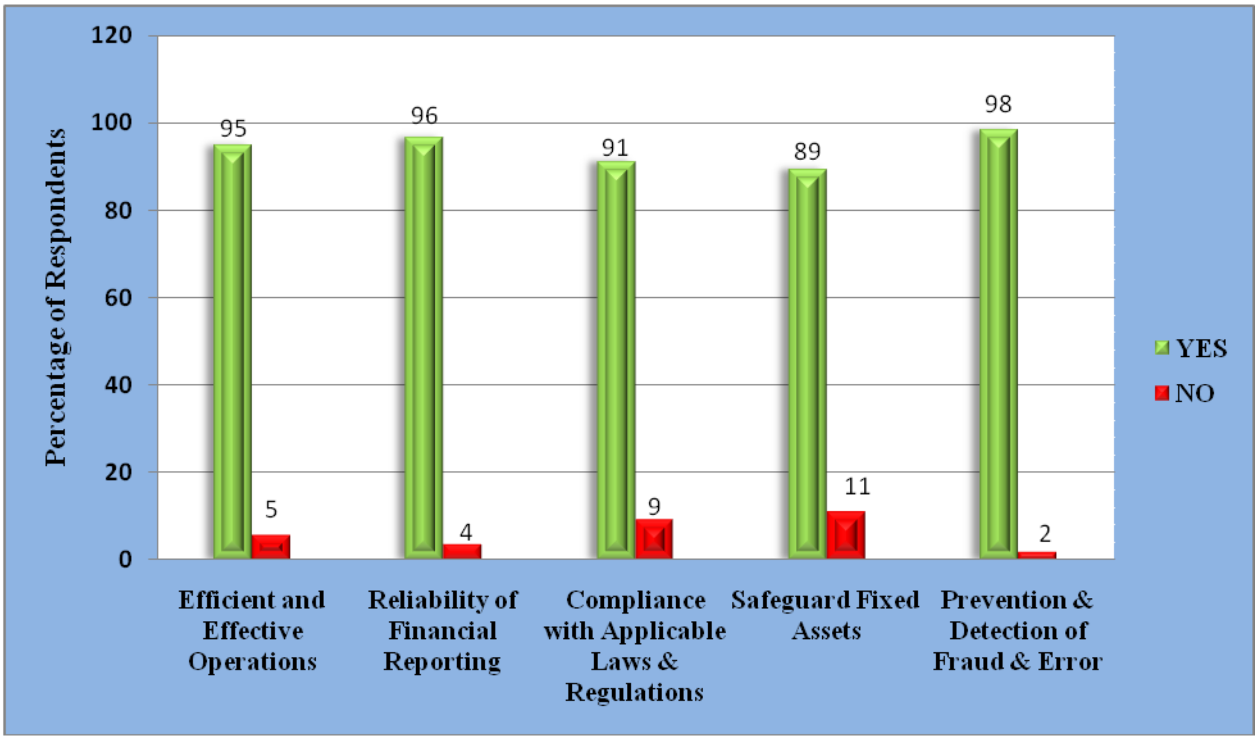

Figure 6: Achievement of Internal Control System

Source: Research Data, 2015.

The table further shows that, 96% of the respondents are in support of the fact that effective supervision and implementation of strong internal controls ensures reliable financial reporting whiles 4% of the respondents oppose to the notion. By implication, larger percentage of the respondents agree that bank should set up effective supervision machinery on internal control system, thus, helps in ensuring reliable of financial reporting.

Furthermore, it was revealed in the figure 6 that 91% of the respondents agreed that the company follows specific laws and regulations in their operations to ensure efficient control over the use of resources, while a small percentage of 9% were against that assertion. This therefore implies that internal controls are sufficient enough to guarantee compliance with applicable laws in the banking industry.

With the data gathered on figure 6, respondents were expected to indicate whether there are procedures in safeguarding tangible and intangible assets against burglary or damage (i.e. sufficient insurance coverage for these assets, codification of assets owned by the company and right of entry to inventories) and the information obtained shows that 89% of the respondents indicated yes and 11% of the respondents pointed out no. Data obtained shows that majority of respondents believes security of assets is done at all times. It also means the organization have appropriate mechanisms for the security of their assets.

Finally, the table depicts that 98% of the respondents agreed that implementation of strong internal control systems are capable of preventing and detecting fraud and error in the bank. However, 2% of the respondent did not agree. This implies that internal control system implemented in the FASL operations is capable of preventing fraud and error and also in detecting same.

CHAPTER F IVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 Introduction

This research work seeks to assess internal control systems effectiveness at First Allied Savings and Loans Limited. This chapter presents a brief summary of the research techniques used for the data analysis and the major findings. The chapter is thus presented under the following sub-headings: Summary, recommendations as well as direction for further studies.

5.2 Summary of Findings

5.2.1 Types of Controls Employed

The research revealed that there are four types of controls employed at First Allied Savings Loans Limited. However, from the above it can be concluded that the main type of control adopted was the preventive control which seeks to ensure that fraudulent practices are prevented before its occurrence. In another development, it was observed that not all the departments employ all the four types of controls.

5.2.2 Effectiveness of Control Environment

In reviewing control environment at FASL, the study revealed that, majority of the respondents perceives the control environment to be very effective and functional in First Allied Savings and Loans Limited. This is pinpointing of the fact that the respondents agreed to the assertion that there is effective control environment in FASL whilst others indicated that they strongly agree there is effective control environment within FASL. It was evident from the study that, majority of the respondents agrees to the assertion that there is an effective control environment functioning at FASL.

5.2.3 Effectiveness of Control Procedures

It was noted that majority of the staff perceive control procedures as a component of internal control structure to be very effective in First Allied Savings and Loans Limited (FASL). This is revealed that all the respondents are in agreement with the assertion that there are effective control procedures within the company.

5.2.4 Internal Control System Achievements

Assessing the achievement of the internal control system at FASL, the study established that, majority of the respondents perceives internal control systems designed are able to achieve its intended purposes in First Allied Savings and Loans Limited. As a result, the functioning of strong internal controls are capable providing reasonable assurance concerning the realization of effective and efficient of operations, reliability of financial reporting, compliance with applicable laws and regulations, safeguarding assets against loss, misuse and damage and prevention and detection of fraud and error.

This is pinpointing of the fact that on average 94% of the respondents agreed that internal control systems designed in are able to achieve its objectives in FASL.

5.3 Recommendations

Below are the recommendations presented to help in improving the effectiveness of internal control systems in First Allied Savings and Loans Limited.

The study recommends that management should make available updated version of the Human Resources Policy Manual which contains the code of ethical conduct to all employees in the company.

First Allied Savings and Loans Limited should make sure that, the policy manuals for Operations, Credits and Administration & Human Resources Departments are up-dated to reflect on the current practices of the company.

Again, Management should consider hiring the services of System Auditor to review the banking application (BankersRealm.Net) used by the company. The reason is that it became evident during the interview that, the banking application used by FASL has not been thoroughly audited by System Auditor for the past ten years.

Finally, setting-up strong internal control systems should be the responsibility of management for every organization. This would help the organization to focus on its financial objectives, to assist in achieving its mission, to reduce surprises and risk and to allow organizations to effectively deal with changes.

5.3.1 Recommendation for Further Studies

To know if internal controls are really working, future researchers interested in this area could as well delve into the following areas for further research:

Examine the effectiveness of the risk assessment procedures in the company.

Examine the effectiveness of the information flow and communication on the control activities.

Ascertain the effectiveness of the monitoring procedures on the internal control activities.

5.3.2 Recommendation for Future Policy

Despite the fact that, the study established internal control composition to be effective, a number of weaknesses were however revealed which must be brought to the notice of management for the needed corrections to be done. Details are given under their respective sub-headings below:

5.3.3 Control Environment

In assessing the effectiveness of the control environment in the company, question number **3.1** in the questionnaire **(see Appendix 1, section 3**) was to find whether the company's code of ethical conduct has been made accessible to all employees. It turned out that, some of the respondents were not sure of that question. In view of this, management should make code of ethical conduct available to all employees.

The results indicated that some of the respondents' perceived code of ethical conduct document is not available to all employees in the Company.

In addition, during the interview it was observed that the policy manuals for Operations, Credit and Administration & Human Resources Departments have been reviewed but it has not been updated with the old policy manuals.

5.3.4 Control Procedures

From the data analysis (chapter 4), it was revealed that the control procedure as a component of internal control structure was effective. However a critical look at the individual questions revealed a serious finding that needs consideration by management for more effective internal controls to be operational.

Question number 4.5 and 4.6 were put together and the researcher wanted to find out if the core control procedures are properly documented to facilitate changes and it is kept up-to-date. The results in Appendix 1 section 4 showed that, some of the respondents were not sure while others disagree to that assertion.

This is a serious weakness and management must ensure that core control procedures are properly documented to facilitate changes and it is kept up-to-date in order to bring benefits to the company.

5.4 Conclusion

The findings confirmed the assertion made by the Treadway commission of the Committee of Sponsoring Organizations (COSO), that it is the responsibility of management to establish the internal control system and that the role of the internal audit department is to evaluate the effectiveness of the internal control system. For that reason, the internal audit department often plays a significant inspection role, but their officers are at the head office and visit the branches on yearly bases. The internal audit department mostly influences the internal control systems. But for a control system to be effective one person must not have great influence on the control policies and procedures set-up by management.

When such a thing happens that individual can without difficulty override the control systems put in place by management. The purpose of the study was assessing the effectiveness of internal control system in FASL. It was observed that the effectiveness of the internal control system rest on the internal audit department, which visits the branches on yearly basis. Again, it was evident that no single person has influence over control procedures in FASL and this confirmed the assertion of the COSO that it is management's responsibility to set up the internal control system and that the internal audit department role is only to advice for the improvement of the controls.

The research revealed that there are four types of control system employed at First Allied Savings Loans Limited. However, it was concluded that the main type of control adopted was the preventive control which seeks to ensure that fraudulent practices are prevented before its occurrence. On the other hand, the internal controls effectiveness could not be described as very effective since inspection is less effective, because the internal audit department whose duty is to ensure compliance of the policies and procedures only visits the branches once a year.

From the empirical evidence of this research carried out, it came out that internal controls at FASL are extremely effective. Actually, this is evident from only the two component considered in the study as each of them appeared to be effective namely, control environment and control procedures. Furthermore, combination of all the five objectives of internal controls was examined and it was observed that internal control systems designed in FASL have achieved the effective and efficient of operations, financial reporting reliability, compliance with laws and regulations applicable, safeguarding tangible and intangible assets against loss, misuse and damage and prevention and detection of fraud and error.

However, with particular areas of the controls that become visible not to be effective, management were made to improve the effectiveness of the internal control systems at FASL based on the recommendations. Recommendations were also made for further studies.

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APPENDIX 1

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS
MASTER OF BUSINESS ADMINISTRATION
QUESTIONNAIRE FOR EMPLOYEES

Dear Respondent**,**

This research questionnaire is aimed at gathering data for a study on "Assessing the Effectiveness of Internal Control System, the case of First Allied Savings and Loans Limited". This study is purely for academic purposes and respondents are assured of uttermost confidentiality of information provided. Please answer the questions as honestly and objectively as possible. Thank you.

SECTION 1

<u>DEMOGRAPHIC DATA (Tick as Appropriate)</u>

1.1 Gender **a)** Male [ ] **b)** Female [ ]

1.2 Years of Working

a) 1-5yrs [ ] **b)** 6-10yrs [ ] **c)** 11-15 yrs [ ] **d)** 16yrs and above [ ]

1.3 Category of Staff

a) Junior Staff [ ] **b)** Senior Staff [ ] **c)** Management Staff [ ]

1.4 Department

Please specify ……………………………………

SECTION 2
TYPES OF CONTROL (Tick as Appropriate)

NO.	DESCRIPTION	YES	NO
	Directive Control		
2.1	Is there any approved policy manual which governs the activities of your department?		
2.2	Have you read the policy manual yourself?		
2.3	Has the policy manual been explained to you?		
	Preventive Control		
2.4	Are duties and responsibilities separated among different staff?		
2.5	Does management specify activities or transactions that need supervisory approval before they are performed by staff?		
	Compensating Control		
2.6	Are there procedures that allow your department to maintain a copy (soft or hard) of the client list and account balances?		
2.7	Is there any back-up system in place for your entire electronic database?		
	Detective Control		
2.8	Does your department prepare reconciliation statements?		
2.9	Does the management use budget, spending plans, etc. to review the company's performance?		

SECTION 3

The following statements concern the Internal Control practices of the Bank. Please indicate the extent to which you agree or disagree with each statement by ticking in the box corresponding to a number from 1 to 5 that represents your level of agreement or disagreement.

Key

1	2	3	4	5
Not Sure	**Strongly Disagree**	**Disagree**	**Agree**	**Strongly Agree**

EFFECTIVENESS CONTROL ENVIRONMENT (Tick as Appropriate)

NO.	DESCRIPTION	1	2	3	4	5
	Integrity & Ethical Values					
3.1	The company has a code of ethical conduct that has been made available to all employees.					
	Commitment to Competence& Excellence					
3.2	Responsibilities are clearly defined in writing and communicated.					
3.3	Management has demonstrated adequate knowledge and skills required to accomplish tasks.					
	Management's Philosophy & Operating Style					
3.4	Management actively follow-up on complaints from customers/clients.					
3.5	Operational activities are executed in accordance with rules and regulations governing the company.					
3.6	The company has a functioning internal audit staff that reviews its operations.					
	Organizational Structure					
3.7	There is an organizational chart that clearly defines the lines of the management authority and responsibility.					
	Assignment of Authority & Responsibility					
3.8	Management has provided resources to ensure compliance with the requirements of the banking Laws.					
3.9	There are sufficient training opportunities to improve competency and update employees on new policies and procedures established.					
3.10	Tasks are divided so that no single employee controls all phases of a transaction.					

SECTION 4

EFFECTIVENESS CONTROL PROCEDURES (Tick as Appropriate)

NO.	DESCRIPTION	1	2	3	4	5
4.1	Management has identified the core control procedures that are used to carry out the goals of the organization.					
4.2	Management has a system in place to measure the effectiveness of the controls procedures.					
4.3	Performance measures for each procedure are obtained timely and at a frequency that permits timely adjustments.					
4.4	Efficient control measurements are compared with industry standards or other benchmarks.					
4.5	Core control procedures are properly documented to facilitate changes.					
4.6	Internal Control documentation is kept up-to-date					

SECTION 5

ACHIEVEMENT OF INTERNAL CONTROL SYSTEMS (Tick as Appropriate)

NO.	DESCRIPTION	YES	NO
	Effectiveness and Efficiency of Operations		
5.1	Has the management developed plans to achieve stated goals?		
5.2	Do these plans describe clearly objectives to be achieved, the methods to be used, how resources are organized and time line for completion?		
5.3	Are instructions available on how to use the non-personnel resources such as equipment, information systems and available funds?		
	Reliability of Financial Reporting		
6.1	Is it required that trial balances, adjustments and supporting work papers be maintained to support the process of closing the General Ledger and preparing Financial Statements and Financial Statement worksheets?		

6.2	Are worksheets and schedules attached to journal entry accounting code sheets and are they secured in a safe location?		
6.3	Are schedules followed to ensure timely preparation and filing of statutory reports?		
6.4	Is usefulness of internal financial reports periodically evaluated?		
6.5	Are financial reports submitted timely to requestors or users?		
Compliance with Applicable Laws & Regulations			
5.6	Are there methods used to identify laws, regulations and standards that affect the organization?		
5.7	Are there mechanism designed to monitor compliance with these laws, regulations and standards?		
Safeguard Fixed Assets			
5.8	Are there procedures in place to safeguard valuable and sensitive assets against theft or damage?		
5.9	Is there adequate insurance coverage of the very high valued fixed assets?		
5.10	Are assets owned by the company specifically identified/coded?		
5.11	Are there procedures in place for writing-off fully depreciated fixed assets?		
Prevention and Detection Fraud and Error			
5.12	Does the implementation of strong internal control system able to detect and prevent fraudulent act and practice?		
5.13	Does an effective supervision and implementation of strong internal control system capable of revealing fraudster's mode of operations?		
5.14	Does awareness of internal control system by management and staff reduces an attempt to perpetrate fraud?		
5.15	Does top management adherence and submission to the control procedures set in place in all departments of the bank able to prevent the occurrence of management fraud?		

APPENDIX 2

INTERVIEW GUIDE

1. What does internal control system mean to you?
2. In your opinion, who is responsible for the establishment of internal control systems in your organization?
3. What makes controls deficiencies and ineffective?
4. How can the internal control system be strengthened?
5. What makes internal controls detective, preventive, compensating or detective?
6. Why internal controls are being abuse or override?
7. How true it is that internal controls are practices that protect and safeguard Assets?
8. Are the internal controls designed to prevent the recurrence of errors?
9. Is it designed to search for and identify errors and irregularities?
10. In your opinion how human error on financial records and judgment can affects performance of the internal controls?
11. Without segregation of duty what would be the level of fraud commitment?
12. Is there system auditor in FASL?
13. Can internal control system always check completeness and authorization of transactions?
14. Can the systems measure the effectiveness of the established control environment and control procedures?
15. In your opinion, has internal control systems designed are able to achieve its intended purposes in FASL?