UNIVERSITY OF CAPE COAST

EFFECTS OF INTERNAL CONTROL SYSTEMS ON THE FINANCIAL PERFORMANCE OF CREDIT UNIONS IN THE SEKONDI-TAKORADI METROPOLIS

BY

FELIX EBOWESSUMAN

Dissertation submitted to the Department of Business Studies of the College of Distance Education, University of Cape Coast in partial fulfilment of the requirements for the award of Master of Business Administration degree in Accounting

OCTOBER 2016

DECLARATION

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 and that those persons whose work and ideas I have referred to are duly acknowledged.

Candidate's Signature ……………………………… Date…………………

Name …………………………………………….…………………………….

Supervisor's Declaration

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

Supervisor's Signature: ………………………… Date: …………………..

Name ……………………………………..……………………………….

ABSTRACT

Internal control systems are primarily established to enhance the reliability of financial performance directly or indirectly by increasing accountability among information providers in an organisation. As the credit unions in Ghana has existed over the past twenty years but their activities have not witnessed significant growth as compared to banks and financial services within the country. It therefore calls for a systematic approach to analyse the internal control system within credit unions and how it has affected their financial performance over the years.This study sought to determine the effect of internal control system on the financial performance of Credit Unions in the Sekondi-Takoradi Metropolis. There were sixteen credit unions in the Metropolis. All sixteen were used for this study. Quantitative analysis was employed for this study. Some of the findings from the study revealed that Credit unions in Sekondi-Takoradi Metropolis have structured control environment which included the presence of policies that guided work process and roles and responsibilities that highlights each employee's role and responsibility. It was therefore recommended that the management of credit unions should exert collective efforts in identifying the ideal mix of effective and efficient internal control systems that match their business needs and invest in them, and future researchers should consider replicating this study in the all financial institutions in Sekondi-Takoradi order to establish the role of internal audit in financial institutions.

ACKNOWLEDGEMENTS

To Dr. Edward Amarteifio, my supervisor, I am really grateful for the eagle eye he used in the supervision of this study together with his constructive criticism, suggestionsand guidelines. This is has really added value likewise put the study into the right perspective. Again, my appreciation also goes toMr. Brown of Christ the King Credit Union, and all the Credit Unions inSekondi–Takoradi Metropolis for their support and encouragement. To all my brothers, sisters, nieces and nephews, I duly appreciate your efforts and encouragement.

DEDICATION

To my wife,

Florence Arthur

TABLE OF CONTENTS

LIST OF TABLES

LIST OF ACRONYMS

ATE	Accounting Treasury and Financial Reporting Rules
CHRAJ	Commission of Human Rights and Administrative Justice
COSO	Committee of Sponsoring Organizations
CUA	Ghana Cooperative Credit Union Association
CUs	Credit Unions
FCPA	Foreign Corrupt Practices Act
HSBC	Hongkong and Shangai Banking Corporation Limited
NADC	National Association of Distinguished Council
SAS	Statement of Accounting Standard
SEC	Securities and Exchange Commission
UK	United Kingdom
UNDP	United Nations Development Programme
WOCCU	World Council of Credit Unions

CHAPTER ONE

INTRODUCTION

Any organisation of whichever form or size must put in place its own system of controls to achieve desired objectives. This is because critical components of management involve systems of effective internal controls of company and thus a foundation for the safe and sound operation of every organisation. This research evaluates effect of internal control on financial performance of credit unions in Sekondi-Takoradi Metropolis. The chapter is divided into five main sectionsnamely the background of the study, the statement of the problem, objectives, research questions and significance of the study.

Background to the Study

Internal controls are put in place so that organisation can achieve profitable goals and mission and to minimize undesirable risks along the way. They help organisational management to effectively deal with economic and competitive environment which is rapidly changing, shifting customer priorities and demands and restructuring for future growth. Internal controls reduce risks of asset loss, promote efficiency, and help to ensure the reliability of financial statements and compliance with laws and regulations (Mwindi, 2008).

The concept of internal control has existed as early as there have been substantive work relationships. Gupta (1991) sited that its origin can be documented and traced back to civilized communities that existed around 5000 B.C. The governments of these empires imposed a number of taxes on individuals and business for proper accounting and collection of taxes and an elaborate system of checks and counterchecks. Such systems of internal control in early times were designed basically to protect state properties and minimize errors done by dishonest tax collectors (Gupta, 1991). According to Gupta (1991), the Mesopotamian civilizations which existed about 3000 B.C. used comprehensive systems of internal controls and their transaction summaries were prepared by scribes but these scribes did not provide valid records of receipts and payments.

In 1985, organizations sponsored the National Commission on Fraudulent Financial Reporting, (Treadway Commission). In 1987, Treadway Commission suggested committee to be formed to study internal controls. In 1992, Committee of Sponsoring Organizations (COSO) issued “internal Control Integrated Framework” Then the Real Finance Journal, (2005), and concluded with the history of internal controls in the United Kingdom (UK) as follows: 1992: The Cadbury Code, the UK’s first corporate governance code, which included principles on reporting the effectiveness of a company’s system of internal controls. In 1994, the Rutteman Report on Internal Control on Financial Reporting expanded the principles specifying minimum disclosures but it admitted a system of control can provide only “reasonable and not absolute” assurance against misstatement.

This led to the first Combined Code which broadens the debate from internal financial control to internal control in 1998. In 1999 The Turnbull Report suggested boards of organisations should adopt a risk-based approach to establishing a sound system of internal control and conduct an ongoing review of its effectiveness. The Sarbanes-Oxley Act was therefore passed in the United States (US) in year 2002. All directors of organisations were required under Section 404 of the act make statements on the effectiveness of internal controls. In 2003, 'The Smith Report' advised on the roles and responsibilities of audit committees.

The Combined Code was further revised to reflect both this and the Higgs Report. In 2005, a group led by Douglas Flint, Financial Director of HSBC reviewed the Turnbull Guidance. Flint stated that "*the overwhelming view was that the Turnbull Guidance continued to provide an appropriate framework for risk management and internal control. Its relative lack of prescription is considered to have been a major factor contributing to the successful way it has been implemented,*"(Flint, 2005).

To ensure the effective and efficient managements of credit delivery and recovery of all facilities granted at expiry, internal controls are normally put in place. In the financial sector, to enhance the efficiency and effectiveness of internal control in organisations, various legislations have been designed by Central Bank of the nation which includes but not limited to 1992 Fourth Republican constitution, the financial Administration Act (act 654), the Criminal Code of 1960 (Act 29), Internal audit Agency Act (Act 658) and the Public Procurement Act (Act 663). Nonetheless, internal control only provides reasonable assurance, not absolute assurance for organisations. This is because it is humanly operated therefore human error, management override, breakdowns, deliberate circumvention, improper collusion among people who are supposed to act independently can cause failures of the internal control to achieve objectives.

As part of improving their internal control systems, internal auditing function, and financial performance, most credit unions in the country have put in place mechanisms to ensure internal control and compliance in credit delivery. These include 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 dissertation is undertakento assess the effect of internal control system and how it affects the financial performances of credit unions.

The growth and development of the financial institutions are dependent on the effective and efficient management of its credits. Under the COSO Framework, objective setting is seen as a precondition for internal control. By setting objectives, management is able to identify potential risks to the achievement of set objectives. To address these risks, management of organizations may implement specific internal controls. The effectiveness of internal control can then be measured by how effectively the risks are addressed and how well the objectives are achieved.

More generally, budgets, plans, setting objectives, and other expectations establish criteria for control. Control itself exists to keep a state of affairs within what is allowed and expected. Control built within a process is internal in nature. It evolves having combination components that are interrelated and these includesnecessary information, social environment effecting behaviour of employees, as well as policies and procedures. Internal control as a structure is a plan which predicts how internal control is made up of these interrelated components.

Corporate governance as a concept heavily relies on the necessity of internal controls because internal controls ensure operation of processes as designed and risk management carried out. Further, it is necessary to establish strategies that ensure that aforementioned procedures will be performed as intended: integrity and competence, right attitudes, and monitoring by managers.

Internal control is an organisation's plan and all it coordinated methods and measures adopted to protect the assets of the organisation, check the accuracy and reliability of accounting data, promote operational efficiency of the machinery and human resource and adherence to prescribed managerial policies. This definition of internal control can be divided into two; financial and non-financial (administrative) internal control respectively. Financial internal control involves financial activities including controls over company's cash receipts and payments financing operations and company's management of receipts and payments. Non-financial internal control on the other hand deals with activities that are indirectly financial in nature that is, controls over organisation's personnel and operations, control of fixed assets controls and controls of laid down procedures (Reid &Ashelby, 2002).

The French Institute of Chartered Accountants defines internal control as a set of security measures which contribute to the control of a company. It ensures the security and safety of assets and information. Internal control further plays an important function of preventing and detecting fraud as well as protecting resources of an organisation both physical (which includes machinery and property) and intangible (that is, reputation or intellectual property). Internal controls are policies, practices, procedures, and organisational structures undertaken to provide assurance that an organisation's business objectives will be achieved and undesired risk events prevented or detected and corrected, based on either compliance or management initiated concerns (Awe, 2005).

Despite been expensive, internal control system installs and maintain, it gradually evolved over the years with the greatest development occurring at the beginning of 1940's. Not only have the complexities of the business techniques contributed to this development but also the increased size of business units which have encouraged the adoption of methods which while increasing efficiency of business, acts as a safeguard against errors and frauds. Mawanda (2008) posits that there is a generally, people perceive that instituting and enforcement of proper internal control systems will always lead to improved financial performance. Another general belief is that effectively established system of internal control improves reporting process and gives rise to reliable reports enhancing accountability function of management of organisations. Preparing reliable financial information is thus a key responsibility of the management. The ability to effectively manage the firm's business requires access to timely and accurate information.

Credit Unions are important contributors to the economy of Ghana. Apart from creating employment opportunities, they have also led the establishment and growth of many micro enterprises, training of entrepreneurs, generation of income as well as sources of livelihood for the majority of low and middle income earners/households by financing their businesses or ventures. Credit Unions traditionally have become the main source of funding for micro enterprises in Africa and in other developing regions of which Ghana is not exception (Anthony, 2004). CUs were initially established as institution-based organizations or aimed towards people on regular incomes. However, in recent times CUs have opened up to a wider variety of clients in the community where they are based (Darko, 2007).

The Ghanaian credit union industry has evolved from a highly regulated sector into a largely market driven one. The regulatory and institutional framework has improved considerably yet still credit unions in Ghana are facing some challenges as the world deals with one of the deepest financial crisis in the history of the planet (Beacon, 2010). The recent demise of Ghana Co-operative Credit union Ltd is test case of how gaps in internal controls can easily cause collapse of financial institutions. Internal controls and risk managements has a purpose to ensure the efficiency and effectiveness 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 credit unions in Ghana.

Most credit unions go through difficulties in recovering facilities given to customers after expiry. Issues of default of credit facilities by credit unions are gradually destroying most gains and weakening business opportunities. Internal controls and risk managements and sustainable business growth have been incorporated into the mundane activities of credit unions in Ghana.The Ghana Cooperative Credit Union Association (CUA), which is the governing body of all credit unions in Ghana regulates the interest rates that Credit Unions have to pay on members' savings and charge on loans, perhaps reflecting the initial welfare nature of credit unions.

Credit Unions operate a Central Finance Facility into which member CUs contribute and source funds to lend to their members (Darko, 2007).The Bank of Ghana, which plays the regulatory role of financial institutions in the nation has instituted some measures to make sure financial institutions function to improve on the effectiveness of their internal control systems and financial performance. These various legislations have been passed to reduce fraud, the risk of misstatements, and mismanagement of both government and corporate resources.

The Office of accountability at the Presidency was created among the Commission on Human Rights and Administrative Justice (CHRAJ) and the Serious Fraud Office. With support from the UNDP in 2005, the Securities and Exchange Commission (SEC) was also created carried out a country assessment of corporate governance standards in Ghana, which led to issuing of new corporate governance standards in the same year (ACCA, 2005).

Statement of the Problem

Internal control systems are primarily established to enhance the reliability of financial performance directly or indirectly by increasing accountability among information providers in an organisation (Jensen, 2003). Internal controls provide an independent assessment of the quality of managerial performance an organisation possesses in carrying out assigned responsibilities for better revenue generation. Many Credit Unions in Ghana and Sekondi-Takoradi especially are faced with poor financial performance despite having the necessary resources to run them. It is not uncommon to hear of credit unions not been able to serve customers the right and not been able to pay customers their saved monies. This has led to many credit unions not growing with respect to time and technology as well as financial strength to attract new customers therefore adding to the financial burden they are already experiencing.

As the credit unions in Ghana has existed over the past twenty years but their activities have not witnessed significant growth as compared to banks and financial services within the country. It therefore calls for a system approach to analyse the internal control system within credit unions and how it has affected their financial performance over the years.The internal control system of credit unions needs to be assessed and its effect on financial performance measured through the control environment, the risk assessment process, information systems and control activities within credit unions. The study, therefore investigates the effects of internal controls on financial performance of credit unions.

Objectives of the Study

The general objective of this study was to determine the effect of internal control system on the financial performance of Credit Unions in the Sekondi-Takoradi Metropolis.

Specifically, the study sought to investigate;

1. therelationship between of internal control environment and financial performance.
2. the relationship between risk management and financial performance.
3. therelationship between control activities and financial performance.

Research Hypothesis

To achieve these specific objectives, the following research hypothesis was formulated;

1. H_o: There is no significant relationship between internal control environment and financial performance.

2. H_o: There is no significant relationship between risk management and financial performance.
3. H_o: There is no significant relationship between internal control activities and financial performance

Significance of the Study

The study was concerned with the effect of internal control system on the financial performance of credit union. This study contributed to the body of knowledge about the role of internal control systems in credit unions that ban be used by management of credit unions as well as prospective groups who would want to set up credit unions. The findings would also contribute to literature that can be used in the academia to carry out further research.

Delimitation

The study was conducted on credit unions in Sekondi-Takoradi Metropolis and was limited to three components of internal control; control environment, control activities and risk assessment. The three components were chosen from the five because they have direct relation to the financial performance of the organization whiles they also decide the behaviour of the other two components.

Limitation

Since internal control is practiced in all credit unions across the nation, it would have been ideal for the research to be conducted nationwide. The research was limited to credit unions in Sekondi-Takoradi Metropolis due to financial, time and logistical constraints. Further, respondents were reluctantto provide information on the return on assets and total assets invested in their credit unions.

Organisation of Study

The study was divided into five chapters. Chapter One dealt with the introduction which included the background to the study, statement of the problem, the purpose of the study, research question, the organisation of the study and the significance of the study. Chapter Two dealt with literature review by looking at what various authors have written concerning the topic. Chapter Three basically focused on the methodology of the study. Chapter Four covered the presentation and analysis of the data collected from the field. The fifth chapter dealt with the summary, conclusion, recommendation and suggestion for further studies.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter reviewed related literature on internal control in credit unions and it effect on their financial performance. The chapter also includes credit union, components of credit union, theoretical framework, financial performance among others.

Credit Union

A credit union is “a member-owned financial cooperative, which is democratically controlled by its members, and operates for the main purpose of promoting thrift, advancing credit at highly competitive rates and also provides other related financial services to its members” (O’Sullivan, 2003). Though there are various definitions of Credit Union, the Ghana Co-operative Credit Unions Association (CUA) in 1993 defined Credit Union as financial co-operative society organized to encourage savings, promote prudence, and create a source of credit for its members by amalgamating their savings to obtain loans at judicious interest rates.

Darko (2007) also defines credit union as a group of individuals with the common interest coming in agreement to save together in order to create a financial pool out of which they can give credit among themselves in times of need for productive or provident purposes. Similarly, a credit union can further be defined as a financial co-operative owned by members united in a shared interest who put their savings into a common pool so that the funds are lent at reasonable rates of interest out of the pool to members for worthy purposes and could provide other services that are financial in nature. In the view of the CUA Beacon (2010), it is a non-banking financial co-operative established by people of common interest or bond through either occupation, profession, clubs and associations, members of a community, among others, who pool their savings and other resources together in order to obtain a loan at fair and reasonable rates of interest for worthy, productive and provident purposes.

O'Sullivan (2012) however notes that "many credit unions also provide certain services which are intended to champion community development and sustainability". Credit union systems worldwide differ significantly in terms of total system assets and average institution asset size. According to Villarreal (2014), this ranges from "volunteer operations with a small amount of assets to institution with assets value of billion US dollars and several hundreds of thousands of members". Credit unions exist alongside some other financial institution including mutual and/or co-operative organizations who also engage in cooperative banking, such as building societies.

Diekmann (2012), tries to establish the difference between Credit unions and other banking institutions by stating that "Credit unions differ from banks and other financial institutions in that those who have accounts in the credit union are its members and owners, and they elect their board of directors in a one-person-one-vote system regardless of their amount invested" Diekmann (2012), further states that "Credit unions offer many of the same financial services as banks, but often using a different terminology; common services include share accounts (savings accounts), share draft accounts (checking accounts), credit cards, share term certificates (certificates of deposit), and online banking". Normally, only a member of a credit union may deposit or borrow money.

According to Diekmann (2012), "surveys of customers at banks and credit unions have consistently shown a significantly higher customer satisfaction rate with the quality of service at credit unions". Thus he observes the higher satisfaction level of clients in credit unions by stating that "credit unions have historically claimed to provide superior member service and to be committed to helping members improve their financial situation". Diekmann (2012) again notes that Credit unions are "not-for-profit" because "their purpose is to serve their members rather than to maximize profits".

The World Council of Credit Unions (WOCCU), notes that "a credit union's revenues (from loans and investments) must exceed its operating expenses and dividends (interest paid on deposits) in order to maintain capital and solvency" (WOCCU, 2012). This position by WOCCU according to Percival (2012), *"deeply rooted in global credit union history. F.W. Raiffeisen, the founder of the global movement, wrote in 1870 that credit unions are, according to paragraph eleven of the German law of cooperatives, 'merchants' as defined by the common code of commerce".*

In the opinion of Percival (2012) "they form a sort of commercial business enterprise of which the owners are the Credit Unions' members" (Percival, 2012). Percival (2012) reveals that at the end of 2010 "there were 52,945 credit unions in 100 countries around the world. Collectively they served 188 million members and oversaw US$1.5 trillion in assets". Percival, states that *"the World Council does not include data from co-operative banks". Thus, according to him, "some countries generally seen as the* *pioneers of credit unionism, such as Germany, France, the Netherlands and Italy, are not always included in their data".*

Percival (2012) states that the countries with the most credit union activity are highly diverse. He refers to findings by the World Council and states that "the countries with the greatest number of credit union members were the United States (92 million), India (20 million), Canada (11 million), South Korea (5.6 million), Kenya and Brazil (3.9 million each), Thailand (3.6 million), Australia (3.4 million), Ireland (3.0 million), and Mexico (2.6 million)" (Percival, 2012).

Percival (2012) again notes the following countries as having the highest percentage of credit union members in the economically active population "Ireland (75%), Barbados (72%), St. Lucia (67%), Belize (65%), Trinidad & Tobago and Jamaica (54% each), Canada (46%), Antigua & Barbuda (45%), and the United States (44%)". Several African and Latin American countries also had high credit union membership rates, as did Australia. According to him, "the average percentage for all countries considered in the report was 7.5 percent. Credit unions were launched in Poland in 1992; as of 2012 there were 2,000 credit union branches there with 2.2 million members".

Credit unions have continuously become more bank-like in the product and service they offer over the past two decades. The study by Wilcox (2006) and Walter (2006) concluded that many of the conventional relevant differences between credit unions and commercial banks have seriously waned, but that some remain". According to Walter (2006) in addition to holding uncollateralized, short-term consumer loans, credit unions now often devote large shares of their assets to credit cards, residential mortgages, auto loans, and business loans. This is because credit unions enjoy taking advantage of loosening regulatory restrictions on the ground of membership, defining the criteria for becoming borrower and depositor at credit unions (Feinberg &Kelly, 2003).

Historically, many credit unions had fields of membership defined, for example, “as the employees of single plants of a business” (Feinberg and Kelly, 2003). Wilcox (2006) thus is emphatic in stating that many credit unions have criteria of membership, for instance, that include collections of enumerated companies, the employees of many specialized companies in a particular industry (e.g., airlines, health care), the self-employed workers of an industry (e.g., flower shop owners, real estate brokers,), or the entire residents of a geographic area, such as counties (Wilcox, 2006). With their expansive platform of membership, credit unions in many countries possess potential and actual memberships including not only employees on payroll, but also small businesses owners and thus seek business loans.

According to Hannnan (2002), “the origins of the modern credit union movement can be traced to cooperative pioneers in Germany”. He states that during the 19th century two types of institution emerged, namely, the Schulze-Delitzsch and Raiffeisen credit societies. These societies are “recognized as being the antecedent of modern-day credit unions, Hermann Schulze-Delitzsch, a politician and judge, founded the first urban credit cooperative in 1850” (p.23). Friedrich Wilhelm Raiffeisen, a mayor in the western Rhineland area, formed the first rural credit cooperative in 1864. “Raiffeisens first cooperative venture was strikingly similar to that of Schulze-Delitzsch, but where Schulze-Delitzsch worked to aid urban craftsmen and proprietors, Raiffeisen concentrated his efforts on helping the farmers" (Hannan, 2002).

Components of Internal Controls

Control environment, risk assessment, control activities, information and communication and monitoring are the five interconnected components of internal control (Yang &Guan, 2004).

Control Environment

Anthony (2004) noted that control environment defines the strength of the organization and influences the self-awareness of its people. It is the bedrock for all the other components of internal controls. Success (2004) states that control environment is the consciousness of the organization, thus, the atmosphere that compels organizational members to conduct their activities and responsibilities as per the laid down control objectives. According to Lower (1998), an effective control environment is where competent people understand their responsibilities, the limits to their authority, and are knowledgeable, mindful, and committed to doing what is right and doing it the right way. Jenny and Pamela (2006) assert that "a governing board and management enhance an organisation's control environment when they establish and effectively communicate written policies and procedures, a code of ethics, and standards of conduct". They also strengthen the control environment acting in an ethical manner thus creating a positive environment for management and when such same standard of conduct is required from everyone in the organization.

The institute of Internal Auditors looks at control environment as one that dictates upon organizational members a feeling of consciousness that their continued stay at an organization is assured by demonstration of their expected level of competence as well as their comprehension of authority and responsibility limits. In this respect, organizational members feel and realize that they are accountable to the organization (Adel, 1999). Adebanjoet.al (2013) disclosed that under such an environment, the organizational members utilize the available resources efficiently and effectively hence, achieving the expected organizational performance. On the other hand, Adebanjoet.al (2013) views control environment as an enabler of execution of tasks by organization members as set by the board members and departmental managers through attitudes and actions that encourage the highest level of integrity, appropriate leadership philosophy, operating style and personal and professional standards, thereby leading to reasonable compliance and operational efficiency levels. Ishumgisa (2001) also noted that control environment makes organizational members aware of the job requirements and efficiency expected of them to carry out tasks that translate in the overall organizational performance. Spillane & Reimer (2000) subscribed to the view that control environment exists when the responsibility to execute assigned task is not directed by anyone but rather consciously dictated upon organizational members, and also when members find themselves obeying, observing and responding to the desired organizational culture, operations and activities as efficiently and effectively declared.

This environment creates the organisational atmosphere, influences consciousness of control, and provides a footing for an effective system of internal control. Control environment also grants the structure and discipline for achieving the primary objectives of internal control. (Lannoye, 1999). This means that the board of directors must show concern for ethical values and integrity. There is also the need of a code of conduct and/or ethics policy which must be sufficiently communicated to all levels of organization. Also there must be a structure appropriate, which is not dominated by one or a few individuals and an effective oversight by the board of directors or audit committee. Management also needs to put a mechanism in place to regularly educate and communicate to management and employee the importance on internal controls, and to raise their level of understanding of controls.

Control Activities

Craig (1999) states that control activities are the administrative and supervisory actions that management engages in to keep the organization focused and cautious in addition to keeping members effective and efficient at task execution. Adel (1999) considers control activities as activities that provide evidence that a loss has occurred. They include; analysis, reconciliations, and reviews. He emphasized the importance of authorizations in the form of expenditures as a result of an approved budget as a control activity. Approval of budget expenditure should involve questioning of unusual items, justification of the transaction and review of source documents (Van Horne, 2002). Control activities are actions supported by internal control objectives, procedures and policies that enable managers to address risk timely, effectively and efficiently (Steeves, 2004). He further categorized the activities as preventive and detective.

Managerial and administrative measures that are pro-active in nature and prevent undesirable events from occurring are what he referred to as preventive controls. They comprise; proper authorization, segregation of duties, sufficient documentation, and physical control of assets. COSO (2004) considers control activities as policies and procedures established to address risks and to achieve the entity's objectives. To be effective, control activities needs to function consistently according to plan throughout the period, be appropriate, comprehensive and be cost effective, reasonable, and directly relate to the control objectives. Control activities occur throughout the organization, at all levels and functions.

They include a range of preventive and detective activities for example; authorization and approval procedures, segregation of duties (authorizing, processing, procuring recording, receiving), controls over access to resources and records, verifications, reconciliations, reviews of operating performance, reviews of operations and activities, and supervision (assigning, review in and approving, guidance and training), among others. APB (1995) noted that under reviews of performance, management compares information about current performance to budgets, forecasts, prior periods, or other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up.

According to Pandey (1998), COSO (1998), Anthony (2004); control activities comprises of the policies and procedures that help to ensure that management directives are carried out. They contend that activities supported by policies and procedures when carried out properly and in a timely manner, manage or reduce risks. Whiles managers are responsible for identifying financial and compliance risks for their operations, they also have line responsibility for designing, implementing and monitoring their internal control systems added (Bebchuk, Cohen,&Ferrel, 2000).

Risk Assessment

COSO (2004) considers risk assessment as the process of identifying and analyzing of relevant risks to the achievement of the entity's objectives and determining the appropriate response. It includes risk identification from external and internal factors, at the entity and the activity levels, risk evaluation, assessment of risk appetite of the organization and the developing responses of all the risks in the organization. There are four types of responses to risk which must be considered; transfer, tolerance, treatment, or termination. The appropriate controls can be either preventive or detective. According to Jenny & Pamela (2006), risk assessment refers to the identification and analyzing of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed. Thus, setting objectives is a precondition to internal controls.

At the highest levels, goals and objectives should be presented in a strategic plan that includes a mission statement and broadly defined strategic initiatives (Nakazi, 2002). In a similar view, Gleiling (2005) noted that at the departmental level, goals and objectives should be classified in the following categories; operational, financial, and compliance objectives. A clear set of goals and objectives is fundamental to the success of an organization. Specifically, a department or work unit should have a mission statement, written goals and objectives for each significant activity (Manashe, 2000). Furthermore, goals and objectives should be expressed in terms that allow meaningful performance measurement (Gleiling, 2005). In this regard, Mitchell, Agle and Wood (1997) lamented that there are certain activities which are significant for all organizations such as; budgeting, purchasing goods and services, hiring employees, evaluating employees, and safeguarding property and equipment.

Cochran (2000) considers the identification of risks as important for the achievement of the organization objectives because an effective internal control system, no matter how well conceived, and operated, can provide only reasonable- not absolute-assurance to management about the achievement of an entity's objectives. He says that managers should determine what can go wrong, what areas have the most risk, what asset are at risk, and who is in a position of risk . The risks may include; public scandal, misuse of revenues, assets and personnel, and also the use of unreliable information for decision making. Alternatively, Smith (2005) considers identification of risks as a challenge to some organizations. The internal controls can give management information about the entity's progress or lack of it towards achievement of objectives but cannot change an inherently bad manager into a good one

Information Flow

ACCA (2005) considers information flow as a process through which the right organizational members receive the right information at the right time. Here, formal and informal channels information flows are noted. Formal channels comprise of downward or top down, upward or bottom up and horizontal or lateral forms. The informal channels comprise majority grapevine. It is further noted that for information to achieve its intended purpose, it must be identified, captured, processed and communicated in an authentic, useful and timely manner. In addition, the information communicated must be reliable, accurate, complete, specific, understandable, directed to the right people and relevant to the intended users.

Semanda (2001) considers the bottom up channel as a carrier of feedback from subordinates to management and involving verbal and nonverbal communication. According to Stahl (1987), verbal method constitute management subordinate consultations, face to face discussions, and negotiations while nonverbal methods constitute written reports and suggestion boxes. Such interactions between management and subordinates are pivotal in motivating subordinates towards achievement of expected organizational performance given their democratic nature. According to Suzanne and Naidoo (2005), the top down channel mostly occurs in an impersonal nature leading to information flow ambiguity, clear message delivery failure to subordinates contrary to what is intended by management. However, the bottom up channel supplements the top down to enable management attain desired organizational effectiveness. This was elaborated by Sudha (1999) who said that organizations using the top down channel tend to suffer information gaps, misunderstandings and consequently performance deficiencies.

Sudha (1999) also stated that lateral information flow is needed to coordinate tasks, share information, resolve conflicts and solve problems. In this case, lateral information flow is the communication between groups of people at the same level and thus, information flow between colleagues, departments or units. The author warned that poor lateral communication breeds malicious messages, rumors and confusion that in turn would hurt employees and the overall organizational performance. Byekwaso (2000) emphasized the need for a two way form of information flow to achieve the desired organizational performance because both information flows facilitate the implementation of planned activities. However, he stressed the need for guidance of this information by internal control objectives.

Internal controls also cover the aspects of information and communication systems or processes that support the identification, capture, and exchange of information in a form and time frame that enables people to carry out their responsibilities (Walker, Shenkir& Burton, 2003). Chen (2004) said that information systems provide reports containing operational, financial and compliance related information that make it possible to run and control an organization. However, information and communication are essential to effecting control; information about an organization’s plans, control environment, risks, control activities, and performance must be communicated up down and across an organization (Wales, 2005). He emphasized that reliable and relevant information from both internal and external sources must be identified, captured, processed, and communicated to people who need it in a form and tine frame that is useful.

Monitoring and Evaluation

The Institute of Internal Auditors (1995) considers monitoring to encompass activities such as periodical evaluations, internal audits and management self-assessments. COSO (1998), Adel (1999), Alexander (2001) and Lary (2009) view monitoring as needed to ensure that planned administrative, operational and financial tasks and activities are carried out in a timely and proper manner such that set internal control objectives and organizational performance are achieved. Monitoring aims at determining whether organizational members are carrying out or have carried out their tasks efficiently and effectively as required by the organization's policies (Spillane, & Reimer, 2000).

Walker, Shenkir&Buton (2003) said that monitoring processes are used to examine the quality of the performance of internal control over a specific period. Monitoring is therefore the evaluation of internal control performance over time. It is fulfilled by on-going monitoring activities and separate assessment of internal control such as peer reviews, self-assessments, and internal audits. According to Anthony (2004), the purpose of monitoring is to predict whether internal control is sufficiently designed, properly implemented, and effective. Internal control is adequately created and properly executed if all the five control components are present and functioning as designed. Internal control is effective if management and interested stake holders have reasonable assurance that they understand the extent to which operational objectives are achieved. Published financial statements are being prepared reliably, applicable laws and regulations are being compiled.

According to NADC (1996) monitoring is a continuous periodic surveillance of the implementation of a project. Not only should the physical progress of the project be monitored, but also the impact of the project. There should be one format for monitoring and reporting throughout the life of the project. This will help to provide a solid basis for analyzing trends and defining strategies, and will be particularly useful when there is a change of personnel, management, and policy makers. Changes in external factors which are relevant to the development of the project should also be registered in the progress report. The progress report provides major information input to the project review (NADC, 1996).

Element of a good internal control system

Howard (1973), writing on internal audit said, it is a review of operation and records sometimes continuous which is been looked into by specially assigned staff. This implies that internal control is greatly facilitated where internal audit exist in order to achieve the planned objectives. Therefore, management have the responsibility of setting reasonable procedure for the internal audit department to apply. Further, for the aim of management to achieve through internal audit, there is the need of independence of the internal auditors and this can be established through internal control. Cutforth (1975) defined internal audit as a review of operation and records sometimes continuous, undertaken within a business by specially assigned staff. Further, if management set up internal audit department that is strong and reliable with its own autonomy, the organisation's scarce fund would be adequately and effectively managed. Internal auditors have responsibilities to carry out some of which are:

1. Providing management with information about the adequacy and effectiveness of the organisation system of internal control.
2. Review and improvement of internal check systems. This is the review and examination organisation's activities and policies to ensure compliance with statutory legislative requirement.
3. Undertaking special investigation at management requests

Types of Internal Control Systems

Different writers have come with different types of internal control systems. Milichamp (2002) posits type of internal control as; Safeguarding assets, Separation of duties, supervision, Verification, Approval and authorization, Documentation, Safeguarding Assets, and Reporting. However, many other scholar such as DiNapoli (2005) and Lousteau (2006) agree that the types of internal controls include preventive controls, directive controls, detective controls, compensating controls, and corrective actions. These types of internal controls are explained below.

Directive Controls

Directive Controls relate to policies that are designed by management to promote compliance with independent rules (COSO, 2013). To ensure conformity with directive controls, a clear, consistent message from management which communicates that the designed policies and procedures are of prime importance must infiltrate the organization. They provide evidence about occurrence of loses and yet fail to prevent the occurrence of losses. Such detective controls include analyses, reviews, reconciliation, physical inventories, variance analyses, and audits. However, detective controls play crucial role in providing proof that preventive controls are operating and losses are prevented.

Preventive Control

Preventive controls are measures that firms take to prevent noncompliance with policies and procedures. They are proactive measures put in place to hind losses. Preventive controls include adequate documentation, proper authorization, separation of duties, and physical control over assets. (Lousteau, 2006)

Compensating Controls

Compensating controls are purposed to make up for a lack of controls within the internal control system. Example is maintaining a hard copy of client list of a firm's electronic database in the office library. This hard copy would compensate for any hitch in the electronic systems. While the list would have to be reprinted periodically to update old ones, it would mitigate some of the challenges that exist with hard copies (Di Napoli 1999).

Detective Controls

Detective controls are designed for uncovering problems that have already occurred. Though detection is necessary in an effective control system, detection of an independent violation after the fact is less desirable than prevention in the first place. Detective controls barely work well as obstacle in the absence of severe penalties Lousteau (2006).

Theoretical Framework

The agency theory was used as theoretical basis for this study. The model suggests that due to information asymmetries and self-interest, managers lack reasons to trust their agents and therefore would want to resolve these concerns by establishing mechanisms to marry the interests of principals with agents and to reduce the scope of information asymmetries and opportunistic behaviour. Agency theory has been widely used to investigate the information asymmetry between principals (shareholders) and agent (management) (Villareal, 2014).

Agency Theory

Sarens and Abdolmohammadi (2011) state that a company consists of a set of linked contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling these resources. The theory identifies the relationship where the principal, delegates work to the agent. This relationship can have many negative implications relating to the opportunism or self-interest of the agent: For example, the agent may not act in the best interests of the principal, or the agent may act only partially in the best interests of the principal.

From the agency theory, managers may engage in actions that perpetuate their personal aggrandizement. Hart (1995) contends that there is a trade-off between incentives and risk sharing. The cost associated with possible conflict of interest between agents and principals are known as agency costs. These according to Hart are traceable to auditing, budgeting, compensation and other forms of internal controls instituted to check management and employee misbehaviour. Letza, Kirkbride, Sun and Small (2008), are also of the view that managers will only act to maximize shareholder value if only it is not in conflict with his or her own personal self-interest.

Managers or employees may carelessly initiate, originate and fund potentially unsuccessful loans if internal controls are not religiously adhered to. The many cases of credit risk expressed in non-performing loans, delinquencies and all forms of loan restructuring which makes the loan books dirty are traceable to poor adherence and non-compliance to established loan granting procedures. Some loan defaults are employee-caused, others are bank-caused and others are client-led. Internal controls seek to address the employee and bank-led causes of default. The deliberations above support the fact misbehaviour on the part of management (which in this case carelessly contracted loans is being cited) could be controlled with proper internal controls.

Performance

According to Stoner (2003), performance refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. Sollenberg and Anderson (1995) asserts that performance is measured by the efficiency of an organisation through the use of resources in achieving its objectives. It is measured by the attainment of achieved objectives by an individual, team, organisation or process. Hitt (1996) posits that many firms' low performance is the result of poor performing assets (businesses) whiles low performance is often related to errors that were strategically made in the acquisition process in earlier years. For example, firms may acquire businesses with unrealistic expectations of achieving synergy between the acquired assets and their current sets of assets. One common explanation for such errors is managerial hubris (Reid &Ashelby, 2002) or overvaluation of managerial capability in the acquisition process.

Financial Performance

Organisational performance encompasses accumulated end results of all the organisation’s work processes and activities. Performance measures can be financial or non-financial. Both measures are used for competitive firms in the dynamic business environment. Financial measures of organizational performance include; return on assets, return on sales, return on equity, return on investment, return on capital employed and sales growth (Gerrit&Abdolmohammadi, 2010). According to Donald and Delno (2009), appropriate performance measures are those which enable organisations to direct their actions towards achieving their strategic objectives.

Gerrit and Abdolmohammadi (2010) contends that performance is measured either by subjective or objective criteria. Subjective measures include difficulties with collecting qualitative performance data from small firms and with reliability of such data arising from differences in accounting methods used by firms whiles Brennan and Soloman(2008*)* found out that, objective performance measures include indicators such as profit growth, revenue growth, return on capital employed. Brennan and Soloman (2008) however, mentions other financial measures to include value of long-term investment, financial soundness, and use of 30 corporate assets. He also talks of non-financial performances measures to include; innovation, ability to attract, develop, and keep talented people, quality of management, quality of products or services, and community and environmental responsibility. Donald and Delno (2009) mention accounting based performance using three indicators: return on assets (ROA), return on equity (ROE), and return on sales (ROS). Each measure was calculated by dividing net income by total assets, total common equity, and total net sales, respectively. This study measured financial performance through return on assets (ROA).

Internal Controls and Financial Performance

Internal control has a much broader purpose such that the organisation level of control problems associated with lower revenues, which explore links between disclosure of material weakness and fraud, earnings management or restatements internal controls provide an independent assessment of the quality of managerial performance in carrying out assigned responsibilities for better revenue generation (Beeler, Hunton, &Wier, 1999). Fadzil, Haron and Jantan (2005) asserted that an effective internal control system unequivocally correlates with organisational success in meeting its revenue target level. Effective internal control for revenue generation involves; regular review of the reliability and integrity of financial and operating information, a review of the controls employed to safeguard assets, an assessment of employees' compliance with management policies, procedures and applicable laws and regulations, an evaluation of the efficiency and effectiveness with which management achieves its organisational objectives (Ittner, Larcker& Randall, 2003).

There are three major classifications of internal controls; preventive, detective, and corrective. Preventive controls predict potential problems before they occur, make adjustments, and prevent an error, omission or malicious act from occurring. The detective controls are used to detect and report the occurrence of an omission, an error or a malicious act. Finally, the corrective controls help in ensuring that the impact of a threat is minimized, identify the cause of a problem as well as the correct errors arising from the problem. Corrective controls correct problems discovered by detective controls and modify the processing system to minimize future occurrence of the problem (Singleton, Bologna, Lindquist & Singleton, 2006). According to CPA Australia (2008) each internal control procedure is designed to fulfill at least one of the following eight criteria:

- Completeness: that all records and transactions are included in the reports of business.
- Accuracy: the right amounts are recorded in the correct accounts.
- Authorization: the correct levels of authorization are in place to cover such things as approval, payments, data entry and computer access.
- Validity: that invoice be given for work performed or products received and the business incur liability properly.
- Existence of assets and liabilities: whether purchase has been recorded for goods or services that have not yet been received or all assets on the books actually exist.
- Handling errors: that errors in the system be identified and processed.
- Segregation of duties: ensuring functions are kept separate. For example, the person taking cash receipts should not be involved in banking.
- Presentation and disclosure: timely preparation of financial reports in conformity with generally accepted accounting principles.

Internal controls, administrative or accounting, are related to a financial consequence. For instance, record keeping for long service leave entitlements is an administrative control which also has financial consequence.

Measurement of Financial Performance of Organisations

Dixon, Nanni and Vollmann(1990) said that appropriate performance measures are those which enable organisations to direct their actions towards achieving their strategic objectives. In order to survive and succeed in a competitive market, firms must focus on maximizing profit or they will eventually be driven out of business (Dutta&Radner, 1999). Jovanovic (1982) agrees to this by stating that only efficient organisations stay in the market and eventually, less productive firms will exit many markets. Performance measures provide a platform for every organisation to manage its financial and non-financial performance. Accountability is enhanced and increased which ensures that projects support the organisational strategy and that better services and greater satisfaction are provided customers.

Whittington and Kurt (2001) found out that objective performance measures include but not limited to growth of profit, return on capital employed and revenue growth. Dwivedi (2002) argues that other financial measures should include value of long-term investment, financial soundness, and use of corporate assets. John and Morris (2011) discussed accounting based performance using three indicators and these includes return on sales (ROS) return on assets (ROA) and return on equity (ROE). Each measure is calculated by dividing net income by total sales, total assets, and total common equity, respectively.

Limitations of internal controls

Designing and implementing internal control has limitation no matter how well it is done because they can only provide reasonable assurance that set targets have been achieved. Some limitations are inherent in all internal control systems (Adebanjo, Ojadi& Tickle, 2013). These include:

Judgment

Decisions made with human judgment especially ones made under pressure limits the effectiveness of controls to operate business based on the information at hand. Lannoye (1999) posits that realities of human judgment are barriers of effective internal control. Decisions are often made within a limited time frame even when complete information is unavailable, and the decision makes are under time pressures of conducting agency business. These judgments affect the achievement of set objectives even when good internal control system exists. Internal control may thus become ineffective when management fail to reduce the occurrence of errors which includes but not limited to distraction, misunderstanding instructions, fatigue, carelessness, or common mistakes.

Breakdowns

No matter how well internal control is designed, it can break down. The simple truth is that employees sometimes simply make mistakes or misunderstand the instruction given. Such errors may erupt from use of a new technology or the complexity of information system which is computerized.

Management Override

Policies and processes can be overridden by high level personnel for personal gain or advantage. It is important not to confuse management override with management intervention because the latter represents legitimate purposeful actions taken by management abandon prescribed policies and procedures. Lannoye (1995) is of the view that management may completely override prescribed policies, procedures, and controls for improper purposes too. Override practices include staff from the central control agencies, auditors or other and the misrepresentations to state officials. Intervention may be a prerequisite so as to process all non-standard transactions which would otherwise have be handled wrongly by the internal control system. Since no control system anticipates every possible condition, a provision for intervention is required in all internal control systems.

Collusion

Control systems can be ditched by collusion of employees. It is possible for individuals acting collectively to alter financial data and or other information for management information in a way difficult to be identified by control systems itself. Segregation of duties becomes effective when individuals perform their task or check the performance of other's tasks. However, there is always a risk that collusion between individuals can jeopardize the effectiveness of segregation of duties. For example an individual who receives cash receipts from customer can collude with the employee who does recording of cash receipts in the customers' records so as to steal cash from the entity (Williams, 2000).

CHAPTER THREE

RESEARCH METHODS

Introduction

This chapter examined the methods used in organizing the research. It looked at the sampling, research instrument, research design, and data analysis.

Research Design

Research design is a "blueprint for conducting a study with maximum control over factors that may interfere with the validity of the findings" (Burns & Grove, 2003, p195). The study used survey research design because the respondents would not be manipulated under any influence or environment because manipulation of the human variable is not acceptable because of the potential for physical or mental harm to the participants and the fact that human characteristics and views which in this research were observed and collected are inherently not subject to experimental manipulation, such as beliefs, views and opinions.

Population

In view of this research, all registered credit union in the Sekondi-Takoradi Metropolis formed the population of this study. According to Ghana Cooperative Credit Union Association (2016), there are 16 registered credit unions in the Sekondi-Takoradi Metropolis.

Sample and Sampling Procedure

Census was used for the study. In all a total of sixteen (16) respondents were selected as the sample size from all the credit unions in the Sekondi-Takoradi Metropolis, which were sixteen in total. The manager of each credit union was sampled as a respondent for the credit union. In census, all elements in the population are considered for the research and thus all credit unions in the Metropolis were considered for the research.

Data Collection Procedures

The questionnaire was self-administered by the researcher and an assistant to ensure a 100 percent response rate. Data collection was done at the convenience of the respondents. The research team stayed, and collected the filled questionnaire from the respondents. A mix of open and closed ended questions were used in the questionnaire which consisted of three sections; control environment, risk assessment process used by credit union and control activities in credit unions. Data collected for the study was used over a period of one year.The questionnaire consisted of 20 items.

Ethical Challenges

In conducting the data collection for the research some ethical were anticipated such as confidentiality, anonymity, consent, difficulty in building a comfortable zone for interviews, consent seeking and data abuse. To resolve these issues, the researcher explained clearly the purpose of the research, assured confidentiality and anonymity on the front page of the questionnaire and sought the consent of the respondent before the questionnaire was given to them.

Sources of data

Though primary data was collected from the field, through the selected respondents at the credit unions, secondary data was collected from the Ghana Cooperative Credit Union Association's website, books from both printed and electronic sources as well as journals and articles.

Data Processing and Analysis

Data analysis is the systematic process of applying statistical and or logical techniques to condense and recap, describe and illustrate, and evaluate data. Statistical Product for Scientific Solutions (SPSS), computer software program was used in analyzing the data which was collected from the field. This was used practically because it is scientific software that offers objective analysis of the field data and offers ease of interpretation of data. The qualitative method of data analysis was also employed in the analysis of data collected from the field. Data collected was reviewed and variables were coded, the coded variables from the data were keyed into the variable view of SPSS and then the actual data entered in the data view of SPSS. Through a descriptive analysis with graphs and frequency tables, the keyed in data at the data view of the SPSS was analysed result explained in relation to the objectives of the study and the literature reviewed.

CHAPTER FOUR

RESULTS AND DISCUSSION

This chapter analysed the data collected from the field. Quantitative analysis was employed to analyze the data.

Gender Distribution

The gender of the respondents was sought. Majority (87.5%) of the respondents were male while the rest representing (12.5%) of the respondents were female as shown in Table 1. The statistics show that majority of employees in charge of internal control systems in credit unions in Sekondi-Takoradi are males. The distribution however represents a gender sensitive, an indication of successful efforts of various gender mainstreaming campaigns.

Table 1: Gender of Respondents

Gender	Frequency	Percentage
Male	14	87.5
Female	2	12.5
Total	16	100

Source: Field Survey (2016)

Control environment

Regarding assignment of authority and responsibility, the study sought to investigate if the companies had clear assignment of responsibilities and delegation of authorities and if employees had job responsibilities including specific duties, reporting relationship clearly established and communicated. The results were; (62%) of the respondents strongly agreed that there was clear assignment of responsibility and delegation of authority to deal with such matters as organizational goals and objectives, operating functions, and regulatory requirements, whereas 38 percent agreed. This result indicates that all employees have job responsibilities, including specific duties, reporting relationships clearly established and communicated.

The result collaborate the assertion by Daft (2004) that organizational structure defines how job tasks are formally divided, grouped and coordinated. There are six elements that managers of agencies need to address when they design their organization's structure. These are: work specialization, departmentalization, chain of command, span of control, centralization, decentralization and formalization. An organization's structure is a means to help management of companies achieve its objectives (Daft, 2004). The results confirm that employees of credit unions in Sekondi-Takoradi Metropolis have clear assignment of responsibility and delegation of authority, an indication of existence of good internal control environment.

On policies and practices, majority (81%) of the respondents strongly agreed that personnel including key managers possess adequate knowledge and experience to discharge their responsibilities, whiles the remaining (19%) agreed that policies are put in place concerning practices in the unions. The results concur with the findings by Boxall and Purcell (2003) that human resource advantage can be traced to better people employed in an organization. It also corroborates the finding by Becker, Huselid, Pickus and Spratt (1997) that performance can be achieved with the help of high performance work system which takes into account the factors affecting, individual performance such as recruitment procedures, motivation, training and management development. People are able to perform tasks if they have the right skills required for the job. The results also agree with International Standards for the

Professional Practice of Internal Auditing (Standards) that defines control environment as: the actions and attitude of management and the board concerning the importance of control within the organization. The control environment therefore provides a structure and discipline for the attainment of the primary objectives of the system of internal control. The results confirm that most credit unions in Sekondi-Takoradi Metropolis have good human resource policies and practices which are a pointer to existence of good internal control environment.

Regression Analysis on Internal Control Environment Versus Financial Performance

H_0: There is no significant relationship between internal control environment and financial performance.

Regression analysis was conducted to determine the significance of the relationship of internal control environment against financial performance. Table 2 illustrates T-SqaureTable of internal control environment versus financial performance. Result as shown in Table 2 indicates a positive linear relationship between internal control environment and financial performance.

Table 2: Correlations of Internal Control Environment and Financial Performance

		Financial Performance	Internal Control Environment
Financial Performance	Pearson Correlation	1	.420**
	Sig. (2-Tailed)		.000
	N	16	16
Internal Control Environment	Pearson Correlation	.420**	1
	Sig. (2-Tailed)	.0000	
	N	16	16
R.	.420		
R. Square	.176		
Adjusted R. Square	.169		
Std. Error of the Estimate	5.192227		

***** Correlation is significant at the 0.05 level (2-Tailed)**

Source: Field Survey (2016)

Table 2 presents the regression model of internal control environment on financial performance. As presented in the figure, the coefficient of determination R square is 0.176 and R is 0.420 at 0.05 significance level. The coefficient of determination indicates that (16.9%) of the variation on financial performance is influenced by internal control environment. This implies that there exists a positive significant relationship between internal control environment and financial performance.

Effect of Internal Control Environment on Financial Performance

Descriptive as well as regression statistics were used to analyze this research objective and other subsequent analysis was done. The results indicated that internal control environment exist in credit unions in Sekondi-Takoradi where, over (50%) of respondents indicated that there is adequate internal control environment. However, about 30% were indicated that internal control environment is not adequate.

The analysis also indicated that there is an associated effect of internal control environment on financial performance. The positive relationship was represented by 0.42, and the number of respondents was 16. The findings indicate that the institution which has enforcement of proper internal control systems will always lead to improved financial performance. The findings also indicate that there is a significant positive effect of internal control system on financial performance. The results indicated that internal control environment had a goodness of fit of (16.9%) indicating that internal control environment explained (16.9%) of the variation in the financial performance of credit unions. The results and findings therefore imply that there was significant positive effect of internal control environment on financial performance.

Returns on assets

Data was further collected on returns on assets of the credit union. Although none of the credit unions were willing to indicate to us the actual figure on the return on their invested assets, the credit unions gave us the direction of movement of their return on invested assets.

Respondents' opinion on profitability in company over the last 5 years shows that returns on assets has been increasing steadily (80%),(14%) stated comparative returns on their assets have been the same in recent years whiles (6%) stated that their returns on assets have been decreasing. See table3.

Table 3: Return on Assets

Gender	Frequency	Percentage
Increasing	13	80
Same	2	14
Decreasing	1	6.0
Total	16	100

Source: Field Survey (2016)

Risk Assessment

Under risk assessment, the study sought to investigate if the companies had adequate capacity to risk assessment, if there was a risk review process and if the management adequately evaluates and records the risks when making important decisions. The results as shown in table 4indicates that (38%) of the respondents stated that their credit union had adequate capacity to perform risk assessment, (20%) stated the credit union had risk review process, (33%) stated their organisation effectively communicates risks whiles (9%) stated management effectively evaluates and records risks. See Table 4.

Table 4: Risk Assessment

Gender	Frequency	Percentage
Adequate Capacity	7	38
Risk Review	3	20
Risk Communication	5	33
Risk Evaluation	1	9
Total	16	100

Source: Field Survey (2016)

The results support the finding by Khan and Ahmed, (2001) that the survival and success of a financial organization depends critically on the efficiency of managing these risks. The results confirm that most credit unions in Sekondi-Takoradi and Ghana in a general context in adequately evaluates and records the risk an indication of good internal control systems. The results further support the findings Thornton (2004) who observed that in recent years, stakeholder's expectations from internal audit functions have changed significantly. The focus has now moved from a compliance and financial control function to facilitating organizations to proactively identify, assess and control risks. The results also concur with the findings of Akkizidis and Khandelwal (2007), that good risk management is highly relevant in providing better returns to the shareholders.

Regression Analysis on Risk Management Versus Financial Performance

H_0: There is no significant relationship between risk management control and financial performance.

Regression analysis was conducted to determine the significance of the relationship between risk management and Financial performance. Table 5 illustrates results of risk management versus financial performance. From Table 5, there is a positive linear relationship between risk management and financial performance.

Table 5: Correlations of Risk Management and Financial Performance

Financial Performance	Risk Management		
Financial Performance	Pearson Correlation	1	.555**
	Sig. (2-Tailed)		.000
	N	16	16
Risk Management	Pearson Correlation	.555**	1
	Sig. (2-Tailed)	.0000	
	N	16	16
R.	.555		
R. Square	.308		
Adjusted R. Square	.302		
Std. Error of the Estimate	4.75792		

***** Correlation is significant at the 0.05 level (2-Tailed)**

Source: Field Survey (2016)

Table 5 presents the regression model of risk management on financial performance. As presented in the table, the coefficient of determination R square is 0.308 and R is 0.555 at 0.05 significance level. The coefficient of determination indicates that (30.2%) of the variation on financial performance is influenced by risk management. This implies that there exists a positive significant relationship between risk management andfinancialperformance.

Effect of Risk Management on Financial Performance

From the data analysis, the results indicated that risk management exists in credit unions where, respondents indicated that there is satisfactory risk management embedded in the running of the credit unions. The results indicate that in recent years, stakeholder's expectations from internal audit functions have changed significantly. The focus has now moved from a compliance and financial control function to facilitating organizations to proactively identify, assess and control risks.

Regression analysis was done where the results indicated that risk management had a goodness of fit of (30.2%) indicating that risk management explained (30.2%) of the variation in the financial performance of Credit Unions in Sekondi-Takoradi Metropolis. The results and findings therefore conclude that there was significant association between risk management and financial performance.

Control Activities

The researcher further collected data to assess the control activities of credit unions in Sekondi-Takoradi Metropolis. Analysis of the data revealed that 15(94%) of respondents stated that they have established information and communication channels, 13(81%) stated suggestion boxes, 14(87.5%) on effective policies and procedures whiles 15(94%) stated segregation of duties as the control activities in their organisation.

Table 6: Control activities

Response	Frequency	Percentage
Information & communication channels	15	94
Suggestion boxes	13	81
Effective policies and procedures	14	87.5
Segregation of duties	15	94

Source: Field Survey (2016)

The study agrees with COSO (2013) that outlines control environment factors to include the way management assigns, communicates authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors. The result confirms that credit unions in Sekondi-Takoradi have well defined channels of information and communication, an indication of good internal control systems. The result also agrees with the finding by Ray and Pany (2001) that asserts that control activities are another component of internal controls and that control activities are policies and procedures that help ensure that management directives are carried out. The results further agree with the finding of Tunji (2013) and Dhillon (2001) who argued that internal controls includes specific set of policies, procedures and rules an organization implements to provide dependable assurance that the is reliable financial reports, effective and efficient operations and activities comply with applicable laws and regulations. The results also concur with the finding of Anduuru (2005) that Control activities involve two elements: information communication channels and procedures to effect the policy. Policies of organisations must be implemented conscientiously, thoughtfully and consistently to achieve the desired objectives.

Regression Analysis on Control Activities and Financial Performance

H_0: There is no significant effect of internal control activities on financial performance.

A regression analysis to determine the effect of internal control activities against financial performance is illustrated in Table 7. Table 7 illustrates results of internal control activities versus financial performance. From the Table 7, there is a positive linear relationship between internal control activities and financial performance.

Table 7: Correlations of Internal Control Activities and Financial Performance

		Financial Performance	Internal Control Activities
Financial Performance	Pearson Correlation	1	.457**
	Sig. (2-Tailed)		.000
	N	16	16
Internal Control Activities	Pearson Correlation	.457**	1
	Sig. (2-Tailed)	.0000	
	N	16	16
R.	.457		
R. Square	.209		
Adjusted R. Square	.202		
Std. Error of the Estimate	5.08977		

***** Correlation is significant at the 0.05 level (2-Tailed)**

Source: Field Survey (2016)

Table 8 presents the regression model of internal control activities on financial performance. As presented in the Table 8, the coefficient of determination R square is 0.209 and R is 0.457 at 0.05 significance level. The coefficient of determination indicates that (20.2%) of the variation on financial performance is influenced by internal control activities. This implies internal control activities have significant effects on financial performance.

Effects of Internal Control Activity on Financial Performance

The results indicated that internal control activity exists in credit unions in the Sekondi-Takoradi Metropolis, over (80%) of respondents indicated that there is satisfactory internal control activity embedded in the union whiles none indicated that internal control activity was not non existence. The result indicate that control activities are another component of internal controls and that control activities are policies and procedures that help ensure that management directives are carried out.

The Regression analysis was done where the results indicated that internal control activity had a goodness of fit of (20.2%) indicating that internal control activity explained (20.2%) of the variation in the financial performance of credit unions. The results and findings therefore conclude that there was significant effect or positive relation between internal control activity and financial performance.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter presented a summary of major findings of this study, sets out the relevant conclusions and makes recommendations for practice and suggestions for further research based on the findings of this study.

Summary

The study sought to assess the effects of internal control systems on the financial performance of credit unions in the Sekondi-Takoradi Metropolis. Specifically the study was guided by the following objectives; to assess the internal control environment in credit unions, examine risk assessment processes used by the credit unions, and analyse control activities within credit unions. The study adopted descriptive research design using both quantitative and qualitative approach. A census was conducted on all credit unions in Sekondi-Takoradi Metropolis for the study. Survey data was collected by use of a structured questionnaire. The data obtained was analysed using both qualitative and quantitative analysis.

Key Findings

1. Credit unions in Sekondi-Takoradi Metropolis have structured control environment which included the presence of policies that guided work process and roles and responsibilities that highlights each employee's role and responsibility. This has a positive effect on financial performance since employees work in line of their duties under a control policy and practice which promotes effective delivery of employee performance and thus a positive result in the financial

performance of the credit union in the long run. This control environment has majorly the returns on asset which has increased in most credit unions.

2. There is the presence of risk assessment processes used by credit unions to monitor and evaluate the risks involved in the line of work. Most of the credit unions in Sekondi-Takoradi have adequate capacity to manage risk, review risks as and when it occurs, communicates risk effectively and evaluates the consequences of the risk on work process. This leads to a reduction of risks in work process and its long term effect on financial risks and losses thereby promoting a good financial performance of the credit union.
3. Control activities used in credit unions in Sekondi-Takoradi includes good information and communication channels, suggestion boxes, effective policies and procedures and segregation of duties. This promotes the overall efficiency of the credit union which affects the performance of the organisation financially.

Conclusions

Confirming the argument of the findings of this study suggests that internal control systems is one significant area credit unions should give attention to in order to enhance their financial performance. The findings of this research support the findings of previous researchers. Further it can be concluded that effective internal control systems affects positively the financial performance of credit unions. Therefore credit unions have to invest in establishing strong internal control systems to realize better their financial performance. The model can be used by organizations management to focus on key aspects of internal control environment and activities that could result in improved financial performance Risk management plays a significant role in financial performance and hence managers of credit unions should entrench risk management to better financial performances of their unions. From the above conclusion, strong internal control systems must be entrenched in all levels of the organization by the managers to enhance organization's financial performance.

Recommendations

The following recommendations were derived from the data collected, findings and conclusions of the study.

- The management of credit unions should exert collective efforts in identifying the ideal mix of effective and efficient internal control systems that matches their business needs and invest in them.
- Credit unions should embrace risk assessment and management to maximize on the financial benefits of internal control systems.
- Credit unions should also ensure that their organizations have strong internal control environment where internal control activities inform of policies and procedures are adequate. The control environment and control activities should on a regular basis be evaluated by internal audit department to provide management with the assurance on the adequacy and effectiveness of mitigation controls that management has put in place.
- Subsequent studies should consider replicating this study in the all financial institutions in Sekondi-Takoradi order to establish the role of internal audit in financial institutions.

Suggestions for Further Research

To future researchers, the study recommends that further studies be conducted on the effect of risk assessment on assets investment of credit union. Since risk assessment is crucial to credit facility as well as the overall behaviour of the credit union it is important that studies be conducted to evaluate how risk assessments in general affect financial decision and performance. This area was not broadly examined under this research.

REFERENCES

Association Certified Chartered Accountant, (2005).*The standards for the professional practice of internal auditing*. Altamonte Springs: The Institute of Internal Auditors, Research Foundation.

Adebanjo, D., Ojadi, F., Laosirihongthong, T., & Tickle, M. (2013). A case study of supplier selection in developing economies: a perspective on institutional theory and corporate social responsibility. *Supply Chain Management: An International Journal*, *18*(5), 553-566.

Adel, S. M. (1999). Internal audit effectiveness: an expansion of present methods, *Managerial Auditing Journal*, *16*(8), *443 – 450*

Alexander, M., (2001). The determinants of board structure at the initial public offering. *Journal of Law and Economics*, *46*(2), 569-598.

Alexander, N., & Colgate, M. (2001). Retail financial services: Transactions to

Ali, A. M., Gloeck, J. D., Ali, A., Ahmi, A., &Sahdan, M. H. (2007).Internal audit in the state and local governments of Malaysia.*Southern African Journal of Accountability and Auditing Research, 7*, 25-57.

Al-Matari, E.M., Al-Swidi, A.K., Faudziah, H.B., &Al-Matari, Y.A. (2012). The impact of board characteristics on firm performance: Evidence from Nonfinancial Listed Companies in Kuwaiti Stock Exchange. *International Journal of Accounting and Financial Reporting, 2*(2), 310-332.

Anthony, A. (2004). *Auditing and investigations*., Lagos, Nigeria: Wyse Associates Limited *Administration* Review*, 33,* 253-267.

Audit Practice Board (1995).Current Issues in Auditing.*Journal of Economics and international Business Research*, 1(5), 106-121.

Ashelby, W. R (2002).*Practice of cybernetics*. London: Chapman and Hall

Awe, M. (2005). International audit trends in the public sector. *The Internal Auditor, 63*(4), 49-53.

Beacon, B. E. (2010). HR as a source of shareholder value: research and recommendations. *Human Resource Management*, *36*, 39-47.

Bebchuk, A., Cohen, P. S., &Ferrel, R. (2000).Equilibrium short horizons of investors and firms, *American Economic Review Papers and Proceedings 80, 148-153.*

Bebchuk, L., Cohen, A., & Ferrell, A. (2009). What matters in corporate governance? *Review of Financial studies*, *22*(2), 783-827.

Beckmerhagen, I. A., Berg, H. P., Karapetrovic, S. V., &Willborn, W. O. (2004).On the effectiveness of quality management system audits.*The TQM Magazine, 16*(1), 14-25.

Beeler, J. D., Hunton, J. E., &Wier, B. (1999). Promotion performance of internal auditors: A survival analysis. *Internal Auditing.14,* 3-14.

Brennan, N. M., &Soloman, J. (2008). Corporate Governance, Accountability and Mechanisms of Accountability: An overview. *Accounting, Auditing & Accountability Journal, 21 (7): 885-906*

Brierley, J. A., El-Nafabi, H. M., &Gwilliam, D. R. (2011).The problems of establishing internal audit in the Sudanese public sector.*International Journal of Auditing, 5*, 73-87.

Byekwaso, J. (2000). A critical analysis of the independence of the internal audit function: evidence from Australia. *Accounting, Auditing and Accountability Journal*, *22*(2), 200-220.

Chen, J. (2004). Organization structure limits or liberates high performance.*Journal of Industrial and Business Management*, 3, 2, 229-236.

Cochran, J. J. (2000). The impact of enterprise resource planning (ERP) systems on the effectiveness of internal controls over financial reporting.*Journal of Information Systems*, *25*(1), 129-157.

Coram, P., Ferguson, C., &Moroney, R. (2008), Internal audit, alternative audit structures and the level of misappropriation of assets fraud, *Accounting and Finance, 48*(4), 1-17.

COSO.(1998). Internal Control-Integrated Framework.Executive Summary. New York: AICPA..

COSO.(2013). Internal Control-Integrated Framework.Executive Summary. New York: AICPA..

COSO.(2014). Internal Control-Integrated Framework.Executive Summary. New York: AICPA..

Certified Practicing Accountants (CPA) Australia (2008).Internal Controls for Small Business.*Business Management Journal, Melbourne, Australia, 1, 4, 3-5.*

Craig, B. S. (1999). Moderator effects to internal audits' self efficacy and job involvement. *International Journal of Accounting & Information Management, 17*(2), 151-165.

Creswell, J. W. (2004). *Research design: Qualitative, quantitative, and mixed methods approaches. (*2nd ed.). California: Sage Publications Inc.

Darko, A (2007). *The impact of risk checklists and a standard audit program on the planning of fraud detection procedures.* A working paper presented to the University of Florida. University of Florida, Gainesville.

Davies, P. (2005). The Governance of Co-operatives under Competitive Conditions: Issues, Processes and Culture. *Journal of Corporate Governance, 1*, 28-29.

Deakin, S., &Konzelmann, S. J. (2003).Shareholder primacy and the trajectory of UK corporate governance.*British Journal of Industrial Relations*, *41*(3), 531-555.

Diekman, R. L. (2012). *Organization theory and design*(8th ed.). Cincinnati, OH: South western.

Dixon, J. R. (1990). *The new performance challenge: Measuring operations for world class competition*. Irwin: Irwin Professional Pub.

Dixon, J.R., Nanni, A.J. &Vollmann, T.E. (1990).*The New Performance Challenge – Measuring Operations for World - Class Competition*. Irwin, Homewood, Illinois: Dow Jones

Donald K .K &Delno L. A. T (2009) *Proposal and Thesis Writing, An introduction.*Nairobi, Kenya: Pauline Publications Africa.

Donald, M. R., &Delno, M. M. (2009). Internal audit quality, audit committee independence, growth opportunities and firm performance. *Corporate Ownership and Control*, *7*(2), 50-63.

Doyle, J., G, W., McVay, S., (2007a).Accruals quality and internal control over financial reporting.*The Accounting Review, 82, 1141–1170.*

Doyle, J., G, W., McVay, S., (2007b).Determinants of weaknesses in internal control over financial reporting.*Journal of Accounting and Economics.44, 193– 223.*

Dutta, P. &Radner, R. (1999). Profit Maximization and Market Selection Hypothesis. *The Review of Economic Studies : 769 - 798.*

Dwivedi, (2002), *Managerial Economics (6th Ed)*. New Delhi: Vikas Publishing House.

Emasu, S. (2007).Public financial management – Concepts and Practices, ACCA.*International Public Sector Bulletin, 7, 6-10*

Engel, E., Hayes, R. M., & Wang, X. (2010).Audit committee compensation and the demand for monitoring of the financial reporting process.*Journal of Accounting and Economics*, *49*(1), 136-154.

Fadzil, H., Haron, H.,&Wier, J. (1999). Factors determining the internal audit quality in banks: Empirical evidence from Jordan. *International Research Journal of Finance and Economics*, *73*, 99-108.

Feinberg, R., & Kelly, P.(2003). *Principles of Auditing*.New Jersey: Pearson Education Ltd.

Flint, P. (2005). Risk management, capital structure and lending at banks.*Journal of Banking and Finance, 28,* 19-43.

Geiling, F. (2005). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. Cambridge,Cambridge University: University Press

Gerrit, L. R., &Abdolmohammadi, P. (2010).*Competencies for Analysis and Applications***.**Upper Saddle River: Pearson Prentice-Hall.

Gupta, P. P., (1991). Internal audit reengineering: Survey, model, and best practices. Altamonte Springs, Florida: The Institute of Internal Auditors Research Foundation.

Hart, S. W. (1995). *Management Theory*.New York: New York Institute of Technology.

Hitt, J. (1996). *The Economics of Art and Culture*, Cambridge: Cambridge University Press.

Ishumgisa I. (2001), *Financial Risk Management for Islamic Banking and Finance.* London*:* Palgrave Macmillan.

Jenny, M., & Pamela, W. H. (2006). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*, *3(4), 305-360.*

Jensen, M. C. (2003). A Theory of the firm: Governance, residual claims and organizational forms. Harvard University Press, *Journal of Financial Economics (JFE), 3*(4).

Jovanovic, B. (1982). Truthful disclosure of information.*The Bell Journal of Economics*, 36-44.

Lary, N. V. (2009).The accounting system and its related internal control system. Nairobi, Kenya: Essential Management Consultancy Services Ltd.

Letza, G., Kiribride, E., Sun, O. & Small, E. (2008).The Effects of Auditors Internal Control Opinions on Loan Decisions.*Journal of Accounting and Public Policy.27*(1), 1-18.

Lannoye, G. (1995). Risk Management and Value Creation in Financial Institutions. New York: John Wiley and Sons, Inc.

Lnnoye, G. (1999). Risk Management and Value Creation in Financial Institutions. New York: John Wiley and Sons, Inc.

Lousteau, F. (2006).Housing and transmission mechanism.*Federal Reserve Bank of Kansas City*, 359-413.

Lower, G. (1998) Internal audit effectiveness: An Ethiopian public sector case study. *Managerial Auditing, Journal*, 22(5), 470-484.

Manashe, A. G. (2000). *Social Science Research; Theory and Principles*. Nairobi, Kenya: Arts Services.

Mawanda, S. P. (2008). Effects of Internal Control Systems on Financial Performance in an Institution of Higher Learning in Uganda: A Case of Uganda Martyrs University. Kampala, Uganda: University Press

Mikes, A., & Kaplan, R. S. (2014).Towards a contingency theory of enterprise risk management.A working paper submitted to the Havard Business School, University of Havard.

Millichamp, G. M. (2002). Risk Management: Changing the internal auditor's paradigm. Altamonte Springs, Florida: Institute of Internal Auditors Research Foundation,

Mitchell, R. K., Agle, B. R., & Wood D. J. (1997). Toward a theory of stakeholder identification and silence: defining the principle of whoand what really counts. *Academy of management review, 22(4), 854-886.*

Morris, J. J. (2011). The Impact of enterprise resource planning (ERP) Systems on the effectiveness of internal controls over financial reporting. *Journal of Information Systems: Spring 2011, Vol. 25, No. 1, pp. 129-157.*

Muhammad, J. (2015). Effects of Internal Audit Function and Internal Control Systems on Financial Performance in an Institution of Higher Education in Pakistan A Case Study of National Agriculture Education

Accreditation Council (Naeac). Nairobi, Nairobi University, Kenya: University Press

Mwindi, D. (2008). *Auditing*. Nairobi, Kenya: Focus Publishers.

Nakazi, S. (2002). Stakeholder: essentially contested or just confused? *Journal of Business Ethics*, *108*, 285-298.

O'Sullivan, M. (2012). The Internal audit function and financial performance: A case of national Social Security fund in Uganda. Unpublished MBA Project, Uganda: Makerere University.

Pandey, O. M., (1998). *Effects of internal controls on financial performance of technical training institutions in Kenya.*Unpublished MBA Project, Nairobi: University of Nairobi.

Percival, R. (2012). The effect of SOX internal control deficiencies and their remediation and accrual quality. *The Accounting Review, 4*(2), 217-250.

Reid. J., &Ashelby, J. G. (2002).*Management Principles.*Capetown, South Africa: Juta Publishers.

Sarens, G., &Abdolmohammadi, M. J. (2011). Monitoring effects of the internal audit function: agency theory versus other explanatory variables. *International Journal of Auditing*, *15*(1), 1-20.

Sarens, H. &Abdolmohammed M. (2011), Banks' risk management: a comparison study of UAE national and foreign banks, *The Journal of Risk Finance, 8*(4), 394- 409.

Semanda, A. (2001). Modelling external auditors evaluations of internal auditing. *Journal of Accounting Research*, 22(2), 657-678.

Singleton, T. W., Bologna, G. J., Lindquist, R. J., & Singleton, A. J. (2006).*Fraud Auditing and Forensic Accounting (Third Edition).*New Jersey: John Wiley & Sons, Inc.

Smith, K. (2005). Internal auditors' perceptions of the effectiveness of red flags to detect fraudulent financial reporting.*Journal of Accounting, Ethics & Public Policy, 6(1),* 1-28.

Spillane, S. & Reimer, T. (2000).The Causes and Salvation Ways of Financial Distress Companies-An Empirical Research on the Listed Companies in China.*Journal of Modern Accounting and Auditing*, *2*(10), 1-9.

Stahl, A. (1987). The reliance of external auditors on the internal audit function.*Journal of Accounting Research,* 23(2), 911-919.

Success, G. (2004). The relationship between internal audit and senior management: an analysis of expectations and perceptions. *International Journal of Auditing. 10*(3), 219-241.

Sudha, J. (1999). *Determinants of Financial Distress in Insurance Companies in Kenya*. An unpublished PhD thesis, Juja: Jomo Kenyatta University of Agriculture and Technology.

Suzame, A., &Naidoo, V. (2005). Does expectation of finding deficiencies impact internal audit work? *Journal of Applied Accounting Research, 10*(2), 122-131.

Van Home, C. (2002). Audit and Assurance Services, *Business Journal*, *33*, 2-3.

Villareal, L. (2014). *General system theory: Essays on its foundation and development*, revised edition. New York: George Braziller.

Wales, B. (2005). Dissertation skills for business management students. London: Martin's the Printers Ltd.

Walker, S., Shenkir, A., & Burton, J. (2003). Influence of internal control system on the financial performance of Kenya Power Company. Nairobi, Kenya: Vine Press

Walter, M. (2006). Decomposition of fraud-risk assessments and auditors' sensitivity to fraud cues. *Contemporary Accounting Research, 21(*3), 719–745.

Whittington O. R., & Kurt, P. (2001).*Principles of auditing and other assurance services.*NewYork :Irwin/McGraw- Hill..

Wilcox, K. (2006). *Principles of auditing and other assurance services*. Boston: McGraw-Hill/Irwin

Yang, D. R., & Guan, P.S. (2004).*Business Research Methods*. New York: McGraw Hill.

APPENDIX A

QUESTIONNAIRE

*Dear Respondent, you are kindly entreated to respond to this questionnaire on the topic: **Effects of Internal Control Systems on Financial Performance of Credit Unions in the Sekondi-Takoradi Metropolis** to help this researcher partially fulfill his requirement for a Master of Business Administrationprogramme at the University of Cape Coast. Please be assured that all information provided would be used for academic purpose only. Thank you*

1. Name of Credit Union ………………………
2. Position: …………………………………….
3. Sex: Male [ ] Female [ ]

How is the internal control environment?

4. Are there policies in place to control work proceedings and roles

Strongly Agree[ ] Agree[ ] Neutral[ ] Agree[ ] strongly Agree[ ]

5. Does each employee know his or her roles and responsibilities

Strongly Agree[ ] Agree[ ] Neutral[ ] Agree[ ] strongly Agree[ ]

6. What is the value of assets of your credit union?

[a] Less than GH¢ 100,000 [b] GH¢ 101,000 – 300,000

[c] Above GH¢ 300,000

7. What percentage of the union's total assets is directly invested inphysical assets?

All [ ] Half [ ] Three-Fourth [ ] None [ ]

8. What are the returns on the invested assets? [a] Less than GH¢ 20,000 [b] GH¢ 21,000 – 41,000 [c] Above GH¢ 41,000

Risk assessment process used by credit unions

9. Do you have any risk management policy: YES [ ] NO [ ]
10. If yes, please state how the risk is effectively managed:

    …………………………………………………………………………….

    ……………………………………………………………………………

    ……………………………………………………………………………
11. What strategies are put in place to reduce risks of business?

    ………………………………………………………………………….…

    ……………………………………………………………………………

    ……………………………………………………………………………

Control activities of credit unions

12. Do you have supervisory officers? YES [ ] NO [ ]
13. If yes, what are their roles?

    …………………………………………………………………..…………..

    ……………………………………………………………………………

    ……………………………………………………………………………
14. What control activities are practiced in your credit union?

    ……………………………….……………………………………

    ……………………………………………………………………………

    ……………………………………………………………………………
15. Do you review performances of employees? YES [ ] NO [ ]
16. If yes how often? Monthly [ ] Quarterly [ ] Annually [ ] More than a year [ ]

17. How do you analyse financial performance of the credit union?

    [a]Return on investment (assets) [b] Increase in clients activities

    [c] Increase in and effective payment of loans

    [d] other: …………………………………………….

18. Do you make budgets? YES [ ] NO [ ]

19. Who approves the budget? [a] Board of Directors [b] CEO

    [c] Managing Director [d] others (Please state): ……………………..

20. How do internal control activities affect the financial performance of the credit union? [a]Positively [b] Negatively [c] No effect