

UNIVERSITY OF CAPE COAST

EFFECTIVE INTERNAL CONTROL FOR CREDIT UNIONS IN TAKORADI

BY

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DECLARATIONS

Candidate's Declaration

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

Candidate's Signature: Date:

Name: Anthony Lalas

Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with guidelines on supervision of dissertations laid down by the University of Cape Coast.

Supervisor's Signature: Date:

Name: Dr. Clement Lamboi Arthur

ABSTRACT

The purpose of the study was to assess the effectiveness of internal controls in credit unions in Takoradi. The study used cross-sectional descriptive survey. It was conducted in Takoradi for the staff/workers, management and the clients of Shama Co-operative Credit Union and Work place credit union. Simple random was employed to select 102 workers each from the various credit unions, however, purposive sampling was used to select 2 management officials each from various credit unions to form part of the study, thus, 208 respondents in all. Questionnaire and structured interviews were the main data collection instruments. The questionnaires were analyzed and interpreted using descriptive statistics such as frequency and percentages, however, the recordings of the interviews were transcribed verbatim, organised, presented in themes based on the research objectives. It was found out that respondents were negligence on the one responsible for setting up the internal control system in the credit unions. Also, there was no procurement policy and procurement committee in the credit unions in the metropolis. However, the major challenges in the implementation of internal controls in the various credit unions include; resistance to change, human factor and lack of independence, inadequate resources and wrongful application of findings by management of credit unions. On the other hand, possible solutions for sound and effective implementation of internal controls included; adequate training on internal controls for workers and management, effective monitoring and evaluations intermittently and given out operational policies and manuals to members in order to ensure effective implementation of internal controls.

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DEDICATION

To My Mum (Theresa Amuesi), Wife (Beatrice Amakye) and children; Jethron
Arthur, Jephath Nana Boamah Arthur, Harry Amuesi Arthur and Anthoniette
Arthur.

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CHAPTER ONE

INTRODUCTION

Background to the Study

Credit is an arrangement which enable people to obtain and use resources which they do not own themselves. Scarcity of resources accounts for people not having enough resources to apply to their needs, desires and wants. The existence of credit thus make it possible for people to satisfy more needs, desires or wants than should be the case if they were applying their own limited resources. People therefore avail themselves to credit in order to develop their standard of living either by investing such facilities in various activities such as farming, trading and education or for the acquisition of needs (Bariff, 2003). The provision of credit became an engagement for institutions and individuals alike who charge interest for providing such credits. The interest was in some instances so high that beneficiaries find it unattractive. People are expected to meet their needs, want and desires from their earning (Antwi, Maaboah, Oforiwaa, Adjei-Buadu & Amaning-Kwarteng, 2016).

However, in Ghana where incomes are relatively low and the culture of savings not very enhanced, this position was worsened by the demand for collateral by the lenders from borrowers who have difficulty in providing such collaterals (Antwi et al., 2016).

Credit unions are not-for-profit financial cooperatives. In the early stages of development of a nation's financial system, unattended and underserved populations must rely on risky and expensive informal financial services from

sources like money lenders. Credit unions proved they could meet demand for financial services that banks could not: from professional, middle class and poorer people. Those that served poorer urban and rural communities became an important source of microfinance.

The first working credit union models sprang up in Germany in the 1850s and 1860s (International Co-operative Alliance Statement on the Co-operative Identity Definition, n.d.), and by the end of the 19th Century had taken root in much of Europe. They drew inspiration from cooperative successes in other sectors, such as retail and agricultural marketing. Similar institutions were independently developed somewhat earlier in Japan, in the early 19th century, by agrarian reformer and economist Ninomiya Sontoku. In that village union in Japan, each person of the village union could borrow interest-free fund for 100 days, while the entire membership shared the cost in case of default (Antwi et al., 2016).

The language related to credit unions can be confusing. In spite of the word 'credit' in their name, even the earliest credit unions usually offered both savings and credit services and often payment and insurance services as well. They were, and are still, known, by (and are still known by) a wide range of names, for example: 'People's Banks', 'Cooperative Banks' and 'Credit Associations' MacPherson (1999). Credit Unions are best identified by their adherence to cooperative principles, especially related to membership and control. A cooperative (or co-op) is a business operated and democratically controlled by its membership of Owners to meet their common needs and aspirations. For

example after World War II many organizations were started and controlled by governments in the developing world, and were described as 'credit unions' or 'cooperatives' by their promoters.

However, government control, whether in a capitalist or communist political context, represents a fundamental repudiation of cooperative principles. These principles include; Voluntary, Open Ownership; Democratic Owner Control; Owner Economic Participation; Autonomy And Independence; Education, Training And Information; Cooperation Among Cooperatives; and Concern For The Community. From this point on credit union flourished in several other European countries (Bariff, 2003).

Following a meeting sponsored by CUMA (Coopérative d'Utilisation de Matériel Agricole) International in Lesotho in January, 1968 the idea of a National Association in Ghana was conceived (Agyei-Mensah, 2016). A follow-up conference was held in April in Tamale the same year giving birth to the Ghana National Union and Thrift Association, the forerunner of the Ghana Cooperative Credit Unions Association (CUA) Limited. The duties of CUA limited were to promote, educate, organize and support the Credit Union Movement nationally and internationally (Agyei-Mensah, 2016). Notable among the pioneer volunteers were Rev. Father MacNulthy (retired) and Cardinal Peter Dery (the late). The Ghana Co-operative Credit Unions Association (CUA) limited in duly registered with Department of Co-operatives under the Co-operative Societies Decree 252 of 1968 (Agyei-Mensah, 2016).

Presently, the Ghana Co-operative Credit Union operates throughout the ten regions in Ghana and its membership is opened to all registered Credit Unions organized and doing business in Ghana. Prior to this bold experiment, there had been in existence since the 1920's, Co-operative thrift and Loans Societies founded under the auspices of the then Department of Agriculture and the Department of Trade and Industries. The ultimate aim was to provide financial security for the members and enhance their total development and by so doing, there is the need to effectively manage risk, control and govern the process of the organisation through the internal control practices (CUA, 2016).

Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance (Committee of Sponsoring Organisations of the Tread way Commission (COSO), 2013). It is also defined in accounting and auditing, as a process for assuring the achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies (IIA, 2007).

Over the years, internal auditing has evolved into a highly recognized professional activity that extends to the appraisal of the efficiency and effectiveness of all phases of a company's operations, both financial and non-financial. These changes have led to the formation of internal audit departments, and has become one of the important units in the most modern banks in the world (Sharairi, 2011; Zarkasyi, 2006). One of the strongest means to monitor financial

reporting, ethics, and governance is the internal audit groups in corporations (Bariff, 2003).

The internal audit function could be viewed as a first line defense against inadequate corporate governance and financial reporting. With appropriate support from board of directors and audit committee, the internal audit staff is in the best position to gather information on inappropriate accounting practices, inadequate internal controls, and ineffective corporate governance (Bariff, 2003).

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). 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, process which are designed to ensure the 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 (Agyei-Mensah, 2016).

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; protecting its resources against

waste, fraud, and inefficiency; ensuring accuracy and reliability in accounting and operating data; securing compliance with the policies of the organization; and 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 & De Beelde, 2006). In the United States for instance in 1992, a group of companies sponsored the formation of the tread way 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, 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 (Alewaba, 2011).

Statement of the Problem

In the ambiance of the globalization of business operations and the increasing use of information technologies, complexities of business transactions, and business risk, the role of internal controls as a corporate governance mechanism is becoming increasingly important (Jovanović & Ljubisavljević, 2011). This is because in one of the earliest contributions, Bastia (2008)

maintained that the management of the complexities following globalization increased the need for adequate internal control systems which in turn control risks as well as pursue business performance.

The aim of credit unions is to be self-sustainable in order to be able to facilitate an enabling environment, provide quality financial and technical services to members as well as market the Credit Union concept in order to make "Credit Union" a household word (CUA, 2016). Some credit unions have remained at their small scale level due to fraudulent practice on some of their staff who embezzle the banks money for their personal benefits. Besides that, most credits that are granted end up becoming bad debt, hence the credit creation businesses of credit unions are facing major default risk (Nsoh-Atuguba, Mac – Andoh, Boaten, Opoku-Nuamah & Owusu Appiah, 2012).

In view of this many controls have been put in place to safeguard against loss of revenue from credit or misplacement and misappropriation of assets. Drawing on the agency theory, Internal Control System play a vital role in enhancing the performance of institutions (Ahiabor & Mensah, 2013). Due to the sensitivity and crucial role of Internal Control System, researchers have strived to evaluate its consequence on firm performance (Mawanda, 2008; Muraleetharan, 2011; Noel, 2010; Oyoo, 2014). Nonetheless, there are few empirical evidence on the effectiveness of internal controls in the financial institutions in the Western Region. Therefore, this study seeks to assess the effectiveness of internal controls of credit unions in Takoradi.

Internal control systems in banking organizations are managerial tools used in banking operations towards achieving their objectives. These objectives include efficient and effective operational measures, credit control systems, reliability of financing reporting and compliance with relevant regulations (COSO, 1992). In instances, where companies suddenly collapse, the obvious resounding question is “what went wrong?” a breakdown in the internal control systems is usually the cause.

Objectives of the Study

The main objective of the study is to assess the effectiveness of internal controls in credit unions in Takoradi.

The specific objectives of the study are;

1. To ascertain whether the credit unions in Takoradi have internal control policies.
2. To examine the effectiveness and soundness of internal control policies of credit unions in Takoradi.
3. To assess management commitment to the implementation of internal control policies in Takoradi.
4. To identify the challenges in the implementation of internal controls in Takoradi.
5. To determine success factors for effective implementation of internal controls in Takoradi.

Research Question

The research questions intend to gather data from workers that will help the researcher in assessing the effectiveness of the internal control system in credit unions in Takoradi in which is chosen as a case study. The following are the research question.

1. What is the internal control policies that exist in the credit unions in Takoradi?
2. What is the effectiveness and soundness of internal control policies of credit unions in Takoradi?
3. What is the extent of management's commitment to the implementation of internal controls?
4. What are the challenges for ineffective internal control in the credit unions?
5. What is the impact of effective implementation of internal control systems in the credit unions?

Significance of the Study

This study brings to light how financial management in the credit unions is carried out hence it will unearth some of the deficiencies of financial management in the Financial Institutions in Ghana. The study also offers information on the system put in place by credit unions' management/ administrators so as to improve financial management. The study will provide techniques in cash management by helping to bridge the gap between inflows and out flows of funds

in the credit unions. Proper management of finance will improve the smooth running of the credit unions for supporting individuals and group of individuals (traders) to easily access funds and credits without collaterals. Finally, it may add up to literature and knowledge and serve as a reference for further studies.

Delimitation of the Study

The research work covers the effectiveness of internal control system in credit unions in Takoradi. Only Community credit union: SHACCU, Parish credit union: Freeman and Work place credit union: GHAPOHA in Takoradi were considered for this study. These were the credit unions with the necessary internal policies, charter, and personnel for effective internal control practices.

Limitation of the Study

Some challenges were encountered in undertaking this study and these include the unwillingness at first hand of some respondents to respond to questionnaires and also difficulty in scheduling appropriate or less busy time to interview some respondents. Responses were however obtained after convincing and explaining issues and essence of the study to the respondents. There were also financial limitations with regards to the printing of data collections instruments and travelling to study areas.

Organization of the Study

The work was organized into five main chapters. Chapter One contains introduction of the study including the statement of the problem of the study, research objectives and questions, significance of the study, scope of the study and the limitations associated with the study. Chapter Two focuses on review of literature on the previous works related to bad loans. Performing and non-performing loans, bad loan provisioning, loan-making procedures and monitoring of loans was also considered in this section of the study. The details of research method and organizational profile were captured under Chapter Three while Chapter Four entails data presentation and analysis. The last chapter covers the summary, conclusions and recommendations of the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

Credit unions all over the world have been and continue to be an important institution for development in most countries in recent times. “While they have seen many successes and failures during this period, no other institution has brought so many people together for a common cause” than they have done. For instance, “following the Arusha Declaration in Tanzania, credit unions have become the main tool for building a spirit of self-reliance during the Ujamaa period”. This capability to bring people of different social ties and status for a common good through the provision of credit and other financial services to small-to-medium scale enterprises have contributed to honing up the image and role of credit union in the development process.

From 1850 when the first credit union was established in present day Germany, empirical evidence suggests that, today credit union exists and strive in every region of the world with an estimated 49,330 credit unions in operation within 97 countries with a membership totaling 183,916,050 as at the year 2009 (*Statistical Report*, World Council of Credit Union Inc. 2009). This therefore places credit union within a context whose importance cannot be overlooked.

This chapter discusses the contingency theory, the institution of credit union in its entirety as well as internal control. The first part of the chapter looks at the concept, definition and emergence of credit union globally and within the Ghanaian context. The second part focus on the definition and concept of internal

control. Subsequent part looks at factors that promote and those that impede the smooth implementation of internal controls in various credit unions.

Contingency Theory (CT)

The contingency theory, according to Drazin and Van de Ven (1985) and Meyer and Scott (1992), suggest that the optimal way in which a company could be organised is contingent or dependent on the kind of environment in which the company operates. The followers of the contingency theory assert that the theory is based on two assumptions. First, it assumes that no strategy is considered “universally superior” (Bergeron, Raymond & Rivard, 2001), and there is no one best way in which a company could be organized (Donaldson, 2001). Of the second assumption, the theory postulates that the choice of approach, structure or control system depends on the contingency circumstances such as the environment, risk profile, strategy, size, the organisational structure and best activities at hand (Chenhall, 2003; Donaldson, 2006; Richard, 2003).

Concerning the second assumption, Macintosh (1994), Hoque and James (2000), Chenhall (2003) and Pfister (2009) explain that for an organisation to perform well and achieve its corporate goals, the structure as well as the context of the organisation must match or fit each other. To buttress this argument, Jokipii (2009) points out that several frameworks namely the COSO and Criteria of Control (CoCo) assume the need for dissimilar organisations to have different internal control systems based on their contingency characteristics. This view is analogous with the contingency theory which contends that each organisation has

to choose the most appropriate control system by taking into account contingency characteristics (Luft & Shields, 2003; Jokipii, 2009).

It is clear from the foregoing that two organisations should not necessarily have similar internal control systems unless the organisations are identical. Thus the need for and specifics of internal control systems may vary in organizational contexts. This argument presented in the internal control systems framework (COSO, 1994) is parallel to the contingency theory. Drazin and Van de Ven (1985) and Donaldson (2006) note that the „match“ also known as “fit” is the drive that stimulates performance. It implies that successfully adapting control systems to suit organisation’s contingency characteristics result in effective internal control systems and better organisational performance (Pock, 2007).

In furtherance, some elements of the contingency theory are related to the components of internal control systems. This denotes that first and foremost, there is a link between the structure of internal control systems and contingency characteristics which define the structure of internal control (Donaldson, 2006). For this reason, changes in contingency factors imply changes to the structure of internal control systems so as to enhance its effectiveness, hence organisational performance (Dropulić, 2013).

Specifically, the contingency theory puts forward that companies are not closed systems which could be structured without considering environmental characteristics and the manner in which they affect the company (Jokipii, 2006). Jokipii explained that to improve and maintain performance, firms ought to continually assess the risk of interaction with the environment, monitoring

processes and the commitment of the organisation to such contingencies. This suggests that internal control as part of organisational structure or design is not static. Additionally, Eriksson-Zetterquist, Müllern, and Styhre (2011) suggest that the theory helps to relax the idea that the only best way to organize a company is meeting shareholders' goal as suggested by the agency theory.

Equally, the implication of fit and misfit between the structure and the contingency variables on business performance enables managers to gain proper insight as to why continual changes ought to be made to organizational design when contingencies features keep changing (Gerdin & Greve, 2004). Donaldson (2006) further opines that when companies either intensify the extent of the internal control implementation or review of the controls, they keep on minimizing the misfit to quasi-misfit and ultimately enhance performance.

Although the contingency theory is well pronounced in establishing links between internal control system and performance (Donaldson, 2001; Pock, 2007), critics of this theory have cited that an organization does not necessarily have to adapt to the external environment (Hodges & Gill, 2014). They argued that it is not always prudent for companies to attain a fit with their contingencies because, as the company changes its structure to match the existing contingencies, the contingencies also keep changing, and thus, the change in structure of the organization would not deliver the desired fit. As a result, the company may not achieve full fit, but a pseudo fit, a structure that fits the contingencies just partially and not fully.

The Concept of Credit Union

The concept of a credit union is a fairly unpretentious one, remaining similar to that of the earliest organizations of this type. Essentially, the participants of a credit union come together to make a non-profit financial institution. Loans are made available to members who deposit funds for saving. Credit unions tend to be comprised of members with some sort of similarity, such as by profession, as with a teachers' credit union. Each of these characteristics can be drawn back into the history of the culture that created those early European credit unions. The contemporary credit union has lots of history-one of the most captivating aspects is the fact that the vital form and operation of a contemporary credit union, assisted by the modern technologies, has improved remarkably little from those first credit unions that were formed centuries ago ((Gerdin & Greve, 2004).

Many scholars and practitioners across countries within the microfinance environment have defined the term "credit union" by focusing much on their functions since they performed similar functions across the globe. Credit union may be defined as a not-profit co-operative financial institution, which is owned and managed by its members (who share a common bond such as their occupation, where they live or attend church) and exist to provide a safe, appropriate place for them to save money and obtain loans and other financial services at competitive rates (JCCUL, 2004).

Traditionally, they have been seen as meeting the financial needs of the deprived societies and individuals. With advancement, particularly in countries

such as the US, Canada and Australia, credit union have increasingly enticed the elite classes and contended with other retail financial institutions for their clients. In the US, 43 percent of the entire population belongs to a credit union, with 22 percent in Canada and 26 percent in Australia.

According to Arthur and Sheffrin (2003), a Credit Union is a member-owned financial cooperative, democratically controlled by its members, and operated for the purpose of promoting thrift, providing credit at competitive rates, and providing other financial services to its members. According to McKillop and Wilson (2010), Credit unions are self-helped cooperative financial organizations geared to attaining economic and social goals of members and wider local communities. Wright (2013) defines Credit Unions as a co-operative financial institutions which operate on a not for profit basis, the aim being to foster financial health in a community. In a parallel direction, the World Council of Credit Unions affirmed that Credit unions are member-owned, not-for-profit financial cooperatives that provide savings, credit and other financial services to their members.

The term credit union varies in meaning from one author to another and mostly from one region to the other as indicated by the World Council of Credit Unions has indicated. World Council of Credit Unions (WOCCU), defined credit unions as non-bank financial institutions owned and controlled by members. It is also a democratic, member-owned financial co-operative. Each member, regardless of account size in the credit union, may run for the board and cast a vote in elections. As financial intermediaries, credit unions finance their loan

portfolios by mobilizing member savings and shares rather than using outside capital, thus providing opportunities for generations of members. Credit unions exist to serve their members and communities. As not-for-profit cooperative institutions, credit unions use excess earnings to offer members more affordable loans, a higher return on savings, lower fees or new products and services. They serve members from all walks of life, including the poor and disenfranchised (<http://www.woccu.org>).

In Ghana, Credit Unions deposit a portion of their funds raised through customer deposits at the bank after the day. At the end of the month, the bank credits certain percentage as interest to the account. Susu activities also generate other forms of returns to the members. Every member of the CU is expected to buy shares. The Union then invests these shares into Fixed Deposit and Treasurer Bills. The Union receives interest from the investment at the end of every quarter or accounting period. It then gives loans to members to increase their working capital or enlarge their businesses, at a considerable rate of interest. This virtually enables the Union members mobilize enough funds for living. However, if a member does not have shares that member does not qualify to have a loan since the shareholders are the owners of the Union.

History of Credit Union

Over the years, it has become increasingly difficult for Ghanaian workers to mobilize funds for sustenance. This is due to the fact that Ghana falls under the “developing country category” which is characterized by low income, inadequate

housing, inequality, poor health, low life expectancies and a general sense of dissatisfaction and hopelessness. The subsistence in Ghana coupled with its numerous problems like low income, low savings and low investment have made it difficult for individual workers of the various sectors of the economy to save and make investments. These systems have resulted in a vicious cycle of poverty of which the workers of “Secondi Takoradi” are of no exception.

The government’s effort to alleviate the poverty cycle by revamping the financial institutions such as the banks has not yielded the desired results due to the process one has to go through before a loan application is granted. There was therefore the need to explore other schemes, which could provide loans to its members at moderate interest rates. This led to the establishment of various Co-operative Societies out of which the Credit Union (CU) was born (CUA, 1993).

Societies were first developed in Germany as a result of crop failure and a subsequent famine in 1846. A civil servant, Hermann Schulze Delitzsch began by organizing a Mill and Bakery Co-operative (Van Den Dries, 1980). He eventually became convinced of the need for Co-operative Credit Society and set up one in 1850. The Schulze Delitzsch Credit Union soon became very popular and others that developed along this line came to be known as “People’s Banks”. By 1859, there were 183 people’s banks with 18,000 members in two German provinces (CUA, 1993).

Fredrick Wilhelm Raiffescin, a local mayor in the Rhine Province of Germany also organized and developed Credit Unions for the poor. A parliamentary reporter in Quebec, Canada called Alphonse Desjardins brought the

Credit Union idea to North America. He became interested in Co-operative Credit Union after hearing of exorbitant rate of interest throughout Canada. In December, 1901, he established the “People’s Bank of Levi’s” basing it on European models. Desjardins also organized the first Credit Union in the U.S.A. in 1909 in Manchester. In 1934, representatives from states founded Credit Union Nation Association (CUNA).

In Ghana, credit union history can be traced back to the 1920s when the Department of Co-operatives understood the requirement for well-known credit and funds offices, presented Thrift and Loan Societies. They were ineffectively supervised only a few of them survived. In 1961, the then government terminated the operations of the Department of Co-operatives alongside the Cooperative Bank. After the 1966 upset, the re-organized Department of Co-operatives proceeded; however there were not more than five Thrift and Loan Societies in existence. Parallel to these occasions was the development of another kind of funds and credit development in Northern part of Ghana.

In September 1955, the first credit union in Africa was started at Jirapa in the Upper West Region of Ghana. The thought was mooted by Reverend Father John McNulty, an Irish Canadian who after visiting Sabuli a village 24km away from Jirapa realized the mode of money savings (burying it in the ground) among the people was not proper as they were susceptible to termite destruction. The main Bank in the North-West (now Upper West Region) at the time was the Bank of West Africa, now Standard Chartered Bank, based at Wa, which was 41 miles far from Jirapa. The poor accessibility to banking services necessitated the

formation of a sort of institution that can provide avenue for these people to keep their money safe (Kirsch & Goricke, 1977).

Reverend Father McNulty had cause to believe that cash all over Dagaaba-Land was kept by burying, holding up just to be devastated by termites. Reverend Father John McNulty went over an article in a handout with data about the presence of the credit union framework in the Diocese of Antigonish in Nova Scotia, Canada. He educated his people on the positive effect the credit union and after that began the first credit union in Jirapa. In his correspondence with the credit union individuals in Nova Scotia, the Knight of Columbus conceded a grant to the Bishop to send some person to do Social Studies, oversee credit union work and the co-operative framework. The Bishop then sent the Reverend Father Derry to learn at the Coady International Institute, St. Francis Xavier University, Antigonish (CUA, 2005).

In the wake of finishing his studies, the Father Derry returned home. In the month of November 1959, Bishop Gabriel Champagne designated him responsible for Social Work, Credit Union and Co-operative Work in the Diocese. He then re-composed the credit union in Jirapa and revived one in Nandom. In March 1960, when Pope John XXIII, appointed Reverend Father Peter Derry as Bishop of Wa, he encouraged the formation of credit union in all the Parishes. Among them were Nandom, Kaleo, Ko, Daffiama, Wa, Lawra and Tumu. In 1964, a Canadian credit union professional, Mr. Churchill, was employed by Bishop Derry (now Archbishop Emeritus) for a long time in the Wa Diocese in the Upper West Region. With monetary backing from Misereor, Germany, seven

young fellows were locked in and prepared, prominently among them were Mr. Stanislaw Zaato, Mr. Alphonse Azaah, and Ignatius Bebele who worked up to the National Office (CUA) for quite a long while.

He set up more credit unions and sorted out administration preparing projects for the credit union. This demonstrated so fruitful that by 1968 the eight biggest credit unions that existed around then had an aggregate enrolment of 6,300 and an aggregate funds of \$400,000. In the interim, the credit union development was encountering some development in the South when contrasted with those in the North. In 1959, the Railways and Harbour Employees credit union at Sekondi was set up by one of their pioneers who brought his idea from his studies in the United States. By 1967, there were about eight little credit unions in the South which did not have the advantage of payroll deduction but rather relied on upon the basic bond. One of such credit union was Agona Swedru Teachers and its Treasurer was Mr. Bartholomew Quainoo of blessed memory, then an instructor who later assumed a key part in the credit union development in Ghana and Africa (Ahorlu, 2009; Ofei, 2001).

Internal Auditing

The Institute of Internal Auditors (IIA) defines internal auditing as follows: “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the organization’s operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control,

and governance process”, and the IIA defines Objectivity as: An impartial, unbiased mental attitude and avoidance of conflicts of interest, allowing internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made ” (IIA, 2007).

Internal Control

The auditing standards define an internal control system as “the whole system of controls, financial and otherwise established by management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records” It is also defined as a systematic measures (such as reviews, checks and balances, methods and procedures) instituted by an organization to conduct its business in an orderly and efficient manner, safeguard its assets and resources, deter and detect errors, fraud, and theft, ensure accuracy and completeness of its accounting data, produce reliable and timely financial and management information, and ensure adherence to its policies and plans (www.businessdictionary.com).

Millichamp (2002), defines internal control as the whole system of controls, financial or otherwise, established by management in order to carry on the business of an enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records. Internal control is an integral process

that is affected by an entity's management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity's mission, the following general objectives are being achieved: executing orderly, ethical, economical, efficient and defective operations; Fulfilling accountable obligations; and Safeguarding resources against loss, misuse and damage from a management's perspective, testing the internal control systems is a way of meeting its (management) stewardship or agency responsibilities.

Management must reconfirm and also provide reasonable assurance that adequate control exists over the entity's assets and records. This can only be accomplished by developing internal controls that required employees to follow corporate policies and procedures such as proper authorisation for transactions and periodically asking an independent person to check the internal control systems (William, 2009).

The committee of sponsoring Organizations of the Trade-way Commission (COSO) defined Internal Control as the process affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievements of objectives in the following categories; effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations (Zabihollah, 1995).

Hevesi (2005) 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. According to Comptroller's Hand Book, Internal Control is defined as a process affected by an organization's structure, work and authority flows, people and management information's system, designed to help the organization accomplish specific goals or objectives. 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., reputation or intellectual property such as trademarks) and the structural ways.

Internal control is not one event or circumstance, but a series of actions that saturate an entity's activities. They are universal and inherent in the way management runs the organization. It is therefore different from the perspective of some observers who view it as something added on to an entity's activities, or as a necessary burden. The internal control system is entangled with an entity's activities and is most effective when it is built into the entity's infrastructure and is an integral part of the essence of the organization. Internal control should be built in, rather than built on. Internal controls should become part of, and integrated with the basic management processes of planning, executing and monitoring.

Types of Internal Controls

According to Okai (1996), in his book, *Auditing For You*, the types of internal control vary widely. The main types of internal control systems which Okai stressed on, and on which to seek some degree of release are as follows;

Organisation

Every enterprise ideally should have a plan of their organization, defining and allocating responsibilities and identifying lines of reporting for all aspects of the enterprise's operations. Authority delegation within the organization and responsibilities should be clearly specified.

Segregation of duties

It is important to separate employees' responsibilities or duties if combined will enable one individual to record and process a complete transaction. Segregation of duties thus reduces the risks of intentional manipulation or errors and increases the element of checking. The functions which should be separated include authorisation, execution, custody, and recording and in the case of computer-based accounting systems, systems development and daily operations.

Physical

These are concerned mainly with the custody of assets and involve procedures and security measures designed to ensure that access to assets is limited to authorised personnel. This includes both direct and indirect access via documentation. These controls assume importance in the case of valuable, portable, exchangeable or desirable assets.

Authorization and approval

All transaction should require authorisation or approval by an appropriate responsible person. The limits for those authorisations should be specified.

Arithmetic and approval

These are the controls within the recording function which check that the transactions to be recorded and processed have been authorised, that they are all included and that they are correctly recorded and accurately processed. Such controls include checking the arithmetical accuracy of the records, maintenance and checking for documents.

Personnel

There should be procedures to ensure that personnel have capabilities which commensurate their responsibilities. Inevitably, the proper functioning of any system depends on the competence and integrity of those operating it. The qualifications, selection, and training as well as the mate personal characteristics of the personnel involved are important features to be considered in setting up any control system.

Supervision

Any system of internal control should include the supervision by responsible officials of day-to-day transactions and the recording thereof.

Management

These are controls exercised by management outside the day to day routine of the system. They include the overall supervisory control exercised by management the review of management accounts and comparison thereof with budgets, the internal audit function and any other special review. The above

categories of internal control were extracted from the approved auditing guidelines

Auditor's use of Internal Control

The auditor's objective in evaluating internal controls is to determine the degree of reliance which may be placed on the information contained in the accounting records. Where he obtains reasonable assurance by means of compliance tests and procedures that the internal controls are effective in ensuring the completeness and accuracy of the accounting records and the validity of entries therein, he may then limit the extent of his substantive tests or procedure.

Objectives of Internal Audit

The objective of internal audit as outlined in ARB Apex Bank, (2004), internal control and internal Audit for Rural and community Banks; Operational Manuel "is to assist members of the organization in the effective discharge of their responsibilities by furnishing them with analyses, appraisal, recommendations, counsel, and information concerning the activities."

Evidence of Internal Audit Test

Compliance Test

Before the Auditor can place reliance on internal control system of an organization, he is expected to carry out compliance tests. These are designed to obtain reasonable but not absolute assurance that those internal control on which

the Auditor wishes to rely were functioning both properly and throughout the period.

Firstly, by examination of evidence; the inspection of records, documents, reconciliation, reports etc. for evidence that a specific control appears to have been properly applied (e.g. inspecting signatures or initials on a purchase invoice evidencing that the invoice has been matched with a purchase order or goods received note or inspection exception reports.)

Secondly, re-performance- the repeating, either in whole or in part of the same procedures performed by the employee of firm(e.g. matching a purchase invoice with the corresponding purchase order)

Thirdly, observation and enquiry- the observation of a procedure, together with informed enquiry about the procedure at other times. Observation and enquiry is a valid form of compliance testing, the only risk here is that the control may not be performed when the Auditor is absent.

Again, in carrying out compliance tests or functional test as it is sometime termed the Auditor tests the controls and not transactions involved. Which may be the means/medium used for the test.

Fifthly, as a result all weakness, breakdown, deviations, exceptions revealed by his test are recorded and investigated irrespective of the amount involved. An exception here means where a control procedure has not operated correctly whether or not a quantitative error has occurred.

The result of compliance tests is a determining factor in assessing the extent of substantive work to be carried out. Thus the Auditor may place

reasonable but not absolute reliance on the effective functioning of internal controls tested where the result of compliance tests does not indicate any weakness and/or exceptions. Reliability on internal control means the Auditor will limit the extent of his substantive test on information contained in financial records. If on the other hand the tests disclose exceptions which indicate that; virtually controls are non- existent; not operated properly or breakdown during the period under consideration.

The auditor should ascertain the reasons for such exceptions, in determining the success. The Auditor then assesses whether each weakness is an isolated departure, or is a representative of others and whether it raises the presumption of possible existence of fraud and/or errors in the accounting records if the explanations received suggest that the exception is only an isolated departure, then there must be a confirmation of the validity of the explanation for example by carrying out further tests. The controls cannot be relied on if there is a confirmation as a result of the further tests that internal control tested was being improperly operated. Under such a circumstance the Auditor will increase the level of his substantive tests unless there are alternative/compensating controls.

Substantive Test

It is a test designed to obtain evidence as to the completeness, accuracy and validity of the data produced by the accounting system according to Okai (1996) Auditing For You. When the test is directed towards balance sheet items they are aimed at achieving the following objectives; existence of assets and

liabilities; ownership of assets and responsibilities or obligation for liabilities; the values attributed to assets and liabilities; completeness- that no materials items have been omitted; and the presentation of items in the accounts.

Substantive tests when applied to profit and loss items are designed to ensure that all items of income or expenses that have been earned or incurred and which have gone into the calculation of profit or loss are recorded in the appropriate accounts and financial period. The substantive tests directed to both balance sheet and profit and loss items enables the Auditor to ascertain whether the accounting policies of the company are appropriate and have been consistently followed.

Substantive tests are normally carried out: in noted areas of a firm's internal control where assessment indicates weaknesses; in areas of the firm where compliance tests indicate that the system though it has been assessed as strong, but do not complied with; on all items not subject of internal control procedures. These include unusual or one-off transactions; and on all assets and liabilities.

Components of Internal Control

This refers to the elements that constitute a good internal control system. (Basle, 1998). He added that a good internal control system comprise of the following factors; control environment; risk assessment; control activities; information and communication; and monitoring.

Control Environment

The control environment reflects the board of directors' and management's commitment to internal control. It provides the 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 awareness 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 embraces the attitudes and actions regarding control. This environment sets the organizational tone, influences control consciousness, and provides a 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.

Flowing from the above the board of directors should show concern for integrity and ethical values. There must be a code of conduct and this must be adequately communicated to all levels of organization. Also there must be an

appropriate structure, which is not dominated by one or a few individuals and an effective oversight by the board of directors. 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 (Lannoye, 1999).

Risk Assessment

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. Also, Sudsomboon and Ussahawanitchakit (2009) define risk assessment as the identification and analysis of management relevant risk to the preparation of financial statements. According to Steinhoff (2001), risk assessment implies the following:

i. Risk identification: A strategic approach to risk assessment depends on identifying risk against key organizational objectives. Risks relevant to those objectives are then considered and evaluated, resulting in a small number of key risks.

Identifying key risks is not only important in order to identify the most important areas to which resources in risk assessment should be allocated, but also in order to allocate responsibility for management of these risks. An entity's performance can be at risk due to internal or external factors at both the entity and activity levels. The risk assessment should consider all risks that might occur (including

the risk of fraud and corruption). It is therefore important that risk identification is widespread. Risk identification should be an ongoing, continuous process and should be often integrated with the planning process.

ii. Risk evaluation: In order to decide how to handle risk, it is essential not only to identify the principle that a certain type of risk exists, but also to evaluate its significance and assess the likelihood of the risk event occurring. One of the key purposes of risk evaluation is to inform management about areas of risk where action needs to be taken.

iii. Assessment of the risk appetite of the organization: An important issue in considering response to risk is the identification of the “risk appetite” of the entity.

Risk appetite is the amount of risk to which the entity is prepared to be exposed before it decides on the necessary action to take. Decisions about responses to risk have to be taken in conjunction with an identification of amount of risk that can be tolerated. Both inherent and residual risks need to be considered to determine the risk appetite. Inherent risk is the risk to an entity in the absence of any actions management might take to alter either the risk’s likelihood or impact. Residual risk is the risk that remains after management responds to the risk. Identification of risk appetite is a subjective issue, but it is nevertheless an important stage in formulating the overall risk strategy.

iv. Development of responses: a risk profile for the organization needs to be made in developing responses to such risks. Having developed a risk profile, the organization can then consider an appropriate response. Responses to risk can be

divided into four categories. In some instances, risk can be transferred, tolerated, treated or terminated. However, in most instances the risk will have to be treated and the entity will need to implement and maintain an effective internal control system to keep risk at an acceptable level. The purpose of treatment is not necessarily to obviate the risk, but more likely to contain it. The procedures that an organization establishes to treat risk are called internal control activities. Risk profiles and related controls have to be regularly revised and reconsidered in order to have the assurance that the risk profile continues to be valid, that responses to risk remain appropriately targeted and proportionate, and justifying controls remain effective as risk change overtime.

Control Activities

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 controller (1999) defined control activities as tools – both manual and automated – that help identify, prevent or reduce the risks that can impede the 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; top level reviews of actual performance; reviews by management at the functional or activity level; management of human capital; controls over information processing; physical control over vulnerable assets; establishment and review of performance measures and indicators; segregation of duties; proper execution of transaction and events; accurate and timely recording of transactions and events; access restrictions to and accountability for resources and records, and appropriate documentation of transactions.

He added that, to be effective, control activities need to; be appropriate (that is, the right control in the right place and corresponding to the risk involved); function consistently according to plan throughout the period (that is, be complied with carefully by all employees involved and not bypassed when key personnel are away or the workload is heavy); be cost effective (that is, the cost of implementing the control should not exceed the benefits derived); and to be comprehensive, reasonable and should directly relate to the control objectives.

Information and Communication

According to the comptroller's Handbook (2001) information and communication are explained as follows; Information and communication are essential to realizing all internal control objectives. A precondition for reliable and relevant information is the prompt recording and proper classification of transactions and events. Relevant information should be identified, captured and communicated in a form and time frame that enables staff to carry out their internal control and other responsibilities (timely communication to the right people). Therefore, the internal control system as such and all transactions and significant events should be fully documented. Management's ability to make appropriate decisions is affected by the quality of information which implies that the information should be appropriate, timely, current, accurate and accessible.

Information and communication are essential to the realization of all the internal control objectives. This can be achieved by developing and maintaining reliable and relevant financial and non-financial information and communicating this information by means of a fair disclosure in timely reports. Information and communication relating to the organization's performance will create the possibility to evaluate the orderliness, ethicality, economy, efficiency and effectiveness of operations. In many cases, certain information has to be provided or communication has to take place in order to comply with laws and regulations. Information is needed at all levels of an organization in order to have effective internal control and achieve the entity's objectives. Therefore an array of pertinent, reliable and relevant information should be identified, captured and

communicated in a form and time frame that enables people to carry out their internal control and other responsibilities.

A precondition for reliable and relevant information is the prompt recording and proper classification of transactions and events. Transactions and events must be recorded promptly when they occur if information is to remain relevant and valuable to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction, including the initiation and authorization, all stages while in process, and its final classification in summary records. It also applies to promptly updating all documentation to keep it relevant. Proper classification of transactions and events is also required to ensure that reliable information is available to management. This means organizing, categorizing, and formatting information from which reports, schedules, and financial statements are prepared. In order to help ensure the quality of information and reporting, the internal control system should be carried in such a way that all transactions and significant events should be fully and clearly documented (e.g. narratives).

Communication

Effective communication should flow down, across, and up the organization, throughout all the components of the entire structure. All personnel should receive a clear message from top management that control responsibilities should be taken seriously. They should understand their own role in the internal control system, as well as how their individual activities relate to the work of

others. Also, there is the need to be effective communication with external parties. Information is a basis for communication, which must meet the expectations of groups and individuals, enabling them to carry out their responsibilities effectively.

Monitoring

The last component of the internal control system is monitoring. A crucial aspect of any complete system of internal controls is regularly monitoring how effective the internal controls are, in order to find out whether or not they are properly designed and also functioning (Treba, 2003). Monitoring, according to DiNapoli (2007), is the review of an organization's activities and transactions to assess the quality of performance over time and to determine whether controls are effective. Internal control systems should be monitored to assess the quality of the system's performance over time. Springer (2004) explained as follows:

Ongoing monitoring

Ongoing monitoring of control is built into the normal, periodic operating activities of an entity. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. Ongoing monitoring activities cover each of the internal control components and involve action against irregular, uneconomical, inefficient and ineffective internal control systems.

Separate evaluations

The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Specific separate evaluations cover the evaluation of the effectiveness of the internal control system and ensure that internal control achieves the desired results based on predefined methods and procedures. Internal control absences should be reported to the appropriate level of management. Monitoring internal control is aimed at ensuring that controls are operating as intended and that they are modified appropriately for changes in conditions.

Managers are to:

- a) Promptly evaluate findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors and others who evaluate agencies' operations,
- b) Determine proper actions in response to findings and recommendations from audits and reviews and
- c) Complete, within established time frames, all actions that correct or otherwise resolve the matters brought to their attention.

The resolution process begins when audit or other review results are reported to management, and is only completed after action has been taken that:

- a) Corrects the identified deficiencies,
- b) Produces improvements, or
- c) Demonstrates that the findings and recommendations do not warrant management action.

Roles and Responsibilities of Internal Control System

According to the Committee of Sponsoring Organizations (COSO) Framework, everyone in an organization has responsibility for internal control to some extent. Virtually all employees produce information used in the internal control system or take some actions needed to effect control. Also, all personnel should be responsible for communicating upward problems in operation, defiance with the code of conduct, or other policy violations or illegal actions. Each major entity in corporate governance has a particular role to play:

Management: The Chief Executive Officer (the top manager) of the organization has overall responsibility for designing and implementing effective internal control. More than any other individual, the chief executive sets the “tone at the top” that affects integrity and ethics and of the factors of a positive control environment. The Chief Executive fulfils this duty by providing leadership and direction to senior managers and reviewing the way they are controlling the business. Senior managers, in turn, assign responsibility for the establishment of more specific internal control policies and procedures to the personnel responsible for the unit’s function.

Board of Directors: Management is accountable to the board of directors, which provides governance, guidance and oversight. Effective board members are objective, capable and inquisitive. They also have knowledge of the entity’s activities and environment, and commit the time necessary to fulfil their board responsibilities. Management may be in a position to override controls and ignore or stifle communications from subordinates, enabling a dishonest management

who intentionally misrepresents result to cover their tracks. A strong, active board, particularly when coupled with effective upward communication channels and capable financial, legal and internal audit functions, is often best able to identify and correct such a problem.

Internal audit: when there is one, the internal audit department is responsible for assessing the operation of the internal control system and for making recommendations to improve it, within the scope of its audit engagements. It raises the levels of awareness and usually dispenses management training on internal control, but is not directly involved in the design or the day-to-day running of the system. The internal audit manager reports to Executive Management and depending on the approach adapted by each company, to the governing bodies, on the main results of the monitoring performed.

The internal auditors and external auditors of the organization also measure the effectiveness of internal control through their efforts. They assess whether the controls are properly designed, implemented and working effectively, and make recommendations on how to improve internal control. They may also review information technology controls, which relate to the IT systems of the organization. There are laws and regulations on internal control related to financial reporting in a number of jurisdictions. In the U.S. these regulations are specifically established by Sections 404 and 302 of the Sarbanes-Oxley Act. Guidance on auditing these controls is specified in PCAOB Auditing Standard No. 5 and SEC guidance.

To provide reasonable assurance that internal controls involved in the financial reporting process are effective, they are tested by the external auditor (the organization's public accountants), who are required to opine on the internal controls of the company and the reliability of its financial reporting.

Company staff

Each member of staff concerned should possess the appropriate knowledge and information to be able to design, operate and monitor the internal control system, as applied to the objectives which have been allocated to him. This applies to operational managers who are directly involved with the internal control system but also internal controllers and financial management staff who have an important monitoring and controlling role to play.

Limitations to Internal Control

According to Amudo and Inanga (2008), although internal controls are of paramount importance they have their own limitation. No internal control however, elaborates and comprehensively, can guarantee efficient administration and reliability of records or can be a proof against fraudulent collusion especially on the part of those holding high positions of authority or trust. Authorization's controls can be abused by a person in whom authority is vested. Other factors likely to undermine effective operation of controls are; fatigue; distraction; can easily be controlled through experience; carelessness; misunderstanding; errors of judgment and/or interpretation.

Making internal control systems effective for internal control system to achieve its desired objective, it must be effective and reliable. The following should be watch dogs; procedural Manual must be followed; inspection and Audit report must be accessed and acted upon; leadership inspiration and supervision is of paramount importance; and management should support the process.

Features of a successful control environment

A good and successful control environment exhibits certain attributes. These include; commitment to trust and fair dealing; commitment to quality and competence; communication of ethical values; an appropriate organization structure; independence, integrity and openness at Board reporting level; and a professional to approach to financial reporting (finsec consult, 2008).

Empirical Review

This section reviews the current state of the subject matter. It provides evidence on prior studies. The purpose of the section is to uncover the existing gaps in literature and how the present study contributes to resolving such gaps. Various critiques are drawn in this section. The section also lays the basis for comparison of the results of the present study to existing literature.

In Uganda, Mawanda (2008) examined the effect of systems of internal control on financial performance in a higher learning institution by considering internal controls from the perspective of control environment, control activities and internal audit. The measures of financial performance adopted were liquidity,

financial reporting and accountability. Mawanda sought to determine the functionality of internal control system, the level of financial performance and the relationship between controls system and financial performance.

Noel (2010) employed competence levels, corporate culture, audit committee quality and management integrity and ethics as the constructs of control environment, and they were measured on a 5-point Likert scale, where 1 indicates strongly disagree and 5 strongly agree. Correspondingly, disclosures and transparency were adopted as constructs of accountability whereas internal checks, reconciliations and audits were employed as the constructs of monitoring. Both accountability and monitoring were measured using a 5-point Likert scale. The measurements of the level of liquidity in the study included cash ratio and current ratio.

The cross sectional survey and mixed research approach along with stratified sampling technique was used to group the sampling units into top management, middle or senior staff and other staff from which a purposive sampling was used to select a sample size of 284 from a population of 700 banking staff in four indigenous commercial banks in Uganda. Data collection was done by administering questionnaires and then descriptive, principal component analysis, correlation and regression analysis were employed to determine the relationship between control environment and levels of liquidity. The results from the correlation analysis revealed that there was a significant positive relationship between control environment and liquidity levels ($r = .293^{**}$, $P\text{-value} < 0.01$). Regression analysis results also showed that control

environment, accountability and monitoring significantly impacted on liquidity level.

Noel (2010) also found that the control environment, monitoring and accountability together significantly explained or predicted 19 per cent of the variance in levels of liquidity. Amongst them, monitoring was the most significant predictor. This meant that about 81 per cent of liquidity levels were explained by some other variables not included in the study. Noel recommended that to improve liquidity levels, indigenous Ugandan commercial banks must keep and strengthen their control environment, and their monitoring mechanism. Although Noel (2010) used a relatively large sample size with the appropriate statistical analysis, the R-square was very weak. The weak R-square suggests that other variables needed to be included in explaining the effect of internal controls on liquidity. For example, COSO (2013) internal control framework suggests that well-designed internal control systems should comprise five components. However, only control environment and monitoring were employed in Noel's study.

In a similar study involving Jaffna district organisations of Sri Lanka, Muraleetharan (2011) investigated the impact of internal controls on financial performance. Muraleetharan adapted COSO's five elements of internal control namely, control environment, risk assessment, control activities, information and communication and monitoring. Constructs adopted in measuring financial performance included profitability, efficiency and liquidity performance indicators. In order to combine the financial performance indicators as well as test

the hypothesis, data were collected through self-assessment questionnaire and personal interviews and 181 respondents were drawn from employees who were employed by 47 public and private institutions in Jaffna district.

Dimensions employed were tested for reliability and all yielded a Cronbach alpha (α) value of above 0.7. The data were then analysed with the help of Statistical Product and Service Solutions (SPSS). Chi square and regression statistical tools of analyses were used. The study found that internal control is statistically significant in predicting performance. Of importance is the fact that the study found that internal controls predicts financial performance, even though they are not statistically significant with control environment and information and communication. Muraleetharan (2010) further recommends that attention should be focused on adopting efficient management information system and training of staff.

A critical look at the study of Muraleetharan (2011) portrays that Muraleetheran considered all the components of COSO's internal control variables. This makes Muraleetheran's study very comprehensive as compared to those of Mawanda (2008) and Noel (2010). This implies that Muraleetharan's study responds to the weaknesses in the selection of internal control variables chosen by Mawanda and Noel.

Ndungu (2013), in a similar study, sought to investigate the effect of internal controls on revenue generation in University of Nairobi Enterprise and Services (UNES) using mixed research approach. The target population was the workers of the UNES for the 2013 calendar year. A simple random sampling

technique was used to select a sample size of 45 employees from the target population with a 62 percent response rate. Descriptive research design was used for the study and primary data were collected by the use of structured questionnaires, whereas secondary data were collected from management reports and other published documents.

Similarly, Oyoo (2014) examined the effect of systems of internal control on financial performance of micro-finance institutions in Kisumu Central Constituency, Kenya. Internal controls were considered from the perspective of control environment, control activities and information and communication whereas financial performance focused on liquidity. The target population comprised 18 registered micro-finance institutions. Convenient sampling was then used and a total of 7 institutions were chosen representing 35 respondents. Primary data was elicited through self-administered questionnaires while capturing secondary data from annual report and other documents. Oyoo (2014) discovered a positive relationship between internal control and financial performance of micro-finance institutions. It was recommended that micro-finance institutions should adopt more efficient management information systems and tighten their debt collection controls.

In Kenya, Chebungwen and Kwasira (2014) conducted a similar research to assess the effect of internal controls on financial performance of Kenyan tertiary training institutions: a study of African institute of research and development studies. The target population was all the 68 workers of the tertiary institution. Due to the size of the target population, a census was employed.

Structured questionnaires were used to collect the data. The data obtained from the structured questionnaires was subjected to analysis by using simple descriptive statistics such as percentages, means, median, mode and standard deviations as well as Pearson Product Moment Correlation. Analysis and results of the study indicated that internal audit reports of the institutions tackled the weaknesses in internal control system, thus enhancing the financial performance of the institution. Also, the findings posit that there is a relationship between internal control system and financial performance. The study recommended that tertiary training institutions in Kenya should not only establish an internal audit department but also ensure that the internal audit department is adequately staffed and independent. This would ensure that management interference with the auditors' work is minimized and possibly eradicated, thus minimizing the weaknesses in the internal control system in order to enhance performance.

In a study involving Elementary School in Bandung, Indonesia, Widyaningsih (2015) evaluated the influence of internal control on accountability. Internal control was measured using COSO's framework. In order to clarify the relationship among variables through hypothesis testing, the exploratory design was relied on. The target population was all primary schools in Bandung. A convenience sampling technique was used to select a sample size of 168 from the entire population. Primary data was collected through questionnaires. The data collection instrument was developed using Likert scaling. The data obtained from the respondents was subjected to inferential analysis. Specifically the path regression analysis was used. Based on the results, it was concluded that internal

control system significantly affected or predicted the variance in accountability. However, risk assessment and information and communication were not statistically significant in predicting the variance in accountability. It was also discovered that the implementation of internal control in primary schools in Bandung were high except on information and communication.

Chapter Summary

The study was to examine the effectiveness of internal control for credit unions in Takoradi. The contingency theory was reviewed. It suggest that the optimal way in which a company could be organized or achieved her goals is contingent or dependent on the kind of environment in which the company operates. Also, the concept of credit union was reviewed as well as history of credit union, internal control, types and components, roles and responsibilities, and limitations of Internal Control. Empirical evidence established that there is positive relationship between internal control and financial performance.

CHAPTER THREE

RESEARCH METHODS

Introduction

This chapter deals with the procedure used in the collection of data for the research. It includes; the research design, study area, source of data, the research instrument, the target population, sample and sampling methods, and the mainly data analysis procedure and finally complemented by its limitation.

Research Design

Saunders, Lewis and Thornhill (2009) define research design as the general plan which guides a researcher in answering research questions. A research design is the blue print of the study. The design of a study defines the study type. A descriptive research design will be adopted to obtain specific information from the target population, by means of questionnaire since it involves the process of observing and describing the behaviour of a subject without influencing it in any way (Shuttleworth, 2008). Furthermore, with descriptive approach, the respondents can be examined in a completely natural and unchanged environment where the tendencies for the researcher to influence the outcome of the study are substantially minimized (Murphy, 2006).

According to Creswell (2014), descriptive research designs help to gather information about the present and existing condition of a research parameter. Again, Creswell (2014) emphasized that with the use of a descriptive research design, more emphasis is laid on describing rather than on judging or interpreting

the process. A descriptive research is to portray an accurate profile of persons, events or situations (Robson, 2002). Further, the design allows the use of descriptive statistical tools such as percentages, frequencies and the mean in the analysis of data collected.

Despite all the advantages of the descriptive research design, it has some inherent weaknesses. These include the difficulty in ensuring that questions to be reacted to during interviews, especially, are explicit and not misleading because survey results may vary significantly depending on the exact wording of the items. Also, data gathered could produce misleading results because they may delve into private and emotional matters in which respondents might not be completely truthful. The researcher used the descriptive method.

Study Organization

The study was conducted in Takoradi for community credit union: Shama Co-operative Credit Union (SHACCU) and Work place credit union: GHAPOHA. Secondi-Takoradi is the capital town of the Western Region where these credit unions are found and the issue of effectiveness of internal control system is not examined. These credit union were selected due to the fact that they have prerequisite for this study, thus, having internal audit unit or department, auditing tools among others.

Population

Gyimah (2002) defined population as the entire aggregation of cases that meet a designated set of criteria. This means that the target group about which the researcher is interested in gaining information and drawing conclusion and which the focal point of this research is the working population. The population comprised all credit unions in Takoradi, however, Shama Co-operative Credit Union (SHACCU) and GHAPOHA were targeted for the study. The staff/workers, management and the clients of these credit unions were considered for the study.

Sampling Size and Sampling Procedure

Sampling involves “the use of definite procedures in the selection of a part for the express purpose of obtaining from its description or estimates certain properties and characteristics of the whole” (Kumekpor, 2002; p.123). The sampling frame was sought from the Credit Union of Ghana. According to Credit Union of Ghana (2016), there are 26 Credit unions in Takoradi. Stratified sampling will be employed to divide the 26 credit unions into their various types such as Work place, Community and Parish where simple random sampling was employed to select a credit union each from the various groups.

For the respondents, simple random sampling was employed to select 102 workers each from the various credit unions that were considered for the study. However, purposive sampling was adopted to select two (2) management

officials/internal auditors each from various credit unions to form part of the study. In all, 208 respondents were sampled for this study.

Sources of Data

This study relied on two main sources of data; primary and secondary data. The reason for this was to be able to provide adequate discussion for the readers that will help them understand more about the issue and the different variables that are involved.

The primary data for the study was represented by the survey results that were acquired from the respondents through the administration of questionnaires and interviews. Primary data is original data collected directly by the researcher for the research work. The researcher settled on questionnaires, formal and informal interviews with management and staff of the credit unions.

On the other hand, secondary data is data collected by others for purposes which can be different from the researcher's purpose. Secondary data include both data and published summaries. The researcher used secondary data to validate and ensure reliability of the study. The secondary sources of data came from published articles, internet, company and other credit unions' official statistics. These include the bank's internal audit charter, operating manual and published financial statements of the credit unions.

Data Collection Instrument

This study employed a questionnaire design and structured interview method to empirically gather the necessary data to answer the research questions for the study. The primary aim of this research was to examine the effectiveness of the internal controls in the credit unions. This makes the questionnaire and the interview the most appropriate form of research instruments to carry out this particular exercise. The questionnaire was administered to the workers while the management was interviewed. The researcher made use of open-ended and close-ended questions. The open-ended type questions allowed for free expression of views and comments. The questionnaires were administered personally to the sampled staff from the sampling frame, and given some time to fill at their convenience. Structured interviews were administered to the management based on their operational levels within the organization, which characterizes their understanding of auditing, accounting and managing of the various agencies and departments.

Data Processes and Analysis

Data analysis is a systematic search for meaning. It is a way to process data so that what has been learned can be communicated to others. Analysis means organizing and interrogating data in ways that allow researchers to see patterns, identify themes, discover relationships, develop explanations, make interpretations, mount critiques, or generate theories. It often involves synthesis,

evaluation, interpretation, categorization, hypothesizing, comparison, and pattern finding (Hatch, 2002).

The questionnaires that were retrieved from the field were analyzed through the use of quantitative tools. Since the research was mainly descriptive, the Statistical Package for Service Solution was used to organize, analyze and interpret the data using descriptive statistics including means, standard deviations, frequency and percentages. However, the recordings of the interviews was transcribed verbatim, organised, and presented in themes based on the research objectives.

Ethical Consideration

Permission was sought for an introductory letter from the School of Business to go to the sampled credit unions in Takoradi. The researcher also assured absolute confidentiality and consent of the respondents by providing introductory information to the respondents to make an informed decision on whether they would participate. The respondents were given the right to withhold information that they considered private. Moreover, the researcher ensured that the respondents were not harmed physically or psychologically during and after the research. Respondents' confidentiality was assured by using the information that was gathered for the study purpose only. Furthermore, the researcher ensured that others whose works were useful in the study were acknowledged adequately.

Chapter Summary

The study used cross-sectional descriptive survey. It was conducted in Takoradi for the staff/workers, management and the clients of Shama Co-operative Credit Union and Work place credit union. Simple random was employed to select 102 workers each from the various credit unions, however, purposive sampling was used to select 2 management officials each from various credit unions to form part of the study, thus, 208 respondents in all. Questionnaire and structured interviews were the main data collection instruments. The questionnaires were analyzed and interpreted using descriptive statistics such as frequency and percentages, however, the recordings of the interviews were transcribed verbatim, organised, presented in themes based on the research objectives. This approach wastes a lot of time since it involves both qualitative and quantitative, it is also expensive and required special skills to execute.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter considers the analysis of the data. It uses descriptive statistics, simple percentage and frequencies to describe the data which have been collected and analysed. It was mainly based on the questionnaires and structured interviews administered to the respondents (workers and management of the various credit unions). It is aimed at examining the effectiveness of internal controls system of credit unions in Takoradi.

Demographic Characteristics of the respondents

This section describes information on the background characteristics of the respondents, that is, sex, age, marital status, educational status, religion, average monthly income and household size. Table 1 gives the outcomes.

From Table 1, out of 190 respondents, 102 of the respondents were males while 78 were females. This means that the study was dominated by males. On age, 102 respondents representing 53.7% were in between 20-29 years. Sixty-two respondents which represent 32.5% were between the ages of 30 – 39 years, 11 respondents who represented the 5.8 percent were below 20 while 10 of the respondents were more than 50 years. This means that majority of the respondents who partook in this study were found below 50.

Table 1: Demographic Information

Variable	Category	Frequency	Percentage
Sex	Male	102	53.7
	Female	88	46.3
	Total	190	100
Age	Below 20 years	11	5.8
	20 – 29 years	102	53.7
	30 – 39 years	62	32.6
	40 – 49 years	5	2.6
	50 – 59 years	10	5.3
	Total	190	100
Marital status	Single	113	59.5
	Married	65	34.2
	Co-habiting	12	6.3
	Total	190	100
Religious affiliation	Christian	174	91.6
	Moslem	16	8.4
	Total	190	100
Level of Education	Secondary	10	5.3
	Tertiary	180	94.7
	Total	190	100
Household Size	0	98	51.6
	1	25	13.2
	2	24	12.6
	3	22	11.6
	4	10	5.3
	Above 5	11	5.8
	Total	190	100
	Net Monthly Income	GHC 500 and below	22
GHC 501 – 1000		94	49.5
GHC 1000 - 1500		64	33.7
Above GHC 2000		10	5.3
Total		190	100
No of years worked	Less than a year	12	6.3
	1	65	34.2
	2	31	16.3
	3	30	15.8
	4	10	5.3
	5	10	5.3
	Above 5 years	32	16.8
	Total	190	100

Source: Field Survey (2017)

On educational background of the respondents, respondents who had tertiary education were 180 while only 10 of the respondents had secondary education. This means that majority of the respondents have had a higher form of formal education and therefore were aware of issues concerning internal control system. They were also able to read and respond to the demands of the questions asked in the study.

Concerning religious affiliation of respondents, Christians were 174 while Muslims were 16. This is in line with religious distribution in Ghana. The 2010 Population and Housing Census corroborated to this fact that Christians were dominant in this Region and the nation as a whole.

According to Table 1, 98 (51.%) of the respondents without children at home, followed by 25 respondents who were staying with a child at home, 24 of the respondents stay with 2 children while 11 respondents leave with more than 5 children in their homes. This means that a little above half of the respondents had no child and a larger proportion too has only a child. Thus, respondents have small household size.

The outcome in Table 1 also shows that almost half of the respondents earned between GHC500 to GhC 1000 almost every month, followed by 64 respondents who earned GHC1001-1500 in almost every month. However, only 12 respondents earned something more than GHC2000 in almost every month. This means that on the average, respondents were receiving not less than GHC1000 in almost every month.

Internal control policies in credit unions

The objective was to ascertain whether internal control policies were put in place in the various credit unions to prevent mismanagement and misappropriation of funds. These are threats to effective management and therefore, must be catered for. The result is presented in Table 2.

Table 2: Person Responsible for Setting up Internal Control Systems

Responses	Frequency	Percentage
The manager	6	3.2
Board	11	5.8
Board and management	18	9.5
Don't know	155	81.5
Total	190	100

Source: Field Survey (2017)

The Table 2 reveals that most respondents (155, 81.5%) do not have any idea about the body responsible for ensuring internal control systems in the Credit Unions in the metropolis. However, 6 of the respondents believe that the Manager was responsible for that, 11 of the respondents said the board and 18 of the respondents identify the both the board and management as body responsible for setting up internal control systems. This means that only few of the respondents knew the body responsible for ensuring internal control systems in the credit union.

Procurement Policy

The data gathered from the workers of the various credit unions reveals that only 32 of the respondents could find procurement policy in their credit union while majority of the respondent do not have such policy in their credit unions. This is risky and a threat to the effectiveness of internal control system. 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 help to identify, prevent or reduce the risks that can impede accomplishment of the organization's objectives. Therefore, without these policies and documents, the aims and objectives of the organization will be at stake.

Procurement Committee

According to the data gathered from the workers of the various credit unions, it was found out that majority of the respondents (144, 75.8%) said that there was no procurement committee in their credit union while 16 of the respondents said that they have. However, 30 of the respondents were not certain on the existence of such procurement committee. If the committee to ensure that these policies, manuals among others are executed as expected, then the organization's aims and objectives could not be reached. This is so because they are to prioritize, investigate, and implement joint purchases of services and goods

that are financially or otherwise advantageous to the benefiting organization (Daud, 2013).

Table 3: The Types of Internal Control Systems in Respondents' Credit Union

Responses	Frequency	Percentage
One	63	33.2
Two	93	50.5
Four	31	16.3
Total	190	100

Source: Field Survey (2017)

According to Table 3, about half of the respondents (93, 50.5%) were aware that there are two internal control systems in the Credit Unions. Meanwhile, 63 of the respondents knew it to be one and 31 of the respondents said four. This means that almost half of the respondents did not know the types of internal control systems in Credit Unions. This means that half of the respondents knew it to be preventive and corrective type of internal control system.

Table 4: Person Responsible to Authorize Payment on Behalf of the Credit Union

Responses	Frequency	Percentage
The manager	162	85.3
The board	23	12.1
Board and management	5	2.6
Total	190	100

Source: Field Survey (2017)

From Table 4, it was strongly accepted by majority of the respondent (162, 85.3%) that the Credit Union Manager is responsible for authorizing payment on behalf of the Credit Unions in the metropolis. Nevertheless, 23 of the respondents hold the view that the authorization of payment on behalf of the unions is in hands of The Board and the 5 of them believes that is the work of both The Manager and Board. This means that majority of the respondents know the right person responsible for authorizing payments on behalf of the credit unions in the metropolis.

Table 5: Mode of Communication between Branch and the Head Office

Responses	Frequency	Percentage
Phone calls	123	64.7
Emails	24	12.6
Text messages	31	16.3
Messengers	12	6.3
Total	190	100

Source: Field Survey (2017)

Table 5 shows that majority of the respondents identified phone calls as the mode of communication between head and branches of credit union. However, 24 of the respondents identified emails, 31 (text messages) and 12 identified messengers as the mode of communication between the head and other branches of credit unions in the metropolis. Communication is one of the major key in internal control system, therefore, mode of communication is very important to eradicate clerical errors among others. This can be achieved by

developing and maintaining reliable and relevant financial and non-financial information and communicating this information by means of a fair disclosure in timely reports. All personal should receive a clear message from top management that control responsibilities should be taken seriously (Springer, 2004).

The extend of coverage of internal control policies

Internal control policies, according to COSO framework (2013) should cater for the business environment, management and information. Therefore, this objective is to examine the extent of coverage of internal control policies in the various credit unions to know whether they conform to it or not.

Table 6: Respondents' Rate of Soundness and Effectiveness of Internal Control System

Responses	Frequency	Percentage
Very effective	54	28.4
Effective	83	43.7
Average	53	27.9
Not effective	0	0
Not at all	0	0
Total	190	100

Source: Field Survey (2017)

With respect to the rate of soundness and effectiveness of internal control systems in Credit Unions, according to Table 6, 83 (43.7%) of the respondents accepted that it is effective while 54 and 53 of them believe that it is “very

effective” and “average” respectively. None of the respondents accepted that there is no soundness and effective internal control systems.

Emasu (2010) notes that “the effectiveness of internal audit function partly depends on; legal and regulatory framework, placement of the function and its independence, existence of audit committees, resources allocated to the function and professionalism of internal audit staff. Majority of these requirements were met by the various credit unions, therefore, is not miraculous that the respondents rated it as effective.

Table 7: Respondents’ Rate of Credit Union’s Adherence to Internal Control

Responses	Frequency	Percentage
Below 50	11	5.8
50-60	48	25.3
Above 60	131	68.9
Total	190	100

Source: Field Survey (2017)

Table 7 shows that 131 of the respondents rated the credit union adherence to internal control system as above 60 while 11 of the respondents rated them below 50. However, 48 of the respondents were undecided. This means that majority of the respondents rated the adherence of the credit unions to the internal control system as high.

Table 8: Respondents' rate of Overall Effectiveness of the Internal Audit Department

Responses	Frequency	Percentage
Excellent	11	5.8
Very good	72	37.9
Good	80	42.1
Poor	27	14.2
Total	190	100

Source: Field Survey (2017)

From the Table 8, the overall effectiveness of the Internal Audit Department of the Credit Unions appears to be good constituting about 80% of the respondents. Few of the respondents (11, 5.8%) and (27, 14.2%) says that the Audit Department was very effective and poor respectively.

Management commitment to the implementation of internal control policies

Management commitment to the effective implementation is key to effective internal control practices and therefore, cannot be ignored. Management commitment and factors for effective implementation of internal control policies were assess and the result is presented in Table 9 to 13.

Table 9: Internal Audit Effectiveness

	Agree	Don't know	Disagree
Internal audit ensure that it adds value to the business	180	10	0
Internal audit improves department's performance	179	11	0
Internal audit improves organization performance	179	11	0

Source: Field Survey (2017)

The result shows that almost all respondents agrees that internal audit ensure that management adds to the business (180, 94.7%), improves departmental performance (179, 94.2%) and organizational performance (179/94.2%). The rest of the respondents do not know at all if internal audit is effectively ensured or not. Meanwhile none of them agree to that perception.

It was found out that there was effective internal audit practice and this confirms the views of John and Morris (2011) that effectiveness of internal audit procedures in practice are necessary since internal auditors cover a wide variety of assignments.

Table 10 discusses how internal audit quality is perceived by the respondents and how it is achieved in their various credit unions.

Table 10: Internal Audit Quality

	Agree	Don't know	Disagree
Established internal audit's objectives were accomplished	112	68	10
There is communication between internal and external audit	162	13	15
Internal audit's work was efficiently performed	167	11	12
Internal audit's findings are correctly justified	111	57	22
Internal audit's recommendations can be easily implemented	136	27	23
Internal audit's report is accurate	122	45	23

Source: Field Survey (2017)

The Table 10 shows that most of the respondents agree that Internal Audit objectives were accomplished; internal and external communication between audit is effective (112, 58.9%). They generally agree that Internal Audit work were performed and correctly justified (167, 87.9%; 111, 58.4%). Respondents also agree that Internal Audit recommendations can easily be implemented and is accurate (136, 71.6%; 122, 64.2). The rest either do not agree or do not know at all these Audits effectiveness approaches were ensured.

It was found out that there was high quality of internal audit practice and according to Morris (2011), quality of internal audit procedures in practice are necessary since internal auditors cover a wide variety of assignments.

Table 11: Internal Audit Team

	Agree	Don't know	Disagree
The professional knowledge of internal audit is high	129	51	10
Internal auditors are considered as professionals	152	23	15
Internal auditors are proactive	151	16	23
There is communication between internal auditors and auditees	141	32	17
Internal auditors attend educational seminars for continuous training	132	27	31
Internal auditors have adequate education	147	23	20

Source: Field Survey (2017)

Table 11 shows that most of the respondents agree that Internal Audit team have high professional knowledge (129, 63.2%); Internal auditors are considered professional (151, 79.5%). They generally agree that Internal Auditors and auditees have great communication between them (141, 74.2%). Respondents also agree that Internal Auditors attend educational seminars for continuous training and have adequate education (132, 69.5%; 147, 77.3%). The remaining respondents either do not agree or do not know at all these Auditor effectiveness approaches were shaped by the above opinions polls. Table 12 elaborates on the independence of internal audit unit in the various credit unions in the metropolis.

This finding was in line with COSO (1992) that posited that commitment to competence is a key and it includes the level of knowledge and skill needed to help ensure orderly, ethical, economical, efficient and effective performance, as

well as a good understanding of individual responsibilities with respect to internal control.

Table 12: Independence of Internal Audit

	Agree	Don't know	Disagree
Internal audit report to the highest level within the business	153	21	16
Internal auditors have unrestricted access to all departments and employees in the organization	144	16	30
Internal auditors participates in the development of the company processes	190	0	0

Source: Field Survey (2017)

According to Table 12, most of the respondents (153, 80.5%) agree that Internal Audit report to the highest level within the business; Internal Auditors have unrestricted access to all departments in the organization (144, 75.8%). All respondents (100%) also agree that Internal Auditors participates in the development of the company process. The rest either do not agree or do not know at all these independence of Internal Audit approaches were ensured.

The United States Panel on Audit effectiveness (2000) stressed that the independence of the auditor was fundamental to the reliability of auditor's report. And perceived independence suggests that the auditor must not act independently, but must be seen to be independent too. The findings asserted to this view since the activities of the Internal Auditors were found to be independent of the management and staffs.

Table 13: Management Support

	Agree	Don't know	Disagree
Senior management supports internal audit's personnel	140	33	17
Internal audit department is large enough to efficiently carry out its duties	131	5	54
Senior management is aware of Internal audit's needs	160	30	0

Source: Field Survey (2017)

According to Table 13, most of the respondents (140, 73.7%) agree that Senior Management supports Internal Audit's personnel; Internal Audit is large enough to efficiently carry out its duties (144, 75.8%). Respondents also agree that Senior Management is aware of Internal Audit's needs (160, 84.2%). The rest either do not agree or do not know at all these Internal Management Support approaches were ensured.

This finding ensures effective control environment as viewed by Hevesi (2005) that the Control environment includes; the attitude toward internal control and control awareness established and maintained by the management and employees of an organization. Wittington and Pany (2004) expresses that control environment sets the tone of an organization, influencing the control consciousness of its staff. It is the foundation for all other components of internal control, providing discipline and structure. Therefore, having an effective control environment is a foundation for effective internal control practices.

Challenges in the implementation of internal controls

This objective was to identify the challenges that the various credit unions management face in implementing internal controls. The outcome is presented in Table 14 and 15.

Table 14: Challenges that Confront Internal Auditors of Credit Unions

Responses	Frequency	Percentage
Inadequate training	147	52.3
Non-existence of operation policies	37	13.2
Lack of support from board and management	42	14.9
Lack of independence	55	19.6
Total	281	100

Source: Field Survey (2017)

Table 14 shows that majority of the respondents hold the view that inadequate training is the major challenge that confronts Internal Auditors of Credit Unions (174/281, 52.3%). This is followed by lack of independence of Internal Auditors (55, 29%). The same respondents also agree that non-existence of operational policies and lack of support of Board and Management are some of the challenges being faced by Internal Auditors.

Table 15: Challenges of Internal Control System

Responses	Frequency	Percentage
Resistance to change	83	27.8
Override of internal control by board and management	16	5.4
Human factor	82	27.4
Inadequate resources	54	18.1
Management use findings for sacking staffs	64	21.4
Total	299	100

Source: Field Survey (2017)

Table 15 shows that majority of the respondents agree that resistance to change is the major challenge that confronts Internal Control Systems of Credit Unions (83, 27.8%). This is followed by human factor of Internal Auditors (82/299; 27.6%). The same respondents also agree override of internal control by board and management, inadequate resources and management use of findings are all contributing challenges faced by the Internal Control System.

Aside the challenges of internal control system identified by Bongani (2013), wrongly use of findings by management is another challenge of internal control system identified by this study.

Suggested factors for effective implementation of internal controls

Views and ideas were solicited from workers and management of the various credit unions to identify the effective possible ways of implementing internal controls. The result is presented in Table 16.

Table 16: Respondents' Suggestions on Effective Internal Control Practices

Responses	Frequency	Percentage
Operational policies and manuals must be in place and be made handy	71	27.9
Adequate training on internal control must be given to members and staffs	110	43.3
Internal controls must be observed by board and management	73	28.7
Total	254	100

Source: Field Survey (2017)

According to Table 16, most of the respondents agreed that, first, adequate training on internal control must be given to members and staffs (110, 43.3%) to ensure effective internal control practices. This must be followed by internal controls by board and management (73, 28.7%) and given out operational policies and manuals to members (71, 27.9%). This findings supports the view of Finsec consult (2008) which suggests that independence, integrity and openness at Board reporting level; commitment to quality and competence; communication; an appropriate organization structure as well as professional approach to financial

reporting are the way forward to effective implementation of internal controls in the credit unions.

Chapter Summary

It was found out that most respondents do not have any idea about the body responsible for ensuring internal control systems in the Credit Unions in the metropolis. Moreover, majority of the respondents said that there was no procurement committee in their credit union while few of the respondents said that they have. About half of the respondents (93, 50.5%) were aware that there were two internal control systems in the Credit Unions. Also, it was strongly accepted by majority of the respondent that the Credit Union Manager was responsible for authorizing payment on behalf of the Credit Unions in the metropolis.

Majority of the respondents identified phone calls as the mode of communication between head and branches of credit union, followed by emails, text messages, and lastly messengers as the mode of communication between the head and other branches of credit unions in the metropolis. With respect to the rate of soundness and effectiveness of internal control systems in Credit Unions, 83 (43.7%) of the respondents accepted that it was effective while 54 and 53 of them believe that it is “very effective” and “average” respectively. Overall effectiveness of the Internal Audit Department of the Credit Unions appears to be good constituting about 80% of the respondents. Furthermore, data analysed shows that most of the respondents agree that Senior Management supports

Internal Audit's personnel by making sure that Internal Audit is large enough to efficiently carry out its duties.

It was found out that majority of the respondents agree that resistance to change is the major challenge that confronts Internal Control Systems of Credit Unions, followed by human factor of Internal Auditors (lack of independence of Internal Auditors), override of internal control by board and management, inadequate resources and management use of findings (non-existence of operational policies and lack of support of Board and Management). Nevertheless, most of the respondents suggested that first, adequate training on internal control must be given to members and staffs, effective monitoring and evaluations intermittently followed by internal controls by board and management and given out operational policies and manuals to members in order to ensure effective implementation of internal controls.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

In this chapter, the significant findings and the valuable information obtained or achieved by this study have been carefully summarized. The chapter by far is made up of the summary of the research, and the conclusion drawn from this research study. Also, significant recommendations for further studies were given from the analysis of the available data in this study.

Summary

The main objective of the study was to assess the effectiveness of internal controls in credit unions in Takoradi. The study was conducted in Takoradi for the staff/workers, management and the clients of Shama Co-operative Credit Union and Work place credit union. Simple random was employed to select 102 workers each from the various credit unions, however, purposive sampling was adopted to select two (2) management officials each from various credit unions to form part of the study. In all, 208 respondents was sampled for this study. Questionnaire and structured interviews were the main data collection instruments

Furthermore, the data was analyzed with the help of statistical software known as Statistical Product for Service Solution (SPSS version 21.0) and interpreted by using percentages and frequencies and presented by using tables, and charts using Excel 2013 version.

Major Findings

A total of 190 respondents were used for the study. The majority of the respondents are male (102/190), single (20-29 years) and Christians. Most of the respondents (65/190) have less than one year work experience and receive monthly income of (GHC 501 -1000) and are in the tertiary institutions. The respondents were within the age brackets below 20 years and 59 years.

Objective one was to ascertain whether the credit unions have internal control policies. It was found out that most respondents do not have any idea about the body responsible for ensuring internal control systems in the Credit Unions in the metropolis. However, only few of the respondents believe that the Manager was responsible for that, and others said the board and management were the body responsible for setting up internal control systems. Also, the study reveals that only 32 of the respondents could find procurement policy in their credit union while majority of the respondent do not have such policy in their credit unions. Moreover, majority of the respondents said that there was no procurement committee in their credit union while few of the respondents said that they have. However, large proportion of the respondents was not certain on the existence of such procurement committee.

Objective two was to examine the extent of coverage of internal control policies in the credit unions. It was found out that about half of the respondents (93, 50.5%) were aware that there were two internal control systems in the Credit Unions. Meanwhile, 63 of the respondents knew it to be one and 31 of the respondents said four. Thus, almost half of respondents did not know the types of

internal control systems in Credit Unions. Also, it was strongly accepted by majority of the respondent that the Credit Union Manager was responsible for authorizing payment on behalf of the Credit Unions in the metropolis. Nevertheless, few of the respondents hold the view that the authorization of payment on behalf of the unions is in hands of The Board and few of the respondents believed that is the work of both the Manager and Board. Thus, majority of the respondents know the right person responsible for authorizing payments on behalf of the credit unions in the metropolis.

Majority of the respondents identified phone calls as the mode of communication between head and branches of credit union, followed by emails, text messages, and lastly messengers as the mode of communication between the head and other branches of credit unions in the metropolis.

With respect to the rate of soundness and effectiveness of internal control systems in Credit Unions, 83 (43.7%) of the respondents accepted that it was effective while 54 and 53 of them believe that it is “very effective” and “average” respectively. None of the respondents accepted that there is no soundness and effective internal control systems.

Overall effectiveness of the Internal Audit Department of the Credit Unions appears to be good constituting about 80% of the respondents. Few of the respondents (11, 5.8%) and (27, 14.2%) says that the Audit Department was very effective and poor respectively.

Objective three was to assess management commitment to the implementation of internal control policies. Data analysed shows that most of the

respondents agree that Senior Management supports Internal Audit's personnel by making sure that Internal Audit is large enough to efficiently carry out its duties. Also, majority of the respondents agreed that Senior Management was aware of Internal Audit's needs while few of the respondents do not agree or do not know at all that these Internal Management Support approaches were ensured.

Objective four was to identify the challenges in the implementation of internal controls. It was found out that majority of the respondents agree that resistance to change is the major challenge that confronts Internal Control Systems of Credit Unions, followed by human factor of Internal Auditors (lack of independence of Internal Auditors), override of internal control by board and management, inadequate resources and management use of findings (non-existence of operational policies and lack of support of Board and Management) are all contributing challenges faced by the Internal Control System.

Objective five was to determine success factors for effective implementation of internal controls. It was found out that most of the respondents suggested that first, adequate training on internal control must be given to members and staffs, effective monitoring and evaluations intermittently followed by internal controls by board and management and given out operational policies and manuals to members in order to ensure effective implementation of internal controls.

Conclusions

The descriptive study was well conducted through appropriate methodology and the following inferences were made over the findings based on the objectives of the study.

Respondents were negligence on the one responsible for setting up the internal control system in the credit unions. Also, there was no procurement policy in the credit unions in the metropolis and therefore, there was no procurement committee in the various credit unions.

Also, despite the fact that the respondents knew the manager to be responsible for authorizing payment on behalf of the credit unions, they have little knowledge about the types of internal control systems in credit unions. Also, mode of communication between the head and branches of credit unions is done mainly through phone calls, text messages as well as emails. Moreover, the Internal Audit Department of the credit unions was good because of its soundness and effectiveness of internal control system in the credit unions.

Moreover, Senior Management of various credit unions support the Internal Audit Personnel by ensuring that the needed and required logistics and resources are provided and suggestions are taken into consideration.

Furthermore, the major challenges in the implementation of internal controls in the various credit unions include; resistance to change, human factor and lack of independence, inadequate resources and wrongful application of findings by management of credit unions.

Finally, the possible solutions for sound and effective implementation of internal controls include; adequate training on internal controls for workers and management, effective monitoring and evaluations intermittently and given out operational policies and manuals to members in order to ensure effective implementation of internal controls.

Recommendations

Based on the findings and conclusions drawn, the following suggestions are put forward for consideration;

The internal Audit Personnel should educate the workers and management on the internal control system in the credit union.

Also, mode of communication between the head and branches should be strengthened by adopting new and advance form of communicating such as video calling, Skype, video conferencing, hangout among others for clarification, easily understanding and for visual appealing purposes to avoid major errors in communication.

Moreover, the management of the credit union should provide the Internal Audit Department with a procurement policy as well as constituting procurement committees to tackle issues concerning procurement with more diligence among others.

Lastly, for effective internal control system, the management should ensure that adequate training on internal controls is given to the workers and management, effective monitoring and evaluations should be organised

intermittently and out operational policies and manuals should be given to members in order to ensure effective implementation of internal controls.

Suggestions for Further Research

The study found out that effective internal control is essential for effective production and to achieve firm's set objectives. Therefore, other researchers can examine the effects of internal control system on firm's performance.

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11. Department:.....

12. No. of years worked in your department:

- a. 1 [] b. 2 [] c. 3 [] d. 4 [] e. 5 [] f. Above 5 []

SECTION A: INTERNAL CONTROL POLICIES IN CREDIT UNIONS

13. Who is responsible for setting up internal control systems and why?

.....
.....
.....

14. How many types of internal control systems do you have in your credit union?

.....
.....

15. Do your credit union has procurement policy in place?

- a. Yes [] b. No []

16. Do your credit union has procurement committee? a. Yes [] b. No []

16b. If yes, what are the responsibilities of procurement committee?

.....
.....

16. Who authorize payment on behalf of the credit union?

.....

17. How do your credit union ensure that branch and the head office communicate effectively on business transactions?

.....
.....

SECTION B: THE EXTEND OF COVERAGE OF INTERNAL CONTROL POLICIES

18. Are there internal controls in existence at all in your credit union?

- a. Yes [] b. No []

19. How would you assess the soundness and effectiveness of the internal control systems?

- a. Very effective [] b. Effective [] c. Average []

- d. Not effective [] e. not at all []

20. How would you rate adherence to internal controls system out of 100%?

21. How would you rate the overall effectiveness of the internal audit department?

- a. Excellent [] b. Very good [] c. Good []

- d. Average [] e. Below average [] f. Poor []

SECTION C: MANAGEMENT COMMITMENT AND FACTORS FOR EFFECTIVE IMPLEMENTATION OF INTERNAL CONTROL POLICIES

22. Rank the following factors as you have experienced by ticking (√)

Internal audit effectiveness	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree
Internal audit ensure that it adds value to the business					
Internal audit improves department's performance					
Internal audit improves organizational performance					

23. Rank the following factors as you have experienced by ticking (√) once for a factor

Internal audit quality	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree
Established internal audit's objectives were accomplished					
There is communication between internal and external audit					
Internal audit's work was efficiently performed					
Internal audit's findings are correctly justified					
Internal audit's recommendations can be easily implemented					
Internal audit's report is accurate					

24. Rank the following factors as you have experienced by ticking (√) once for a factor

Internal audit team	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree
The professional knowledge of internal auditors is high					
Internal auditors are considered as professionals					
Internal auditors are proactive					
There is communication between internal auditors and auditees					
Internal auditors attend educational seminars for continuous training					
Internal auditors have adequate education					

25. Rank the following factors as you have experienced by ticking (√) once for a factor

Independence of internal audit	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree
Internal audit report to the highest level within the business					
Internal auditors have unrestricted access to all departments and employees in the organization					
internal audit participates in the development of the company processes					

26. Rank the following factors as you have experienced by ticking (√) once for a factor

Management support	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree
Senior management supports internal audit's personnel					
Internal audit department is large enough to efficiently carry out its duties					
Senior management is aware of internal audit's needs					

27. What do you suggest could be done to enhance effective internal control?

- Operational policies and manuals must be in place and be made handy
- Adequate training on internal controls must be given to members of staff
- Internal controls must be observed by board and management

[] Others please specify

.....

SECTION E: IDENTIFY THE CHALLENGES IN THE IMPLEMENTATION OF INTERNAL CONTROLS

28. What are the challenges that confront internal auditors of your credit union?
(Please tick as many as apply)

[] Inadequate training

[] Non-existence of operational policies

[] Lack of support from board and management

[] Lack of independence

29. How would you rate adherence to internal controls systems out of 100%?.....

30. What are the limitations to/ challenges facing internal control systems?

1. [] Resistance to change

2. [] Override of internal controls by board and management

3. [] Human factor

4. [] Inadequate resources

5. [] Management use findings for sacking staffs rather than putting measures in place

Others specify.....

31. How would you rank the above challenges according to their magnitude with one being the highest?

1.....

2.....

3.....

4.....

5.....