INTERNAL CONTROL AND ITS CONTRIBUTIONS TO ORGANIZATIONAL EFFICIENCY AND EFFECTIVENESS: A CASE STUDY OF ECOBANK GHANA LIMITED.

A thesis submitted to the Institute of Distance Learning - Kwame Nkrumah University of Science and Technology in partial fulfillment of the requirement for the reward of the Commonwealth Executive Master of Business Administration.

JULY, 2011

DECLARATION

I hereby declare that this thesis is the result of my own original research and that no part of it has been presented for another CEMBA Degree in the university or elsewhere.

However, works by other authors which served as sources of information, have been acknowledged by references to the authors thereafter.

NDAMENENU KORANTENG DOUGLAS …………………… ……………..

STUDENT NAME AND IDENTITY SIGNATURE DATE

STEPHEN ALEWABA ……………………………. …………

CERTIFIED BY:

SUPERVISOR'S NAME SIGNATURE DATE

CERTIFIED BY

PROF.I.K. DONTWI ……………………. ……………….

DEAN (IDL) SIGNATURE DATE

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ABSTRACT

Current business trends have made it imperative for almost all large organizations to maintain an internal control system. The Ghanaian banking industry has evolved from a highly regulated sector into a largely market driven one. The regulatory and institutional framework has improved considerably yet still Banks in Ghana are facing some challenges as the world deals with one of the deepest financial crisis in the history of the planet. Although not heavily hit by the global financial crisis because we do not have that spare liquidity to enable us take part in those complicated instruments in credit delivery. Nonetheless, the effects of the global financial meltdown are gradually being felt by developing countries of which Ghana is not an exception.

The study exploited information by the help of primary data from interview schedules. However, the purposive type of sampling was used in sampling. In all five respondents were sampled from the thirty (30) respondents under review. The data gathered was analyzed and interpreted by the help of percentages and frequency tables.

The findings of the study revealed that there are measures put in place by the Ecobank Ghana to enhance compliance. The measurement put in place is management oversight responsibility for internal control whereby control policies and procedures are being adhered to.

It came to light that, the internal audit unit was responsible for monitoring internal control policy compliance whiles management assesses risk but the internal audit unit is not part of branch operations, they only visit the branches on monthly bases.

The recommendations drawn from the study was that the Ecobank Ghana Limited should set internal audit units at their various branches across the country, so that there shall always be internal audit personnel to ensure compliance to the internal controls that exist in the organization. In view of this, the internal audit personnel's should also be rotated at regular intervals to avoid any form of malpractices.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Globalization and the advancement in technology has become the hallmark for businesses today and the banking sector is no exception. Banks have been expanding their operations and activities beyond the domestic borders as a result of globalization and improved technology. The expansion of business, globalization and the advanced technology also exposes business to increased risk, fraud, altercations and other irregularities. This has made internal controls an imperative system to maintain by every business and for that matter the banking sector. Globalization of businesses, technological advancements, increasing risk of business failures, the fraud and altercations that emerged in the financial sector in Africa call for the proper maintenance of an effective internal control systems.

The United States of America and elsewhere in Europe have encouraged nations and corporate organizations to place more emphasis on their internal control systems and internal auditing functions and risk management (Mercer University, 2010: Online). The credit crunch that has hit the world's most developed economies recently is a clear indication of the failure of the system to hold in check some of the excesses in our haste to satisfy our profit making agenda and to outdo one another in competition. These financial crises which affected the mainly the developed countries results are being felt by the developing countries of which Ghana is no exception.

The Ghanaian banking industry has evolved from a highly regulated sector into a largely market driven one. The regulatory and institutional framework has improved considerably yet still Banks in Ghana are facing some challenges as the world deals with one of the deepest financial crisis in the history of the planet (Business & Finance 3/2/2009 Pg 14). The recent demise of Bank for Housing and Construction and Ghana Co-operative Bank Ltd are test cases of how lapses in internal controls can easily cause the fortunes and death of financial institutions. Internal controls and risk managements, the purpose to ensure effectiveness and efficiency of operational activities, reliability of financial information, compliance with applicable rules and regulations and sustainable business growth have been incorporated into the mundane activities of banks in Ghana. Most banks go through difficulties in recovering facilities granted to customers after expiry. The issue of default of bank facilities is gradually eroding most gains and crippling business opportunities. Internal controls and risk managements the purpose of which is to ensure effectiveness and efficiency of operational activities, reliability of financial information, compliance with applicable rules and regulations and sustainable business growth have been incorporated into the mundane activities of banks in Ghana.

Internal controls are to be an integral part of any organization's financial and business policies and procedures. Internal controls consist of all the measures taken by the organization for the purpose of;

1 Protecting its resources against waste, fraud, and inefficiency;

2 Ensuring accuracy and reliability in accounting and operating data;

3 Securing compliance with the policies of the organization; and

4 Evaluating the level of performance in all organizational units of the organization. Internal controls are simply good business practices. (Kansas State University – USA June 30, 2003)

For some time now, risk management in general and internal control more specifically; have been considered as fundamental elements of organizational governance. As a consequence, risk management is beginning to be perceived as a new means of strategic business management, linking business strategy to daily risks and then optimizing those risks in order to realize value (Saarens and de Beelde 2006.) In the United States for instance in 1992, a group of companies sponsored the formation of the treadway commission to study and report on how to improve on the effectiveness of internal control systems, and more recently in 2002 the US congress passed the Sarbanes Oxley act giving new directives on how companies are to report on the effectiveness or otherwise of their internal control systems. (Circular 123 spring 2005, KPMG LLP).

The Central Bank of Ghana in playing the regulatory role has come out with measures to help regulate the functioning of the financial institutions to improve on the effectiveness of their internal control systems and risk management. In Ghana for example various legislations have been passed to reduce the risk of misstatements, fraud and mismanagement of both corporate and government resources. The government in 2003 passed the financial Administration act (Act 654), the Public Procurement Act (Act 663), and the Internal Audit Agency Act (Act 658), the government also set up certain bodies in addition to existing ones. The Office of accountability at the Presidency was set up in addition to the Serious Fraud Office and the Commission on Human Rights and Administrative Justice (CHRAJ). Also the Securities and Exchange Commission (SEC) with support from the United Nation Development Programme

(UNDP) in 2005 carried out a country assessment of corporate governance standards in Ghana, which led to issuing of new corporate governance standards in the same year (Corporate Governance Lessons, Ghana Country Report, May 2005).

As part of improving their internal control systems, internal auditing function, and reducing risk, most banks in the country have put in place mechanisms to ensure internal control and compliance in credit delivery. These includes setting up an internal audit unit, a monitoring unit and issuing the Accounting, Treasury and Financial Reporting Rules (ATE Rules) It is therefore in this light that this project work is being carried out to assess the effectiveness of internal control system and how the internal auditor perceives his or her role in risk management in the financial sector.

1.2 THE PROBLEM STATEMENT

The growth and development of the financial institutions are dependent on the effective and efficient management of its credits. Under the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework, objective setting is considered a precondition to internal control. By setting objectives, management can then identify risks to the achievement of those objectives. To address these risks, management of organizations may implement specific internal controls. The effectiveness of internal control can then be measured by how well the objectives are achieved and how effectively the risks are addressed.

More generally, setting objectives, budgets, plans and other expectations establish criteria for control. Control itself exists to keep performance or a state of affairs within what is expected, allowed or accepted. Control built within a process is internal in nature. It takes place with a combination of interrelated components - such as social environment effecting behavior of employees, information necessary in control, and policies and procedures. Internal control structure is a plan determining how internal control consists of these elements.

The concepts of corporate governance also heavily rely on the necessity of internal controls. Internal controls help to ensure that processes operate as designed and that risk responses (risk treatments) in risk management are carried out. In addition, there needs to be in place circumstances ensuring that the aforementioned procedures will be performed as intended: right attitudes, integrity and competence, and monitoring by managers.

To ensure the effective and efficient managements of credit delivery and recovery of all facilities granted at expiry, internal controls are normally put in place. In the financial sector to enhance the effectiveness and efficiency on internal control systems various legislations have been put in place by the Central Bank and the republic. These legislations include the 1992 Fourth Republican constitution, the Criminal Code of 1960 (Act 29), the financial Administration Act (act 654), the Public Procurement Act (Act 663), and the Internal audit Agency Act (Act 658).

Notwithstanding, internal controls only provide reasonable assurance, not absolute assurance. This is because it is people who operate the internal controls, breakdowns can occur, human error, deliberate circumvention, management override, and improper collusion among people who are suppose to act independently can cause failures of the internal control to achieve objectives.

This project is to assess the extent of failures caused by humans to the internal controls and effectiveness of internal controls in risk management in the financial institutions with a particular reference to Ecobank (Ghana) Ltd.

1.3 RESEARCH QUESTIONS

Related to the problem, the research seeks to address the following questions

1. Do internal control systems exist at Ecobank Ghana Limited?
2. Are employees or staff of Ecobank Ghana Limited conscious of internal control systems in the work place?
3. How effective are the internal control systems in Ecobank Ghana Limited?
4. What measures need to be adopted to enhance the effectiveness of internal control systems in Ecobank Ghana Limited?

1.4 THE OBJECTIVES OF THE STUDY

In an attempt to address the above research questions, the following objectives were set

1. To determine whether internal control exit in Ecobank Ghana Limited.
2. To examine the consciousness of employees of Ecobank Ghana Limited.
3. To examine the measures adopted to enhance the effectiveness of internal Controls in credit risk management.
4. To recommend appropriate policy measures that will improve the effectiveness of internal controls in managing risk.

1.5 SIGNIFICANCE OF THE RESEARCH

This research work will provide a basis or a conceptual framework and standard against which companies could assess their internal control system and judge their effectiveness. In other words, the study is to provide common language, understanding and a practical way for companies to assess and improve their internal control systems.

To the researcher studying on the same subject, it will provide way of delving into what this research could not cover considering its limitations. The results of this study will help the financial institutions to sit up in following the control measures in their day to day management of their credit portfolio.

Though this research is to partially fulfill an academic requirement for the award of a masters degree, it is expected that recommendations will be provided to complement the policies by the regulatory bodies and the efforts of the banking institutions in addressing problems of default and the unnecessary legal tussles that characterizes repayments of bank facilities.

1.6 THE PROFILE OF ECOBANK

Business Review

Ecobank Ghana Limited (EGH) was incorporated on January 9, 1989 as a private limited liability company under the company's code to engage in the business of banking. EGH was initially licensed to operate as a merchant bank by the Bank of Ghana on November 10, 1989 and commence business on February 19, 1990. However, following the introduction of Universal Banking by the Bank of Ghana in 2003, EGH, through to its form as a pacesetter, became the first bank to be granted the Universal Banking license from the Bank of Ghana.

The bank is a subsidiary of Ecobank Transnational Incorporated (ETI), a bank holding company which currently has fifty-two (52) subsidiaries across Middle Africa. The Ecobank Group is thus in more Countries in Africa than any other bank, making it the leading Regional Banking Group in Middle Africa.

EGH has grown consistently over the years to become one of the leading banks in Ghana and a well recognized brand in the Ghanaian Banking Industry. EGH acquired a Universal Banking license in 2003 and got listed on the Ghana Stock Exchange (GSE) in July 2006. The bank has embarked on a medium term strategy shift from a predominantly Wholesale Bank to Retail Bank, and 2008 marked the third year of its strategic transformation.

The Bank's Mission & Vision

EGH's mission is to become a strategic part of a world-class African banking group. The bank's vision is to provide its customers convenient, accessible and reliable banking products and service.

In line with this EGH seeks to create a unique African institution characterized by a determined focus on customers, employees and shareholders and an absolute commitment to excellence in the financial services industry. The bank seeks to pursue this mission and uphold its values by applying the following principles to its business decisions and conduct.

- Treat each customer as a preferred customer
- Invest in training and development of its staff
- Deliver product and service quality which exceed customer expectations
- Develop markets and products in which it can reach and maintain competitive advantage.
- Deliver appropriate returns to its shareholders.
- Maintain high standards of ethics and compliance at all times.

Retail Banking

The Retail Banking segment focuses on developing the Micro, Small, and Medium scale Enterprises, High Networth individuals, salaried workers, religious organizations, Educational Institutions, Health Institutions and Clubs and Associations across all the Banks branches.

Ecobank Ghana believes that this segment holds the key to increasing employment and incomes and reducing poverty.

The Retail Banking Segment consists of three (3) distinct units which are:

- Branch Banking
- Consumer Finance
- Commercial Finance

Branch Banking

This unit oversees sales and distribution of the retail segment and accordingly handles the development and marketing of liability products of the Bank. This unit champions the deposits mobilization drive of the Retail Bank, workings through the branches, and offering competitively attractive liability products to its clientele. This includes current accounts, savings accounts, fixed deposits and Western Union services.

Commercial Finance

This unit is responsible for providing finance to small and medium scale enterprises (SMEs). The unit accordingly offers various credit products such as Business Loans, Receivables-Financing, Discounting, Import Financing, etc.

Wholesale Banking

Ecobank Ghana remains a key player in the corporate banking business in Ghana, having established itself as a leading provider of first-class financial services in this sector. The strategic focus of the segment is to continue to deliver value-added solutions to its clients by leveraging on superior technology and unique understanding of their business needs. The wholesales banking segment is also classified under distance units to enhance the focus approach to corporate banking. These are local corporate, public sector Regional Corporate and/or Multinationals.

Accordingly, despite pursuing a strategic shift into retail banking, Ecobank Ghana continues to deepen its presence in the corporate banking segment.

Treasury & Financial Institutions

Treasury & Financial institutions department continues to offer Treasuring services to the client base of Ecobank.

The department is segmented into three (3) distinct units to provide focus services to the client base of Ecobank.

The treasury sales unit focuses on customers and aspires to meet their foreign exchange and investment needs. The unit also manages the relationships with international organizations, insurance companies, non-governmental organizations and embassies. The Traders deal on the inter bank market to support the Treasury Sales, units, while the ALM unit manages the bank's Asset and liabilities. Treasury products available include deposits, spot and forward foreign exchange and fixed income instruments among others.

Transaction banking

Transaction banking is sub-divided into three (3) units:

- Cash Management sales & service
- Card sales & Service
- Money Remittance Sales & Services.

The Cash Management sales and Service unit handles the arrangement and management of bulk payments and receipts cash from corporate customers and government agencies. This is done by leveraging on electronic products such as e-pay and e-collect.

The Card sales and services unit oversees the production of all cards and developing alliances and partnerships that will increase card usages.

Money remittance sales and services involves the sale of the Banks money transfer services within the country and inter-regional transfers especially Ecobank Group affiliate Countries. The unit is also involved in developing strategic alliances and partnership that will facilities the easy and convenient money transfer initiatives.

Operations and Technology

Technology-driven operational efficiency remains vital to the success of Ecobank's operations. Ecobank continues to build a modern technology platform to facilitate speedy and cost effective services to clients. The IT infrastructure is up-to-date, the systems are integrated and the branches are fully networked, creating the convenience and flexibility in transacting banking businesses at any outlet of the Bank. The group's technology arm, Eprocess interventional SA has achieved tremendous success in providing a shared gateway for the payment systems and regional ATM network which is aimed at improving the efficiency of support to all the subsidiaries.

The year under Review-2008

2008 marked the third year of implementation of the Bank's medium term strategic plan of transformation from a predominately wholesale bank into a retail bank. This transformation involves the expansion of the banks geographical reach via branches, ATMs and other distribution outlets in addition to the delivery of innovative products and services. The bank successfully carried out its planned expansion project during the year as it has expanded its delivery channels.

Financial Summary

Ecobank Ghana continued to delivery strong financial results. It remains a profitable and financially sound bank with a solid and quality asset base. Profitability growth has been robust and consistent over the years despite the increasingly competitive environment. Profitability performance has been impressive with a consistent increase in profitability and delivery good dividends to shareholders. Profitability has been deliver strong growth in all revenue streams despite the dwindling margins and increasing competition. In addition, in spite of the expansion drive, Ecobank Ghana continues to ensure that costs are contained through strategic cost management measures.

In 2008, Ecobank Ghana grew profit after Tax (PAT) by 50% from GH¢22.3milion in 2007 to GH¢33.6 milion in 2008. The Bank also grew its asset base by 38% from GH¢669 million at December – end 2007 to GH¢920 million at December-end 2008.

Corporate Governance

Ecobank believes in corporate fairness, transparency and accountability. The bank has in place good structures and systems which enhance good corporate governance and ensures accountability to its stakeholders.

Regulation and Supervision

Econbank Ghana's operations are examined and supervised by the Banking Supervision Department of bank of Ghana. The subsidiaries are also regulated and guided by the Non-Bank Financial institutions department of Bank of Ghana and the Securities and Exchange Commission.

The holding Company, Ecobank Transnational Incorporated (ETI), is regulated by Commission Bancaire, the supervisory arm of Banque Centrale de L'Afriques de L'Ouest(BCEAO). This supervisory body has oversight responsibility for institutions in the union Economiques et Monetaire Ouest Africaine (UEMOA) which includes the Republic of Togo where ETI is incorporated and located.

Inflation and Currency Movements

Currency movements and inflation significantly affect Ecobank's performance. Ecobank's assets are predominantly financial in nature therefore any adverse movement in inflation and exchange rates affect the value of their assets.

Monetary gains and looses are addressed in the accounts on the basis of prevailing International Financial Reporting Standards (IFRS).

1.7 LIMITATIONS OF THE STUDY

Even though this research is to find the effect of internal control on the performance of banks in Ghana the scope of the research does not give findings that can be generalized. There are also resource constraints, in terms of time and logistics as well as the difficulties in accessing data.

1.8 ORGANIZATION OF THE STUDY

Chapter one includes background of the study, the problem statement, research question, objectives of the research, the significant of the study, the profile of Ecobank Ghana Limited and the limitation of the study. Chapter two is the literature review which includes the definitions of internal control, internal controls objectives, types of internal controls, components of internal control, internal control evaluation, parties responsible for internal controls, internal control limitations and what can happen when internal controls are weak.

Chapter three consist of the research design, population under study, sampling techniques, sources of data, research instruments and method of data analysis. Chapter four focuses on data presentation and data analysis. Chapter five is the summary of findings, conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter presents the view of other authorities and theories on the topic. It also tries to unfold the key terms that have been used in this project work.

2.1 Definition of Terms

In accounting and auditing, internal control is defined as a process affected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives. (COSO Definition of Internal Control) It is a means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources, both physical (e.g., machinery and property) and intangible (e.g., reputation or intellectual property such as trademarks). At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. At the specific transaction level, internal control refers to the actions taken to achieve a specific objective (e.g., how to ensure the organization's payments to third parties are for valid services rendered.) internal control procedures reduce process variation, leading to more predictable outcomes. Internal control is a key element of the Foreign Corrupt Practices Act (FCPA) of 1977 and the Sarbanes-Oxley Act of 2002, which required improvements in internal control in

United States public corporations. Internal controls within business entities are also referred to as operational controls.

Internal controls have existed from ancient times. In Hellenistic Egypt there was a dual administration, with one set of bureaucrats charged with collecting taxes and another with supervising them. van Creveld, Martin. *The Rise and Decline of the State*. Cambridge University Press. pp. 49.)

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

Under the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control -Integrated Framework, a widely-used framework in the United States, internal control is broadly defined as a process, affected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with laws and regulations.

The COSO definition relates to the aggregate control system of the organization, which is composed of many individual control procedures.

Discrete control procedures or *controls* are defined by the SEC as: "...a specific set of policies, procedures, and activities designed to meet an objective. A control may exist within a designated function or activity in a process. A control's impact may be entity-wide or specific to an account balance, class of transactions or application. Controls have unique characteristics – for example, they can be: automated or manual; reconciliations; segregation of duties; review and approval authorizations; safeguarding and accountability of assets; preventing or detecting error or fraud. Controls within a process may consist of financial reporting controls and operational controls (that is, those designed to achieve operational objectives)."(SEC Interpretive Guidance)

According to A. H. Millichamp (2002), Internal Control System is defined as the whole system of controls, financial and otherwise, established by the management in order to carry on the business of safeguard the assets and secure as far as possible the completeness and accuracy of the records. He further analyzed the redefinition as follows;

1 The whole system: internal control can be seen as a whole or single system. The whole is more than the sum of parts.

2 Financial and otherwise: the distinction is not important. Perhaps the financial would include the use of control accounts and otherwise may include physical access restrictions to computer terminals.

3 Established by Management: internal controls are established by management, either through consultant (external) or internal through internal audit.

4 Ensure Adherence to Management Policies: management has express policies such as budget and the adherence of budget can be achieved through the procedures such as variance analysis.

5 Safeguard Assets: allowing assets to be stolen or broken is unacceptable and procedures are always put in place to safeguard assets.

6 Secure completeness: to check that transactions are duly recorded, checking that all goods leaving the factory must have a delivery not attached to it.

Besides, Alan G. Hevesi (2005) also defined internal control as the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives and mission.

All the above definitions of internal control systems have identified the main objectives of internal controls to be the assurance that organizational resources will be put to economic, efficient and effective use in order to achieve the objectives for which the organization was set up.

The term internal control encompasses all the methods, procedures and arrangements adopted within an organization to ensure as far as possible the safeguarding of assets, the completeness, accuracy and liability of the accounting records and the promotion of operational efficiency and adherence to management policies (Okai, 1996).

However, in the context of this project work internal control shall be defined as recommended by COSO that is a process affected by an entity's board of directors, management and other personal, designed to provide reasonable assurance regarding the achievement of objectives in the following categories.

- Effectiveness and efficiency of operations in Ecobank Ghana Limited
- Reliability and accuracy of financial reporting
- Compliance with applicable laws and regulations.

2.2 INTERNAL CONTROL OBJECTIVES

Internal Control objectives are desired goals or conditions for a specific event cycle which, if achieved, minimize the potential that waste, loss, unauthorized use or misappropriation will occur. They are conditions which we want the system of internal control to satisfy. For a control objective to be effective, compliance with it must be measurable and observable. (Mercers University).

Internal Audit evaluates Mercer's system of internal control by accessing the ability of individual process controls to achieve seven pre-defined control objectives. The control objectives include authorization, completeness, accuracy, validity, physical safeguards and security, error handling and segregation of duties.

Authorization

The objective is to ensure that all transactions are approved by responsible personnel in accordance with specific or general authority before the transaction is recorded.

Completeness

The objective is to ensure that no valid transactions have been omitted from the accounting records.

Accuracy

The objective is to ensure that all valid transactions are accurate, consistent with the originating transaction data and information is recorded in a timely manner.

Validity

The objective is to ensure that all recorded transactions fairly represent the economic events that actually occurred, are lawful in nature, and have been executed in accordance with management's general authorization.

Physical Safeguards & Security

The objective is to ensure that access to physical assets and information systems are controlled and properly restricted to authorized personnel.

Error handling

The objective is to ensure that errors detected at any stage of processing receive prompt corrective action and are reported to the appropriate level of management.

Segregation of Duties

The objective is to ensure that duties are assigned to individuals in a manner that ensures that no one individual can control both the recording function and the procedures relative to processing the transaction.

A well designed process with appropriate internal controls should meet most, if not all of these control objectives.

2.3 Types of Internal Control Systems

Different writers have come with different types of internal control systems. Milichamp (2002) puts the types of internal controls as; Safeguarding assets, Separation of duties, supervision, Verification, Approval and authorization, Documentation, Safeguarding Assets, and Reporting. However, many other authors such as Dr Lousteau (2006), the state university of New York and diNapoli (2005) have agreed that the types of internal controls includes directive controls, preventive controls, compensating controls, detective controls, and corrective actions. These types of internal controls are explained below.

2.3.1 Directive Controls

Directive Controls relate to policies and put in place by top management to promote compliance with independence rules. To ensure compliance with directive controls, a clear, consistent message from management that policies and procedures are important must permeate the organization. They provide evidence that a loss has occurred but do not prevent a loss from occurring. Examples of detective controls are reviews, analyses, variance analyses, reconciliation, physical inventories, and audits. However, detective controls play critical role providing evidence that the preventive controls are functioning and preventing losses. Control activities include approvals, authorizations, verifications, reconciliation, and reviews of performance, security of assets, segregation of duties, and controls over information systems. (Di Napoli 1999).

2.3.2 Preventive Control

Preventive controls relate to measures taken by a firm to deter noncompliance with policies and procedures. They are proactive controls that help to prevent a loss. Examples of preventive controls are separation of duties, proper authorization, adequate documentation and physical control over assets, Dr Lousteau (2006)

2.3.3 Compensating Controls

Compensating controls are intended to make up for a lack of controls elsewhere in the system. For example, firms with an electronic database could maintain a hard copy of the client list in the office library. Such a list would compensate for downtime in electronic systems and difficulties in locating client names in an electronic system. While the list would have to be reprinted from time to time to add new clients would mitigate some of the obsolescence that exists with hard copies. University of New York (200%).

2.3.4 Detective Controls

Directive controls are aimed at uncovering problems after they have occurred. Although necessary in a good internal control system, detection of an independence violation after the fact is less desirable than prevention in the first place. Detective controls rarely work well as a deterrent in the absence of severe penalties Dr Lousteau (2006).

2.4COMPONENTS OF INTERNAL CONTROL

COSO defines internal control as having five components:

- Control Environment-sets the tone for the organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control.
- Risk Assessment-the identification and analysis of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed

- Information and Communication-systems or processes that support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities
- Control Activities-the policies and procedures that help ensure management directives are carried out.
- Monitoring-processes used to assess the quality of internal control performance over time.

These components are explained further in detail;

2.4.1 Control Environment

This sets the tone for the organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control. The control environment reflects the board of directors' and management's commitment to internal control. It provides discipline and structure to the control system. Elements of the control environment include the organization structure of the institution, management's philosophy and operating style, the integrity, ethics, and competence of personnel, the external influences that effect the organization's operations and risk management practices, the attention and direction provided by the board of directors and its committees and the effectiveness of human resources policies and procedures. (Administrator of National Banks, Comptroller's Hand Book 2001), Hevesi (2005) however considers the Control environment to be the attitude toward internal control and control consciousness established and maintained by the management and employees of an organization. It is a product of management's governance that is its philosophy, Style and supportive attitude, as well as the competence, ethical values, integrity and morale of the people of the organization. The control environment encompasses the attitudes and actions regarding control.

This environment sets the organizational tone, influences control consciousness, and provides and foundation for an effective system of internal control. The control environment also provides the discipline and structure for achieving the primary objectives of internal control. (Lannoye 1999). Flowing from the above the board of directors should show concern for integrity and ethical values. There must be a code of conduct and/or ethics policy and this must be adequately communicated to all levels of organization. Also there must be a structure appropriate, which is not dominated by one or a few individuals and an effective oversight by the board of directors or audit committee. Management also needs to put a mechanism in place to regularly educate and communicate to management and employee the importance on internal controls, and to raise their level of understanding of controls.

2.4.2 Risk Assessment

This is the identification and analysis of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed. According to Lannoye (1999) this component of internal control highlights the importance of management carefully identifying and evaluating factors that can preclude it from achieving its mission. Risk assessment is a systematic process for integrating professional judgment about probable adverse conditions and events, and assessing the likelihood of possible losses (financial and non-financial) resulting from their occurrence. The second internal control standard addresses risk assessment. A precondition to risk assessment is the establishment of clear, consistent agency goals and objectives have been set, the agency needs to identify the risks that could impede the efficient and effective achievement of those objectives at the entity level and the activity level. Internal control should provide for an assessment of the risks the agency faces from both internal and external sources. Once risks have been identified, they should be analyzed for their possible effect. Management then has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives of efficient and effective operations, reliable financial reporting, and compliance with laws and regulations.

Risk Identification

Management should perform a comprehensive analysis of identifiable risk, including all risks associated with department-wide and activity level objective (derived from the organization's mission). The activities analyzed should include those that support both financial and non-financial objectives. Management must consider the significant interactions with external organizations as well as those internal to their organization at both the department-wide and activity levels. Several means of risk identification can be used, including; management planning conferences, strategic planning, periodic reviews of factors effecting department's activities, changing needs or expectations of agency officials or the public and natural catastrophes. (Lannoye, 1999)

Risk Analysis

After identifying department-wide and activity level risk, management should perform a risk analysis. The methodology may vary since risks are difficult to quantify; however, the process generally includes the following:

- Estimating risk significance
- assessing likelihood/frequency of occurrence
- Considering how to manage risk

Risk with little significance and low probability of occurrence may require special attention. After assessing the significance and likelihood of risk, management must determine how to control it. Approaches may differ among agencies, but they must be designed to maintain risk within levels deemed appropriate by management, considering the concepts of reasonable assurance and cost-benefit. Once implemented, the approach should be continually monitored for effectiveness. (Lannoye, 1996)

Managing Risk during Change

When change occurs in an organization it often affects the control activities that were designed to prevent or reduce risk. In order to properly manage risk, management should monitor any change to ensure that each risk continues to be managed as change occurs. Management should inform employees responsible for managing the organization's most critical risks about any proposed changes that may affect their ability to manage those risks. Managers should continually monitor the factors that can affect the risks they have already identified as well as other factor that could create new risks. (Walker 1999).

2.4.3 Information and Communication

According to the fourth internal control standard, for an agency to run and control its operations, it must have relevant, reliable information, both financial and non financial, relating to external as well as internal events. That information should be recorded and communicated to management and others within the agency who need it and in a form and within a time frame that enables them to carry out their internal control and operational responsibilities. (Steihoff 2001) Hevesi (@0050 information and communication are essential to effective control. Information about an organization's plans, control environment, risks, control activities, and performance must be communicated up, down, and across an organization. Reliable and relevant information from both internal and external sources must be identified, captured, processed, and communicated to the people who need it in a form and timeframe that are useful.

According to the comptroller's Handbook (2001), accounting, information, and communication systems capture and impart pertinent and timely information in a form that enables the board, management, and employees to carry out their responsibilities. Accounting systems are the methods and records that identify, assemble, analyze, classify, record, and report on transaction. Information and communication systems enable all personnel to understand their roles in the control system, how their roles relate to others, and their accountability. The entity must be able to prepare accurate and timely financial report including interim reports. The board of directors and management must ensure that they receive accurate and timely information to allow them to fulfill their responsibilities. Management must also provide written job descriptions and reference manuals that describe the duties of personnel.

2.4.4 Control Activities

The policies and procedures that help ensure management directives are carried out. According to the Administrator of National Banks, (2001), control activities are the policies, procedures, and practices established to help ensure that an organization's personnel carry out board and management directives at every business level through the organization. These activities help ensure that the board and management act to control risks that could prevent an organization from attaining its objectives. The New York State comptroller (1999) defined control activities as tools – both manual and automated – that help identify, prevent or reduce the risks that can impede accomplishment of the organization's objectives. Management should establish control activities that are effective and efficient. According to Walker (1999) control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. He provided the following as example of control activities

2 Top level reviews of actual performance,

3 Reviews by management at the functional or activity level,

4 Management of human capital,

5 Controls over information processing,

6 Physical control over vulnerable assets,

7 Establishment and review of performance measures and indicators,

8 Segregation of duties,

9 Proper execution of transaction and events,

10 Accurate and timely recording of transactions and events,

11 Access restrictions to and accountability for resources and records, and

12 Appropriate documentation of transactions

2.4.5 Monitoring

Monitoring is the assessment of internal control performance over time; it is accomplished by ongoing monitoring activities and by separate evaluations of intern control such as self-assessments, peer reviews, and internal audits. The purpose of monitoring is to determine whether internal control is adequately designed, properly executed, and effective. Internal control is adequately designed and properly executed if all five internal control components (Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring) are present and functioning as designed. Springer (2004). Periodic evaluations of internal control are made and personnel, in carrying out their regular duties, obtain evidence as to whether the system of internal control continues to function. Management should implements internal control recommendations made by internal and independent auditors, corrects known deficiencies on a timely basis, and responds appropriately to reports and recommendations regulators. There must also an internal audit function that management uses to assist in their monitoring activities. In Ghana Health service there is the internal audit and monitoring units that carries out the functions of monitoring internal controls.

2.4 INTERNAL CONTROL EVALUATION

DiNapoli (1999) defined evaluation is the process management uses to assess whether an organization's operations are effective in achieving its mission. The purposes of evaluation are to provide management with a reasonable assurance that; the organization's systems of internal control are functioning effectively; and they can identify both risks to the organization and opportunities for improvement.

According to Louwers (2002) the five components of internal control are considered to be the criteria for evaluating a financial reporting control and the bases for the auditors' assessment a control risks in term of;

- Understanding a client's financial reporting controls and documenting that understanding,
- Preliminarily assessing the control risk, and
- Testing the controls, reassessing control risk, and using that assessment to plan the remainder of the audit work.

2.5.1 Effectiveness of Internal Control

A judgment as to whether an entity's internal control is effective is based on considering the extent to which the components are present and operating effectively. Effective functioning of all the components provides reasonable assurance as to achievement of one or more of the three categories of objectives.

Internal control may be judged effective for each of the three categories of internal control objectives if the board of directors and management have reasonable assurance that;

13 They understand the extent to which they entity's operations objectives are being achieved.

14 Published financial statements are being prepared reliably,

15 Applicable laws and regulations are being complies with.

Effectiveness of internal control depends on the presence of all the components of internal control working together. No two entities are likely to have the same internal control system.

Nevertheless, even though entities may not respond to similar risks in the same way, the basic components contributing to an entity's being in control need to be satisfied.

For the financial reporting objective there is a more detailed criterion, namely, the material weakness concept. A material weakness is defined as follows:

A condition in which the design or operation of one or more components of internal control does not reduce to a relatively low level the risk that errors or irregularities in amount that would be material to the financial statements may occur and not be detected and corrected within a timely period by employees the normal course of performing their assigned duties.

2.5.2Understand and document the client's Internal Control

A major goal on audits is to be efficient. This means performing the work in minimum time and with minimum cost while still doing high-quality work to obtain sufficient, competent avoidance. The allocation of work times between control-evaluation and year-end audit work is a lost-benefit trade-off. Generally, the more auditors know about good controls, the less substantive test year-end work they need to do. However, auditors do not necessarily need to determine the actual quality of a company's internal control. They only need to know enough to plan the other work. They can obtain only a minimum understanding of a client's control, assess a high control risk, and perform extensive substantive balance-audit work.

2.5.3 Obtaining an Understanding

This gives auditors an overall acquaintance with the control environment and management's risk assessment, the flow of transactions through the accounting system, and the design of the client's activities. After the audit team gains an understanding of the control environment of the accounting system. That is the flow of transaction. This review should produce general knowledge along the following lines.

16 The various classes of significant accounting transaction.

17 The types of material errors and fraud that could occur

18 Methods, by which each significant class of transactions is; authorized and initiated, documented and recorded, Processed in the accounting system and places in financial reports and disclosures.

Auditors obtain an understanding of internal controls from several sources of information. Minimum requirements for a good control oriented accounting system include a chart of accounts and some written detritions and instructions about measuring and classifying transactions.

2.5.4 Document the Internal Control Understanding

Working papers documentation of a decision to assess risk can consist only of a memorandum of that fact. However for future reference in next year's audit, the memorandum should contain an explanation of the effectiveness-related or efficiency-related reasons. Working paper documentation is required and should include records showing the audit team's understanding of the control. This can be summarized in the form of questionnaires, narratives and flowcharts.

Internal Control Questionnaires. The most efficient means of gathering evidence about the control structure is to conduct a formal interview with knowledgeable managers, using the checklist type of internal control questionnaire. The questionnaire is organized under headings that identify the control environment questions and the questions related to each of the seven control objectives. All questionnaires are not organized like this, so auditors need to know the general transaction control objectives in order to know whether the questionnaire is complete. Internal control questionnaires are designed to help the audit team obtain evidence about the control environment and about the accounting and control activities that are considered good error checking routines. Answers to the questions, however should not be taken as final and definitive evidence about how well control actually functions.

Do native descriptions. One way to tailor these inequity procedures to a particular company is to write a narrative description of each important control subsystem. Such a narrative would simply describe all the environmental elements, the accounting system, and the control activities. The narrative description may efficient in audits of very small businesses.

2.5.5 Assess the control risk

After obtaining an understanding of control and designing a preliminary audit program, the audit team should be able to make a preliminary assessment of the control risk. One way to make the assessment is to analyze the control strengths and weaknesses. Strengths are specific features of good general and application controls. Weaknesses are the lack of controls in particular areas. The auditor's findings and preliminary conclusions should be written up for the working papers files. Strengths and weaknesses should be documented in a working paper sometimes called a bridge working paper, so called because if corrects the control evaluation to subsequent and it procedures.

2.5.6 Perform Test of Controls audit Procedures and Reassess Control Risk

When auditors reach third phase of an evaluation of internal control, they will have identified specific controls on which risk could be assessed very low. To reduce the final risk assessment to a low level, auditors must determine

- the required degree of company compliance with the control policies and procedures and
- the actual degree of company compliance. The required degree of compliance is the auditor decision criterion for good control performance. Knowing that compliance cannot realistically be expected to be perfect, auditors might decided, for example that evidence of using bills of lading to validate sales invoices is sufficient to assess a low control risk for the audit of accounts receivable

2.5.7 Perform Test of controls audits procedures

At this stage the auditors can perform test of controls procedures to determine how well the company's controls actually functioned during the period under audit. A test of controls audit procedure is a two part statement. Part one is an identification of the data population from which a sample of items will be selected for audit. Part two is an expression of an action taken to produce relevant evidence. In general, the action is to determine whether the selected item correspond to a standard and determine whether the selected items agree with information in another data population. Some test of control procedures involves re-performance. The auditors perform again the arithmetic calculations and the comparisons the company people were supposed to have performed. Test of controls procedures, when performed should be applied to samples of transactions and control activities executed throughout the period under audit. The reason for this requirement is that the conclusions about controls will be generalized at the whole period under audit.

2.5.8 Reassess the Control Risk

Final control risk assessment is complicated. In the sampling modules you will find explanations of sampling methods for performing test of controls procedures. However for an advanced peace at the result, recognized that the final evaluation of a company's internal control is the assessment of the control risk (CR) related to each assertion. Control risk is the element in the audit risk model. AR = IR* CR* DR, where AR is defined as audit Risk, IR as Inherent risk and DR as detection risk. These assessments are an auditors expression for the effectiveness of internal control for preventing, detecting and of internal control for preventing, detecting and correcting specific errors and gauds in management's final statement assertions. Each of these final control risk assessments can be qualitative or quantitative.

An assessment of control risk should be coordinated with the final audit plan. The final account balance audit plan includes the specification of substantive audit procedures to detect material misstatements in account balances and foot notes disclosures.

2.6 PARTIES RESPONSIBLE FOR AND AFFECTED BY INTERNAL CONTROLS

While all of an organization's people are an integral part of internal control, certain parties merit special mention. These include management, the board of directors (including the audit commit tee), internal auditors, and external auditors.

The primary responsibility for the development and maintenance of internal control rests with an organization's management. With increased significance placed on the control environment, the focus of internal control has changed from policies and procedures to an overriding philosophy and operating style within the organization. Emphasis on these intangible aspects highlights the importance of top management's involvement in the internal control system. If internal control is not a priority for management, then it will not be one for people within the organization either.

As an indication of management's responsibility, top management at a publicly owned organization will include in the organization's annual financial report to the shareholders a statement indicating that management has established a system of internal control that management believes is effective. The statement may also provide specific details about the organization's internal control system.

Internal control must be evaluated in order to provide management with some assurance regarding its effectiveness. Internal control evaluation involves everything management does to control the organization in the effort to achieve its objectives. Internal control would be judged as effective if its components are present and function effectively for operations, financial reporting, and compliance. The boards of directors and its audit committee have responsibility for making sure the internal control system within the organization is adequate. This responsibility includes determining the extent to which internal controls are evaluated. Two parties involved in the evaluation of internal control are the organization's internal auditors and their external auditors.

Internal auditors' responsibilities typically include ensuring the adequacy of the system of internal control, the reliability of data, and the efficient use of the organization's resources. Internal auditors identify control problems and develop solutions for improving and strengthening internal controls. Internal auditors are concerned with the entire range of an organization's internal controls, including operational, financial, and compliance controls.

Internal control will also be evaluated by the external auditors. External auditors assess the effectiveness of internal control within an organization to plan the financial statement audit. In contrast to internal auditors, external auditors focus primarily on controls that affect financial reporting. External auditors have a responsibility to internal control weaknesses (as well as reportable conditions about internal control) to the audit committee of the board of directors.

2.7 LIMITATIONS OF INTERNAL CONTROLS

No matter how well internal controls are designed, they can only provide reasonable assurance that objectives have been achieved. Some limitations are inherent in all internal control systems (Mercer University – United States of America (Georgia). These include:

2.7.1 Judgment

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

2.7.2 Breakdowns

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

2.7.3 Management Override

High level personnel may be able to override prescribed policies and procedures for personal gain or advantage. This should not be confused with management intervention, which represents management actions to depart from prescribed policies and procedures for legitimate purposes. With Lannoye, management may override or disregard prescribed policies, procedures, and controls for improper purposes. Override practices include misrepresentations to state officials, staff from the central control agencies, auditors or others. Management override must not be confused with management intervention (i.e. the departure from prescribed policies and procedures for legitimate purposes). Intervention may be required in order to process non-standard transactions that otherwise would be handled inappropriately by the internal control system. A provision for intervention is needed in all internal control systems since no system anticipates every condition.

2.7.4 Collusion

Control systems can be circumvented by employee collusion. Individuals acting collectively can alter financial data or other management information in a manner that cannot be identified by control systems. The effectiveness of segregation of duties lies in individuals' performing only their assigned tasks or in the performance of one person being checked by another. There is always a risk that collusion between individuals will destroy the effectiveness of segregation of duties. For example an individual received cash receipts from customer can collude with the one who records these receipts in the customers' records in order to steal cash from the entity (Williams 2000).

2.8 WHAT CAN HAPPEN WHEN INTERNAL CONTROLS ARE WEAK OR NON-EXISTENT?

When we recommend improving controls within a department, we often hear three basic arguments for not implementing our recommendations:

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

These arguments represent pitfalls to unsuspecting management. Each argument is in itself a problem that needs to be resolved.

- The problem of not having enough staff or other resources should be discussed with your supervisor. In most cases, compensating controls can be implemented in situations where one person has to do all of the business-related transactions for a department.
- If implementing a recommended control seems too expensive, be sure to consider the full cost of a fraud that could occur because of the missing control. In addition to any funds that may be lost, consider the cost of time that would have been spent by the department during

the time of an investigation of the matter, and the cost of hiring a new employee. Fraud is always expensive and the prevention of fraud is worth the cost.

- Finally consider the issue of trust. Most employees are trustworthy and responsible, which is an important factor in employee relations and departmental operations. However, it is also the responsibility of administrators to remain objective. Experience shows that it is often the most trusted employees who are involved in committing frauds.

CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION

This chapter presents the activities and processes that were undertaken to gather data for the research work. It gives full details of how data are collected and processed for this research work. The discussion was centered on the following: Research design, Population under study, sampling techniques, sources of data, research instruments, and method of data analysis.

3.1 RESEARCH DESIGN

The research is intended to find out how effective internal control systems in the banking sector of Ghana are in reducing risks and ensuring effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws. This is a fact finding exercise, thus a case study is used and as such the survey method of data collection was employed to collect data of qualitative nature.

A survey is a means of questioning a respondent via a collection of questions and instruction for both the respondent and the interviewers. (Cooper and Schindler, 2001) A structured questionnaire was therefore designed to collect the data.

3.2 POPULATION UNDER STUDY

The target population of the study is banks in the Ashanti Region. However, the study used Ecobank Ghana Limited Ashanti Region as the case study. According to the Kumasi main manager of Ecobank Ghana Limited, there are twelve (12) branches in the Ashanti Region. The target population for this study is the twelve (12) branches in the region.

3.3 SAMPLE SIZE

A sample size of 9 branches was drawn from a target population of 12 branches. This sample size has been arrived at by taking 75% of the target population. Therefore, a purposive sampling technique was used to arrive at the figure. In all, thirty (30) interview schedules were used to interview thirty (30) respondents.

3.4 SOURCES OF DATA

Primarily and secondary data were employed in the study. Primary data was sourced from the staff of Ecobank Ghana Limited Ashanti Regional that is Kumasi Main, KNUST, Stadium, Adum, Cocoaboard, Bantama, Abrepo Main, Kejetia Agency and Manhyia Branch.

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

3.5 RESEARCH INSTRUMENTS

Questionnaire and interview schedules were administered to the staff of Ecobank Ghana Limited Ashanti Region. In addition to that a review of related literature on internal auditing risk management and internal control systems were also used to gather information for the research work.

3.6 METHODS OF DATA ANALYSIS

In analyzing the data, frequency tables were used as the analytical techniques. Qualitative explanations were made of quantitative data to give meaning to them as well as explain their implications. From these appropriate recommendations was made on the findings of the research. The results are presented in chapter four of the study.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF RESULTS

4.0 INTRODUCTION

This chapter provides information on the data collection procedure adopted, analysis of the data and findings. The responses from the respondents are described, analyses, and inferences made to established relationships.

4.1 BACKGROUND INFORMATION ON RESPONDENTS

With a questionnaire as the main research tool to gather data from the respondents, the first section was intended to gather data on the background of the respondents. Frequency tables are used in analyzing the data gathered from the respondents.

4.1.1 Sex Distribution of Respondents

Out of 30 respondents interviewed 30% were male and 70% female as indicated on table 4.1 .The sex distribution showed that both male and female were represented in the study as shown below.

Table 4.1 Sex Distribution of Respondents

Category	Frequency	Percentage (%)	Cum percent (%)
Male	9	30%	30%
Female	21	70%	100%
Total	30	100%	100%

Source: from the field data June 2010

4.1.2 Educational Attainment of respondents

The analysis of this variable revealed that the majority of respondents (53.33%) have both first degree and professional qualification, 20% had first degree only, 16.67% had highest National Diploma, and 10% had both Highest National Diploma and Professional Qualification.

Table 4.2 Educational Attainment of Respondents

Category	Frequency	Percentage (%)	Cum percent (%)
First Degree	6	20%	20%
HND	5	17%	37%
First Degree & Professional Qualification	16	53%	90%
HND & Professional Qualification	3	10%	100%
Others	-	-	100%
Total	30	100%	100%

Source: from the field data June 2010

4.1.3 Marital status of respondents

The study also took interest of the marital status of the respondents. Of the 30 respondents interviewed, 63% of them were married and 37% are single. This is indicated in table 4.4 below

Table 4.3 marital status of respondents

Category	Frequency	Percentage (%)	Cum percent (%)
Married	19	63%	63%
Single	11	37%	100%
Total	30	100%	100%

Source: from the field data June 2010

4.1.4 Job types of respondents

This variable seeks to identify the types of jobs performed by the respondents. In terms of type of jobs performed, majority of the respondents (73%) are performing accounting duties, 20% perform administrative duties and 7% perform auditing tasks. This is shown below in table 4.5

Table 4.4 Types of Job Performed By Respondents

Category	Frequency	Percentage (%)	Cum percent (%)
Retail Banking	22	73%	73%
Corporate Banking	2	7%	80%
Treasury	6	20%	100%
Total	30	100	100%

Source: from the field data June 2010

4.1.5 Grade/position of respondents

This variable was analyzed to reveal the positions being held by the respondents in their various departments. It revealed that most of the respondents (67%) work at the operation, 10% marketing department whiles 23% managers. The table (4.5) below represents the situation.

Table 4.5 grade of respondents

Category	Frequency	Percentage (%)	Cum percent (%)
Operation	20	67%	67%
Marketing	3	10%	77%
Manager	7	23%	100%
Others	-	-	100%
Total	30	100%	100%

Source: from the field data June 2010

4.2 CONTROL ENVIRONMENT OF INTERNAL CONTROL SYSTEMS

This variable was to test the respondent's knowledge of the existence of internal control systems, the type of internal control systems and the people responsible for setting those internal control systems in the organization. All the respondents to the questionnaire acknowledged the existence of internal control systems. This means that information about the existence of internal controls has been well disseminated by the management. Table 4.6 represents a 100% agreement that all the respondents agreed that there an internal control system at Ecobank Ghana Limited. Table 4.7 represents that the majority (53%) of the respondents responded that the existence of internal control is preventive, 33% directive and

14% detective control. For table 4.8 all the respondents indicated that the internal control systems are set by Country Management Team.

Table 4.6 Existence of Internal control

Category	Frequency	Percentage (%)	Cum percent (%)
Yes	30	100%	100%
No	0	0	100%
Total	30	100%	100%

Source: from the field data June 2010

Table 4.7 types of internal controls

Category	Frequency	Percentage (%)	Cum percent (%)
Preventive Control	16	53%	53%
Directive control	10	33%	86%
Detective Control	4	14%	100%
Others	-	-	100%
Totals	30	100%	100%

Source: from the field data June 2010

Table 4.8 responsibility for setting up internal control

Category	Frequency	Percentage (%)	Cum percent (%)
Group Management Team	0	0	0
Country Management Team	30	100%	100%
Branch Management Team	0	0	100%
Others	-	-	100%
Total	30	100%	100%

Source: from the field data June 2010

4.6 RISK ASSESSMENT OF INTERNAL CONTROL SYSTEMS

This variable was investigated to find out how the banking sector identify, analyses and manage risk that are related to the preparation of financial statements. This covered whether the organization document its objective, whether employees are represented in setting organizational objectives, and whether the organization have establish overall strategies for managing risk. All the respondents said yes, but for the employees representation at the setting of the organizational objectives, majority of the respondents did not respond to that section, indicating that they are not aware whether employees are represented or not. Out of 30 responses, 11 (37%) responded yes to the fact that employees are represented in the setting of the Ecobank's objective whiles 19 (63%) gave no response, that is they have no idea as to whether they represented or not. This is shown in table 4.9.

Table 4.9 Employees representation in objective setting

Category	Frequency	Percentage (%)	Cum percent (%)
Yes	11	37%	37%
No	-	-	37%
No Response	19	63%	100%
Total	30	100%	100%

Source: from the field data June 2010

4.4CONTROL ACTIVITIES OF INTERNAL CONTROLS SYSTEMS

This variable was investigated to see the adequacy of physical security for cash and other assets, the tracking of the organization's equipments to their location. It was also investigated to check whether those who control assets are prohibited from recording them and whether key managers review and approve all financial transactions. This is shown in table 4.10 below

Table 4.10 Control Activities

Category	Frequency	Percentage (%)	Cum percent (%)
Yes	30	100%	100%
No	-	-	100%
Total	30	100%	100%

Source: from the field data June 2010

4.7 INFORMATION AND COMMUNICATION OF INTERNAL CONTROL SYSTEMS

Table 4.11 shows that 100% of the respondents agreed that they receive relevant information regarding legislation, regulatory developments economic changes, or external factors that may affect the organization. They also agreed that key information about the organization's operations are identified and regularly reported. Customers complaints are taking seriously and investigated upon.

Table 4.11 Information and Communication of Internal Control Systems

Category	Frequency	Percentage (%)	Cum percent (%)
Yes	30	100%	100%
No	0	0	100%
Total	30	100%	100%

Source: from the field data June 2010

4.6 MONITORING OF INTERNAL CONTROL SYSTEMS

This was investigated to check the effectiveness of internal control systems that exist in Ecobank Ghana Limited. All the respondents agreed that the organization's internal control systems are evaluated routinely, that branch management have complete access to records and the organization has an internal audit unit which visits the branches every month. They also agreed that the internal audit unit report to the country management team. This is illustrated in table 4.12.

Table 4.12 Monitoring of Internal Control System

Category	Frequency	Percentage (%)	Cum percent (%)
Yes	30	100%	100%
No	-	-	100%
Total	30	100%	100%

Source: from the field data June 2010

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0INTRODUCTION

This chapter gives a summary of the findings, conclusion and recommendations of the study.

5.1 SUMMARY OF FINDINGS

The study revealed the following findings.

Internal control systems do exist at Ecobank Ghana Limited and they are the responsibilities of country management team. Majority of the respondents said the control systems are preventive. The Ecobank Ghana Limited has well defined organizational structure. Expectations and policies are communicated to staff members.

Employees of Ecobank Ghana Limited are conscious of the internal control system at the work place and relevant information regarding legislation, regulatory developments, economic changes, changes in operation and other external factors that may affect the organization are communicated and explained.

In terms of the measures put in place to enhance compliance, majority of the respondents responded that management oversight responsibility for internal control was the main measure applied for the enhancement of compliance in the sector. Nonetheless, it was revealed that it is the management's responsibility to ensure that control policies and procedures are adhered to. Most of the respondents saw the internal auditor as the one responsible for monitoring internal control policy compliance. Demographically it was made known that it is the responsibility of management to assess risk.

Strategies are established for managing risk but employees are unaware whether they are represented in the setting of organizational objectives. There are adequate physical securities for cash and other assets and all equipments can be tracking to their location.

Management was seen as being solely responsible for setting up internal control and that no one particular person was in control of decision or activities. Further, respondent indicated the existence of an internal audit unit but majority of the respondent again said the unit visits their outfit every month.

5.2 CONCLUSION

The findings confirmed the assertion of the Treadway commission of the committee of sponsoring organizations (COSO), that it is management responsibility to set up the internal control system and that the internal auditor's role is to evaluate the effectiveness or otherwise of the system. Therefore the internal auditor often plays a significant monitoring role, but their offices are at the head office and visit the branches on monthly bases. This in a way makes the influence of the internal control systems rest mostly on the internal audit unit. But for a control system to be described as effective, control policies and procedures must not be under the influence of one person. When such a thing happens that individual can easily override the controls. The objective of the study was to determine whether internal controls and its contribution lead to organizational efficiency and effectiveness. It came out that the effectiveness and efficiency of the internal controls rest on the internal audit unit, which visits the branches on the monthly basis. It also came out that no one individual has influence over control activities/decisions in the Ecobank Ghana Limited and this confirmed the assertion of the COSO that it is management's responsibility to set up the internal control system and that the internal auditor's role is only to advice.

The research revealed that there are internal control systems in Ecobank Ghana Limited in particular and the banking sector in general. However, the effectiveness of the internal controls could not be described very effective since monitoring is less effective. In that the internal audit unit whose responsibility is to ensure compliance only visits the branches once a month.

5.4 RECOMMENDATIONS

The following recommendations are offered to assist in improving on the effectiveness of internal control systems in Ecobank Ghana Limited.

Ecobank Ghana Limited should set internal audit units for each branch across the country, so that there shall always be the availability of internal audit personnel's to ensure compliance to the internal controls that exist in their organization. This is to make the internal audit part of the daily activities of the organization to ensure daily compliance to the internal controls but not wait till month. In as much as possible, this office should be part of the branch management team. In doing so, they will report directly to the country management team. The internal audit personnel should also be rotated at regular intervals to avoid any form of malpractices.

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APPENDIX

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY (IDL);

COMMONWEALTH EXECUTIVE MASTER OF BUSINESS ADMINISTRATION (CEMBA)

QUESTIONNAIRE OF THE EFFICIENCY AND EFFECTIVENESS OF INTERNAL CONTROL SYSTEMS

This questionnaire is on the research topic, internal control and its contribution to organizational efficiency and effectiveness, the case of Ecobank Ghana limited, Ashanti Region, and is in partial fulfillment of a Commonwealth Executive Master Degree in Business Administration. I would be very grateful if you could provide appropriate response to the questions below. The information you provide will be treated with strict confidence as expected. Thank you

Section A

BACKGROUND OF RESPONDENTS

(1) Gender

Male [ ]

Female [ ]

(2) Educational attainment

First Degree [ ]

HND [ ]

First Degree & Professional Qualification [ ]

HND & Professional Qualification [ ]

Others (specify) …………………………………..

(3) Marital status

Married [ ]

Single [ ]

(4) Job Type

Retail Banker [ ]

Corporate Banker [ ]

Treasury [ ]

(5) Grade/position

Operations [ ]

Marketing [ ]

Manager [ ]

Others (specify) ……………………………

Section B

CONTROL ENVIRONMENT OF INTERNAL CONTROL SYSTEMS

(6) Are there any internal control systems in Ecobank Ghana Limited?

a. Yes [ ] b. No [ ]

(7) If yes, what are they?

a. Preventive [ ]

b. Directive [ ]

c. Detective [ ]

d. Other………………………………..

(8) Who is responsible for setting them up?

Group management team [ ]

a. Country management team [ ]

b. Branch management team [ ]

c. Other …………………………………………

(9) Is the organizational structure in Ecobank Ghana Limited clearly defined?

a. Yes [ ] b. No [ ]

(10) Have all important expectations or "policies" been formalized and communicated to your personnel?

a. Yes [ ] b. No [ ]

Section C

RISK ASSESSMENT OF INTERNAL CONTROL SYSTEMS

(11) Are there documented objectives for all key activities of the organization?

a. Yes [ ] b. No [ ]

(12) Were all employee levels in the organization represented in establishing the objectives?

a. Yes [ ] b. No [ ]

(13) Have overall strategies for managing important risks been established?

a. Yes [ ] b. No [ ]

(14) Have specific assignments and activities necessary to implement the strategies been identified and communicated to the responsible employees?

a. Yes [ ] b. No [ ]

Section D

CONTROL ACTIVITIES OF INTERNAL CONTROL SYSTEMS

(15) Do you provide adequate physical security for cash and other assets subject to theft?

a. Yes [ ] b. No [ ]

(16) Do you track the location and use of all equipment?

a. Yes [ ] b. No [ ]

(17) Are individuals who control assets prohibited from also recording transactions related to those assets?

a. Yes [ ] b. No [ ]

(18) Do you or your key managers review and approve all financial transactions?

a. Yes [ ] b. No [ ]

Section E

INFORMATION AND COMMUNICATION OF INTERNAL CONTROL SYSTEMS

(19) Do you receive relevant information regarding legislation, regulatory developments, economic changes, or similar external factors that may affect your organization?

a. Yes [ ] b. No [ ]

(20) Is key information about your organization's operations identified and regularly reported?

a. Yes [ ] b. No [ ]

(21) Have you communicated your organization's standards and expectations to key outside groups or individuals?

a. Yes [ ] b. No [ ]

(22) Are client complaints taken seriously, investigated, and acted upon?

a. Yes [ ]   b. No [ ]

Section F

MONITORING OF INTERNAL CONTROL SYSTEMS

(23) Do you routinely evaluate the overall effectiveness of your internal control system?

a. Yes [ ]   b. No [ ]

(24) Do the branch management and its representatives have complete access to records?

a. Yes [ ]   b. No [ ]

(25) How often do you normally prepare reports and other returns to management?

a. Monthly [ ]

b. Quarterly [ ]

c. Half-Yearly [ ]

d. Other …………………

(26) Does the Ecobank have an internal audit unit?

a. Yes [ ]   b. No [ ]

(27) How many times did the internal audit visit your outfit last year?

a. Once [ ]

b. Twice [ ]

c. Trice [ ]

d. Other…………………………………

(28) What kind of report does the internal audit unit issue anytime they visit?

a. Compliance

b. Detective

c. Preventive

d. Other ……………………………………..

(29) To whom does the internal auditor report?

a. Audit report implementation committee

b. Group Management Team [ ]

c. Country Management Team [ ]

d. Branch Management Team [ ]

e. Other …………………………………….

(30) Who is chiefly responsible for ensuring that internal control measures are adhered to?

a. Group management team [ ]

b. Country management team [ ]

c. Branch management team [ ]

d. Other …………………………………………………

Now that Ghana has passed the Credit Reporting Act (2008) which will lead to the establishment of credit reference agencies. To complement the Credit Reporting Act, we have the Borrowers and Lenders Act. The Credit Reporting Act requires us to give information in a certain format to the credit reference agencies. We also have the Anti-Money Laundering Act and the National Identification Act to help identify and locate people.