

**A STUDY OF THE INTERNAL CONTROL SYSTEMS OF RURAL BANKS
(A CASE STUDY OF NWABIAGYA RURAL BANK)**

MENSAH JOSIAH

MENSA- BONSU NYAMEKYE SAMUEL

TAWIAH BOAKYE ISAAC

NYAME EDITH NORA

DARKO DEBORA

**A PROJECT WORK PRESENTED TO THE DEPARTMENT OF BUSINESS
ADMINISTRATION IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE AWARD OF A BACHELOR OF BUSINESS ADMINISTRATION
(BACHELOR OF BUSINESS BANKING AND FINANCE OPTION)**

JUNE, 2013

ABSTRACT

Internal control systems have become very crucial and indispensable in the Business organizations due to their fundamental roles in the achievement of organizational objectives. The business in the Global world especially, rural and community Banks (RCBs) saw that the inadequate response to effective internal control system has caused the rampant cases of frauds, irregularities and at worse the collapse of some RCBs. Instituting proper and effective internal controls systems in RCBs is a very challenging one due to a number of reasons.

Therefore this research work aims to correct those challenges affecting internal control system in RCBs.

The population target for this project was made up of the internal control officer, the management members, and other operational staff of the Nwabiagya Rural Bank. A total sample size of Thirty one was selected. Data was collected from both the primary and secondary sources. The primary sources were Questionnaire and interviews. The secondary sources on the other hand were training Manual, articles on internal control and internal audit. Some insight found on challenges facing the bank included, human errors in processing or judgment; ignoring control procedures to get things done quickly; Competition sometimes makes it difficult to follow internal controls strictly; Technological advancement can make technological facilities easily become obsolete. The internal control procedures can be manipulated; Sometimes Bank of Ghana will come out with directives that may mean that there should be an overhaul of the branch's control systems.

The recommendation made was that, the roles and responsibilities of the staffs of the bank on the internal control systems should be well communicated to them to enable them appreciate it to help achieve goal congruence.

Another recommendation was the bank should not only be interested in the availability of the components of the internal control systems but to ensure that each component is working effectively.

The study further recommended that the bank should be proactive in anticipating some of the uncontrollable limitations of the internal control systems so as to mitigate its adverse effect on the internal control operations of the bank.

The bank should ensure that the qualities of internal control systems to achieve reasonable assurance are always adhered to

DEDICATION

We dedicate this project to our lovely parent who with their amazing help, financial support and love made it possible for was to call ourselves University graduate.

ACKNOWLEDGEMENT

We are grateful to the Almighty God for seeing us through our research work. It was His guidance and grace that sustain us during our various challenging meetings and when tempers have to rise on issue base on diverse opinions. He was with us to calm things down.

This effort cannot be complete without expressing our profound gratitude to our families for their support and prayers during our first degree. We appreciate your effort.

The immerse support from our understandable supervisor Mr. Fosu Adarkwa towards our dissertation cannot be eliminated but to be applaud.

To all the Nwabiagya Rural Bank management and operational staffs who gave us audience during our research, we say “thank you”.

Finally we acknowledge the typist for spending her time for typing our work Sister Fausty.

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CHAPTER ONE

1.0 INTRODUCTION

This chapter forms the introductory part of the study. It deals with the background of the effectiveness and efficiency of internal control systems, problem statement as well as objectives of the study. It also covers significance of the study, methodology, scope and limitations and structure of the study. These are presented below.

1.1 BACKGROUND

Internal control is a process affected by an entity's board of directors, management and other personnel's designed to provide reasonable assurance regarding the achievement of objectives in the following categories.

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

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

through their credit delivery in granting of facilities such as mortgage loans and its attendance default in payments, the internal control measures of our financial institutions must be effective enough to forestall any unbridled activities that could have dire consequences for growth and existence. Most banks go through difficulties in recovering facilities granted to customers after expiry. The issue of default of bank facilities is gradually corroding most gains and crippling business opportunities. The legal system takes a longer period for commercial issues to be resolved and this always places the banks at a disadvantage since time value of money cannot be easily quantified. Internal control is the purpose which ensures effectiveness and efficiency of operational activities, reliability of financial information, compliance with applicable rules and regulations and sustainable business growth that has been incorporated into the activities of banks in Ghana. For some time now, internal control more specifically; has been considered as fundamental elements of organizational governance.

Globalization of business, technological advancements, increasing risk of business failures, fraud and confrontations that emerged in the financial sector in Africa , the United States of America and elsewhere in Europe have encouraged nations and corporate organizations to place more emphasis on their internal control systems. In the United States for instance in 1992, a group of companies sponsored the formation of the tread way commission to study and report on how to improve on the effectiveness of internal control systems, and more recently in 2002 the US congress passed the Sarbanes Oxley act giving new directives on how companies are to report on the effectiveness of their internal control systems. (Circular 123 spring 2005, KPMG LLP).

In playing the regulatory role, the Central Bank of Ghana has come out with measures to help regulate the functioning of the financial institutions to improve on the effectiveness of their internal control systems. In Ghana for example, various legislations have been passed to reduce the risk of misstatements, fraud and mismanagement of both corporate and government resources. The government in 2003 passed the financial Administration Act (Act 654), the Public Procurement Act (Act 663), and the Internal Audit Agency Act (Act 658). Also the Securities and Exchange Commission (SEC) with support from the United Nation Development Program (UNDP) in 2005 carried out a country assessment of corporate governance standards in Ghana, which led to issuing of new corporate governance standards in the same year (Corporate Governance Lessons, Ghana Country Report, May 2005).

As part of improving their internal control systems and reducing risk, most banks in the country have put in place mechanisms to ensure internal control and compliance in their service delivery. This includes setting up a monitoring unit and issuing the Accounting, Treasury and Financial Reporting Rules (ATE Rules). It is therefore in this light that this project work is being carried out to assess the effectiveness of internal control system in banking operations in the financial sector.

1.2 PROBLEM STATEMENT

Current business trends have made it imperative for almost all large organizations to maintain an internal control system. Although not heavily hit by the global financial crisis, the effects of the global financial disintegration are gradually being felt by developing countries of which Ghana is not an exception. The Central Bank of Ghana has come out with measures to help regulate the functioning of the financial institutions to improve on the effectiveness of their internal control systems. However, these directives are not sometimes adequately

complied with. The results have been the underperformance and collapse of some banks in the country.

This study sought to evaluate the internal control systems of the Nwabiagya rural bank. Particularly in areas internal control systems is in place, the objectives of the internal control systems, quality issues of the systems, components of the control systems, levels of responsibilities for the internal control systems, the limitations of the internal control systems and other related issues on corporate governance.

1.3 OBJECTIVES OF THE STUDY

The objectives of the study are listed below;

- a. To determine the kind of internal control systems that has been put in place.
- b. To determine the reasons that motivated the institution of internal control systems in the bank.
- c. To determine how these internal control systems are monitored and complied with in the operations of the bank.
- d. To identify the components of the bank's operational problems.
- e. To determine the levels of responsibilities for the bank's internal control systems.

1.4. RESEARCH QUESTIONS.

- a. What kind of internal control systems has been instituted and at its operations?
- b. What purpose does the bank seek to achieve in instituting the control systems?
- c. How does the bank ensure the quality standards of its internal control systems?

1.5 SIGNIFICANCE OF THE STUDY

Significance of the study includes;

- a) The results of the study can serve as a basis for further research work, especially in the area of banking.
- b) The results of our study can be of importance to the bank in improving the efficiency of their internal control systems.
- c) The research work will help in broadening our knowledge in relation to how internal control systems work in the branch operations of banks.

1.6. SCOPE AND LIMITATIONS

The study will be all-inclusive case study. The study will focus on evaluating the control systems of rural banks, the case of Nwabiagya. The Nwabiagyarural bank was selected because of easy access to data to the researchers and the willingly corporation of management and other officials. The component of internal control systems was derived from the five (5) internal control components of the Committee of Organizations of Trade-wayCommission (COSO).This framework was chosen because it has become a widely acceptable basis for developing business control systems and assessing their effectiveness, (COSO, 1992). These components are as follows:

1. Control environment.
2. Risk assessment
3. Control activities.
4. Accounting information and communication systems.
5. Monitoring.

1.7. LIMITATIONS OF THIS WORK

This study was done alongside other academic work so the researchers were restricted with time factor. The challenges of periodic hesitation of management of the Nwabiagya rural bank made it a little difficult in attaining certain vital information. Another restriction was that because of the technicality of some of the terms used in this work, the researcher needed to administer the questionnaires personally so as to explain these terms to the respondents.

1.8. STRUCTURE OF THE STUDY

The work will be organized into five chapters as follows: the first chapter will deal with Introduction which will consist of the background of the study, problem statement, aims of study, hypotheses, scope and limitations of the study. This will be followed by Chapter Two, Literature Review; which seeks to provide the conceptual or methodical framework of the study. The chapter three which is the Methodology will seek to outline the materials and methods (sources of data, data collection instruments and methods as well as the data analysis methods) employed in the study.

Chapter Four will then follow. This comprises of the presentation, analysis, and discussion of results obtained by the study in the form of organized data that is easily understood. This section will also have the discussion of the findings in the light of relevant literature.

The final chapter, Chapter Five focuses on the conclusions and recommendations which will bring out the findings and advices of the study. It will also bring out recommendations for future works stating clearly the areas of further research.

The references follow the final chapter.

CHAPTER TWO

LITERATURE REVIEW

2.1 CONCEPTUAL FRAMEWORK

This section seeks to give a clarification of what internal controls generally entail; its nature, purpose, kinds, literature review of internal controls, and the need to adopt a good internal control.

2.2 DEFINITION OF INTERNAL CONTROL

Internal Control Systems means different things to different people. This causes confusion among business people, legislators, regulators and others. According to Millichamp (2002), Internal Control System is defined as the whole system of controls, financial and otherwise, established by the management in order to carry on the business of safeguard the assets and secure as far as possible the completeness and accuracy of the records. However, the committee of sponsoring Organizations of the Trade-way Commission (COSO) defined Internal Control as the process affected by an entity's board of directors, management and other personal, designed to provide reasonable assurance regarding the achievements of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations (ZabihollahRezaee 1995). Hevesi (2005) defined internal control as the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives and mission.

According to Comptroller's Hand Book, Internal Control is defined as a process affected by an organization's structure, work and authority flows, people and management information's system, designed to help the organization accomplish specific goals or objectives. It is a means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources, both physical(e.g., reputation or intellectual property such as trademarks) and the structural ways.

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

2.3 KINDS OF INTERNAL CONTROL

There are basically two kinds of controls

- a) Administrative Control
- b) Accounting Control

2.3.1 Administrative Control

This is the lifeline upon which accounting controls are built. It includes but is not limited to the plan of organization and the procedures and records that are concerned with the decision

process, such as authorization in management function directly associated with the responsibility for achieving the objectives of the organization.

2.3.2 Accounting Control

Internal control of accounting and financial information is affected through a system designed and implemented by a company to ensure, as far as possible, that the accounting and financial aspects of its business are thoroughly managed and monitored.

The administrative controls as well as the accounting controls do not function in isolation. Instead both controls support each other as a unit in order to make the control system as a whole very effective. However, irrespective of the control being administrative or accounting based, it could be further be categorized into;

- a) A posteriori Control
- b) A priori Control

A posteriori Control

This includes controls such as budgetary control where the measure is confronted to the standards once the results are known. This is a reactive kind of control which comes into force after the transaction has taken place.

A priori Control

This is also known as anticipatory control and is implemented in anticipation of a transaction occurring. It has to do mostly with controlling risks since it helps the organization meet certain risks with a high level of certainty. It has an identical structure except the measure of result is replaced by a forecast of result. This set of controls therefore mostly look into the long term.

2.4 OBJECTIVES OF INTERNAL CONTROL

According to Hevesi (2005), internal control systems are put in place to meet certain objectives. The general objectives of internal control systems include the following (ibid);

2.4.1 Compliance with laws and regulations

This refers to the laws and regulations to which the company (bank) is subject. The laws and regulations in force determine the behavioral standards that the company incorporates into its compliance objectives. Given the large number of areas that exist (company law, commercial law, security, environment, social, etc.), the company's organization needs to be structured in such a way so that the organization;

- i. Is aware of the various rules that apply to it;
- ii. Can be informed in due time of any changes that are made to them (legal monitoring);
- iii. Can transpose these rules into its internal procedures;
- iv. Can inform and train staff on those rules which affect them.

2.4.2 Application of the instructions and directional guidelines fixed by the Management Board.

The instructions and directional guidelines given by Executive Management or the Management Board enable staff to understand what is expected of them and to be aware of the scope of their freedom of action. These instructions and directional guidelines must be communicated to the staff concerned, based on the objectives allocated to each of them, so as to provide guidelines on how their activities should be conducted. These instructions and directional guidelines must be defined in line with the Company's overall objectives and the essential risks.

2.4.3 Ensure correct functioning of the company's internal processes, particularly those implicating the security of its assets.

All operational, industrial, commercial and financial processes are concerned. In order for processes to function correctly, standards or operating principles have to be established and performance and profitability indicators set up. With assets, it must be understood not only the tangible assets, but also the intangible assets such as knowhow, image or reputation. These assets can disappear in the wake of thefts, frauds, lack of productivity, errors, or result from a bad management decision or an internal control weakness. Special attention should be paid to the related processes in these cases. Similarly for the processes involved in the elaboration and processing of accounting and financial information.

These processes include not only those which deal directly with the preparation of financial reports, but also the operational processes which generate the accounting data.

2.4.4 Reliability of financial information

The reliability of financial information can only be obtained through the implementation of internal control procedures which are capable of devotedly recording all the operations performed by the organization.

In putting in place an internal control system, emphasis is placed on the nature of the business or organization. Generally, they are to ensure that the business is carried on in an orderly and efficient manner, to ensure adherence to management policies, safeguard its assets, and secure the accuracy and reliability of the records. The Committee of Sponsoring Organizations (COSO) which is a voluntary private sector organization dedicated to guiding senior management and governance entities towards establishment of more effective, efficient and ethical business operations on a global basis. The COSO model is illustrated as a

pyramid, with control environment forming a base for control activities, risk assessment, and monitoring. Information and communication link the different levels of the pyramid. At the base of the pyramid, the control environment is indisputably the most important component because it sets the tone for the organization. Factors of the control environment include employees' integrity, the organization's commitment to competence, management's philosophy and operating style, and the attention and direction of the board of directors and its audit committee. The control environment provides discipline and structure for other components.

A system designed for banks should achieve the following specific objectives;

- a) Ensure that there is proper supervision of workers at the various levels by the appropriate supervisory personnel.
- b) Responsibilities are properly defined and allocated.
- c) Ensure that one person is not responsible for the performance of a complete transaction as the involvement of several people reduces the risk of unintended error and increases the check of the work done.
- d) Ensure proper coordination of the various departments, also it helps to ensure that where authorization is needed before an action can be granted is observed at all times.
For instance granting of loans to customers.

At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational and compliance with laws and regulations. Internal control procedures reduce process variation, leading to more predictable outcomes.

2.5 QUALITIES OF INTERNAL CONTROL

The quality of an internal control system can be achieved by means of:

- a) Exclusion of duties, enabling a clear distinction to be made between recording duties, operational duties and retention duties;
- b) Function descriptions which should enable the origins of the information prepared to be identified, together with its recipients.

2.6 COMPONENTS OF INTERNAL CONTROL

This refers to the elements that constitute a good internal control system. (Basle J., 1998)

He added that a good internal control system comprise of the following factors:

- a) Control Environment
- b) Risk Assessment
- c) Control Activities
- d) Information and Communication
- e) Monitoring

2.6.1 Control Environment

The control environment reflects the board of directors' and management's commitment to internal control. It provides discipline and structure to the control system. Elements of the control environment include the organization structure of the institution, management's philosophy and operating style, the integrity, ethics, and competence of personnel, the external influences that effect the organization's operations and risk management practices, the attention and direction provided by the board of directors and its committees and the effectiveness of human resources policies and procedures. (Administrator of National Banks, Comptroller's Hand Book 2001), Hevesi (2005) however considers the Control environment

to be the attitude toward internal control and control awareness established and maintained by the management and employees of an organization. It is a product of management's governance that is its philosophy, style and supportive attitude, as well as the competence, ethical values, integrity and morale of the people of the organization. The control environment embraces the attitudes and actions regarding control. This environment sets the organizational tone, influences control consciousness, and provides a foundation for an effective system of internal control. The control environment also provides the discipline and structure for achieving the primary objectives of internal control. (Lannoye.1999). Flowing from the above the board of directors should show concern for integrity and ethical values. There must be a code of conduct and this must be adequately communicated to all levels of organization. Also there must be a structure appropriate, which is not dominated by one or a few individuals and an effective oversight by the board of directors. Management also needs to put a mechanism in place to regularly educate and communicate to management and employee the importance on internal controls, and to raise their level of understanding of controls.

2.6.2 Risk Assessment

According to Lannoye (1999) this component of internal control highlights the importance of management carefully identifying and evaluating factors that can preclude it from achieving its mission. Risk assessment is a systematic process for integrating professional judgment about probable adverse conditions and events, and assessing the likelihood of possible losses (financial and non-financial) resulting from their occurrence. Steinhoff(2001) added that risk assessment implies the following:

- i. Risk identification: A strategic approach to risk assessment depends on identifying risk against key organizational objectives. Risks relevant to those objectives are

then considered and evaluated, resulting in a small number of key risks. Identifying key risks is not only important in order to identify the most important areas to which resources in risk assessment should be allocated, but also in order to allocate responsibility for management of these risks. An entity's performance can be at risk due to internal or external factors at both the entity and activity levels. The risk assessment should consider all risks that might occur (including the risk of fraud and corruption). It is therefore important that risk identification is widespread. Risk identification should be an ongoing, continuous process and is often integrated with the planning process.

- ii. Risk evaluation: In order to decide how to handle risk, it is essential not only to identify the principle that a certain type of risk exists, but also to evaluate its significance and assess the likelihood of the risk event occurring. One of the key purposes of risk evaluation is to inform management about areas of risk where action needs to be taken.
- iii. Assessment of the risk appetite of the organization: An important issue in considering response to risk is the identification of the "risk appetite" of the entity. Risk appetite is the amount of risk to which the entity is prepared to be exposed before it judges action to be necessary. Decisions about responses to risk have to be taken in conjunction with an identification of amount of risk that can be tolerated. Both inherent and residual risks need to be considered to determine the risk appetite. Inherent risk is the risk to an entity in the absence of any actions management might take to alter either the risk's likelihood or impact. Residual risk is the risk that remains after management responds to the risk. Identification of risk appetite is a subjective issue, but it is nevertheless an important stage in formulating the overall risk strategy.

- iv. Development of responses: a risk profile for the organization needs to be made in developing responses to such risks. Having developed a risk profile, the organization can then consider an appropriate response. Responses to risk can be divided into four categories. In some instances, risk can be transferred, tolerated, treated or terminated. However, in most instances the risk will have to be treated and the entity will need to implement and maintain an effective internal control system to keep risk at an acceptable level. The purpose of treatment is not necessarily to obviate the risk, but more likely to contain it. The procedures that an organization establishes to treat risk are called internal control activities. Risk profiles and related controls have to be regularly revisited and reconsidered in order to have assurance that the risk profile continues to be valid, that responses to risk remain appropriately targeted and proportionate, and justifying controls remain effective as risk change overtime.

2.6.3 Control Activities

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

performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. He provided the following as example of control activities

- i. Top level reviews of actual performance,
- ii. Reviews by management at the functional or activity level,
- iii. Management of human capital,
- iv. Controls over information processing,
- v. Physical control over vulnerable assets,
- vi. Establishment and review of performance measures and indicators,
- vii. Segregation of duties,
- viii. Proper execution of transaction and events,
- ix. Accurate and timely recording of transactions and events,
- x. Access restrictions to and accountability for resources and records, and
- xi. Appropriate documentation of transactions

He added that, to be effective, control activities need to:

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

2.6.4 Information and Communication

According to the comptroller's Handbook (2001) explain information and communication as follows:

Information and communication are essential to realizing all internal control objectives. A precondition for reliable and relevant information is the prompt recording and proper classification of transactions and events. Relevant information should be identified, captured and communicated in a form and time frame that enables staff to carry out their internal control and other responsibilities (timely communication to the right people). Therefore, the internal control system as such and all transactions and significant events should be fully documented. Management's ability to make appropriate decisions is affected by the quality of information which implies that the information should be appropriate, timely, current, accurate and accessible. Information and communication are essential to the realization of all the internal control objectives. This can be achieved by developing and maintaining reliable and relevant financial and non-financial information and communicating this information by means of a fair disclosure in timely reports. Information and communication relating to the organization's performance will create the possibility to evaluate the orderliness, ethicality, economy, efficiency and effectiveness of operations. In many cases, certain information has to be provided or communication has to take place in order to comply with laws and regulations. Information is needed at all levels of an organization in order to have effective internal control and achieve the entity's objectives. Therefore an array of pertinent, reliable and relevant information should be identified, captured and communicated in a form and timeframe that enables people to carry out their internal control and other responsibilities. A precondition for reliable and relevant information is the prompt recording and proper classification of transactions and events. Transactions and events must be recorded promptly when they occur if information is to remain relevant and valuable to management in

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

Communication

Effective communication should flow down, across, and up the organization, throughout all components and the entire structure. All personal should receive a clear message from top management that control responsibilities should be taken seriously. They should understand their own role in the international control system, as well as how their individual activities relate to the work of others. There are also needs to be effective communication with external parties.

Information is a basis for communication, which must meet the expectations of groups and individuals, enabling them to carry out their responsibilities effectively. Effective communication should occur in all directions, flowing down, across and up the organization, throughout all components and the entire structure.

2.6.5 Monitoring

Internal control systems should be monitored to assess the quality of the system's performance over time. Monitoring is accomplished through routine activities, separate evaluations or a combination of Springer (2004). He explained as follows:

Ongoing monitoring

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

Separate evaluations

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

Managers are to:

- a) Promptly evaluate findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors and others who evaluate agencies' operations,

- b) Determine proper actions in response to findings and recommendations from audits and reviews and
- c) Complete, within established time frames, all actions that correct or otherwise resolve the matters brought to their attention.

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

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

2.7. ROLES AND RESPONSIBILITIES IN INTERNAL CONTROL

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

Management: The Chief Executive Officer (the top manager) of the organization has overall responsibility for designing and implementing effective internal control. More than any other individual, the chief executive sets the “tone at the top” that affects integrity and ethics and of the factors of a positive control environment. The chief executive fulfills this duty by providing leadership and direction not senior managers and reviewing the way they’re controlling the business. Senior managers, in turn, assign responsibility for establishment of

more specific internal control policies and procedures to personnel responsible for the unit's function.

Board of Directors: Management is accountable to the board of directors, which provides governance, guidance and oversight. Effective board members are objective, capable and inquisitive. They also have knowledge of the entity's activities and environment, and commit the time necessary to fulfill their board responsibilities. Management may be in a position to override controls and ignore or stifle communications from subordinates, enabling a dishonest management which intentionally misrepresents result to cover its tracks. A strong, active board, particularly when coupled with effective upward communications channels and capable financial, legal and internal audit functions, is often best able to identify and correct such a problem.

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

The internal auditors and external auditors of the organization also measure the effectiveness of internal control through their efforts. They assess whether the controls are properly designed, implemented and working effectively, and make recommendations on how to improve internal control. They may also review information technology controls, which relate to the IT systems of the organization. There are laws and regulations on internal control related to financial reporting in a number of jurisdictions. In the U.S. these regulations are specifically established by Sections 404 and 302 of the Sarbanes-Oxley Act. Guidance on

auditing these controls is specified in PCAOB Auditing Standard No. 5 and SEC guidance. To provide reasonable assurance that internal controls involved in the financial reporting process are effective, they are tested by the external auditor (the organization's public accountants), who are required to opine on the internal controls of the company and the reliability of its financial reporting.

Company staff

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

2.8 LIMITATIONS OF INTERNAL CONTROL SYSTEMS

Internal control can provide reasonable, not absolute, assurance that the objectives of an organization will be met. The concept of reasonable assurance implies a high degree of assurance, constrained by the costs and benefits of establishing incremental control procedures (Lannoye 1999).

Effective internal control implies the organization generates reliable financial reporting and substantially complies with the laws and regulations that apply to it. However, whether an organization achieves operational and strategic objectives may depend on factors outside the enterprise, such as competition or technological innovation. These factors are outside the scope of internal control; therefore, effective internal control provides only timely

information or feedback on progress towards the achievement of operational and strategic objectives, but cannot guarantee their achievement.

Internal control involves human action, which introduces the possibility of errors in processing or judgment. Internal control can also be overridden by collusion among employees (separation of duties) or compulsion by top management (ibid).

CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

This chapter aimed at identifying the research methodology that was adopted in conducting this research work. It presents an account of how data was collected and processed into a dissertation document. The discussion was centered on the following, profile, Research design, Population under study, Sampling techniques, Data requirement and source, Method of data analysis, data collection instrument, test of validity and reliability, and organizational profile

3.2 RESEARCH DESIGN

This research is a fact finding exercise, thus a case study is used and as such the survey method of data collection was employed to collect data of qualitative nature.

A survey is a means of questioning a respondent via a collection of questions and instruction for both the respondent and the interviewers. (Cooper and Schindler, 2001). A structured questionnaire was therefore designed to collect the data (ibid). These questionnaires were scanned to ensure that data on key concepts was collected. The various responses were appropriately coded.

3.3 SAMPLE SIZE.

A sample size of 30 was selected. According to Saunders et al (2007), for a population size of less than 30, data should be collected from all cases in the category.

3.4 SAMPLING TECHNIQUE

Since data was collected from all cases in the sampling frame, a complete census technique was used.

3.5 POPULATION UNDER STUDY

The target population of the study is all the staffs of the Barekese branch of Nwabiagya Rural BankKumasi. According to the human resource manager of the bank the population of the selected case is 30. The target population is the unit for which information required.

3.6 TEST OF VALIDITY AND RELIABILITY

Quality data issues that can be identified in relation to the use of questionnaire include; reliability and validity (Saunders. et al 2007). Reliability refers to whether alternative researchers would reveal similar information. Validity refers to the extent to which the researcher gains access to their participants' knowledge and experience, and is able to infer a meaning that the participant intended from the language that was used by this person (ibid). In order to ensure reliability and validity of the questionnaire data, the questionnaire was pilot tested to 10 workers of the bank. This enables the researcher corrected any ambiguous terms. A sample of the questionnaire was also giving to the supervisor of this research who went through to ensure it appropriateness. The researchers administered the questionnaire personally. This enabled them to explain some of the terms and theories behind some of the concepts used in the questionnaire. This helped reduced ambiguities that could have arisen.

3.7 SOURCE OF DATA

Primarily and secondary data were employed in the study. The primary sources include interview and questionnaires. The secondary sources include books on training material, handouts of Rural Community Banks (RCBs) on internal audit and internal control, operational manual of rural banks, newspapers such as daily graphics, financial times and the internet.

3.8 METHODS OF DATA ANALYSIS

Data was analyzed using both quantitative (for the survey) and qualitative (for the interview) methods. In the quantitative methods, simple percentages and sometimes averages were used. Results of the survey are presented using a mixture of tables, pie charts, and bar graphs. All figures are rounded to whole numbers. This implied that, where the total percentage exceeds 100% because of the round-off, an adjustment was made to one of the figures to make the total 100%. In the qualitative analysis content analysis was used. Here the empirical data collected was compared with theoretical frame of reference to find out if the empirical data validated or invalidated the underlined theories.

3.9 ETHICAL CONSIDERATION

The head of department for bachelor of business administration of Christian Service University College gave authorization to the researchers to carry out the study. Consent was sort out from the general manager of Nwabiagya rural bank before commencing on the research. Assistance was given to those who need clarification and respondents were assured of confidentiality of the information provided that it was for academic purpose only.

3.10 PROFILE OF NWABIAGYA RURAL BANK

Nwabiagya rural bank limited is a community owned financial institution that was established in August 1987. The vision is to become the best managed and leading rural bank in the provision of best managed rural financial services in the country. To provide effective financial service by adopting appropriate technology, increasing market shares, enhancing optimal realization of stakeholders' interest, human resources development and product innovations.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS, AND DISCUSSION

4.0. INTRODUCTION

In this part of the chapter, data collected from the field was presented using a mixture of tables, pie charts and bar charts, and analyzed. In the analysis, we used both quantitative and qualitative analysis tools. The quantitative analysis tools used included simple percentages, and averages. In the qualitative analysis, content analysis technique was used. Here the empirical data collected was compared with underlining theories to find out if they validate or invalidate those theories.

4.1 EVALUATING THE PERSONAL DATA OF RESPONDENTS

In this part of the questionnaire, respondents were asked to provide their personal information. The results are presented below:

Response		No. Of Respondents	Percentages (%)
Age	20-30 years	12	40%
	31-40 years	10	33%
	41-50 years	8	27%
	Above 50 years	Nil	Nil
	Totals	30	100%
Gender	Male	18	60%
	Females	12	40%
	Totals	30	100%
Experience with the branch	Below 1 year	2	6.6%
	1-4 years	20	67%
	5-8 years	5	17%
	Above 8 years	3	10%
	Totals	30	100%

From table 4.1, 12 respondents (40%) are aged between 20 to 30 years, with 10 respondents (33%) aged between 31 to 40 years. No respondent is aged above fifty years. This means that, all things being equal, the branch is not expecting retirement within the next five to ten years.

Also, 18 respondents (60%) representing majority of the staffs are males with 12 respondents (40%) are females. This means that the branch's staff component is skewed towards the male gender.

Lastly, majority of the respondents representing 94% (67+17+10) have worked with the branch for more than a year, with only 2 respondents (6%) have worked with the branch for less than a year. This means that majority of the workers are highly abreast with the internal control systems of the branch. Also the branch manager explained that the bank seeks to target young people to maintain the control system for a longer period.

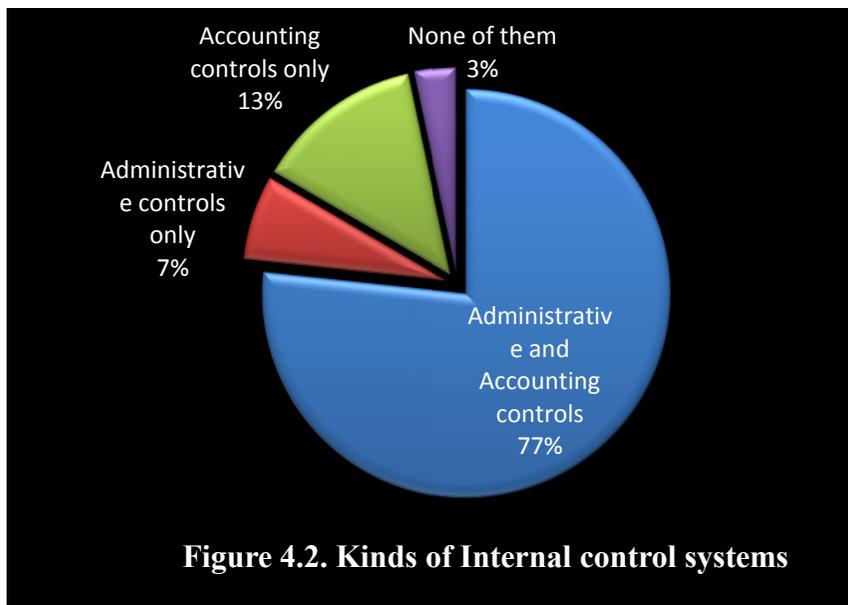
4.2 EVALUATING THE KINDS OF THE BRANCH'S INTERNAL CONTROL SYSTEMS.

In order to evaluate the kinds of the branch's internal control systems, two set of questions were asked. The responses of the first question were presented in 4.2.1, and the second question was presented in 4.2.2, as follows:

4.2.1 Kinds of Internal Control Systems.

Respondents were asked to indicate the kinds or types of internal control systems installed at the branch. The object was to find out if the branch has installed both the administrative and accounting control systems, and either one of them. The results of the survey are presented below:

RESPONSES	No. of respondents	Percentage (%)
Accounting and Administrative controls	23	77%
Administrative controls only	2	7%
Accounting controls only	4	13%
Totals	30	100%

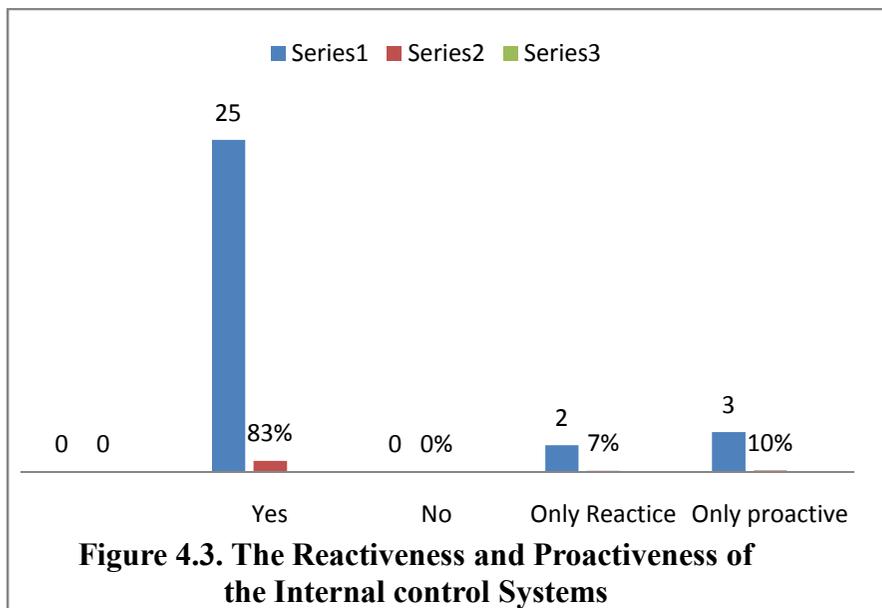


From the above table and figure, 23 respondents (77%) asserted that the branch have both administrative and accounting control systems. Also, 13% and 7% asserted that the branch has only accounting, and administrative procedures respectively, with only 1 (3%) respondent asserting that the branch does not have any internal control procedures. This means that majority of the staffs representing 29 respondents (97% (77+13+7)) are aware of one or the other form of internal control systems instituted at the branch. The implication is that, by knowing the internal control systems, they are likely to adhere to it dictates. This means that the bank has put in place the necessary internal control systems. By using both the administrative and accounting control systems the bank is fully equipped and better of.

4.2.2 The Reactiveness and Pro-Activeness of the Internal Control Systems.

In this part of the survey, respondents were asked to indicate if their internal control systems were reactive or proactive. The objective of this question was to find out if the branch’s control systems are A posteriori control or A priori controls. The results are presented below:

Responses	No. of Respondents	Percentage
a. Yes	25	83%
b. No	Nil	0%
c. Only Reactive	2	7%
d. Only proactive	3	10%
Totals	30	100%



From table 4.3, and figure 4.3, majority of the respondents representing 25 respondents (83%) confirmed that the branch’s internal control systems are both reactive and proactive, with only 2 respondents (7%), and 3 respondents (10%) asserting that the branch’s internal control systems are either reactive or proactive respectively but not both. The implication is

that majority of the respondents are aware that the branch have both A Posteriori and A priori administrative and accounting control systems respectively.

The implication of table 4.2.1 and table 4.2.2 is that, the bank has four main types\kinds of internal control systems. These are:

- a) A Posteriori Administrative control systems.
- b) A Priori Administrative control systems
- c) A Posteriori Accounting control systems
- d) A Priori Accounting control systems

4.3 EVALUATING THE OBJECTIVES OF THE INTERNAL CONTROL SYSTEMS.

Here respondents were asked to indicate yes or no to a list of factors. The purpose was to find out the objectives of the bank's internal control systems. The results are presented below:

Responses	Yes		No		Totals	
	Resp.	%	Resp.	%	Resp.	%
a. Compliance with laws and Regulations	25	83%	5	7%	30	100%
b. Application of guidelines fixed by Management Board	20	67%	10	33%	30	100%
c. Ensuring effective functioning of internal processes	28	93%	2	7%	30	100%
d. Reliability of financial information.	30	100%	Nil	Nil	30	100%
Average: (Σ of column figures/total number of variables)	26	87%	4	13%	30	100%

From table 4.3, 26 respondents (87%) on average validated the assertion that, the objectives of the branch's internal control systems are to achieve the four objectives stated above. Only 4 respondents (13%) indicated that the objectives of the internal control systems of the branch are not to achieve any of the stated objectives. Every activity is done to achieve certain purpose. This means that, banks for instance put in place internal control systems because of certain reasons. From the above table, majority of the respondents indicated that, the bank has instituted internal control systems because of the following reasons/objectives:

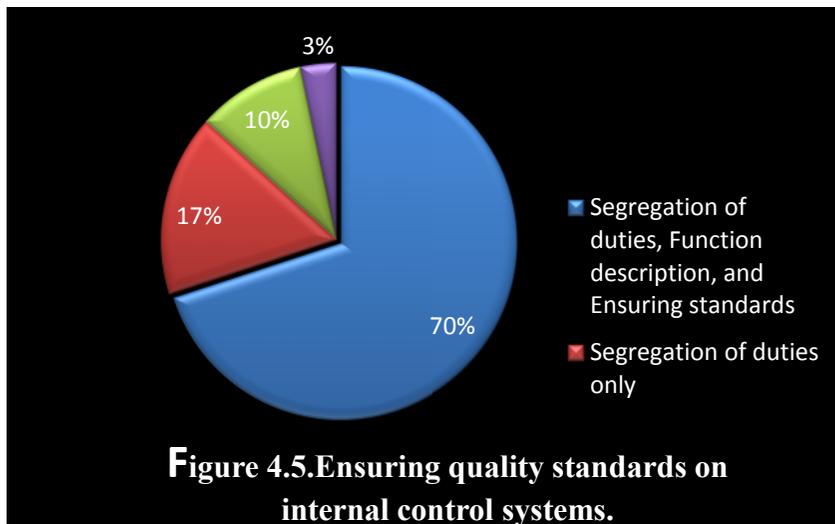
- a) Compliance with laws and regulations
- b) Application of the instructions and directional guidelines fixed by the Management Board.
- c) Ensure correct functioning of the company's internal processes, particularly those implicating the security of its assets.
- d) Reliability of financial information.

This confirmed the work of Hevesi (2005) that internal control systems exist for a purpose.

4.4. ENSURING QUALITY STANDARDS OF INTERNAL CONTROL SYSTEMS.

Respondents were asked to indicate how their branch ensures the quality of the internal control systems. The results are presented below:

Response	No. of Respondents	Percentage
a. Segregation of duties, Function description, and Ensuring that operations are performed to standards	21	70%
b. Segregation of duties only	5	17%
c. Function description only	3	10%
d. Ensuring that operations are performed to standards only	1	3%
Totals	30	100%



From the above table and figures, 21 respondents (70%) confirmed that, the branch ensures the quality of the internal control systems through segregation of duties, function description, and ensuring that operations are performed to standards. Only 9 respondents (5+3+1) representing 30% of staffs do believe that quality control systems are ensured through only one of the three listed ways of ensuring the quality control systems but not through all the three ways. What this means is that even though majority of the staff believed that quality control are ensured through the three ways, almost one-third (30%) of the staffs do not know all the three ways the branch are using to ensure quality control and this is not good enough. The implication is that such staffs are likely not to appreciate the importance of certain control activities, and thus are likely to resent them.

Per the above table and figure, the following are the implications:

- a) The Segregation of duties, enables a clear distinction to be made between recording duties, operational duties and retention duties;
- b) The Function descriptions enable the origins of the information prepared to be identified, together with its recipients.

- c) The internal control systems helps to check that the operations are performed in accordance with general and specific instructions, and that financial information are produce which complies with generally accepted accounting principles.

4.5 EVALUATING THE COMPONENTS OF THE BRANCH INTERNAL CONTROL SYSTEMS.

Respondents were asked to indicate the components of their internal control systems. The results are presented in below:

Response	Yes		No		Totals	
	No. of Resp.	%	No. of Resp.	%	No. of Resp.	%
a. Control environment	26	87%	4	13%	30	100%
b. Risk management	30	100%	Nil	Nil	30	100%
c. Control activities	29	97%	1	3%	30	100%
d. Information and communication	28	93%	2	7%	30	100%
e. Monitoring systems	25	83%	5	17%	30	100%
Average: (Σ of column figures/total number of variables)	28	92%	2	8%	30	100%

From table 4.6, 28 respondents (92%) on average confirmed positively that, their branch internal control systems have all the five listed components of a good internal control system. Only 2 respondents (8%) of the respondents on average denied that their branch's internal control systems do have any of the five listed components of good internal control systems. What this means is that if the response is anything to go by, then the branch's internal control system are likely to be very effective all things been equal. Thus the bank's internal control systems are constituted by the following elements: Control Environment; Risk management

systems; Control Activities systems; Information and Communication systems; and Monitoring systems. This confirms the work of Basle J. 1998. The implications of these are stated below:

Control Environment. The control environment would set the tone of the bank, influencing the control consciousness of its staff. It is the foundation for all other components of internal control, providing discipline and structure.

Risk assessment/management. Risk assessment would enable the identification and analyses of relevant risks to achieve the bank's objective and determine the appropriate responses. This implied that the bank does the following in assessing risk: Risk identification; Risk evaluation; Assessment of the risk appetite of the bank; and Development of responses.

The bank explain that in banking risk is a competitive advantage, with this they tend an awareness of the potential for the unexpected, a planned level of response across critical areas of the organization and a determination for risk and the business to work together

Control Activities. Control activities of the bank are the policies and procedures established to address risk and to achieve the bank's objectives. And that these control activities are appropriate, function consistently according to plan throughout the period, cost effective, comprehensive, reasonable, and directly relate to the control objectives. The Control activities occur throughout the bank, at all levels and in all functions. There are a range of detective and preventive control activities.

Information and Communication. There is a prompt recording and proper classification of transactions and events. Relevant information are identified, captured and communicated in a form and time frame that enables staff to carry out their internal control and other responsibilities (timely communication to the right people). All transactions and significant

events are fully documented. Effective communication flow down, across, and up the bank, throughout all components and the entire structure. All personnel receive a clear message from top management and that control responsibilities are taken seriously.

Monitoring: Internal control systems are monitored to assess the quality of the system’s performance over time. The Monitoring are accomplished through routine activities, separate evaluations or a combination of both.

4.6 EVALUATING THE LEVELS OF ROLES AND RESPONSIBILITIES OF THE BANK’S INTERNAL CONTROL SYSTEM.

In this part of the survey, respondents were asked to indicate yes or no to a list of bodies that they think play major roles and are responsible for the branch’s internal control systems. The object of this question was to find out where responsibilities lie.

Response	Yes		No		Totals	
	No. of Resp.	%	No. of Resp.	%	No. of Resp.	%
a. Board	18	60%	12	40%	30	100%
b. Management	26	87%	14	13%	30	100%
c. Internal auditors	29	97%	1	3%	30	100%
d. Staffs	15	50%	15	50%	30	100%
Average: (Σ of column figures/total number of variables)	22	73%	8	27%	30	100%

From table 4.7, 22 respondents (73%) on average confirmed that, the Board of directors of the bank, management, internal auditors, and the bank staffs are responsible and play major roles in ensuring the effective application and monitoring of the bank’s internal control systems. On the other hand only 8 respondents representing 27% indicated that, on average

none of the four bodies are responsible and play major roles in ensuring the effective application and monitoring of the bank's internal control systems. What this means is that almost everybody plays a major role in the effective implementation of internal control systems. This also means that there is a clear cut level of responsibilities among the board, management, internal auditors, and staffs. The implication is that everyone is involved one way or the other in making the internal control systems effective. This is in line with the COSO framework. This means that the bank is likely to reap the benefits of shared ownership of the control systems, and this is likely to lead to goal congruence.

However, an interesting aspect of the table above is the extent to which the respondents believe that the bank's staffs play major roles and are responsible for the control systems. Only 15 respondents (50%) indicated that the branch's staffs play major roles and are responsible for the internal control systems. This means that half of the respondents do not see any role or responsibilities of the staffs relative to the bank's internal control systems. This would mean that half of the staffs were likely to develop halfhearted attitude towards the effective workings of the internal control systems.

4.7 LIMITATIONS OF THE INTERNAL CONTROL SYSTEMS.

This question was an open ended question. Respondents were asked to indicate the limitations they see in the internal control systems. The respondents gave the following limitations:

- a. Human errors in processing or judgment can sometimes affect the efficacy of the internal control systems. For example, sometimes there may be adverse variance in a particular teller's receipts and payments, and records. The right recordings might have been entered but the physical cash balance may not tally with the records. And this can lead to cash losses.

- b. Deliberate passing by of control procedures to get things done quickly. For example, sometimes an important customer may want things done quickly for him or her, and in order to satisfy him control procedures may be overlook.
- c. Competition sometimes makes it difficult to follow internal controls strictly. The banking sector has become so competitive that in order to win sometimes things need to be speed up. This means that control procedures must sometimes be override.
- d. Technological advancement. In this age of technological advancement, technological facilities easily become obsolete. This means that banks need to constantly add and subtract from their existing internal control systems facilities, and this involve cost.
- e. Sometimes strict internal control procedures become disincentive to innovate.
- f. The internal control procedures can be manipulated.
- g. Sometimes bank of Ghana will come out with directives that may mean there should be an overhaul of the branch's control systems.
- h. Sometimes the branch's headquarters may come out with directives concerning the internal controls that need to be complied with.

What these means are that, the branch's internal control systems are not 100% efficacious and that there are certain factors that can adversary affect the proper functioning of the internal control systems. This therefore confirms the assertion by Lannoye 1999 that internal control systems can give only reasonable assurance but not absolute assurance and that some of these factors may be outside the immediate control of the management. The implications are that the branch need to continuously monitor and review the existing control systems to ensures that they are working properly. And that they must also continuously scan the control environment for weaknesses, strength, opportunities, and threats for decision making.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS.

5.1 INTRODUCTION

Based on the study carried out, the following findings have been stated, conclusions and recommendations are then made accordingly.

5.2 SUMMARY OF KEY FINDINGS.

From the analysis of data collected, the following key issues were found:

- a) The Nwabiagya rural bank in Kumasi Ashanti region has four kinds of internal control systems. These are A Posteriori Administrative control systems, A Priori Administrative control systems, A Posteriori Accounting control systems, and A Priori Accounting control systems.
- b) The bank's reasons/objectives for instituting the control systems are to: ensure Compliance with laws and regulations, to apply instructions and directional guidelines fixed by the Board and Management, Ensure correct functioning of the company's internal processes; particularly those implicating the security of its assets; and ensure Reliability of financial information.
- c) The bank ensures quality standards of its Internal control systems through Segregation of duties, Function description, and Ensuring that operations are performed to standards.
- d) The components of the bank's internal control systems are the Control Environment, Risk Management systems, Control Activities systems, Information and Communication systems, and Monitoring systems.

- e) The bank's board of directors, management, and the internal auditors all play major roles and are responsible for the internal control systems of the bank. However, opinions are divided on the roles and responsibilities of the bank's staffs on the internal control systems of the bank.
- f) The limitations of the bank's internal control systems included: Human errors in processing or judgment; Deliberate passing by of control procedures to get things done quickly; Competition sometimes makes it difficult to follow internal controls strictly; Technological advancement can make technological facilities easily become obsolete; Sometimes strict internal control procedures become disincentive to innovate. The internal control procedures can be manipulated; Sometimes Bank of Ghana will come out with directives that may mean that there should be an overhaul of the branch's control systems. The branch's headquarters may come out with directives concerning the internal controls that need to be complied with immediately.

5.3 CONCLUSION

The researchers conclude that the research objectives of this work have been achieved. There are four kinds of internal control systems at the bank. However the internal control systems of the bank can give reasonable but not absolute assurance of its efficacy.

5.4. RECOMMENDATIONS

Per the findings of this research, the following recommendations are made:

- a. The roles and responsibilities of the staffs of the bank on the internal control systems should be well communicated to them to enable them appreciate it to help achieve goal congruence.

- b. The bank should be proactive in anticipating some of the uncontrollable limitations of the internal control systems so as to mitigate its adverse effect on the internal control operations of the bank.
- c. The bank should try to prevent those controllable limitations of the internal control systems.
- d. The bank should not only be interested in the availability of the components of the internal control systems but to ensure that each component is working effectively.
- e. The bank should ensure that the qualities of internal control systems to achieve reasonable assurance are always adhered to.

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APPENDIX
QUESTIONNAIRE

I will be grateful if you may volunteer sometime to provide some answers to help in our academic project. This questionnaire is designed to collect data or information for academic research on the topic internal control systems of rural banks. (The case of Nwabiagya rural bank). You are assured that whatever information to be provided will be treated highly confidential and this account for exclusion of personal details of respondent. Therefore respondent are requested to willingly provide information that reflect the true situation on ground.

1. Please provide information below relative to your background.
 - a. Age: 20-30 (), 31-40 (), 41-50 (), above 50 years ().
 - b. Gender: Male (), Female ().
 - c. Working experience with the branch: below 1 year (), 1-4 years (), 5-8 years (), above 8 years ().
2. How long has this branch been operating? ()
3. Do you have information systems in place to inform on transaction and liabilities and ensure that risk- taking are within policy guidelines
 - a. Yes ()
 - b. No ()
4. Do you have in place processes to asses and control those risks?
 - a. Yes ()
 - b. No ()
5. What kind(s) of internal controls has your branch instituted?
 - a. Administrative and Accounting controls ()
 - b. Administrative controls only ()

- c. Accounting controls only ()
 - d. None of the above ()
6. Are the control systems both reactive and proactive?
- a. Yes ()
 - b. No ()
 - c. Only reactive ()
 - d. Only Proactive ()
7. How would you rate adherence to internal control system of 100% ()
8. Do you evaluate the risk associated with potential new product or activities or changes to existing product?
- a. Yes ()
 - b. No ()
9. Do you involve audit or other control review personnel when discussing such product or activities.
- a. Yes ()
 - b. No ()
10. Please complete the table below relative to your branch:

Objectives of the control system	Yes	No
a. Compliance with laws and regulations		
b. Application of guidelines fixed by management board		
c. Ensuring effective functioning of internal processes		
d. Reliability of financial information		

11. How does your branch seek to achieve quality standards of your internal control system?

- a. Segregation of duties, function descriptions, and ensuring that operations are performed to standards ()
- b. Segregation of duties only ()
- c. Function description only ()
- d. Ensuring that operations are performed to standards only ()

12. Please complete the table below relative to your branch:

Components of the control system	Yes	No
a. Control environment		
b. Risk management		
c. Control activities		
d. Information and communication		
e. Monitoring system		

13. Please indicate Yes or No to the table below in respect of bodies that play major roles and are responsible for the internal control systems of your branch.

Bodies	Yes	No
a. Board		
b. Management		
c. Internal auditors		
d. Staffs		

14. What would you suggest could be done to enhance effective internal control?

- a. Operational policies and Manuals must be in place and be made handy ()
- b. Adequate training on internal control must be given to members of staff ()
- c. Internal controls must be observed by Board and Management ()
- d. Others.....
.....
.....

15. Would you rate your overall internal control and monitoring procedures

- a. Strong ()
- b. Satisfactory ()
- c. Weak ()