International Journal of Economics, Commerce and Management
United Kingdom Vol. V, Issue 6, June 2017
http://ijecm.co.uk/ ISSN 2348 0386

INTERNAL CONTROL SYSTEMS AMONG SAVINGS AND LOANS COMPANIES: AN EMPIRICAL STUDY FROM GHANA

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Abstract

The study examined the effectiveness of internal control systems in savings and loans companies in the Ashanti and Brong Ahafo regions of Ghana. The study made use of both descriptive and survey research approaches. A combination of simple random and purposive sampling techniques were used to select 29 branches of 12 savings and loans companies and 174 staff of the firms respectively. A self administered questionnaire was used to collect data from the respondents. The study found that the control environment activities within the savings and loans companies were at a moderate level of effectiveness. Additionally, the control activities within the firms were in high level of effectiveness. The study found that information and communication activities of the firms were in a moderate level of effectiveness. Similarly, the risk assessment activities of the firms indicated a strong and effective system of internal control. However, the monitoring activities of the firms were not effective. Specifically, the study found that: only authorized individuals purchased or sold assets; access to were limited to authorized personnel; access to asset records were limited to authorized personnel; all staff needed password to have access to computers; there were separation of duties during purchasing; there were clearly defined responsibilities for each staff and identification tags were permanently fixed on assets. It is recommended that clear line of authority should be defined to all staff through training.

Keywords: Control Environment, Control Activities, Savings and Loans Companies, Ghana, COSO

INTRODUCTION

The emergence of the non-banking financial institutions (NBFIs) signifies an extraordinary achievement in recent years. The non-banking institutions have established a unique objective where people from different background have access to financial services (Akorsu et al., 2015). In Ghana, Asiama (2007) reports that the non-banking institutions have shattered stereotypes of the poor as not bankable, created a variability of lending methodologies, demonstrating that it is possible to provide cost-effective financial services to the poor, and mobilized millions of cedis of social investment for the poor. Financial institutions in developing countries are developing an enhanced methods to measure and manage credit and debt which is their main risk inherent in their operations. Financial institutions are profit-making organizations performing as intermediaries, connecting borrowers and lenders and bringing temporarily available resources from business and individual customers as well as providing loans for those in need of financial support (Kamau and Juma, 2012). Financial institutions play a vital role in developing economies like Ghana and that lending is very crucial because it makes possible the financing of agricultural, industrial and commercial activities of the country. One of the financial institutions that is playing a pivotal role in the Ghanaian economy towards the redistribution of funds is the savings and loans companies (SLCs).

Financial institutions like the savings and loans companies are entrusted with the funds of depositors. These funds are generally used by savings and loans companies for their operations. The funds belong to the customers so a programme must exist for management of these funds. Accotrding to Alamgir (2015), the programme must constantly address three basic objectives: liquidity, safety and income. The authors maintained that successful management calls for proper balancing of all these three. Liquidity enables the banks to meet loan demands of their valuable and long established customers who enjoy good credit standing. The second objective being safety is to avoid undue risk since banks meet responsibility of protecting the deposit entrusted to them. Proper and prudent management of banks create customer confidence. The third being income/profitability which is aimed at growth and expansion to meet repayment of interest charges on debt, to achieve the objective of maximizing wealth of shareholders and to survive competition in the banking industry (Adetiloye et al., 2016).

However, Ionescu and Ionescu (2015) argue that the maximization of shareholders wealth is the prime objective of every firm which necessitates that institutions minimize their risks as much as possible. Mazza and Azzali (2015) contend that managers however engage in activities that may jeopardise the expansion of the wealth of shareholder. Nicoletti (2015) attempted to bring into line the two divergent stances of shareholders and management and argued that this could be achieved through effective internal controls. Ayagre and Osei (2015) support that shareholders and other stakeholders have confidence in companies with effective and efficient internal control system. Mazza and Azzali (2015) defined internal control as a system and procedure put in place by management to check for completeness accuracy, and deviations from standard accounting procedures and that the objectives of the a firm is being pursued. Nicoletti (2015) observes that based on internal control systems, firms can provide guidance, recommendations, and value-added support to ensure business success. Similarly, Hermanson et al. (2012) argue that that if SLCs comply with internal controls, they can considerably reduce their risk taking behaviour and will be less likely to experience failure.

Given its unique position within the organisation, it is expected that the internal controls are integral component of the corporate governance mosaic and well positioned to provide this needed assurance. Despite widespread acceptance of the benefits of internal control system, there is relatively little documented empirical research on the effectiveness of the internal control systems practiced by savings and loans companies in Ghana. The need to conduct an empirical study to assess the effectiveness of internal control systems in savings and loans companies in Ghana has not been more appropriate at any point in time than presently. While the majority of research on the effectiveness and relevance of internal control systems has been conducted in other parts of the world, there is little evidence from different environment especially in Ghana. The situation is a recipe for investigation hence the present study aims to evaluate the level of effectiveness of internal control systems in savings and loans companies in Ghana, particularly, in Ashanti and Brong Ahafo Regions of Ghana.

LITERATURE REVIEW

Components or Elements of Internal Control System

The Ionescu and Ionescu (2015) define internal control as the various means designed to promote, govern and check various activities for the purpose of ensuring that the objectives of a firm are achieved. Alamgir (2015) also defines Internal Control as the process designed, and affected by those charged with governance, management, and other personnel to provide reasonable assurance about the attainment of a firm’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. From the definitions of internal control, it follows that internal control is designed and implemented to address identified business risks that threaten the attainment of any of its strategic objectives. Consequently, Hermanson et al. (2012) contend that the general success of internal control systems depends on how each of these elements effectively functions and how well they are coordinated and integrated with each other.

To respond to the widely publicized failures of businesses in the USA in the late 1970s and mid-1980s, the National Commission on Fraudulent Financial Reporting (the Treadway Commission) was established to identify factors that lead to fraudulent corporate financial reports and to make recommendations that could resolve such issues. The recommendations directly addressed the problems of weakness of internal controls and emphasized the importance of the control environment, codes of ethical conduct, management reports on effectiveness of internal controls and development of a common definition and framework of internal control. The evolutionary process of developing a generally accepted definition and framework of internal control was realized in 1992 with the publication of a landmark report on internal control called Internal Control Integrated Framework, commonly called 'COSO'. According to the framework of COSO (2013), internal control system is made up of five essential components. These components includes: promoting a positive control environment; designing and applying control activities; providing for effective information and communication; undertaken risk assessment; and conducting on-going monitoring of the effectiveness of control related policies. According to Habib and jalloh (2016), these basic elements are linked to operational effectiveness and efficiency, reliable and financial reporting and ensuring regularity.

Control Environment: Control environment involves the fundamental understanding and actions adopted by senior management of a firm to control the organization, its attitude towards problems and approach to solving problems and their perspective of the importance of moral values (Alamgir, 2015). Similarly, Akwaa-Sekyi and Moreno (2017) assert that control environment refers to all elements which contribute to an increase or decreae in the effectiveness of policies, procedures and methods specific to a process. Alamgir (2015) also explains that the control environment sets the tone for the organization. This means that the control environment provides structure and discipline for the entire internal control system. Thus, the control environment can be observed as an awareness of management and board of directors to control an entity and its staff.

Control Activities: Control activities refer to the policies and procedures designed by an organization to ensure the directives of management are carried out (Herrmanson et al., 2012). Activities that relate to the comtrol environment is the heart of internal control systems and offer the required environment for the attainment of the objectves of a firm. The control environment comprises an array of activities like, verifications, authorisations, approvals, review of performance, reconciliations, segregation of duties and safety of assets. According to Mihaylova et al. (2016), the control activities can be made possible if the management information systems are designed in a well-organized, orderly and responsive fashion. Judging from this, Akwaa-

Sekyi and Moreno (2017), opine that the control activities represents the most visible and obvious internal control component and the most important activity that prevents fraud, corruption and wrong activities.

Information and Communication: According to Akwaa-Sekyi and Gene (2016), the information and communication element of internal control is the production and sharing of information which are needed by relevant business units to manage and control their decisions. Similarly, Ireri and Wagoki (2014), contend that information and communication can lessen the risk of fraud in two ways. First, the possibility of concealment of fraud can be reduced through the integrity and accuracy on information. Differently put, an individual who perpetuates fraud will not have the opportunity to cancel it when there is effective flow of information and communication. Second, an effective and open communication in a firm helps to detect fraud possibilities in advance (Herrmanson et al., 2012). Information and communication systems produce reports that contain financial, operational and compliance-related information that makes it possible to run and control a firm.

Monitoring: Monitoring element of internal control is a process put in place to ensure that internal control procedures are effectively operating and all operations are conforming to standards (Ionescu & Ionescu, 2015). Mihaylova et al. (2016) also noted that monitoring determines whether or not policies and procedures designed and implemented by management are being effectively conducted by employees. Monitoring also helps ensure that significant control deficiencies are identified timely and rectified. The consistency of monitoring and internal control performance with the procedures must be constantly examined. Monitoring can occur through self-assessments, external audits or through direct testing of a control. By monitoring, internal control activities are constantly kept under surveillance and their performance is assessed.

Risk Assessment: The risk assessment is the identification of conditions and factors that threaten the achievement of the objectives of an organisation (Herrmanson et al., 2012). Alamgir (2015) contends that risk evaluation is the stage where definitions regarding the objectives of the business are made, and where risks are determined and analyzed. This risk assessment is the analysis of potential implementation controls, policies, procedures and potential errors in a firm so as to expose and prevent such errors. Since internal control is a system that is ever evolving, elements of risk assessment are also subject to adjustments and changes. As a result, accurate setting of objectives is a necessary requirement to effective risk assessment.

RESEARCH METHODOLGY

This study adopted descriptive research design. This design involves a set of methods and procedures that describe the intended variables using statistical logic. It is the backbone of research because it generally allows a researcher to make a detaled inferences about the investigated variables in the target populations (Saunders et al., 2009). The authors added that descriptive research is a research that involves describing, recording, analysing and interpreting conditions that exist. In addition, a survey research design was adopted in this study. A survey is an investigation about the characteristics of a given population by means of collecting data from a sample of that population and estimating their characteristics through the systematic use of statistical methodology. It tends to be both qualitative and quantitative and aims to collect information from a sample of population such that the results are representative of the population within a certain degree of error.

The research made use of primary data. Primary source of data are the data the researcher collected from the field work. Primary data were gathered through questionnaires administered to the staff of the savings and loans companies (SLC). The researcher personally designed the questionnaire with the guidance of the various literature reviewed. The population of the study comprised all the savings and loans companies operating in the Ashanti and Brong-Ahafo regions of Ghana. Consequently, the study population was fourteen (14) savings and loans companies. However, two savings and loans companies refused to take part in the study, citing management directives as the reason for their refusal. The sample size was therefore twelve (12) savings and loans companies. The target group of respondents for this study was the employees of the savings and loans companies. Specifically, Department Heads, Branch Managers, Operation Managers, Loan Officers, Marketing or Relationship Officers and Tellers from different branches of the selected savings and loans companies constituted the population. Considering the objectives of the study, purposive sampling approach was followed to select the respondents. Purposive sampling technique is where a section of the population are targeted because they assume certain responsibilities and the required information needed would be specifically obtained from them. Seven (7) of savings and loans companies had branches in both regions. Three branches of the seven savings and loans companies that had branches in both regions, in addition to two and one branch(es) from 3 and 2 of the other five (5) savings and loans companies were respectively chosen for the study. This brought the total branches of the savings and loans companies chosen for the study to twenty nine (29). Six (6) respondents were selected from each branch, bringing the the total number of respondents to one hundred and seventy four (174).

To ascertain the primary data from the selected savings and loans companies, the researcher preferred the use of self-administered questionnaires. Keeping the central objective of study in mind, the researcher adopted closed-ended question items. The questionnaires were mainly made up of Likert scale questions. In this study, only five categories were used, for example: Strongly Agree (SA); Agree (A); Nor Sure (NS); Disagree (D); and Strongly Disagree (SD). Data analysis was done using the Statistical Package for Social Sciences (SPSS) software. The data were summarized and presented in tables. The data were analyzed using descriptive statistics involving mean scores to determine varying degrees of response-concentration. Standards Deviations (SD) to measure the disparity of the resposes, particularly for the Likert-scale question items was also adopted. In adition, the Skewness and Kurtosis coefficients were also presented.

RESULTS AND DISCUSSION

The results are presented and discussed along the five main elements of internal control in this section. These elements are: control environment; control activities; communication and information; monitoring; and risk assessment.

Control Environment of the Firms

Table 1 presents the results on the effectiveness of the control environment of the savings and loans companies.

Table 1: Control Environment of the Firms

	Mean	SD	Skewness	Kurtosis
Management is committed to quality and accurate reporting	4.24	0.342	0.342	0.161
Management have the required knowledge, experience and training to perform their duties	3.62	1.178	0.451	-1.012
There is a clear organizational chart within the bank	4.19	0.475	0.158	0.059
The firm has an independent and objective audit committee	2.53	1.243	-0.014	1.114
The board of directors are independent from management	2.46	1.032	-0.514	0.254
There are clearly defined responsibilities for each staff	4.81	0.384	0.049	0.058
There are sanctions for breaking internal control procedures	3.66	1.254	0.235	-0.327
AVERAGE MEAN	**3.65**			

Mean Scale: 5 = Strongly Agree; 4 = Agree; 3 = Not Sure, 2 = Disagree; and 1 = Strongly Disagree

The level of effectiveness and adherence of internal control systems within every firm largely depends on the management of the firms. Thus is because, the design and implementation of internal control systems are the ultimate responsibilities of the management of a firm. In this vein, the respondents were asked to respond, whether the management of the savings and loans companies in the Ashanti and Brong Ahafo regions of Ghana were committed to quality and accurate reporting. Table 1 clearly shows that the level of effectiveness of the control environment of the savings and loans companies. First, the respondents strongly agreed that the management of the savings and loans companies were committed to quality and accurate reporting. With a mean rating of 4.24, and the leptokurtic distribution (kurtosis = 0.161), it clearly indicates the respondents strong agreement that the management of the savings and loans companies were committed to accurate reporting.

As indicated in Table 1, the respondents were asked to indicate that management had the required knowledge, experience and training to perform their duties. With a mean rating of 3.62, SD of 1.178, skewness of 0.451 and a platykurtic distribution, it clearly indicates their convergence of the respondents' agreement that the management of the savings and loans companies in the Ashanti and Brong Ahafo regions of Ghana had the required knowledge, experience and training to perform their duties. Again, the respondents asserted that there was a clear organisational charts within the savings and loans companies. With a mean of 4.19 and standard deviation of 0.475, it amply indicates that the savings and loans companies had a clear organisational chart within their firms.

Existence of an independent and objective audit committee in any establishment is an indication that the control environment in that organisation, to some extent is strong. This is because, the audit committee serves as a check on the management adherence to the control systems within the firm. As a result, the respondents were asked to indicate whether their firms had an independent and objective committee. The response (mean = 2.53 and SD = 1.243) obtained indicates that a slight majority of the respondents were not sure of the existence of an objective and independent audit committee within the governance practices of the savings and loans companies in the two regions.

The highest body of authority in any institution is the board of directors. The board of directors are the representatives of the owners of a firm, and thus ensures that management acts in the interest of the owners. It is thus expected that the board of directors, at all material times must be independent from the management. Lack of independence of board of directors would compromise the control systems that monitors the management and the operations of the business. Consequently, the respondents were asked whether the board of directors were independent from management of the savings and loans companies. As can be obtained from

Table 1, the respondents could not indicate (mean = 2.46), whether the board of directors were independent from management. This is least surprising since the branches of the savings and loans included in this study were far from where the top management and directors of the savings and loans were located. Typically, the management and board of directors of the firms were located in Accra, the nation's capital. Again, some of the board of directors of the savings and loans companies were stationed outside Ghana. As a result, the staff had not much information on the nature of the operations and relationships that existed between them.

Table 1 further indicates that (mean = 4.81 and SD = 0.384) the roles and responsibilities of each staff within the firms were clearly defined. To have effective control environment within a firm, there must be measures to demotivate staff from acting contrary to the laid down procedures. As a results, the study found out whether there were sanctions for breaking the internal control procedures. The results (mean = 3.66, SD = 1.254, Skewness = 0.235) and the paltykurtic coefficient of -0.327 shows that the respondents, to agreed that sanctions for acting contrary to internal control procedures existed within the firms.

The analysis on the control environment variables obtained an average mean of 3.65, which is decently supportive to the effectiveness of internal control systems in the savings and loans companies in the Ashanti and Brong Ahafo regions of Ghana. It can therefore be put that the control environment activities within the savings and loans companies is at a moderate level of effectiveness as majority of the respondents agreed to the effectiveness of most of the variables of control environment. All in all this can be inferred that the general attention of the board and top management to build suitable environment inside the savings and loans companies to execute control exercises is in a high level of effectiveness. This has shown that the management of the savings and loans companies implement policies and practices for the management of human capital and give authority and responsibilities to the appropriate personnel at the right time to carry out their functions. Similarly, the result indicates that the management of the savings and loans companies have put in place the right organisational structure and all communications relating to internal control systems are communicated to the right person at the right time in the right order. This is very important in the financial service industry, particularly for savings and loans companies where competition is very keen in Ghana.

Control Activities of the Firms

One of the important elements of internal controls is the control activities of a firm. As a result, the respondents were asked to respond to the effectiveness of specific control activities within their firms. Table 2 presents the responses provided by the respondents in respect of the effectiveness of the control activities within the savings and loans companies in the Ashanti and Brong Ahafo regions of Ghana.

Table 2: Control Activities of the Firms

	Mean	**SD**	**Skewness**	**Kurtosis**
There are adequate physical safeguards over property	3.55	0.361	0.741	-0.312
There is assets register for all assets	4.38	0.095	0.566	0.128
Only authorized individuals purchase or sell assets	4.65	0.132	0.265	-0.051
Access to asset are limited to authorized personnel	3.82	0.924	1.048	1.255
Access to asset records are limited to authorized personnel	4.88	0.052	0.612	-0.124
Identification tags are permanently affixed to fixed assets	4.92	0.016	0.038	0.686
Staff are given training on financial management systems	3.69	1.158	0.895	1.148
There is a well-developed Chart of Accounts	3.41	1.029	1.044	-1.009
Access to records are restricted to authorised staff	3.72	0.551	0.331	-1.055
There is separation of duties, especially during purchasing	4.11	0.927	0.314	1.117
AVERAGE MEAN	**4.11**			

Mean Scale: 5 = Strongly Agree; 4 = Agree; 3 = Not Sure, 2 = Disagree; and 1 = Strongly Disagree

One of the most important control activities within every firm is the control over assets. The respondents were thus asked to respond whether there were adequate physical safeguards over properties. As shown in Table 2, the respondents agreed (mean = 3.55) there were adequate physical safeguards over properties. Similarly, the respondents strongly agreed (mean = 4.38) assets register existed for all the assets of the firms. The respondents were further asked to respond whether assets were purchased by only authorised individuals within the firms. Obviously and as expected, almost all the respondents agreed (mean = 3.65) that purchase of assets were done by only authorised personnel.

Similarly, access to assets is one of the most important measure of the effectiveness of the control activities of every business. Accordingly, the respondents were asked to indicate whether access to assets were limited to authorise personnel. As shown in Table 2, there was general majority (mean = 3.82, SD = 0.924) among the respondents that access to assets were limited to authorise personnel. Controls need not exist for only the physical assets, controls over the records of the assets are equally important. As a result, the effectiveness of controls over the records of the assets were also determined. The response (shown in Table 2) obtained indicates that that almost all the respondents agreed (mean = 4.88) that access to assets records were limited to only authorised staff within the savings and loans companies. Table 2 further shows that the respondents strongly agreed (mean = 4.92) that identification tags were permanently affixed on all assets of the savings and loans companies.

At times, internal controls within a firm fail, not because of the robustness of the controls, but because of the lack of understanding and commitment of the staff towards internal controls. It is thus important that staff are regularly and adequately trained on the internal controls and financial management systems of a firm. Because of this, the responses of the respondents were obtained on whether the staff of the firms were given regular and adequate training on internal controls and financial management systems. As shown in table 2, there was a common agreement (mean = 3.69) among the respondents that the staff of the firms were given regular and adequate training on internal controls and financial management systems. Table 2 further indicates that the respondents generally agreed (mean = 3.41) that there were a well-developed Chart of Accounts among the firms.

In the financial sector, access to records, especially that of customers is one of the most important control activities that exists. The study therefore ascertained whether access to records within the firms were restricted to only authorise staff. Clearly, the response shows an agreement among the respondents that access to records were restricted to authorised staff.

One of the important control activities that must exist in any organisation or firm is the principle of segregation of duties, particularly during purchase. It is important that within a firm, one person should not be allowed to initiate transaction, approves it and make payments. It is therefore important that different individuals perform the functions of: initiation of transaction or purchase, approval of the transaction, purchase of the item and making payments. The respondents were therefore asked whether there were separation of duties especially during purchases in their firms. The response (Table 2) shows that a slight majority of the respondents strongly agreed (mean = 4.11) that there were separation of duties especially during purchases among the savings and loans companies in the Ashanti and Brong Ahafo regions of Ghana.

When considering control activities variable, it had 4.11 mean rating, indicating that the respondents admitted that control activities inside the savings and loans companies were in high level of effectiveness. This alludes to the high level of adequacy in the physical safeguards of assets, control of records, effective financial management systems and segregation of duties within the savings and loans companies in the Ashanti and Brong Ahafo regions of Ghana. It can thus be inferred that the existing control activities within the savings and loans companies were in a sufficiently effective level, this is to say that the personnel of the savings and loans companies were aware of all the activities, procedures and processes of the firm.

Controls over Communication and Information Activities of the Firms

This section presents and analyses the results on the level of effectiveness of controls over communication and information systems of the savings and loans companies in the Ashanti and Brong Ahafo regions of Ghana. The results are presented in Table 3.

Table 3: Communication and Information Activities of the Firms

	Mean	**SD**	**Skewness**	**Kurtosis**
There is a well-defined objectives of the business	3.61	0.744	1.121	-1.237
All employees understand the firm's internal control systems	3.82	1.067	1.025	1.030
Management often provide feedback on internal control systems	3.19	0.684	1.228	-1.341
Control responsibilities of each employees are clearly defined	3.04	1.050	1.158	0.846
All staff need password to have access to computers	4.87	0.078	0.651	0.385
Staff are required to report breach of controls to management	3.81	0.828	1.095	-1.253
Complaints and disputes with customers are resolved timely	4.05	0.614	0.553	-0.568
AVERAGE MEAN	**3.77**			

Mean Scale: 5 = Strongly Agree; 4 = Agree; 3 = Not Sure, 2 = Disagree; and 1 = Strongly Disagree

Internal controls are put in place to ensure that the operations of a firm are done in such a way that the objectives of a firm are achieved. To achieve this, the staff responsible for the adherence to the internal control systems must be well-informed about the objectives of the firm. Consequently, the study obtained from the respondents whether the objectives of the firms were well defined to them. Table 3 clearly indicates that majority of the respondents agreed (mean = 3.61) that the objectives of the firms were well-defined to the staff. The respondents were further asked whether all employees understood the internal control systems of the savings and loans companies. With a mean rating of 3.82, standard deviation of 1.067 and a leptokurtic coefficient of 1.030, it clearly indicates that majority of the respondents agreed employees understood the internal control systems of the savings and loans companies.

To ensure effective internal control systems, feedback on its implementation to staff is highly desirable. This will facilitate corrective actions and improvements in the internal controls systems. Consequently, the the respondents were asked to respond whether feedback on the internal control systems were regularly provided by management. The response provided by the respondents show a slightly agreement (mean = 3.16) among them that management regularly provided feedback on the internal control systems of the savings and loans companies. Similarly, Table 3 shows that the respondents were divided (mean = 3.04) on whether management regularly provided feedback on the internal control systems of the savings and loans companies.

In the contemporary banking environment, majority of the transactions and records keeping of firms are done using computers. Thus, controls over access to computers have increasingly become more important than controls over physical records. With this in mind, the respondents were asked whether access to computers were restricted to staff through passwords. Unsparingly, overwhelming majority of the respondents strongly agreed (mean = 4.87) that all staff needed password to access to computers. Again, the respondents were asked to indicate whether staff were required to report breach of controls to management. With a mean value of 3.81 and a standard deviation of 0.828, it indicates that majority of the respondents agreed that staff were required to report breach of controls to management. Respondents were further asked to indicate whether complaints and disputes with customers were resolved timely. Table 3 shows that majority (mean = 4.05 and SD = 0.614) of the respondents agreed that complaints and disputes with customers were resolved timely.

The results shows that information and communication activities within the internal control systems of the savings and loans companies obtained a mean rating of 3.77. This means that the respondents acknowledge the fact that the information and communication procedures of the savings and loans companies are in a moderate level of effectiveness. This implies that: the objectives of the firms were well-defined; employees in the firms understood the internal control systems of the firms; passwords were needed before one could obtain access to computers and complaints and disputes with customers were resolved timely. It must be stated that even though the information and communications systems of the savings and loans companies were moderately effective, however, the firms must explore and embrace new technological measures on information and communication systems.

Monitoring Activities of the Firms

Table 4 presents the results on the monitoring activities of the savings and loans firms in the Ashanti and Brong Ahafo regions of Ghana.

Table 4: Monitoring Activities of the Firms

	Mean	**SD**	**Skewness**	**Kurtosis**
There is an effective and competent internal audit unit in the bank	3.62	1.292	1.141	1.214
Internal auditors have access to the board	2.11	0.652	-1.681	1.280
All breach of procedures and systems are investigated	3.24	0.547	0.735	-0.688

Periodic comparison of physical assets and assets records are done	3.18	1.214	0.627	-0.725
Physical records are periodically compared with computer records	2.23	0.548	-1.235	0.916
AVERAGE MEAN	**2.88**			

Mean Scale: 5 = Strongly Agree; 4 = Agree; 3 = Not Sure, 2 = Disagree; and 1 = Strongly Disagree

One of the mechanisms of internal control system is the presence of independent and objective internal auditors. The independence of internal auditors are enhanced when they have unrestricted access to the board of directors. Consequently, the study ascertained from the respondents whether there was an effective, competent and objective internal audit unit in their firms. The result indicated that majority of the respondents did agree (mean = 3.62) that there was an effective, competent and objective internal audit unit in their firms. In addition, the respondents were asked to whether internal auditors had access to the board of directors. As can be ascertained from Table 4, majority of the respondents indicated that internal auditors had no access to the board of directors of the firms. With a mean of 2.11, standard deviation of 0.652, skewness of -1.681 and kurtosis of 1.280, it suggests that majority of the respondents disagreed that the internal auditors had access to the board of directors of the firms.

The study further ascertained whether breach of internal procedures within the firms were always investigated. The response provided indicated that the respondents agreed (mean = 3.24) that breach of internal procedures within the firms were always investigated. The respondents were further asked to indicate whether there were periodic comparison of physical assets and assets records. As presented in Table 4, majority (mean = 3.18 and SD = 1.214) of the respondents agreed that there were periodic comparison of physical assets and assets records. The respondents were further asked to indicate whether physical records were periodically compared with computer records. The result (mean = 2.23, SD = 0.548, skewness = -1.235 and kurtosis = 0.916) indicate that majority of the respondents disagreed that physical records were periodically compared with computer records.

The result shows that the monitoring activity variables obtained mean rating of 2.88. This means that there was a general acknowledgement among the respondents that monitoring activities of the savings and loans companies were not effective. To put differently, the monitoring activities of the savings and loans companies were not in a state which enhance effective internal control systems. The reason behind this conditions is that auditors did not have unrestricted access to the board, the internal auditors were deemed not to be competent, independent and objective and that physical records were not regularly compared with computer records.

Risk Assessment Activities of the Firms

The risks assessment activities of the savings and loans companies were also determined. Table 5 presents the results on the risk assessment activities.

Table 5: Risk Assessment Activities of the Firms

	Mean	SD	Skewness	Kurtosis
Collaterals or guarantors are always needed for loans	4.63	0.274	1.088	-0.588
Loans are given with due regards to laid down procedures	4.82	0.341	0.564	1.0412
Loans are assessed and approved by different officers	4.27	0.458	0.897	0.925
Collaterals are inspected personally by an officer	4.05	0.866	1.081	-0.853
Business risks are identified and explained by management	3.86	1.081	1.124	-1.210
Adequate measures are put in place to mitigate risks	4.18	0.557	0.652	1.158
Risks linked to the business are regularly reviewed	3.68	1.062	0.923	-0.883
AVERAGE MEAN	**4.21**			

The respondents were further asked to indicate whether collaterals or guarantors were always needed for loans. As indicated in Table 5, almost all the respondents strongly agreed (mean = 4.63) that collaterals or guarantors were always needed for loans. It was further ascertained that majority of the respondents strongly agreed (mean = 4.82) that loans were given with due regards to laid down procedures. Table 5 also shows (mean = 4.27) that loans were assessed and approved by different officers. The study further ascertained that there was general agreement among the respondents (mean = 4.05) that collaterals were inspected personally by an officer.

In addition, the study ascertained from the respondents whether the risks associated with the business were appropriately identified and explained by management. The result presented in table 5 shows an agreement (mean = 3.86) among the respondents that the risks associated with the business were appropriately identified and explained by management. The study further found out whether adequate measures were put in place to mitigate risks in the business. As can be found in table 5, the respondents agreed (mean = 4.18) that adequate measures were put in place to mitigate risks in the business. Additionally, the study ascertained whether the risks linked to the business were regularly reviewed. It was further ascertained that the respondents agreed (mean = 3.68) that the risks linked to the business were regularly reviewed.

The results on the risk assessment activities of the savings and loans companies obtained an average mean of 4.21, which indicates a moderately strong system of internal control. This implies that the savings and loans companies takes risks assessment activities very seriously and thus efforts have been expended to ensure that the risks associated with the firms are mitigated. This is least surprising since the level of risk in the financial service sector is very high and thus time needs to be invested to ensure that risks are identified in advance and appropriate measures are put in place so as to eliminate or minimise the level of risk. This means that assessing the risk when granting loans to clients, taking the right collateral, identification of risks related to the firms and putting measures in place to mitigate the risks are important activities that the savings and loans companies must not lose sight of. It can therefore be put that there were sufficient risks assessment activities, aimed at enhancing internal controls within the savings and loans companies.

The result provided about regarding the level of adherence to internal control measures is least surprising. The results shows a strong level of adherence to internal control in the savings and loans companies in the Ashanti and Brong Ahafo regions of Ghana. This indicates that the savings and loans companies and their staff are really committed to the adherence of internal control measures. It must be put forward that in the financial service sector, a weak internal control system can be catastrophic. This was expected judging from the fact that one of the industries that is heavily regulated and monitored is the banking sector. The Bank of Ghana has never hesitated to sanction banks whose operations had gone contrary to the Banking Act. The financial service sector is prone to fraud and thus effective internal control is deemed as a good way of eliminating fraud. Investors need an assurance that their investment will not be channeled to unproductive activities and on the other hand businessmen seek ways to attract investors, fulfill their expectations, with a view to make profit or for others to maximise the value of the firm. To achieve this, most corporations have embarked on corporate governance reforms especially through the establishment of adequate internal controls. Lack of or weak governance systems provide good environment for corruption, fraud and inefficiency to thrive.

The results presented above are encouraging, however, least surprising. This is because, normally, staff see internal control system as a measure that limits them to freely express themselves. Additionally, the staff see internal control as a system put forward by management to catch them on their wrongs. To have the staff of the banks overwhelmingly indicate that internal controls have made valuables contribution to the achievement of the bank's objectives is really refreshing and positive.

CONCLUSIONS

Using a self administered questionnaire to ascertain the effectiveness of internal control systems within savings and loans companies in the Ashanti and Brong Ahafo regions of Ghana, the study found that the control environment activities within the savings and loans companies was at a moderate level of effectiveness. It was observed that the general attention of the board and top management to build suitable environment inside the savings and loans companies to execute control exercises was in a high level of effectiveness. This has shown that the management of the savings and loans companies implement policies and practices for the management of human capital and give authority and responsibilities to the appropriate personnel at the right time to carry out their functions. Similarly, the management of the savings and loans companies have put in place the right organisational structure and all communications relating to internal control systems are communicated to the right person at the right time in the right order.

Additionally, the control activities within the savings and loans companies were in high level of effectiveness. This alludes to the high level of adequacy in the physical safeguards of assets, control of records, effective financial management systems and segregation of duties within the savings and loans companies in the Ashanti and Brong Ahafo regions of Ghana. It can thus be inferred that the existing control activities within the savings and loans companies were in a sufficiently effective level, this is to say that the personnel of the savings and loans companies were aware of all the activities, procedures and processes of the firm.

The results shows that information and communication activities of the savings and loans companies are in a moderate level of effectiveness. Thus it was revealed that: the objectives of the firms were well-defined; employees in the firms understood the internal control systems of the firms; passwords were needed before one could obtain access to computers and complaints and disputes with customers were resolved timely. It must be stated that even though the information and communications systems of the savings and loans companies were moderately effective, however, the firms must explore and embrace new technological measures on information and communication systems.

The results on the risk assessment activities of the savings and loans companies indicated a moderately strong system of internal control. This implies that the savings and loans companies took risks assessment activities very seriously and thus efforts have been put in place to ensure that the risks associated with the firms are mitigated. This is least surprising since the level of risk in the financial service sector is very high and thus time needs to be invested to ensure that risks are identified in advance and appropriate measures are put in place so as to eliminate or minimise the level of risk. It can therefore be put that there were sufficient risks assessment activities, aimed at enhancing internal controls within the savings and loans companies.

The result shows that the monitoring activities of the savings and loans companies were not effective. Specifically, the monitoring activities of the savings and loans companies were not in a state which enhance effective internal control systems. The reason behind this conditions is that auditors did not have unrestricted access to the board, the internal auditors were deemed not to be competent, independent and objective and that physical records were not regularly compared with computer records.

RECOMMENDATIONS

Some of the staff indicated that there were inadequate control over access to assets. It is therefore recommended that there should be strong physical controls over assets and records in the savings and loans companies. These include controls over the physical security of assets and records to prevent unauthorised use, theft or damage.

The study also revealed that segregation of duty among staff was not adequate. It is recommended that the management of the savings and loans companies must put in place a clear definition and segregation of duties among staff. This control involves assigning different people the responsibilities of authorising and recording transactions and maintaining the custody of assets. This reduces the likelihood of an employee being able to both carry out and conceal errors or fraud.

Some of the staff were also not aware of the line of authority in their institution. The authority and responsibilities at times did not flow as demonstrated by the organization structure because of the nature of working relationships that existed amongst personnel at different levels of the projects. It is thus recommended that a clear line of authority should be defined to all staff through training.

Again, the level of independence and authority of the internal audit staff should be increased so that they can perform their duties without fear or favour.

The study has revealed that the internal control systems at the savings and loans companies were effective and it was regarded as helpful. However, no empirical evidence was gathered regarding the impact of internal control on performance. It is thus recommended that a further study must be conducted to ascertain the impact of internal control on the performance of savings and loans companies.

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