KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY
INSTITUTE OF DISTANCE LEARNING

INTERNAL CONTROL SYSTEM: CHALLENGES AND EFFECTS ON MANAGEMENT, STAFF AND CUSTOMERS OF AGRICULTURAL DEVELOPMENT BANK, BRONG-AHAFO REGION

By

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Declaration

I hereby declare that this submission is my own work towards the Executive Masters of Business Administration and that, to the best to 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

I dedicate this work to my loving children, Lucent, Raymond and Alice

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Abstract

Internal control system is an essential tool for the realization of the goals of every organisation especially financial institutions and banks where the risk of mistakes and fraud are prevalent and their consequences are upsetting. The nature of the internal control system and how it is implemented may pose numerous challenges. These challenges are impediments to realising the objectives of the internal control system and knowing them is at least a milestone in finding solutions. This study investigates the possible challenges of implementing an effective and efficient internal control system and its effects on customers' perception of the service rendered by the Agricultural Development Bank in the Brong-Ahafo Region of Ghana. The population of the study consists of all the employees and customers of the bank in the Brong-Ahafo Region of Ghana. The sample size was 120 employees and 500 customers of the bank selected from the 10 branches of ADB in the Brong-Ahafo Region using quota and convenient sampling techniques. Questionnaires were used to collect data for the study. The findings suggest that there is some amount of weakness in the internal control system of the bank especially the information technology component of the internal control system. It was found that among the major challenges of implementing the internal control system of the bank are desires of management to achieve certain reporting results and personal interest over corporate and public interest. The findings indicate that customers of the bank generally dislike internal control practices and hence effective and strong internal control system affects their happiness with the service and consequently, their perception of the quality of service of the bank. The study suggests that a significant direct relationship should exist between customers' perception of the nature of internal control practices of the bank and their perception of the reliability of the service that the bank renders.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

When companies experience decline in sales or low output, managers become worried. The often-resounding question is, “What went wrong?” A breakdown in the internal control system is one of the usual causes. According to an International Monetary Fund (IMF)(2009), Internal Control refers to the mechanism put in place on a permanent basis to control the activities in an organization, both at a central and at a departmental/divisional level. A key component of effective internal control is the operation of a solid accounting and information system. Internal control is a process that guides an organization towards achieving its objectives. These objectives include operational efficiency and effectiveness, reliability of financial reporting, and compliance with relevant laws and regulations (COSO 1992). Absence of these variables often results in organizational failure. The findings of the Tread Way Commission Report of 1987 in the United States of America (USA) confirmed absence of, or weak, internal controls as the primary cause of many cases of fraudulent company financial reporting.

The widespread global corporate accounting scandals that assumed near epidemic proportions in recent years were blamed on failure of internal controls. Notable cases include Enron and WorldCom in the United States of America, Parmalat in Europe, and Chuo Aoyama in Asia. In South Africa, cases of accounting scandals have been recorded in Johnson Controls Incorporated (JCI) and Rand Gold and Exploration Companies. Similarly, in Nigeria, the Managing Director and Chief Financial Officer of Cadbury Nigeria Public

Limited Company (PLC) were dismissed in 2006 for inflating the profits of the company for some years before the company's foreign partner acquired controlling interest (Amudo and Emanga, 2010). These issues emphasize the need to evaluate, scrutinize, and formulate systems of checks and balances to guide corporate executives in decision-making. These executives are legally and morally obliged to produce honest, reliable, accurate and informative corporate financial reports periodically.

Banking has a diversified and complex financial activity which is no longer limited within the geographic boundary of any particular country. Since its activity involves high risk, the issue of effective internal control system, corporate governance, transparency and accountability has become significant issues to ensure smooth performance of the banking industry throughout the world. In many banks, internal control is identified with internal audit; the scope of internal control is not limited to audit work. It is an integral part of the daily activities of a bank, which, on its own merit, identifies the risks associated with the process and adopts a measure to mitigate the same. Internal Audit, on the other hand, is a part of Internal Control System which reinforces the control system through regular review. Internal controls are the means to ensure compliance with external laws and regulations as well as with the bank`s own internal policies.

The single greatest factor contributing to operational failures in banks is the lack of adequate internal controls. When one speaks of *management,* one is essentially speaking of getting things done through people and this places a bearing on effective implementation of internal controls. Internal controls exist in all banks, at least in some form of a policy document, even if the implementation of the practice is ineffectual or nonexistent. Inadequate internal controls may be evidenced in weak internal and external auditing less than factual loan portfolio examinations and less than accurate record keeping. Those inadequacies in internal controls can contribute to erroneous decisions. In addition, those erroneous decisions are directly or indirectly harmful to the bank's well being and to its current and future condition.

In most cases, failure in internal controls is not as a result of inadequate internal controls. A well designed internal control system will definitely fail if it is not well implemented. The management and employees of banks are prone to facing the reality in the banking hall as against following the acceptable internal control procedures which have the tendency of prolonging service speed. Effective implementation of internal controls in the bank may be quite challenging to management and employees of banks. Simplification of transaction procedures may violate internal controls and expose the bank to risk of fraud but reduce transaction time. On the other hand, strict observation of the internal control procedures will prevent fraud but increase transaction time. This study seeks to investigate the major challenges management of Agriculture Development Bank encounter in implementing the internal control system of the bank and whether the current internal control procedures affects customers' perception of the services of the bank.

1.2 The profile of Agricultural Development Bank (ADB), Ghana

The Agricultural Development Bank is a universal bank offering full range of banking products and services in retail, commercial, corporate and investment banking. It`s business focus is universal banking with development focus.

The vision of Agricultural Development Bank (ADB), Ghana

The vision "To be among the Top three performing banks in Ghana by 2012, balancing market orientation with a development focus on Agriculture and more".

The mission of Agricultural Development Bank (ADB), Ghana

ADB is committed to building a strong customer-oriented Bank, run by knowledgeable and well-motivated staff, providing profitable financial intermediation and related services for a sustained and diversified agricultural and rural development. For the achievement of this mission, the Bank is committed to:

- Providing first class customer service.
- Regularly improving on the use of information technology.
- Ensuring that staff are well motivated and have a conducive working environment.
- Recruiting and retaining the best human resource to carry out the Bank's mandate.
- Applying best practices in internal policies, procedures, processes and service delivery.

History of Agricultural Development Bank (ADB), Ghana

In 1964, the Bank of Ghana set up a Rural Credit Department to prepare the necessary legislation, plans and procedures for the establishment of a specialized bank for the provision and administration of credit and other banking facilities in the agricultural sector. The work of this department resulted in the passage of the Agricultural Credit and Co-operative Bank Act, 1965 (Act 286) which incorporated a bank under that name.

In 1967, the National Liberation Council Decree (NLCD 182) was passed. This changed the name of the Bank which was 'Agricultural Credit and Co-operative Bank' Agricultural Development Bank (ADB) and amended certain sections of the original Act to allow ADB to undertake the acceptance of deposits on current and savings accounts and transact banking business normally carried out by commercial banking institutions, including raising loans from foreign sources.

In 1970, The Agricultural Development Bank Act, 1970 (Act 352) was passed to further broaden the Bank's functions and enabled the Bank to be granted a full banking license in that year under the Banking Act, 1970 (Act 339).In 2004, ADB gained a Universal banking license under Banking Act 2004 (Act 673) which removed restrictions on banking activity. From its original Head Office on Tunisia Road in Accra, ADB moved to the Ring Road Central, then to the Cedi House on Liberia Road in Accra in 1993, before finally settling at its current ADB House Head Office premises on Independence Avenue in Accra in 2005.

Major Departments of Agricultural Development Bank (ADB), Ghana

The major departments of the bank are; retail banking, operations, transaction banking and technology, finance and planning, credit risk management, corporate banking, human resource and treasury. The transaction banking and technology department concentrates on product development and support, together with sales and marketing including cash management, call centre, cards issue, mobile and internet banking products. The department also provides the key support backbone including the data centre, technology infrastructure and security.

The Risk Management Department provides oversight responsibility across all the Business Units. Risk Management therefore identifies, assesses, and prioritises risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events.

The Treasury department aims at providing value-added services to existing and potential corporate, commercial and retail clientele in various sectors of the Ghanaian economy. ADB Treasury is positioned to price competitively its products and services favourable to its customers and also cement its goal to be a force to reckon with in the financial market.

1.3 Statement of the Problem

Internal control systems have become a contemporary academic and professional issue following global fraudulent financial reporting and accounting scandals in both the developed and developing countries. A proactive preventive approach to the problem requires a critical evaluation of existing internal control structures of firms and making the needed adjustments to ensure that the organization's internal control system is up to date. Having an up to date internal control system is desirable. However, the implementation of such systems is usually challenging to management and staff. If internal control systems are not tactically implemented, it may affect customers' perception of the quality of services of a firm. This is because internal control systems will usually require management, staff and customers to following laid down procedures and processes in one way or the other.

The problem of this study is whether internal control poses some challenges on the day-to-day operations of employees of ADB and whether the internal controls procedures and processes affect customers' perception of the quality of service the bank renders.

1.4 Purpose of Study

The aim of the study is to identify the actual internal control system of the bank, find out the possible operational challenges of the control system to management and employees; and ascertain whether the control system affects customers perception of the quality of service the bank renders as well as to make policy recommendations for the improvement of the internal control system of ADB Ghana Limited in particular and banks in generals. To achieve this purpose, the researcher has set out the following as objectives.

1. To identify the natur of actual internal control system that operates in theAgricultural Development Bank (ADB).
2. To ascertain the challenges management and employees face in implementing the internal control system of Agricultural Development Bank (ADB).
3. To find out if the procedures and processes of the internal control system of Agricultural Development Bank (ADB)affects customer's perception of the quality of service of the bank.

1.5 Research Questions

These objectives raise a number of questions that need to be answered. The major ones are:

1. What is the nature of the actual internal control systems of Agricultural Development Bank (ADB)?
2. What are the major challenges encountered by management of Agricultural Development Bank(ADB) implementation of the internal control system of the bank?
3. What are some of the challenges employees encounter in implementing the internal control system?
4. Does the internal control system of the bank affect the bank's customers' perception of the quality ofservicerendered by the Agricultural Development Bank (ADB)?

1.6 Justificationof the Study

Internal control system is an essential tool for the realization of the goals of every organisation especially financial institutions and banks where risk of mistakes and fraud are prevalent and their consequences are upsetting. Agricultural Development Bank is a financial institution and therefore must operate within a well structured and effective internal control system.

The nature of the internal control system and how it is implemented may pose numerous challenges to the management and staff of the bank.The challenges are impediments to realising the objectives of the internal control system and must be known for appropriate redress. The realisation of the existence of a problem and the identification of the problem is at least a milestone in finding solutions. It is important to know the challenges the internal control system poses on the management and the employees of the bank. Such information is relevant for effective and constructive review of the internal control system.

It could be argued that the nature of the internal controls and mode of implementation could affect the perception of service quality, the trust and the confidence of stakeholders of the bank in diverse ways. For instance, the way the control procedures are implemented may require customers to pass through numerous steps to complete a transaction and this may affect customer perceptions of the quality of service of the bank since speed of transactions is an important factor of service quality. On the other hand, simplified control activities and procedures could speed up transaction processes but may result in weak controls. The consequence of weak control may be mistakes and fraud which could affect the level of reliability of the bank to customers. This will also affect customers level of trust in the bank and hence their perception of the quality of service rendered by the bank. Information on the effect of the internal control system on customers is vital in identifying the procedures that add value to the service quality of the bank and those that affect the quality of the service rendered by the bank.

A study on the nature of the actual internal control system of the bank, the challenges it poses on the management and employees of the bank and the effects of the internal control procedure and processes on customers' perception of the quality of service of the bank is therefore a valuable project.

1.7 Significance of the Study

The study is immensely significant in diverse ways to business, accounting, marketing and practitioners, policy makers of the bank as well as stakeholders of the bank.

To the management of the bank, the findings and results will provide more reliable scientific information on the challenges of the internal control system of the bank. It will also serve as an invaluable source of information that brings to lime light the effects of the internal control procedures on customers' perception of the quality of service of the bank. It will enable management to become aware of dimensions of the internal control system that customers consider as important and those internal control procedures that are unfriendly to customers. This will provide empirical support for management's strategic decisions in several critical areas of their operations. Again, it will provide a justifiable and reliable guide to designing workable internal control procedures and processes for creating and delivering customer value, achieving customer satisfaction and loyalty, building long-term mutually beneficial relationship with profitable customers and achieving sustainable business growth.To policy makers, like the board of directors of the bank and government agencies such as the Bank of Ghana, the finding and results of this study will provide invaluable insights on why internal control procedures may sometimes be compromised and the challenges of operating internal controls in banks. Such information is relevant in formulating improved internal control policies.

Finally, the study will be a contribution to the existing literature on internal control practices of banks. Thus, the findings of the study will be relevant to future research.

1.8 Research Methodology

The population for the study consists of all the employees and customers of Agricultural development Bank in the Brong-Ahafo Region of Ghana. The population is a composition of males and females of different ages and levels of education and experiences. The sample size was 120 employees and 500 customers of the bank selected from the 10 branches of ADB in the Brong-Ahafo Region using quota and convenient sampling techniques. Questionnaire and interview guides would be employed to solicit responses from the respondents.

1.9 Limitations of the Study

The main limitations of this study are constraints of resources, access to relevant data, and time. The financial and material resources needed for a larger sample size for the study is not available. It is also not likely the researcher would have access to every customer of the bank to respond to the questionnaire. Language is another limitation to data collection as it is difficult translating some questions and statements into the local dialects perfectly. This limitation, in particular, accounted for delimiting the study to literate individuals/participants. This study is also constrained by time. It is conducted within very limited academic time frame. However, adequate research procedures are put in place to ensure that the needed data is obtained and used for the study.

1.10 Organization of Study

The study is organized into five chapters. Chapter one provides a general introduction of the study and covers the background of the study, the statement of the problem, the Purpose of the study, the research questions, justification of the study, significance of the study, research methodology, limitation of the study, and organization of the study. Chapter two is about the review of relevant literature. Chapter three deals with the research methodology and itincludes the sources of data, the population, data collection method, research instruments/tools, and sampling techniques. Chapter four is the presentation, analysis and discussion of results of the study. Chapter five gives a summary of major findings, conclusions and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter covers the review of relevant literature. The review is done under the following headings:

- An overview of internal control system
- The concept of internal control system
- Challenges of internal control systems
- The concept of customer
- The effects of internal controls system on customer perception of service quality
- The concept of customer service quality

2.1 Overview of Internal Control Systems

In the 1970's and 1980s, business failures were wide spread and became a matter of concern to both developing and developed nations. In response to this problem, the United States of America inaugurated the National Commission on Fraudulent Financial Reporting. The main duty of the commission was to identify the factors that cause fraudulent financial reporting and make recommendations for the resolution of the problem. The findings of the commission identified internal control weakness as the major source of fraudulent financial reporting. The recommendations of the commission emphasised the crucial role of internal control environments, code of ethics and of internal control reporting by management in curbing fraudulent financial reporting and business failure. The commission recommended the development of a widely acceptable and applicable definition and frame work of internal control as part of the measures to curb internal control weakness, fraudulent financial reporting and business failure. Since then, internal control became a matter of concern to governments, and corporate bodies. “The revolutionary process of developing an internal control frame was realised in 1992” with the publication of “COSO” an integrated internal control framework (Amudo and Emanga, 2010).

2.2 The Concept of Internal Control System

Internal control system is basically all the processes, procedures and mechanisms put in place to ensure that desired results are achieved. However, it is mostly used to describe the process and procedures at the accounting and financial function of an entity to safeguard property against theft and losses as well as minimize clerical errors. Thus internal control is a new term for what was formally known as internal check (Fight, 2002).

A careful observation of the description of the concept of internal control in the literature shows that the meaning and implications of internal control system changes with time and advancement in technology.In 1936, the American Institute of Certified Public Accountants (AICPA) described internal control system as the measures and methods adopted by an organization to safeguard cash and other assets of an entity and to check the accuracy of bookkeeping. This definition limited internal control system to two basic functions – safeguard assets and check accuracy of accounting entries. However, in 1949, the definitions of internal control system by AICPA added promoting of operational efficiency and promoting of adherenceto prescribed management policies as objectives of internal control.

The National Commission on Fraudulent Financial Reporting of the United States of America in 1987 recommended the design of a control system that will not only safeguard assets, check accuracy of bookkeeping, promote operational efficiency and adherence to regulations, but also detect fraudulent financial reporting (Amudo and Emenga 2010, Bridge and Moss, 2003). This review reveals that the meaning and what constitute internal control system continue to change with time and new developments in business operations.

In 1992, the Committee of Sponsoring Organizations popularly known as "COSO" developed a framework of internal control system and the definition of internal control system in this framework became the most acceptable description of the concept of internal control. In fact all other definitions of internal control system fall under the definition of the framework. The definition of internal controlsystem by COSO was a polish-up and integration of previous definitions of internal control. COSO described internal control system as a process affected by an entity's board of directors, management and all other personnel at various levels of operation to provide reasonable assurance regarding the achievement of its objectives in three specific areas -reliability of financial reports, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

The outstanding quality of the definition of internal control system by COSO is that it emphasized that internal control is not a functional concept but rather concerns and involveseverybody at every part of an entity. COSO also categorized the objectives of internal control system into three and identified reasonable assurance as the yard stick for measuring the achievement of the three objectives (Barlow et al, 1999).

COSO's definition of internal control has been adopted by many researchers and practitioners with only few variations in terminologies. Notable among these researchers and practitioners are Sawyer and Dittenhofer (1996); Barlow et al (1999); Knechel (2001);Venables and Impey (1991); Robertson (2002);Amudo and Emenga (2010); and Basle committee on Banking Supervision (1998) among others.Basle Committee on Banking Supervision in their description of internal control stressed that internal control is not a one-time event; neither is it a functional activity. The committee indicated that internal control is an activity that is continually operating at every unit and level of an entity. The committee recommended that every facet of bank operations should be monitored by some form of a control system.For the purpose of this study the definition of internal control by COSO is appropriate and would be thedefinition of internal control system in this study.

Like the definition of internal control system, the conceptual framework of internal control system is vague in the literature.Many researchers have tried to develop workable internal control system framework. The widely known and used conceptual frameworks of internal control are the COSO's framework and the COBIT'sframework.

2.2.1 Committee of Sponsoring Organizations of the Treadway Commission Framework of Integrated Internal Control System (COSO)

The well known COSO is an integrated internal control framework that was developed by the Teaadway Commission of the United States of America in 1992. The framework was developed to help curb the fraudulent financial reporting in corporate accounting which resulted in mass business failure in the USA. The framework published in 1992 conceptualized internal control as a five-dimensional concept. The five components of the COSO framework are control environment, risk assessment, control activities, information and communication, and monitoring.

The Basle Committee on Banking Supervision (1998) explains the major variables shown in the models of Amudo and Emanga (2010) as follows.

Control culture (Environment)

The control environment set the tone for internal control in an organization. It is the control consciousness of management and staff of an organization. The committee noted that an essential element of an effective system of internal control is a strong internal control environment. It is the responsibility of the board of directors and senior management to emphasise the importance of internal control through their actions and words. This includes the ethical values that management displays in their business dealings, both inside and outside the organisation. The words, attitudes and actions of the board of directors and senior management affect the integrity, ethics and other aspects of the bank’s control culture.

In varying degrees, internal control is the responsibility of everyone in a bank. Almost all employees produce information used in the internal control system or take other actions needed to effect control. An essential element of a strong internal control system is the recognition by all employees of the need to carry out their responsibilities effectively and to communicate to the appropriate level of management any problems in operations, instances of non-compliance with the code of conduct, or other policy violations or illegal actions that are noticed (Bank of England, 1997). This can best be achieved when operational procedures are contained in clearly written documentation that is made available to all relevant personnel. It is essential that all personnel within the bank understand the importance of internal control and are actively engaged in the process.

In reinforcing ethical values, banking organisations should avoid policies and practices that may inadvertently provide incentives or temptations for inappropriate activities. Examples of such policies and practices include undue emphasis on performance targets or other operational results, particularly short-term ones that ignore longer-term risks; compensation schemes that overly depend on short-term performance; ineffective segregation of duties or other controls that could allow the misuse of resources or concealment of poor performance; and insignificant or overly onerous penalties for improper behaviours. Although having a strong internal control culture does not guarantee that an organisation will reach its goals, lack of such a culture provides greater opportunities for errors to go undetected or for improprieties to occur (Basle Committee on Banking Supervision, 1998).

Risk Recognition and Assessment

Basle Committee on Banking Supervision (1998) indicates that "Banks are in the business of risk-taking. Consequently, it is imperative that, as part of an internal control system, these risks are recognised and continually assessed. From an internal control perspective, a risk assessment should identify and evaluate the internal and external factors that could adversely affect the achievement of the banking organisation's performance, information and compliance objectives. This process should cover all risks faced by the bank and operate at all levels within the bank. It differs from the risk management process which typically focuses more on the review of business strategies developed to maximise the risk/reward trade-off within the different areas of the bank.

The committee also indicated that effective risk assessment identifies and considers internal factors (such as the complexity of the organisation's structure, the nature of the bank's activities, the quality of personnel, organisational changes and employee turnover) as well as external factors (such as fluctuating economic conditions, changes in the industry and technological advances) that could adversely affect the achievement of the bank's goals. This risk assessment should be conducted at the level of individual businesses and across the wide spectrum of activities and subsidiaries of the consolidated banking organisation. This can be accomplished through various methods. Effective risk assessment addresses both measurable and non-measurable aspects of risks and weighs costs of controls against the benefits they provide. This means that, as much as risk assessment is crucial in internal controls, it does not make sense to undertake non-value-adding risk assessment.

The risk assessment process also includes evaluating the risks to determine which are controllable by the bank and which are not. For those risks that are controllable, the bank must assess whether to accept those risks or the extent to which it wishes to mitigate the risks through control procedures. For those risks that cannot be controlled, the bank must decide whether to accept these risks or to withdraw from or reduce the level of business activity concerned. This implies that risk assessment does not end at identifying the risk areas but includes classifying the risk area into controllable and uncontrollable risk for management decision making.

In order for risk assessment, and therefore the system of internal control, to remain effective, senior management needs to continually evaluate the risks affecting the achievement of its goals and react to changing circumstances and conditions. Internal controls may need to be revised to appropriately address any new or previously uncontrolled risks. For example, as financial innovation occurs, a bank needs to evaluate new financial instruments and market transactions and consider the risks associated with these activities. Often these risks can be best understood when considering how various scenarios (economic and otherwise) affect the cash flows and earnings of financial instruments and transactions. Thoughtful consideration of the full range of possible problems, from customer misunderstanding to operational failure, will point to important control considerations.

Control Activities and Segregation of Duties

Control activities are designed and implemented to address the risks that the bank identified through the risk assessment process described above. Control activities involve two steps: (1)

the establishment of control policies and procedures; and (2) verification that the control policies and procedures are being complied with(Basle Committee on Banking Supervision, 1998). The committee holds that control activities involve all levels of personnel in the bank, including senior management as well as front line personnel. According to the committee examples of control activities include:

- *Top level reviews* - Boards of directors and senior management often request presentations and performance reports that enable them to review the bank's progress towards its goals. For example, senior management may review reports showing actual financial results to date versus the budget. Questions that senior management generates as a result of this review and the ensuing responses of lower levels of management represent a control activity which may detect problems such as control weaknesses, errors in financial reporting or fraudulent activities.
- *Activity controls* - Department or division level management receives and reviews standard performance and exception reports on a daily, weekly or monthly basis. Functional reviews occur more frequently than top-level reviews and usually are more detailed. For instance, a manager of commercial lending may review weekly reports on delinquencies, payments received, and interest income earned on the portfolio, while the senior credit officer may review similar reports on a monthly basis and in a more summarised form that includes all lending areas. As with the top-level review, the questions that are generated as a result of reviewing the reports and the responses to those questions represent the control activity.

- *Physical controls* **-** Physical controls generally focus on restricting access to tangible assets, including cash and securities. Control activities include physical limitations, dual custody, and periodic inventories.
- *Compliance with exposure limits* - The establishment of prudent limits on risk exposures is an important aspect of risk management. For example, compliance with limits for borrowers and other counterparties reduces the bank's concentration of credit risk and helps to diversify its risk profile. Consequently, an important aspect of internal controls is a process for reviewing compliance with such limits and follow-up on instances of non-compliance.
- *Approvals and authorisations*- Requiring approval and authorisation for transactions over certain limits ensures that an appropriate level of management is aware of the transaction or situation, and helps to establish accountability.
- *Verifications and reconciliations* - Verifications of transaction details and activities and the output of risk management models used by the bank are important control activities. Periodic reconciliations, such as those comparing cash flows to account records and statements, may identify activities and records that need correction. Consequently, the results of these verifications should be reported to the appropriate levels of management whenever problems or potential problems are detected.

The Basle Committee on Banking Supervision (1998) also reported that control activities are most effective when they are viewed by management and all other personnel as an integral part of, rather than an addition to, the daily activities of the bank. When controls are viewed as an addition to the day-to-day activities, they are often seen as less important and may not be performed in situations where individuals feel pressured to complete activities in a limited amount of time. In addition, controls that are an integral part of the daily activities enable quick responses to changing conditions and avoid unnecessary costs. As part of fostering the appropriate control culture within the bank, senior management should ensure that adequate control activities are an integral part of the daily functions of all relevant personnel.

It is not sufficient for senior management to simply establish appropriate policies and procedures for the various activities and divisions of the bank. They must regularly ensure that all areas of the bank are in compliance with such policies and procedures and also determine that existing policies and procedures remain adequate. This is usually a major role of the internal audit function.

In reviewing major banking losses caused by poor internal controls, supervisors typically find that one of the major causes of such losses is the lack of adequate segregation of duties. Assigning conflicting duties to one individual (for example, responsibility for both the front and back offices of a trading function) gives that person access to assets of value and the ability to manipulate financial data for personal gain or to conceal losses. Consequently, certain duties within a bank should be split among various individuals in order to reduce the risk of manipulation of financial data or misappropriation of assets.

Segregation of duties is not limited to situations involving simultaneous front and back office control by one individual. It can also result in serious problems when there are not appropriate controls in those instances where an individual has responsibility for; approval of the disbursement of funds and the actual disbursement;

- customer and proprietary accounts;
- transactions in both the "banking" and "trading" books;
- informally providing information to customers about their positions while marketing to the same customers;
- assessing the adequacy of loan documentation and monitoring the borrower after loan origination and,
- any other areas where significant conflicts of interest emerge and are not mitigated by other factors.

Areas of potential conflict should be identified, minimised, and subject to careful monitoring by an independent third party. There should also be periodic reviews of the responsibilities and functions of key individuals to ensure that they are not in a position to conceal inappropriate actions.

Information and Communication

Amudo and Emanga (2010) stated that adequate information and effective communication are essential to the proper functioning of a system of internal control. From the bank's perspective, in order for information to be useful, it must be relevant, reliable, timely, accessible, and provided in a consistent format. Information includes internal financial, operational and compliance data, as well as external market information about events and conditions that are relevant to decision making. Internal information is part of a record-keeping process that should include established procedures for record retention.

A critical component of a bank's activities is the establishment and maintenance of management information systems that cover the full range of its activities. This information is usually provided through both electronic and non-electronic means. Banks must be particularly aware of the organisational and internal control requirements related to processing information in an electronic form and the necessity to have an adequate audit trail.Management decision-making could be adversely affected by unreliable or misleading information provided by systems that are poorly designed and controlled. Electronic information systems and the use of information technology have risks that must be effectively controlled by banks in order to avoid disruptions to business and potential losses. Since transaction processing and business applications have expanded beyond the use of mainframe computer environments to distributed systems for missioncritical business functions, the magnitude of risks also has expanded. Controls over information systems and technology should include both general and application controls. General controls are controls over computer systems (for example, main frame, client/server, and end-user workstations) and ensure their continued, proper operation. General controls include in-house back-up and recovery procedures, software development and acquisition policies, maintenance (change control) procedures, and physical/logical access security controls. Application controls are computerised steps within software applications and other manual procedures that control the processing of transactions and business activities. Application controls include, for example, edit checks and specific logical access controls unique to a business system. Without adequate controls over information systems and technology, including systems that are under development, banks could experience loss of data and programmes due to inadequate physical and electronic security arrangements, equipment or systems failures, and inadequate in-house backup and recovery procedures(Basle Committee on Banking Supervision, 1998).

In addition to the risks and controls above, inherent risks exist that are associated with the loss or extended disruption of services caused by factors beyond the bank's control such as natural disasters and political uprising. In extreme cases, since the delivery of corporate and customer services represent key transactional, strategic and reputational issues, such problems could cause serious difficulties for banks and even jeopardise their ability to conduct key business activities. This potential requires the bank to establish business resumption and contingency plans using an alternate off-site facility, including the recovery of critical systems supported by an external service provider. The potential for loss or extended disruption of critical business operations requires an institution-wide effort on contingency planning, involving business management, and not focused on centralised computer operations. Business resumption plans must be periodically tested to ensure the plan's functionality in the event of an unexpected disaster.

Without effective communication, information is useless. Senior management of banks need to establish effective paths of communication in order to ensure that the necessary information is reaching the appropriate people. This information relates both to the operational policies and procedures of the bank as well as information regarding the actual operational performance of the organisation.

TheBasle Committee on Banking Supervision (1998)proposed that organisational structure of the bank should facilitate an adequate flow of information - upward, downward and across the organisation. A structure that facilitates this flow ensures that information flows upward so that the board of directors and senior management are aware of the business risks and the operating performance of the bank. Information flowing down through an organisation ensures that the bank's objectives, strategies, and expectations, as well as its established policies and procedures, are communicated to lower level management and operations personnel. This communication is essential to achieve a unified effort by all bank employees to meet the bank's objectives. Finally, communication across the organisation is necessary to ensure that information that one division or department knows can be shared with other affected divisions or departments.

Monitoring Activities and Correcting Deficiencies

Under this variable of the model, Basle Committee on Banking Supervision (1998) indicates that banking is a dynamic, rapidly evolving industry; banks must continually monitor and evaluate their internal control systems in the light of changing internal and external conditions, and must enhance these systems as necessary to maintain their effectiveness. In complex, multinational organisations, senior management must ensure that the monitoring function is properly defined and structured within the organisation.

The Basle Committee on Banking Supervision (1998) suggests that:

Monitoring the effectiveness of internal controls can be done by personnel from several different areas, including the business function itself, financial control and internal audit. For that reason, it is important that senior management makes clear which personnel are responsible for which monitoring functions. Monitoring should be part of the daily activities of the bank but also include separate periodic evaluations of the overall internal control process. The frequency of monitoring different activities of a bank should be determined by considering the risks involved and the frequency and nature of changes occurring in the operating environment.

Ongoing monitoring activities can offer the advantage of quickly detecting and correcting deficiencies in the system of internal control. Such monitoring is most effective when the system of internal control is integrated into the operating environment and produces regular reports for review. Examples of ongoing monitoring include the review and approval of journal entries, and management review and approval of exception reports.

In contrast, separate evaluations typically detect problems only after the fact. However, separate evaluations allow an organisation to take a fresh, comprehensive look at the effectiveness of the internal control system and specifically at the effectiveness of the monitoring activities. These evaluations can be done by personnel from several different areas, including the business function itself, financial control and internal audit. Separate evaluations of the internal control system often take the form of self-assessments when persons responsible for a particular function determine the effectiveness of controls for their activities. The documentation and the results of the evaluations are then reviewed by senior management. All levels of review should be adequately documented and reported on a timely basis to the appropriate level of management.

The internal audit function is an important part of the ongoing monitoring of the system of internal controls because it provides an independent assessment of the adequacy of, and compliance with, the established policies and procedures. It is critical that the internal audit function is independent from the day-to-day functioning of the bank and that it has access to all activities conducted by the banking organisation, including its branches and subsidiaries.

By reporting directly to the board of directors or its audit committee, and to senior management, the internal auditors provide unbiased information about line activities. Due to the important nature of this function, internal audit must be staffed with competent, welltrained individuals who have a clear understanding of their role and responsibilities. The frequency and extent of internal audit review and testing of the internal controls within a bank should be consistent with the nature, complexity, and risk of the organisation's activities.

It is important that the internal audit function reports directly to the highest levels of the banking organisation, typically the board of directors or its audit committee, and to senior management. This allows for the proper functioning of corporate governance by giving the board information that is not biased in any way by the levels of management that the reports cover. The board should also reinforce the independence of the internal auditors by having such matters as their compensation or budgeted resources determined by the board or the highest levels of management rather than by managers who are affected by the work of the internal auditors.

The COSO framework holds that these five components of internal control system are essential for an entity to achieve three internal control objectives - performance objective (effective and efficient operations), compliance objective (compliance with rules and regulations) and reliability objective (reliability of financial reports) (COSO 1992).Tuttle and Vandervelde (2007) noted that “by conceptualisinginternal control framework in this manner, control framework is meant to accomplish three objectives:

1. Ensure completeness in coverage
2. Aid in identifying high risk areas and
3. Help to accurately assess the impact of control”.

Despite the high level of acceptability and adoption of the COSO’s framework, its weakness is not far fetching. Critics of COSO hold that it is only relevant to large companies since small companies may not be able to bear the cost and operational complexity of COSO framework of internal control. It is argued that management of small firms may not require formal control system for the reliability of records and effectiveness and efficiency of operations because of their close and personal involvement in the operations of the firm. The COSO framework failed to recognize the plausible fact that the internal control system of small firms may not need to be complex as the internal control of large firms to be effective (Amudo and Emenga 2010).

Another area of criticism of COSO is that it is said to be highly abstract with insufficient specific objectives and processesto support the design of Audit test.Moreover, COSO is criticised for not addressing the complexity and risk inherent in information technology (IT) (Amudo and Emenga 2010, Colbert and Bowen 1996). In today’s business and corporate world, IT is crucial in every facet of operations. In service firms like banks, IT is the most powerful tool of internal control. IT is used in initiating, authorizing, recording and processing transactions.The last but not least criticism against COSO is that it may not be possible to develop an empirical test about its internal conceptual consistency because it fails to address technology in today's audit environment and it expresses its components at a very high level of abstraction. (Tuttle and vandervelde 2007).

Many organizations and auditors in computerized operational environments have therefore found COSO frameworkas inappropriate. There have resulted new designed and specialized frameworks that fill the gap in COSO. One of such frameworks which is well known and used is the control objectives for information and related technology (COBIT) framework.

2.2.2 **The Control Objectives for Information and Related Technology (COBIT) Framework**

Ramos(2004) observed that COBIT is a widely known internal control framework that is gradually becoming a supplementary framework of choice to COSO framework in information technology intensive environments. COBIT "complements the COSO framework in assessing the internal control and overall corporate government of an organization" (Fedonowicz and Gelinas, 1998). It is a means by which entities match IT risk against investment in internal control (Lainhart 2001). Whiles, COSO framework viewsinternal control as a five dimensional concept, COBIT views internal control as a process organized around a system life cycle with four basic domains.

These four basic domains are: "Plan and Organise; Acquire and Implement; Deliver and Support; and Monitor and Evaluate" (Tuttle and Vandervelde 2007). Like COSO's five component frameworks, each of the domains has specific processes an entity must address to achieve IT related controlobjectives. Unlike COSO, the specific processes of COBIT are detailed enough to be applicable to various types of audit (IT Governance Institute, 2007). COBIT frameworkrelates each of the four domains and their specific processes to what the model termed “COBIT information criteria” and “COBIT resources”. Figure 2 shows COBIT framework conceptualmodel.

			CobiT Information Criteria							CobiT IT Resources			
	CobiT Process	Importance	Effectiveness	Efficiency	Confidentiality	Integrity	Availability	Compliance	Reliability	People	Information	Applications	Infrastructure
Plan and Organize (PO)													
1	Define a strategic IT plan	H	•	•						•	•	•	•
2	Define the information architecture	L	•	•	•	•					•	•	
3	Determine technological direction	M	•	•								•	•
4	Define the IT processes, organization and relationships	L	•	•						•			
5	Manage the IT investment	M	•	•					•	•		•	•
6	Communicate management aims and direction	M	•					•		•	•		
7	Manage IT human resources	L	•	•						•			
8	Manage quality (PO 11 from CobiT 3rd ed.)	M	•	•		•			•	•	•	•	•
9	Assess and manage IT risks	H	•	•	•	•	•	•	•	•	•	•	•
10	Manage projects	H	•	•						•		•	•
Acquire and Implement (AI)													
1	Identify automated solutions	M	•	•								•	•
2	Acquire and maintain application software	M	•	•		•			•			•	
3	Acquire and maintain technology infrastructure	L	•	•		•	•						•
4	Enable operations and use	L	•	•		•	•	•	•	•		•	•
5	Procure IT resources (new to CobiT 4.0 – not analyzed)	M	•	•				•		•	•	•	•
6	Manage changes	H	•	•		•	•		•	•	•	•	•
7	Install and accredit solutions and changes (AI 5 from CobiT 3rd ed.)	M	•	•		•	•			•	•	•	•
Deliver and Support (DS)													
1	Define and manage service levels	M	•	•	•	•	•	•	•	•	•	•	•
2	Manage third-party services	L	•	•	•	•	•	•	•	•	•	•	•
3	Manage performance and capacity	L	•	•			•					•	•
4	Ensure continuous service	M	•	•			•			•	•	•	•
5	Ensure systems security	H			•	•	•	•	•	•	•	•	•
6	Identify and allocate costs	L	•						•	•	•	•	•
7	Educate and train users	L	•	•						•			
8	Manage service desk and incidents	L	•	•						•		•	
9	Manage the configuration	M	•	•			•		•		•	•	•
10	Manage problems	M	•	•			•			•	•	•	•
11	Manage operations	H				•			•		•		
12	Manage the physical environment	L				•	•						•
13	Manage operations	L	•	•		•	•			•	•	•	•
Monitor and Evaluate (ME)													
1	Monitor and evaluate IT performance	H	•	•	•	•	•	•	•	•	•	•	•
2	Monitor and evaluate internal control	M	•	•	•	•	•	•	•	•	•	•	•
3	Ensure regulatory compliance (PO 8 from CobiT 3rd ed.)	H						•	•	•	•	•	•
4	Provide IT governance	H	•	•	•	•	•	•	•	•	•	•	•

Figure 1: COBIT Version 4.0 Conceptual Model

The information criteria specify the quality of information that is required under each domain and specific processes. The COBIT resources are the assets of the entity that are affected by the processes of the four domains. According to the model, information must meet one or more of seven information criteria, namely: effectiveness, efficiency, confidentiality, integrity, availability, compliance and, reliability.Tuttle andVanderveld(2007) asserted that achieving the information criteria when evaluating a control system is essential in making assertions about financial statement of entities as well as making assertions of efficiency and effectiveness of operations.

The COBIT resources are the assets that are required or affected by the pursuit of the processes of the four domains of the conceptual model. The model identified these resources as people Information, application and infrastructure.

2.3Challenges of Internal Controls Systems

In general, internal control system are meant to specify the rules, procedures and mode of operations,monitor conduct of operations and evaluate the conduct of operations.Whiles it is quite easy to deviate, it is very difficult to conform. Naturally, the implementations of any control system will not be without challenges.The basic component of internal control under COSO is creation of internal control environment.Management will have to put measures in place to influence people to be control conscious. This is the bigest challenge in most entities especially in Banks. This may be blamed on the fact that people are reluctant to followlaid down procedures. Management may do all it requires to create an effective control environment but the personnel may not be ready to be control conscious. All the components of an effective control system may be considered in developing a control system but the success of Aany such system may be frustratedby some challenges. Steinhoff and Franzel (2006) noted that the major challenges of internal controls and causes of accountability malfunctioning are:

- Desire of the management to achieve certain reporting results.
- Inappropriate and unreasonable executive compensation arrangements
- Confusion over who is responsible for internal control
- Indefinite segregation of duties
- Select and reject procedures
- Personal interest over public interest
- Compliance with rules and regulations as against principles and values
- The right against the acceptable
- The issue of substance as against legal form
- Concern with both fact and appearance
- Rapidly changing business environment.

They noted that the implementation of even the most comprehensive control system will not be free from these challenges. The success of a control system largely depends on how these challenges are managed. Another challenge of internal control that is considered the enemy of internal control is collusion. Collusion frustrates every aspect of the control process and presents risky situations as less risky. Most of the financial crises in the west are attributed to collusion.

2.4Effects of Internal Control System on Customers

Internal control system may have some form of effects on customers and clients of organizations. Customer is a term used in marketing literature to describe end-users of a product. The end-users of a product is called a customer. Hayes (1997) opines that "Customers' is a generic term referring to anybody who receives a service or product from some other person or group of people." Customers may be classified as internal and external customers. Internal customers refer to the staff or employees in an organization and external customers refer to stakeholders of an organisation. Within the external customer group, there are several customer categories: clients, compliers, consumers, and constituents. It is important to identify the types of customers surveyed when reporting customer satisfaction results. In this study the customers of concern are the individual consumers/users who subscribe to the services of any of the branches of AgriculturalDevelopment Bank in the Brong-Ahafo Region.

2.5 Service Quality

In measuring the effects of internal controls system on service quality, it is significant to examine the service quality concept, together with its importance and the dimensions it has. The definition of service qualityis intangible in marketing literature. This is because the meaning of quality can be referred to in many attributes such as the experience of the service encounters, or "moments of truth", the evidence of service; image; price, and so on. These form the customer's overall perceptions of quality, satisfaction and value (Zeithaml and Bitner, 1996). There are various definitions of service quality. Since service quality is basically defined from customer perspective and not the service providers', it is usually referred to as customer perceived quality. The concept of consumer-perceived quality (CPQ) was first defined by Gronroos in 1982 as the confirmation (or disconfirmation) of a consumer's expectations of service compared with the customer's perception of the service actually received. One definition that is commonly used defines service quality as the extent to which a service meets customers' needs or expectations (Asubonteng*et al*., 1996). Parasuraman, Zeithaml and Berry (1988) support the same view, defining the concept of service quality as ″a form of attitude, related, but not equivalent to satisfaction, that results from a comparison of expectations with perceptions of performance. Expectations are viewed as desires or wants of customers, that is to say, what they feel a service provider *should* offer rather than *would* offer.″(Parasuraman et al., 1988).

Though service quality has been perceived for a long time to be an outcome of customer cognitive assessment, recent studies confirm that service quality involves not only an outcome but emotions of customers. It is argued that "during the consumption experience, various types of emotions can be elicited, and these customer emotions convey important information on how the customer will ultimately assess the service encounter and subsequently, the overall relationship quality" (Wong 2004, p. 369). Edvardsson (2005, p.128) maintains that customer perception of service quality is beyond cognitive assessment as it is formed during the production, delivery and consumption of services and not just at the consumption stage.

The concept of service quality from the customer perspective, thus perceived service quality, is not a mistake simply because in the words of the guru "the consumer, of course, perceives *what* he or she receives as the outcome of the process in which the resources are used, that is to say, the technical or outcome quality of the process. He or she often more importantly, perceives *how* the process itself functions,(the functional or process quality dimension). Thus, the technical quality and functional quality dimensions of perceived service quality emerge." (Gronroos, C., 2001 P. 151).

2.5.1 Measuring Service Quality

Delivering excellent service quality is widely recognised as a critical business requirement (Voss et al., 2004). It is "not just a corporate offering, but a competitive weapon" (Rosen et al., 2003) which is "essential to corporate profitability and survival" (Newman and Cowling, 1996). Many authors agree that in today's dynamic market place and market space, organisations no longer compete only on cost but more importantly on service/product quality. In a competitive marketplace where businesses compete for customers, delivering quality service is seen as a key differentiator and has increasingly become a key element of business strategy (Heskett, J.L., et al., 1997; Kotler, 2006).

On the drivers of service quality, the most widely used model is the parasuraman et al model.Parasuraman*et al* (1985) proposed ten dimensions of service quality. These are credibility, security, accessibility, communication, understanding the consumer, tangibles, reliability, responsiveness, competence and courtesy. By this model,Parasuraman*et al* (1985) implied that customers evaluate the quality of a service along these ten dimensions and they form the core drivers of customer perception of service quality. In their later studies, Parasuraman*et al.* (1988) consolidated theabove ten dimensions into five dimensions. These five dimensions and their details are shown in Table 2.1.

Table 2.1: Dimensions of service quality(Parasuraman et al, 1988)

Dimension	**Definition**
Tangibles	Appearance of physical facilities, equipment, personnel and written materials.
Reliability	Ability to perform the promised service dependably and accurately.
Responsiveness	Willingness to help customers and provide prompt service.
Assurance	Employees' knowledge and courtesy and their ability to inspire trust and confidence.
Empathy	Caring, easy access, good communication, customer understanding and individualised attention given to customers.

Source: **Adapted from Zeithaml*et al.* (1990)**

According toAlamgir and Shamsuddoha (2010), all of the above components are relevant to the banking sector. For example, credibility and security are important to demonstrate the good reputation of the bank and to articulate the safety for the customers to use the bank's ATMsanytime and to protect the credit card against unauthorised use. Levesque and McDougall, (1996) noted that empathy is a key factor that enables customers to deal with their banks more easily. Communication is also most important in the banking sector becausewhencustomers complain, the bank manger should be interested to listen to the customer regardingtheir complaints through proper communication channels. Tangibility is anotherimportant dimension for banks because customers are likely to make inferences about the servicequality on the basis of tangibles of the bank (the design of structures and machines) thatmake up the service environment. It is believed that the physical layout of structures can have a significant impact on customers' affective responses (Jamal and Naser, 2002). Besides, the customers are happy when they canunderstand their bank statements easily. Reliability is also important in the banking sector. For instance, bank officers should honor their promises to get back to a customer in a specified time. Responsiveness is an important dimension for the bank toresolve the problem of the customers quickly and which is rare in our banking sector.Competence or assurance is also an important factor to transact through the bank teller processwithout making any mistake. Courtesy is important for bank employees to have a pleasantbehaviour and to show the politeness consistently when answering the various questions of theircustomers.

Avkiran (1999) proposed the following four component factors of service quality in thebanking sector.He agued that customers of the banking sector evaluate service quality around these four dimensions.

- **Staff Conduct**:Responsiveness, civilised conduct and presentation of branch staff thatwill project a professional image to the customers.
- **Credibility**:Maintaining bank staff-customer trust by rectifying mistakes and keepingcustomers informed.
- **Communication**:Fulfilling banking needs to customers by successfully communicatingfinancial advice and serving notices timely.
- **Access to Teller Services**:The adequacy of number of branch staff serving customersthroughout business hours and during peak hours.

Based on these dimensions, Avkiran (1999) developed an instrument for measuring the service quality of banks known as the BANKSERV. By comparing the dimensions of Parasuraman*et al.* (1988) and the dimensions proposed by Avkiran (1999) it could be aguedthat almost all the specific elements of service quality of reliability,responsiveness, assurance and empathy, dimensions are included in the fourdimensions of BANKSERV, an instrument that exclusively deals with the perceived servicequality within the special context of banks, proposed by Avkiran (1999) except for the specificelements of tangibles dimension.Alamgir and Shamsuddoha (2010) proposed that the BANKSERVinstrument proposed by Avkiran (1999) should be modified by adding tangibles dimensionbecause it is now considered as an important dimensions of service quality. As a result, Alamgir and Shamsuddoha (2010) proposedsixdimensions in the BANKSERV instrument. Table 2.2 shows the proposed dimensions.

Table 2.2: Proposed service quality dimensions and their instruments.

Dimensions	**Quality instruments**
Reliability	Credibility, Timely service, Accuracy of records, Dependability
Assurance	Staff 's knowledge, Courtesy and Politeness of staff, Trustworthiness and confidence
Tangibles	Location, Staff 's professional appearance
Empathy	Individual attention and Customer understanding
Responsiveness	Staff conduct, Willingness of staff to help customers and To provide prompt of service
Social responsibility	Good service at a reasonable cost

These proposed dimensionsare adopted for this study and the relevant dimensions that may be affected by internal controls will be used to measure the effects of internal control system of ADB branches in the Brong-Ahafo Region on their customers especially with respect to their perception of service quality of the bank.

2.5.2 Internal Controls and Customers Perception of Service Quality

COSO described internal control system as a process affected by an entity's board of directors, management and all other personnel at various levels of operation to provide reasonable assurance regarding the achievement of its objectives in three specific areas:

- Reliability of financial reports,
- Effectiveness and efficiency of operations, and
- Compliance with applicable laws and regulations.

A critical comparison of these objectives to the dimensions of service quality discussed above reveal that the achievement of the three internal control objectives will directly lead to to the achievement of "Reliability" dimension of service quality described in Table 2.2.However the activities that will lead to the achievement of the internal control objectives may negatively affect factors such as timely service and comfort which are inherent in the reliability dimension of service quality.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This Chapter deals with the methodology of the study and consists of the research design, population, sample and sampling techniques, data collection instruments, data collection procedures and methods of data analysis of the study.

3.1 Research Design

The study is a case study. The justification is that the study investigates the details of a real life phenomenon using multiple sources of evidence. Since the study involves an investigation of whether internal control systems established by the ADB Ghana are effective or not, the case study method is used. Babbie (1998) supports choice of case study method in opposition to others by noting that most research aims directly at generalized understanding, but the case study aims at the comprehensive understanding of a single, idiosyncratic case. Whereas most research attempts to limit the number of variables considered, the case study seeks to maximise them. Again, the researcher executing a case study typically seeks insights that will have a more generalized applicability beyond a single case under study, but the case study itself cannot ensure such generalisability. The case study method also generates answers to the "what? and how?" research questions asked in this study.

Another assumption is the researcher as an objective analyst interprets collected data in a free manner emphasizing the use of highly structured method and quantifiable observations that uses statistical analysis. Under positivism approach, knowledge builds from using quantitative data which undergoes statistical processing, analysis and interpretation. In this study, questionnaires are used to collect data.

With the research philosophy for the study in place, choice of research approach is the next logical step. Saunders et al. (2003) identifies two research approaches: deductive and inductive. Inductive approach first collects data and develops theory based on the results of analyzed data. The deductive approach, on the other hand, explains causal relationships between variables. Since this study investigates the effects of internal control on customers, a relationship will be established between internal controls and customers perception of the service quality of the bank. The study also investigates the state of the internal control system of the bank. Thus both inductive and deductive approaches are applied in this study.

3.2 Population

The population for the study consists of all the employees and customers of Agricultural development Bank in the Brong-Ahafo Region of Ghana. The population is a composition of males and females of different ages and levels of education and experiences.

3.3 Sample and Sampling Technique

The sample size was 120 employees and 500 customers of the bank selected from the 10 branches of ADB in the Brong-Ahafo Region using quota sampling technique. “Quota sampling is a non-probability sampling technique that ensure that the sample represent certain characteristics of the population”(Saunders et al, 2007). Each branch of the bank was taken as a stratum. The sample size of employees was apportioned among the branches base on the staff strength of the branches and the sample size of the customers were apportioned among the branches base on the customer base of the branches. From the above procedure a quota of respondents were assigned to each branch. The cases were then non-randomly selected from each stratum up to the quota of the stratum.

3.4 Data Collection Instruments

The sources of evidence are data collected through questionnaires. Questionnaire guides were used to collect data on management, staff and customers' perception of the variables of effective internal control (control environment, risk assessment, control activities, information and communication, monitoring and information technology)that would be considered in the study.

3.5 Data Collection Procedures

Primary data was collected mainly from field survey through the use of the questionnaire. The data was gathered by giving the questionnaire to the respondents to complete and return it within seven days. This was to give ample time to respondents so that they could respond appropriately. The respondents were informed about the purpose of the questionnaire guide so that they could feel free to respond to the questionnaires. Relevant documents were also obtained and analyzed for evidence of effective internal control.

3.6 Data Analysis

The data was quantitatively presented in tables. Descriptive statistics such as percentages crosstabs and chi-square test were employed to analyse the collected data. Data was transformed and recorded and analysed with the aid of SPSS.

CHAPTER FOUR

ANALYSIS AND DISCUSSIONS OF DATA

4.0 Introduction

This chapter is devoted to the presentation, discussions and analysis of data collected for the research. The information is summarized by means of descriptive statistics, tables and graphs. The analysis is based on the questionnaires administered. A total of 620 questionnaires consisting of 120 questionnaires for management and staff and 500 questionnaires for customers were administered on management, staff and customers of Agricultural Development Bank in the Brong-Ahaforegion. In all, 570(91.94%) of the administered questionnaires consisting of 120 (100%) questionnaires for employees and 450 (90%) questionnaires for customers were retrieved and validated for the analysis.

4.1 Background of the Respondents.

Regarding the background of the study, data was collected on the gender, age, length of service with the bank, occupation, rank, level of education and monthly income of respondents. Table 4.1 presents a summary of the characteristics of respondents of the study.

Table 4.1: Background Characteristics of Respondents

		Employees		Customers	
Variable	Categories	Freq.	Percent	Freq.	Percent
Gender	Male	85	71.3	210	46.7
	Female	35	28.7	240	53.3
	Total	120	100	450	100
Age	Below 20 years	2	1.7	11	2.5
	20-29	32	26	150	33.4
	30-39	54	46	217	48.2
	40-49	17	13.9	63	14
	50 and above	15	12.2	9	1.9
	total	120	100	450	100
Length of service	Below 5 years	1	0.86		
	5-10	38	31.3		
	10-15	35	28.7		
	15-20	29	25.2		
	20 and above	17	13.9		
	total	120	100		
Occupation	Civil servant			284	63.1
	student			108	24
	Business person			18	4
	Other			40	8.9
	Total			450	100
Rank	Retail manager	9	7.8		
	Operations manager	11	7		
	Customer service manager	16	13.9		
	Credit officer	18	15.6		
	Teller	45	37.4		
	Others	21	18.3		
	total	120	100		
Level of education	WASSCE/SSSCE/O'Level/ A 'Level	14	11.3	36	8
	Technical/post-secondary	22	17.4	76	16.9
	Diploma/HND	36	31.3	193	44
	Bachelor Degree	43	37.4	122	27
	Masters degree	6	5.5	18	4
	PhD			5	1.1
	Total	120	100	450	100
Monthly Income	Below GH¢100			45	10
	GH¢100 - ¢200			95	21.1
	GH¢200 - ¢300			135	21.1
	Above GH ¢300			139	30.9
	Non Income earner			36	8
	Total			450	100

Source: Fieldwork, 2011

Table 4.1 shows that majority (71.3%) of the employees who responded to the questionnaires ware males and majority (53.3) of the customers were females. It is observed from Table 4.1 that, majority of both the employees (46%) and customers (48.2%) considered in the study were within the ages of 30 and 39. The majority (31.3%) of the employees considered in the study has worked in the bank for at least five years or at most ten years, and the majority (63.1%) of the customers considered in the study were civil servants. It is also observed from Table 4.1 that majority (37.4%) of the employees considered in this study were tellers and majority of the customers were within monthly income range of GHC 300 and above. In terms of education, majority (37.4%) of the employees was bachelor degree holders and majority (44%) of the customers was Diploma or HND holders.

4.2 Employees Perception of the Nature of the Internal Control System of ADB Branches in Brong-Ahofo Region.

One of the objectives of the study was to determine the nature of the internal control system of the Bank (ADB) in the context of the component of internal control system identified in the COSO framework. To achieve these objectives, employees of the bank were asked to confirm the nature of the internal control system of the bank. Table 4.2 shows the summary of the data collected.

Table4.2: Employees Perception of the Nature of the Internal Control System

COMPONENTS OF INTERNAL CONTROL SYSTEM	NATURE	Frequency	Percent	Majority Perception
CONTROL ENVIRONMENT	STRONG	120	100.0	Strong
RISK MANAGEMENT	STRONG	120	100.0	Strong
CONTROL ACTIVITIES	WEAK	66	55.0	Weak
	STRONG	54	45.0	
	Total	120	100.0	
INFORMATION COMMUNICATION	WEAK	71	59.2	Weak
	STRONG	49	40.8	
	Total	120	100.0	
MONITORING	WEAK	108	90.0	Weak
	STRONG	12	10.0	
	Total	120	100.0	
INFORMATION TECHNOLOGY	WEAK	94	78.3	Weak
	STRONG	26	21.7	
	Total	120	100.0	

Source: Fieldwork, 2011

From Table 4.2 it is observed that two out of the six components of the internal control systemof the bank are reported to be strong and the other four are reported to be weak. All the respondents indicated that the control environment component and risk management component of the internal control system of the bank are strong. Regarding the other four components, majority of the respondents (55%, 59.2%, 90% and 78.3%) indicated that control activities, information communication, monitoring and information technology components respectively are weak. In general terms the internal control system of the bank in the opinion of the management and staff is weak.

4.2.1 Customers Perception of the Nature of the Internal Control System of the Bank

Customers of the bank were asked to confirm or disconfirm proposed statements about the nature of the internal control system of the bank. Customers' perception of the internal control system of the bank is important because such information is needed in the analysis of whether internal control have any effect on customers perception of the quality of the service of the bank or not. Table 4.4 shows the results of the analysis of the data collected.

Table 4.3: Customers Perception of the Nature of the Internal Control System

COMPONENTS OF INTERNAL CONTROL SYSTEM	NATURE	Frequency	Percent	Majority perception
CONTROL ENVIRONMENT	WEAK	55	12.2	Strong
	STRONG	395	87.8	
	Total	450	100.0	
RISK MANAGEMENT	WEAK	92	20.4	Strong
	STRONG	358	79.6	
	Total	450	100.0	
CONTROL ACTIVITIES	WEAK	158	35.1	Strong
	STRONG	292	64.9	
	Total	450	100.0	
INFORMATION COMMUNICATION	WEAK	1	0.2	Strong
	STRONG	449	99.8	
	Total	450	100.0	
MONITORING	WEAK	1	0.2	Strong
	STRONG	449	99.8	
	Total	450	100.0	
INFORMATION TECHNOLOGY	WEAK	245	54.4	Weak
	STRONG	205	45.6	
	Total	450	100.0	

Source: Fieldwork, 2011

From Table 4.3, it is observed that the majority of the customers perceived all the components of internal control system except the information technology component to be strong. Table 4.3 indicates that majority of the respondents (54.4%) perceived the information technology component to be weak. Thus both the customers and employees generally indicated that, the information technology aspect of the internal control system of the bank is weak.

4.3 Challenges Management and Staff Encounter in Implementing the Internal Control System of the Bank.

Among other objectives, the study sort to identity the challenges management and staff encounter in implementing the internal control system of the bank. To achieve this objective, the employees were asked to confirm or disconfirm certain prepositions about the challenges they encounter in implementing the internal controlsystem of the bank. Table 4.3 shows a summary of the data collected.

Table 4.4: Challenges Management and Staff Encounter in Implementing the Internal Control System

		Frequency	Percent	Majority Response
Desire of the management to achieve certain reporting results.	NEUTRAL	26	21.7	
	AGREE	42	35.0	Strongly
	STONGLY AGREE	52	43.3	agree
	Total	120	100.0	
Inappropriate and unreasonable executive compensation arrangements	DISAGREE	13	10.8	
	NEUTRAL	29	24.2	
	AGREE	45	37.5	Agree
	STONGLY AGREE	33	27.5	
	Total	120	100.0	
Confusion over who is responsible for internal control	NEUTRAL	12	10.0	
	AGREE	48	40.0	Strongly
	STONGLY AGREE	60	50.0	agree
	Total	120	100.0	
Indefinite segregation of duties	NEUTRAL	12	10.0	
	AGREE	49	40.8	Strongly
	STONGLY AGREE	59	49.2	agree
	Total	120	100.0	
Selecting some control activities(loose) and rejecting some procedures(tight)	AGREE	74	61.7	
	STONGLY AGREE	46	38.3	agree
	Total	120	100.0	
Personal interest over corporate and public interest	NEUTRAL	12	10.0	
	AGREE	48	40.0	Strongly
	STONGLY AGREE	60	50.0	agree
	Total	120	100.0	
Compliance with rules and regulations as against principles and values	NUETRAL	29	24.2	
	AGREE	60	50.0	Agree
	STONGLY AGREE	31	25.8	
	Total	120	100.0	
The problem of choosing the right as against the acceptable	NEUTRAL	12	10.0	
	AGREE	33	27.5	Strongly agree
	STONGLY AGREE	75	62.5	
	Total	120	100.0	
The issue of substance of issues as against their legal form	NEUTRAL	14	11.7	
	AGREE	52	43.3	Strongly
	STONGLY AGREE	54	45.0	agree
	Total	120	100.0	
Concern with both fact and appearance	NEUTRAL	12	10.0	
	AGREE	35	29.2	Strongly
	STONGLY AGREE	73	60.8	agree
	Total	120	100.0	
Rapidly changing business environment	AGREE	62	51.7	
	STONGLY AGREE	58	48.3	agree
	Total	120	100.0	

Source: Fieldwork, 2011

Table 4.4 reveals that majority of the respondents strongly agreed that management desires to achieve certain reporting results, confusion over who is responsible for internal control, indefinite segregation of duties, personal interest over corporate and public interest, the problem of choosing the right as against the acceptable, the problem of substance of issues as against their legal form and the problem of concern for both the fact and appearance are major challenges they encounter in implementing the internal control system of the bank. The majority (65%) of the respondents also agreed that inappropriate and unreasonable executive compensation, the issue of selecting loose control activities and rejecting tight control procedures, the issue of compliance with rules and regulations as against principles and values and the changing business environment are challenges inherent in the implementation of the internal control system of the bank.

In general, the major challenges that hinder effective implementation of internal control system of the bank arethe desire of management to achieve certain reporting results, confusion over who is responsible for internal control, indefinite segregation of duties, personal interest over corporate and public interest, the problem of choosing the right as against the acceptable, the problem of substance of issues as against their legal form, the problem of concern for both the fact and appearance, inappropriate and unreasonable executive compensation, the issue of selecting loose control activities and rejecting tight control procedures, the issue of compliance with rules and regulations as against principles and values and the changing business environment are challenges inherent in the implementation of the bank.

4.4 Customers Perception of the Reliability of the Service of the Bank

Reliability is an essential aspect of service quality that could be influenced by internal control practices. In order to establish the effects of internal control on customers' perception of the quality of service of the bank, customers' perception of the reliability of the bank was used as a proxy measure of the quality of the service the bank renders. The reliability of the service of the bank was measured so that it could be analyzed with the customers' perception of the nature of the internal control system of the bank to see if there is any relationship between internal control practices and service quality from the customers' point of veiw. Table 4.5 shows the results of the data analysis on the reliability of the service of the bank.

Table 4.5: Customers Perception of the Reliability of the Service Rendered by the Bank

		Frequency	Percent
RELIABILITY	POOR	245	54.4
	GOOD	205	45.6
	Total	450	100.0

Source: Fieldwork, 2011

From Table 4.5, it is found that majority of the respondents (54.4%) perceived the reliability of the service of the bank to be poor.

4.5 Customers Attitude toward Internal Control

Data was collected on customers attitude (like or dislike) of internal control process and practices of the bank. If customers like the internal control practices of the bank, then the practice of internal control may have positive effect on customers' perception of the quality of the services of the bank. However if customers generally dislike the internal control practices of the bank, the internal control can have a negative effect on customers perception of the quality of the service of the bank. Table 4.6 shows the results of the analysis of data on customers' attitude towards the internal control practices of the bank.

Table 4.6: Customers Attitude toward Internal Control

		Frequency	Percent
CUSTOMERS ATTITUDE TOWARDS INTERNAL CONTROL	DISLIKE	236	52.4
	LIKE	214	47.6
	Total	450	100.0

Source: Fieldwork, 2011

Table 4.6 shows that majority of the customers (52.4%) of the bank dislike internal control practices.

4.7 Effects of Customers Perception of Internal Control System on their Perception of Reliability of the Bank's Service.

One of the aims of this study was to determine the effects of internal control on customers' perception of the quality of the service of the bank. Service qualities have various facets but the aspect of service quality that may be affected by internal control is the reliability of the service. Thus reliability of the service is used as the measure of service quality as the study. "Cross tabs" analysis was conducted to identify any significant effect of customers perception of the nature of internal control on their perception of the reliability of the service of the bank and hence the quality of the service of the bank. The relationship identified from the cross tab analysis was use as the base of deducing the possible effect of internal control on service quality. Chi-square test was used to test the significant of the relationship identified. Table 4.7 shows the results of the cross tab analysis.

Table 4.7: Effect of Customers' Perception of the Internal Control Practices of the bank on their Perception of the Reliability of the Bank's Services

			RELIABLE2		
			POOR	GOOD	Total
INTERNAL CONTROL SYSTEM	WEAK	Count	55	1	56
		% within INTERNAL CONTROL	98.2%	1.8%	100.0%
		% within RELIABLE2	22.4%	.5%	12.4%
		% of Total	12.2%	.2%	12.4%
	STRONG	Count	190	204	394
		% within INTERNAL CONTROL	48.2%	51.8%	100.0%
		% within RELIABLE2	77.6%	99.5%	87.6%
		% of Total	42.2%	45.3%	87.6%
	Total	Count	245	205	450
		% within INTERNAL CONTROL	54.4%	45.6%	100.0%
		% within RELIABLE2	100.0%	100.0%	100.0%
		% of Total	54.4%	45.6%	100.0%
		Value	df	Asymp. Sig. (2-sided)	
Pearson Chi-Square		49.404[a]	1	.000	

Source: Fieldwork, 2011

Table 4.7 revealed that all those who perceived the internal control system to be weak also perceived the reliability of the service of the bank to be poor and majority of those who perceived the internal control system of the bank to be strong also perceived the reliability of the service of the bank to be good. The chi-square test results (t = 52.428 (p = 0.000) indicates that the relation between the two variables exhibited in the cross tab analysis is not by chance but rather significant. Thus the effect of the internal control system of the bank on customer perception of the quality of service of the bank is those customers who perceive the control environment to be weak will view the service quality of the bank to be low.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter deals with the summary of findings, conclusions drawn from the findings and the recommendations made for improvement in the internal control system of the bank. The recommendations covers creating awareness of the importance of the internal control system, proper motivation of staff for effective implementation of control systems and strengthening some of the components of the control system that was found to be weak. The chapter is presented under the headings: summary of findings, conclusions, and recommendations.

5.1 Summary of the Findings

The first objective was achieved and the findings were that two out of the six components of the internal control system of the bank are reported to be strong and the other four are reported to be weak. All the respondents indicated that the control environment component and risk management component of the internal control system of the bank are strong. Regarding the other four components, majority of the respondents indicated that the control activities component, the information communication component, the monitoring component and the information technology component are weak. In general terms the internal control system of the bank in the opinion of the employees' management and staff is weak.

However, majority of the customers perceived all the components of internal control system except the information technology component to be strong. Thus both the customers and employees generally indicated that, the information technology aspect of the internal control system of the bank is weak.

The finding regarding the second objective is that the major challenges that hinder effective implementation of internal system of the bank aremanagements desire to achieve certain reporting results, confusion over who is responsible for internal control, indefinite segregation of duties, personal interest over corporate and public interest, the problem of choosing the right as against the acceptable, the problem of substance of issues as against their legal form, the problem of concern for both the fact and appearance, inappropriate and unreasonable executive compensation, the issue of selecting loose control activities and rejecting tight control procedures, the issue of compliance with rules and regulations as against principles and values and the changing business environment are challenges inherent in the implementation of the bank.

With regards to objective three, the finding is that that majority of the customers of the bank dislike internal control practices. All those who perceived the internal control system to be weak also perceived the reliability of the service of the bank to be poor and majority of those who perceived the internal control system of the bank to be strong also perceived the reliability of the service of the bank to be good. Thus the effect of the internal control system of the bank on customer perception of the quality of service of the bank is that those customers who perceive the control environment to be weak will view the service quality of the bank to be low. This implies that customers of the bank are not much concerned about security of the accounts but rather more particular of the speed of transactions. As such management should be more circumspect of the effect of the internal control practices of the bank on the speed of transactions in the bank.

5.2 Conclusion

With reference to the findings of the study, the following conclusions are drawn on the study

In the first place,there is reasonable amount of weakness in the internal control system of the bank especially the information technology component of internal control system as indicated by both employees and customers of the bank.

Secondly, themajorchallenges of implementing the internal control system of the bank are:

i. management desire to achieve certain reporting results,
ii. confusion over who is responsible for internal control, indefinite segregation of duties,
iii. personal interest over corporate and public interest,
iv. the problem of choosing the right as against the acceptable,
v. the problem of substance of issues as against their legal form,
vi. the problem of concern for both the fact and appearance,
vii. inappropriate and unreasonable executive compensation,
viii. the issue of selecting loose control activities and rejecting tight control procedures,
ix. the issue of compliance with rules and regulations as against principles and values and
x. the changing business environment

Moreover, customers of the bank generally dislike internal control practices and hence effective and strong internal control system affects their happiness with the service and consequently, their perception of the quality of service of the bank.

In addition, there is asignificant direct relationship between customers' perception of the nature of internal control system of the bank and their perception of the reliability of the service of the bank. Hence the nature of the internal control system of the bank has a direct effect on customers' perception of the quality of the service of the bank

5.3 Recommendations

There should be an increased respect for the importance of the internal control function when it is done right and recognition of the devastating impact when it fails. Management needs to create an environment that makes employees at all levels sensitive to internal control. All members of the bank should become aware of the value of internal control to the success of the bank.

Secondly, all members of the bank at all levels shouldrecognisethe fact that the public interest is not only paramount to accountability but also a good business strategy and public interest cannot be thought of without internal control.

Moreover, an incentive for people to do the right thing iscrucial. An effective internal control system and management of the bank is therefore admonished to package reasonable incentives for the performance of every facetof the internal control system of the bank. In this case transparency is an important tool toensure that people do the right thing.Effective accountability mechanisms are also crucialespecially where there is the higher possibility that people donot do the right thing.

In addition, the findings of the study indicate that the internal control system of the bank is not too strong. Management should take note and redesign internal control system of the bank especially the information technology control system.

Finally, a further research should be conducted on the effect of respondents' characteristics such as demographics, job titles, positions, and level of education on customers' attitude towards internal control practices of the bank.

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APPENDICES

APPENDIX A

QUESTIONNAIRE FOR MANAGEMENT AND STAFF OF ***ADB BRANCHES IN BRONG-AHAFO REGION***

The researcher is undertaking a research inInternal Control System: Challenges and Effects on Management, Staff and Customers of Agric Development Bank [Brong-Ahafo Region] **for academic purpose only. Any information given would be treated as confidential**

SECTION A

Respondent's Profile

Please tick [√] the appropriate box for your answers.

1. Please what is your gender? [ ]male [ ]female
2. Please select your age group.

   [ ]below 20 years [ ]20 – 29 [ ]30-39[ ] 40 – 49 [ ] 50 and above
3. How long have you worked for this bank?

   [ ] 0 - 5 [ ] 5 - 10 [ ] 10 – 15 [ ] 15 - 20[ ] 20 and above
4. What is your rank in the bank?

   [ ] retail manager [ ] operations officer [ ] customer service officer

   [ ] credit officer [ ] teller [ ] others
5. Select your highest academic or professional qualification? **Select only one**

   [ ]WASSCE [ ]Technical/Post-secondary [ ]Diploma/HNDiploma

   [ ]Bachelor's degree [ ] Post-graduate Diploma/Masters [ ] PhD

SECTION B

Nature of Internal Control System of ADB

The following statements concern the Internal Controls of your firm. 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
Strongly Disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree

	1	**2**	**3**	**4**	**5**
Control environment					
1. Organizational structure does not adequately reflect chain of command					
2. Human resource policies and procedures are not documented and updated					
3. Responsibilities are delegated and no follow up action is made to get feedback on results of performance of tasks delegated					
4. The management and staff of the bank do not practice honest and fair dealings with all stakeholders for their mutual benefit.					
Risk assessment					
5. Management has not defined appropriate objectives for the bank's operational projects					
6. The defined objectives are not compatible with the development objectives of the banks.					
7. Management has not identified risks that affect achievement of the objectives.					
8. Management does not have criteria for ascertaining types of risks whichare most critical.					
Control activities					
9 It is possible for unauthorised transactions to be carried out					
10. Some employees perform more than oneduty .					
11. Verifications of transactions before making payments may sometimes be waived due to certain reasons.					
12. Key accounts records like bank, cashbooks, loans, accounts payables etc are not reconciled on regular basis.					
Information & Communication					
13 The bank has no key criteria yet for evaluating performance					
14. Identified key performance indicators are not, documented and communicated to employees.					
15. Employees do not understand their control responsibilities.					

16. Complaints by suppliers and customers are not resolved on time.					
Monitoring					
17. There are no independent process checks or independent evaluations of controls activities on ongoing basis.					
18. No internal reviews of implementation of operations					
19. Internal review of control activites is scarcely carried out					
20. regular staff of the bank are at the same time responsible for monitoring					
Information technology					
21. No IT security procedures for accessing the banks projects master data files					
22. Most of the staff members can access the banks master data base.					
23.No restriction of personnel in accessing all levels of different modules in computer applications of the bank.					
24. the IT security is available but no effectively used					

SECTION C

Challenges Faced by Management & Staff of ADB

The following statements are proposed as challenges of implementing the Internal Control System of your firm. Please indicate the extent to which you agree or disagree with each statement as a challenge to the implementation of the Internal Control System of your firm 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
Strongly Disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree

Desire of the management to achieve certain reporting results.	**1**	**2**	**3**	**4**	**5**
Inappropriate and unreasonable executive compensation arrangements	**1**	**2**	**3**	**4**	**5**
Confusion over who is responsible for internal control	**1**	**2**	**3**	**4**	**5**
Indefinite segregation of duties	**1**	**2**	**3**	**4**	**5**
Selecting some control activities(loose) and rejecting some procedures(tight)	**1**	**2**	**3**	**4**	**5**

Personal interest over corporate and public interest	**1**	**2**	**3**	**4**	**5**
Compliance with rules and regulations as against principles and values	**1**	**2**	**3**	**4**	**5**
The choosing the right as against the acceptable	**1**	**2**	**3**	**4**	**5**
The issue of substance of issues as against their legal form	**1**	**2**	**3**	**4**	**5**
Concern with both fact and appearance	**1**	**2**	**3**	**4**	**5**
Rapidly changing business environment.	**1**	**2**	**3**	**4**	**5**

APPENDIX B

QUESTIONIARE FOR CUSTOMERS OF ADB BRANCHES IN BRONG-AHAFO REGION

The researcher is undertaking a research in Internal Control System: Challenges and Effects on Management, Staff and Customers of Agric Development Bank [Brong-Ahafo Region] **for academic purpose only. Any information given would be treated as confidential**

SECTION A

Respondent's Profile

Please tick [√] the appropriate box for your answers.

1. Please what is your gender? [ ]male [ ]female
2. Please select your age group.

   [ ]below 20 years [ ]20 – 29 [ ]30-39[ ] 40 – 49 [ ] 50 and above
3. What is your occupation?

   [ ] civil servant [ ] student [ ] businessman/woman [ ] other
4. What is your monthly income?

   [ ] Below GH¢100 [ ] GH¢100 - ¢200 [ ] GH¢100 - 300 [ ] above GH¢300
5. Select your highest academic or professional qualification? **Select only one**

   [ ]WASSCE [ ]Technical/Post-secondary [ ]Diploma/HNDiploma [ ]Bachelor's degree [ ] Post-graduate Diploma/Masters [ ] PhD

SECTION B

Customers Perception of Internal Control System of ADB

The following statements concern the Internal Control practices of our 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
Strongly Disagree	Disagree	Neither Agree Nor Disagree	Agree	Strongly Agree

	1	**2**	**3**	**4**	**5**
Control environment					
1. Responsibilities are delegated and no follow up action is made to get feedback on results of performance of tasks delegated					
2. The management and staff of the bank do not practice honest and fair dealings with all stakeholders for their mutual benefit.					
Risk assessment					
3. the risk of doing business with the bank is high					
4. Management has not put in place mechanisms for mitigation of critical operating risks that may arise.					
Control activities					
5. It is possible for unauthorised transactions to be carried out in the bank					
6. Collusion is possible in the bank.					
7. Bank officers may sometimes waive verification of transactions to please to reduce customers waiting time					
Information & Communication					
8. The bank has is yet provide enough opportunities for customer complains					
9. Complaints and disputes by suppliers and customers are not resolved in a timely manner.					
Monitoring					
10. Individual employees of the bank can defraud it because of inadequate reviews of operations of employees of the bank					
11. Management do not monitor the conduct of employees of the bank					
Information technology					
12. Most of the staff members can access the banks customers master data base.					
13. There are no adequate restrictions of personnel in accessing all levels of different modules in computer applications of the bank.					

SECTION C

Customer Perception of Reliability Dimension Of Service Quality

In your opinion, how does the service quality of your ADB branch meet your expectations in terms of following dimension? Use these responses from 1-6 to answer, where:
1- very poor 2 – poor 3 - average 4 – good 5 – very good and 6-excellent

DIMENSIONS **Circle only one option in 1 - 6**

The branch staff keeping me informed about matters of concern to me is	**1**	**2**	**3**	**4**	**5**	**6**
The trust I have on the accuracy of the information the branch staff usually give me about my transactions is	**1**	**2**	**3**	**4**	**5**	**6**
Ability of branch staff to put a mistake right is	**1**	**2**	**3**	**4**	**5**	**6**
Feeling of security in my dealings with the branch staff is	**1**	**2**	**3**	**4**	**5**	**6**
Expression of genuine concern if there is a mistake in my account is	**1**	**2**	**3**	**4**	**5**	**6**
Promptness of service from branch staff is	**1**	**2**	**3**	**4**	**5**	**6**

SECTION D

The Extent To Which Customers Like Internal Control Pratices In The Banking Hall

In receiving or using services of your bank, to what extent do you like each of the following internal control practices? Use the scale 1 – 5 to answer, where:
1 – Much dislike 2 - dislike 3 – neutral 4 – Like 5 – Much like

DIMENSIONS	**Circle only one option: 1-5**				
Practice of honesty and fairness	**1**	**2**	**3**	**4**	**5**
Insistence on policies of the bank in the banking hall which may delay transactions	**1**	**2**	**3**	**4**	**5**
Thorough verification procedures which may delay service	**1**	**2**	**3**	**4**	**5**
Policy of treating all customers the same way without favour	**1**	**2**	**3**	**4**	**5**