CATHOLIC UNIVERSITY COLLEGE OF GHANA

INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE OF PRUDENTIAL BANK LTD

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BY

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DECLARATION

Candidate's Declaration

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

Candidate's Signature: …………….............   Date ……………………..

Name: Bright Ernest Donkor

Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised per the guidelines on supervision of dissertation laid down by the Catholic University College of Ghana.

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

Name: Mr. Samuel Ntoah-Boadi

ABSTRACT

The significance of upholding effective internal control system (ICS) in organisations has been persistently and immensely emphasised due to its positive effects on financial performance. Effective internal control and audit enable the prevention and detection of fraudulent activities in the banking industry. Consistent with this, persistent efforts by policymakers to pursue policies that would improve the Internal Control System in the banking industry have yielded abysmal results with regards to financial performance, particularly at Prudential Bank Limited (PBL). The study sought to analyse the effectiveness of Internal Ccontrol Systems on the financial performance of Prudential Bank Limited. The research design employed a descriptive analysis with a target population of 12 employees at Prudential Bank Limited. Primary data was collected using a questionnaire survey and quantitatively analysed parametric (mean score, one-sample t-test and frequencies) and non-parametric (relative importance level) tests in SPSS 21. It was revealed that the Internal Control Systems at Prudential Bank Limited are highly robust and effective. However, the system is unable to detect people who do not comply with control policies. Moreover, inadequate physical control measures and procedures to protect the company's assets against theft and unauthorised access were major challenges associated with Prudential Bank Limited's Internal Control Systems. It was also discovered that the control system had led to positive financial and non-financial performance at Prudential Bank Limited. One of the key recommendations is that PBL should involve staff in the formulation of control policies and also conduct regular control system reviews.

KEYWORDS

Internal Control Systems

System Components

Financial Performance

Fraud Schemes

Coso Framework

Prudential Bank Limited, Ghana

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I further recognition goes to others whose names did not appear here but helped in diverse ways, most notably the staff and management of Prudential Bank Limited, Techiman Branch to make this work a success.

DEDICATION

To my wife and Daughter Esther Oforiwaa Darko, Empress Awura Ama Breba Adjei.

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LIST OF ACRONYMS

AICPA	American Institute of Certified Public Accountants
BBG	Barclays Bank Ghana
BCOBS	Basle Committee on Banking Supervision
BOG	Bank of Ghana
CEO	Chief Executive Officers
COBIT	Control Objectives for Information and Related Technologies
COSO	Committee of Sponsoring Organisation
ERM	Enterprise Risk Management
ERP	Economic Recovery Program
GhIPSS	Ghana Interbank Payment and Settlement System
HSBC	Hongkong and Shanghai Banking Corporation
IADs	Internal Affairs Divisions
ICS	Internal Control System
IFAC	International Federation of Automatic Control
IMF	International Monetary Fund
ISA	International Standard on Auditing
NSE	National Stock Exchange
OCC	Office of the Comptroller of the Currency
PBL	Prudential Bank Limited
PBZ	People's Bank of Zanzibar
POSB	Post Office Savings Bank
SCB	Standard Chartered Bank
SIC	State Insurance Corporation
SMEs	Small and Medium-Sized Enterprises

SSNIT	Social Security and National Insurance Trusts
WACB	West African Currency Board

CHAPTER ONE

INTRODUCTION

Background to the Study

The basis of safe and sound banking is effective internal control. Internal controls can be referred to as the ways introduced by a company to make sure the accomplishment of the company's aims, targets, and objectives. A company's internal control structure consists of policies and procedures to ensure the achievement of specific objectives of a company is reasonable (New OCC Handbook, 1998). Internal controls are processes planned and an influenced by those in charge of supremacy, administration, and any other private to offer a sound guarantee of the accomplishment of a company's aims regarding consistency of the financial reporting, efficiency and success of operations and fulfilment of all the rules and regulations (Eyenubo, Mohammed, & Ali, 2017; Hanif, 2015; Menon & Deahl Williams, 1994). The bank's board of directors and management manage the bank's finances, generates accurate financial reports and complies with the regulations and laws through a well structured and regularly implemented operating and financial framework of internal control. Proper quality management also reduces the potential for significant errors and violations and helps detect wrongdoing when they happen inside the company promptly. The active system of internal control can not be delegated to a bank board of directors and senior management for the formation, retention and management of their responsibilities. The Bank's Internal Control System should be tested regularly or verify by Senior Management to ascertain its integrity (Comptroller's Handbook, 2001).

In light of many changes in business, the 2013 framework is expected to assist organisations in designing and introducing internal controls. Operating environments have expanded the implementation of internal controls since the introduction of the original framework to resolve operations and reporting goals and to clarify criteria for implementing appropriate internal controls as enshrined in 2013 COSO Integrated Framework (KPMG Canada, 2013).

HSBC, Europe's largest financial institution, admitted weak controls over money laundering in 2012, resulting in a fine of $1.9 billion following U.S. Senate inquiries (BBC, 2012). The Ghanaian banking industry is not without bank failures. Two banks, the Ghana Co-operative Bank and the Housing and Construction Bank, collapsed at the early 2000s, which cost approximately 1.25b Ghana cedis of liquidation for Ghana's government (Addo, 2000; Ayagre, Appiah-Gyamerah, & Nartey, 2014). The nerve core of any organisation is an unsuccessful internal control mechanism, which causes organisations to fail.

Internal control is a crucial aspect of an organisation's governance system and the ability to manage risk. It ensures the achievement of an organisation's objectives and creating, enhancing, and protecting stakeholder value (International Federation of Accountants, 2012). The increasing uncertainty in global markets and the need for higher shareholder returns have driven businesses to encourage internal control mechanisms as a tool for improving businesses' profitability (Rittenberg & Schwieger, 2005). Internal control helps entities achieve crucial objectives and sustain and improve performance. Internal control empowers firms to effectively and efficiently design and build systems of internal control that is adapted in changing business and operating environments, mitigate risks to acceptable levels, and support sound decision making and governance of the organisation.

A practical and reliable internal control structure needs more than strict compliance with policies and procedures. Management and boards of directors use the experience to determine how much control is enough. Everyday management and other personnel use judgment to select, develop, and deploy controls across the entity. Management and internal auditors, among other personnel, apply judgment as they monitor and assess the effectiveness of the system of internal control (Schandl & Foster, 2019).

This judgment is especially crucial for the banks as one of the fundamental cause of bad performance in the banks is the weak internal control mechanism, mainly because of unspecified fraud (Etuk, 2011). Internal control is an integral dynamic operation, continually adjusting to changes in the modern banking sector (Wielstra, 2014). There is a need to provide products and services at a fair price in every financial institution, which ensures cost-efficiency in production services (Muthusi, 2017). In Kenya, the lack of internal regulation in the traditional market sectors has resulted in the failures of commercial banks and widespread decrease in revenue in the last 20 decades (Origa, 2015).

Internal control has, therefore, become increasingly necessary today, ensuring the integrity of any organisation (Muthusi, 2017; Rezaee & Riley, 2009). The established control systems are, therefore, a basis for an effective management mechanism and the achievement of the organisation's objectives. Most organisations are continuously realigning their internal policies to enhance their Internal Control System s. The internal control mechanism of organisations is key to fostering the efficiency and returns of an organisation (Cahill, 2006; Kantzos & Chondraki, 2006; Siouziou, Toudas, & Menexiadis, 2017).

It is costly to observe that, internal controls only provide sound but not utter a company's administration and board of directors that the aims of the company will be accomplished. Internal Control Systems are established by an organisation to accomplish industrial and performance objectives, facilitate the making of accurate reports, make sure the fulfilment of rules and ignore any wastage of resources (Hayes, Wallage, & Gortemaker, 2015). Such corporate scandals were triggered by weaknesses in the mechanisms of internal control and by the subsequent circumvention of internal controls by management (Negash, 2019). Organisations' must ensure that their Internal Control Systems remain relevant in today's business model. The internal control of an organisation is composed of the control environment, the risk assessment, the control activities, the information communication and monitoring (Carmichael, Willingham, & Schaller, 1995). An effective Internal Control Systems ensures the attainment of organisation performance (Fadzil, Haron, & Jantan, 2005; Mokhtar, Nik Mohd Kamil, & Muda, 2006). This system is ensured through regular review of the financial information, ensuring the safeguarding of the firm's assets, compliance with regulatory guidelines and ensuring effectiveness in the management activities.

American Institute of Certified Public Accountants (AICPA) says an organisational strategy and all procedures and initiatives implemented within a company should protect its properties. It ensures that its accounting data is correct and reliable, promotes operational efficiency and improves compliance with administrative policies that have been retained. The alleged circumvention of internal supervision has triggered numerous corporate scandals by management and by the failure of internal control structures. The banking industry must ensure that its Internal Control Systems remain relevant in today's business model. Market trends have drastically changed, including the growing use of shared services, externalised service providers, restrictions on businesses and increased business risks due to technology dependence, increased stakeholder anticipation, among other factors (Mcnally, 2013; Negash, 2019).

There is a g Internal Control Systems eneral belief that the establishment and use of an effective Internal Control Systes may directly influence better financial performance. This belief may enhance the reporting procedures by raising the trustworthy of the Statutory Bank's reports. With the flowing criticism of the world banking sector for domestic control issues, the researchers sought to assess the efficacy of Ghana's internal control and financial performance of commercial banks (Ayagre et al., 2014) using the Prudential Bank Limited (PBL) as a case study.

Statement of the Problem

The banking sector is one of the unique sectors of the Ghanaian economy. This sector gives different kinds of services to the customers and handles a massive volume of funds daily. Commercial banks play a very critical role in any given environment without which an economy cripples and dies on its tracks. These commercial banks act as a source of funds for the government, businesses and individuals, and also create job opportunities for vast number of graduates in the economy. Most activities in the economy depend on the strength and stability of the Banking Sector. When these commercial banks tend to collapse, it tends to have a domino effect on other sectors of the economy. The recurrent happening calls for a more rigorous financial soundness, achieved via instituting robust internal control Systems.

Due to the weak internal control systems in our country, Ghana, it led to some of the financial meltdowns of some commercial banks and others consolidated and takeovers which have often called a merger, acquisition, and consolidation (MAC) (Addison & Hesse, 2018). This financial crisis adversely affected small scale and micro-enterprises (SMEs), state-owned enterprises (SOEs), and NBFI (non-banking financial institutions, e.g., pension funds). Other sectors that suffered from this full-blown crisis included the labour market (employment and job creation), liquidity and SMEs operation (income-growth). It was evident that some Directors and Executives accessed prime loans by breaching the protocols and that placed those banks at risk of a bubble which burst resulting to much distress in the entire financial sector of the economy (Antwi-Asare & Addison, 2000; PricewaterhouseCoopers, 2019). The United States of America and the European Union also had their share 2007/2008 of some of the commercial banks went into distress (Ionescu, 2009; Yeoh, 2010, 2012). A constructive preventative approach to the issue includes a careful evaluation of current mechanisms for internal control of these commercial banks and making the needed adjustments to ensure that banks' Internal Control Systems are accurate, up-to-date and desirable. (Kratz, 2008)

Instead, the application of these Internal Control Systems is typically challenging to management and staff. If these systems are not implemented strategically, the perception of the quality of services of a firm may be affected;

these Internal Control Systems usually require management, staff and customers to following laid down procedures and processes in one way or the other. Having these control systems and their use is essential to these commercial banks, which engaged in more significant financial, economic and social roles in the economy. The study, therefore, explores whether or not the systems of internal controls established by Prudential Bank Limited is useful and effects the company's financial performance.

Research Objectives

The main aim of this study is to evaluate effects of effective Internal Control Systems on the financial performance of Prudential Bank Limited. The study specifically addresses these objectives;

1. To examine the structure and nature of Internal Control Systems in PBL and how they operate.
2. To establish the relationship between the internal control components and their effectiveness in monitoring PBL's financial performance.
3. To assess the types of fraud and factors that contribute to the fraud incidence in PBL.

Research Questions

The above objectives raise several questions that need to be answered. The major question to be addressed is how does effective Internal Control Systems affect the financial performance of the Prudential Bank Limited. The following specific questions are necessary

1. What is the nature and structure of Internal Control Systems in Prudential Bank Ltd?
2. What is the relationship between the internal control components and their effect on PBL’s financial performance?
3. What types of frauds do occur in Prudential Bank Ltd?

Justification of the Study

This study concentrates on Internal Control Systems within Prudential Bank Ltd and how the various departments within the company adhere to the policies formulated by management. The results of this study offer policymakers a new window and challenge to re-examine the effectiveness of control policies in reducing risk and ensuring the efficiency of operations.

Delimitations

The study provides emphasis on the effective Internal Control Systems and financial performance of commercial banks in Ghana. The Commercial Bank, PBL is considered in the study due to the almost semi nationwide coverage, particularly Forty (41) Branches and agencies located in the Seven (7) out of Sixteen (16) regions in Ghana.

The study was contextually limited to the review of the systems of internal controls of commercial banks and the effects they have on the financial performance of the banks. The study was limited only to PBL. The methodology of the study was constrained to the positivism philosophy and the descriptive research design. There are many control policies, examples are strategic control, management control and operational control, including internal control components, internal control effectiveness, internal control challenges, effects of internal control on operations and management systems.

Limitations

This research pr anticipate that the respondents would not be willing to disclose facts and figures that are confidential or against their Bank's policy. However, the assurance given to the respondents that it is for academic purpose that the information is sought for.

This study is limited by time. It is supposed to be carried concurrently with lecture time and working hours. For this reason the study was only limited to the Prudential Bank limited within the financial sector thus limiting the findings to a particular bank. This implies that in extension, the findings of the study cannot be comprehensive of the entire Banking industry.

The cost of carrying out a study of this nature imposes a limitation for the study. As a matter of fact, because of financial constraint, the study would make use of twenty-one (21) branches in addition to the Head office for the study.

Organisation of the Study

The study is structured into five (5) chapters. Chapter one covers the introduction to the study. Issues such problem statement, research objectives, research questions, significance of the study and limitations of the study are discussed. Chapter Two reviewed all the relevant literature concerning the study variables. The chapter also reviewed the theories anchored in this study by highlighting all related empirical literature and mapping research gaps. It also outlined the relationship between the study variables in a conceptual format. The last section of the chapter provided a summary of the aspects reviewed during the study. The third Chapter reviewed the research methodology that was applied in solving the research problem. The methodology as a blueprint guided the researchers in systematically solving the research problem. The methodology also steered the study in identifying the target population, the appropriate sample size for the study. The methodological section further guided the research in designing the data collection instruments, the data collection procedures, the data analysis method and the ethical considerations adhered to in the course of this study. Chapter Four is the central part of the study, which took into account the presentation and discussion of the study results in line with other studies to draw comparisons and explain deviations were applicable. Chapter Five, which is the final chapter of the study report, covered the conclusions and recommendations of the study based on the principal research findings.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter is divided into three main sub-sections. These are (1) theoretical literature review and framework, (2) empirical literature, conceptual framework and (3) financial regulatory and supervisory framework in Ghana. The literature reviewed here formed the basis for the design of the structured questionnaire.

Theoretical Literature Review on Concept

The theoretical literature review relates to review of literature from journals and other secondary sources of information. These kinds of literature do not relate to particular research findings. The theoretical literature reviewed in this section are:

1. Definition of Internal Control Systems and Types of Internal Control Systems
2. Effectiveness of Internal Control Systes
3. Theoretical Challenges and Limitations of Internal Control Systems
4. Internal Control Systems Theoretical Frameworks.

Definition of Internal Control System

Internal control means things to different people. This system leads to business confusion, legislators, regulators and others, resulting in miscommunication and different expectations from the various stakeholders in an organisation. Problems are exacerbated by legislation, regulations/guidelines according to the Committee of Sponsoring Organisations of the Treadway Committee (COSO) (Gupta, 1992) when the word is yet to be defined clearly. The observation is especially true when it comes to the issue of the mandatory, consulting or proprietary control systems. The International Standard on Auditing (ISA-315, 2016) describes internal control as a mechanism developed and carried out by those responsible for governance, management and other staff to provide fair assurance of the achievement of the goals of the organisation concerning the reliability of financial statements, operational performance and compliance with relevant laws and regulations.

The United Kingdom Audit Practices Committee initially described the Internal Control System as a complete control system, both financial and otherwise, established by management to conduct business in an orderly and efficient manner, to ensure compliance with management policy, to ensure asset safeguards and as far as possible to ensure full accuracy of records.

COSO’s 2005 edition, defines internal control as a process carried out by the board of directors, management and other personnel of an agency to provide fair assurance as to the priorities under the following categories (Landes et al., 2005). The definition highlights four essential characteristics of internal control (Dionne, 2013). These are: internal control as a process; people are crucial for healthy internal controls; Internal Control Systems only provide reasonable assurance, and that internal control has four main objectives-accomplish its mission and reach its objectives; Produce accurate, reliable data for decision-making; Comply with statutes, laws and policies; and Safeguard its assets (Dionne, 2013). The definition of enumerated by 2005 COSO has some few shortcomings.

Firstly, COSO's definition sees internal control from the advisory perspective rather than from the mandatory and proprietary perspective. Also, the COSO definition labels internal control as providing reasonable assurance. That is, internal controls cannot possibly detect all errors. Moreover, the definition does not explicitly mention the four leading roles of Internal Control Systems, which are the direction, prevention, detection, and correction of errors. Lastly, the definition limits the purpose of internal control to four main objectives.

Schroy (2010) claimed that internal control is the mechanism influenced by the structure, work and authority flows, people and information management systems of an organisation designed to enable it to achieve particular objectives or aims. He added that it is a means by which the organisations' resources are directed, monitored, and measured. According to the author, it plays an essential role in preventing and detecting fraud and protecting the organisations' resources, both physical (for instance, machinery and property) and intangible (reputation or intellectual property such as trademark). This definition, as provided by Schroy (2010), seems to have been modelled around that of COSO framework's and suffers a similar fate. What is unique in this definition is that Schroy (2010) explicitly stated that Internal Control Systems are there to prevent and detect fraud. However, it fails to mention the correction of these errors detected.

The organisational and monitoring system ensures flexibility, though impartial behaviour. The internal auditing function analyses risk exposures relating to management, processes and information systems of the company concerning performance and operational quality, reliability, completeness of financial and operational information, asset security and compliance with legislation, rules and contracts. The internal auditors determine the appropriateness and efficacy of how the risks are identified and handled in the above areas based on the findings of the risk evaluation (Chepkorir, 2010).

They also evaluate other factors such as organisational ethics and principles, management of success, risk communication and control in the organisation to promote a sound process of governance according to Institute of Internal Auditors Research Foundation (IIA, 2009). In those areas where opportunities or deficiency are identified, internal auditors are expected to provide recommendations for improvement. The internal audit process ensures management and the audit committee, while management is responsible for internal controls, that internal controls are productive and functioning accordingly. The Chief Audit Executive is responsible for the internal audit operation. In a written charter approved by the audit committee, the Chief Audit Executive defines the scope of internal audit activities, authority and independence. A useful tool for the management and board of directors and its counterparts is successful internal auditing practices, and the audit committee knows the company, its history, its practices and its risk profile. For objectivity, professional internal auditors' expertise and experience will improve the quality control, risk management and administration processes of an organisation (Chepkorir, 2010) significantly.

Similarly, effective internal auditing can assure other stakeholders such as regulators, employees, finance providers and shareholders (IIA, 2009). The purpose, power and responsibility of internal auditing operation shall be formally set out in the internal audit Charter, in compliance with the meaning of internal auditing, the Code of Ethics and the Standards, per the International Standards for the Professional Practice of Internal Auditing (2008). The Chief Audit Executive reviews the Interior Audit Charter annually and applies it for approval to the senior management and the Council (Pickett, 2010).

According to the Basel Committee's internal audit paper (Basel Committee on Banking Supervision, 2002), the scope of internal audit, from a general point of view, includes the following:

1. Examining and evaluating the adequacy and effectiveness of the Internal Control Systems;
2. Reviewing application and effectiveness of risk management procedures and risk assessment methodologies, the management and financial information systems, including the electronic information system and electronic banking services, the accuracy and reliability of the accounting records and financial reports, the means of safeguarding assets, the Bank's system of assessing its capital with its estimate of risk, and the systems established to ensure compliance with legal and regulatory requirements, codes of conduct and the implementation of policies and procedures, the appraisal of the economy and efficiency of the operations;
3. Testing both transactions and the functioning of specific internal control procedures;
4. Testing the reliability and timeliness of the regulatory reporting; and the carving-out of special investigations.

Directive Controls

According to DiNapoli (2016), directive controls are established to ensure compliance with regulations. He asserted that management must send a message that control procedures are critical to promoting directive controls compliance. Directive controls help to identify that an error has occurred but do not prevent errors. Directive controls include activities such as audits, inventory-taking, reviews, reconciliations, and variance analysis. Directives controls provide evidence about the effectiveness of preventive controls.

Preventive Control

Preventive measures are steps taken by the company to discourage administrative and operational non-compliance. They are constructive tests to prevent a loss. Examples of preventive checks include task separation, proper authorisation, correct documentation, and physical asset protection (DiNapoli, 2016).

Compensating Controls

Compensatory measures are designed to compensate other systems for the absence of controls. For example, companies with online databases might keep a hard copy of the client list in the office library. Such a list would compensate for electronic downtime and difficulties in locating customer names in an electronic system. While the list should be reproduced from time to time to add new customers would mitigate some of the obsolescence with hard copies (DiNapoli, 2016).

Detective Controls

Detective controls are set up to discover errors after they have happened. Nonetheless, preventive controls are more critical than detection of occurred errors. Also, detective controls don't work legitimately with the absence of penalties (DiNapoli, 2016).

Effectiveness of Internal Control System

Historically, internal audit has been viewed as a monitoring function, the 'organisational policeman and watchdog' (Morgan, 1979), tolerated for the achievement of significant business objectives as an integral component of organisational control but considered topic. An analysis of internal audit pressure in recent years indicates the desire to prove that the feature adds value.

According to COSO (1994), an internal control framework can be judged to be viable on the high-level. Amudo and Inanga (2009) stated that a deficient Internal Control System is the one that ignores how internal control components can be measured but emphasised on the elaborate control framework. COSO (2011) indicated that the effectiveness of the individual components determines the effectiveness of the entire control structure. Thus the effectiveness of the five control components determines the control framework‘s efficacy. Accordingly, evaluating control structure effectiveness must be in tandem with the individual components. However, the effectiveness of control of a framework is a subjective decision on the individual components of the entire control system (COSO, 2011). The internal control evaluator must comprehend the individual workings of the five control elements, the working philosophies of the control elements, and the application of the components throughout the company (Ayagre et al., 2014).

According to the internal audit paper of the Basel Committee in 2002 (Basel Committee on Banking Supervision, 2002), the scope of internal audit requires, from a general point of view, the analysis and evaluation of Internal Control Systems' adequacy and efficiency:

1. Applying and effecting risk management procedures and risk assessment methodologies, managing and financing information systems, including the electronic information system and electronic banking services, the accuracy and reliability of the accounting records and financial reports, the means of safeguarding assets, the Bank's system of assessing its capital to its estimate of risk, and the systems established to ensure compliance with legal and regulatory requirements, codes of conduct and the implementation of policies and procedures, the appraisal of the economy and efficiency of the operations;
2. Testing both transactions and the functioning of specific internal control procedures;
3. Testing reliability and timeliness of regulatory reporting and implementing special investigations.

The essence of internal control is to prevent, correct and detect errors and possible frauds in the business. Because of this, this researcher is of the view that adequate internal control is the one that can: prevent errors from occurring; detect errors if they occurred; and correct detected errors.

COSO (1994) indicated that the control effectiveness levels across different businesses stem from the diverse ways of implementing, controlling, and monitoring systems adopted. The effectiveness of controls is subjective decisions on whether there is a sound assertion that the aims of internal control are met. Looking at corporate governance as a whole, that is, the demands, pressure and tasks of the audit committee, management and the board in general, the expectations of the different stakeholders, the position of the internal auditor within the organisation, an impact on the workload and the duties of internal audit appear unavoidable.

The board's responsibility for the efficacy of its internal control process was reaffirmed by corporate governance both locally and internationally. The critical role internal audit can play in the corporate governance framework of an organisation has been highlighted by these developments. The central role of the internal audit is to assist by carrying out its governance activities by the board, or its audit committee or both (KPMG Canada, 2013) are:

1. An objective evaluation of the existing risk and internal control framework,
2. Systematic analysis of business processes and associated controls,
3. Reviews of the existence and value of assets, a source of information on significant frauds and irregularities,
4. Ad hoc reviews of other areas of concern, including unacceptable levels of risk,
5. Reviews of the compliance framework and specific compliance issues,
6. Reviews of operational and financial performance,
7. Recommendations for more effective and efficient use of resources,

8. Assessments of the accomplishment of corporate goals and objectives,
9. feedback on adherence to the organisations' values and code of conduct/code of ethics.

The mere definition of internal auditing and the standards were drawn up and implemented by the Institute of Internal Auditors give the internal auditor, not just the mandate but the obligation to contribute in any way possible (consulting or assurance) to the evaluation of the corporate governance process (Cattrysse, 2005). The report maintains that while the role of the internal auditor traditionally consisted of helping the organisation, through its corporate governance, to maintain its system of internal financial statements, many new opportunities, opportunities and responsibility arise. The author further states that the internal auditor has the highest task of finding the appropriate means to provide all the participants with the fair confidence they deserve.

Theoretical Challenges and Limitations of Internal Control System

Regardless of the quality of internal controls, they can provide fair assurance only of the achievement of targets (COSO, 1999). All Internal Control Systems have certain limitations by Mercer University (2015) as cited in Adu-Frimpong (2015). These include:

Judgment

Decisions on human judgment under pressures to conduct business based on the information at hand limit the efficacy of the controls. The realities of human judgment can limit effective internal regulation, according to Lannoye (1999) as cited in Hung and Tuan (2019) and Thao, (2018). Decisions are frequently made without full information and under the time pressure of the conducting agency enterprise within a limited time frame. Such assessments can influence the accomplishment of goals, with or without reasonable internal control. Internal control can become counterproductive if errors such as confusion, carelessness, agitation, tiredness, or mistakes can not be reduced if management is unable to mitigate (Onumah, Kuipo, & Obeng, 2012).

Breakdowns

Breakdown affects well-designed internal controls. Often workers misinterpret or make mistakes. The complexity of computerised information systems and new techniques can lead to errors.

Management Override

High-level staff may override prescribed personal benefits policy and procedures. This determinant should not be confused with management interference which represents management acts for legitimate purposes which deviate from established policies and processes. In 1999 Lannoye suggested that management can, for insufficient purposes, bypass/ignored specified policies, procedures and controls. The overrepresentation of state legislators, central control agencies, auditors or other citizens requires override activities (Thao, 2018). The bypass of management should not be confused with management interference (i.e. the divergence from legitimate policies and procedures). Intervention may be required to process non-standard transactions that otherwise would be handled inappropriately by the Internal Control Systems. A provision for intervention is needed in all Internal Control Systems since no system anticipates every condition (Adu-Frimpong, 2015).

Collusion

Control systems can be bypassed by cooperation between employees. Collectively acting individuals may alter financial or other management data in ways which control systems can not recognise. It is only in persons carrying out their assigned tasks or in the execution of one person who is verified by another that the division of duties is operative. There is always a risk that collusion between individuals destroys the effectiveness of segregation of duties. For example, an individual receiving cash receipts from customers can collude with the one who records these receipts in the customers 'records to steal cash from the entity' (Menon & Deahl Williams, 1994).

Internal Control System Theoretical Frameworks

A wide-ranging viewpoint on controls means that internal controls cover all facets of an enterprise and that a whole interconnected needs to be combined to create a control framework. If the achievement of goals entails risks, meaning that failure is a strong possibility, checks must be carried out for these risks if not, failure becomes likely (Putra, 2015). Controls at the same time, cost money and must be worthwhile. The failure probability depends on the risk tolerance and what is appropriate to the company and its stakeholders as opposed to the inacceptable practices. Weak controls are responsible for losses, scandals and failures and mar the image of organisations in every sector of their origin. There are likely to be issued when risk runs wild, and new ventures take shape without risk-control measures. Most agencies and regulators are excluded from the internal control banner. The most common and firm control systems and models in organisations are COSO, COCO, Control Objectives for Information and Related Technologies (COBIT, 1994) and the Basle Committee on Banking Supervision (BCOBS) (Putra, 2015).

COSO Control Framework

As said by Putra (2015), a joint partnership between the American Accounting Association and the Management Accountants' Institute (America) established in 1985 the American National Commission on Fraudulent Financial Reporting, known as the Treadway Commission. Based on their findings, an internal control literature review was undertaken under the auspices of the COSO. The final result was the Internal Control-Integrated Framework. COSO demonstrated the internal control management obligation (Putra, 2015). The COSO defines internal control as having five parts: control climate, risk management, knowledge and communication, tracking and monitoring activities. The components were explained by COSO (1994):

Control Environment

The control environment sets the tone of an association, impacting the control awareness of its people. It is the establishment for every single other part of internal control, giving discipline and structure. Control environment variables incorporate the integrity moral qualities and skill of the entity's people; administration's rationality and working style; the way administration allocates power and obligation, and composes and builds up its kin, and the consideration and bearing gave by the top managerial staff.

Risk Assessment

Each element confronts a mixed bag of risks from external and interior sources that must be surveyed. A precondition to risk assessment is the foundation of objectives, connected at distinctive levels and internally consistent. Risk assessment is the distinguishing proof and examination of relevant risks to the accomplishment of the objectives, forming a premise for determining how the risks should be managed. When circumstances continue to change in economic, technological, regulatory and operational terms, the frameworks required to recognise and resolve particular risks associated with changes are required.

Control Activities

Control activities are policies and procedures that contribute to the implementation of management guidelines. They ensure that appropriate steps are taken to resolve risks to achieve the goals of the company. Control operations take place at all levels, all roles in the organisation. They include a variety of activities such as approvals, approvals, verifications, reconciliations, operating performance assessments, asset security and task separation.

Information and Communication

Related information must be defined and collected in a manner and timeline that helps people to fulfil their responsibilities. Information systems generate reports, which contain organisational, financial and enforcement information that allows the company to be run and managed. Information systems generate reports, containing organisational, financial and compliance-related information, allowing the business to be managed and regulated. Effective communication often needs to be carried out through the enterprise in a broader context. A clear message from top management should be sent to all staff that control responsibilities must be taken seriously. You have to understand your position in the internal management system and how individual actions contribute to other people’s work. They need a way to communicate important information upstream. There is the need for effective communication with external parties, such as customers, suppliers, regulators and shareholders.

Monitoring.

Internal control frameworks should be monitored–a process that evaluates the quality of the system‘s performance over time. The appraisal accomplished through on-going monitoring activities, separate evaluations or a mix of the two. Monitoring occurs in the course of operations: routine monitoring and supervision, and other acts are taken by staff in carrying out their functions. The scope and frequency of separate assessments will depend mainly on the risk assessment and adequacy of monitoring procedures. Internal control deficiencies ought to be reported upstream, with serious matters reported to top management and the board. There are synergy and linkage among these components, shaping an integrated system that responds rapidly to changing conditions. The Internal Control System is interwoven with the entity‘s operating activities and exists for fundamental business reasons (COSO, 1994).

According to Amudo and Inanga (2009), the COSO framework may be relevant to larger organisations, but inappropriate for small ones due to expenses and operational complexity. Administration of small organisations may not require formal internal controls for the reliability of the records and other information, because of their involvement in the operations of the organisation. It lack raises a question whether the controls of small companies should be as involved as those of large companies for them to be effective, COSO framework asserted that the did not perceive and capture the delicate balance between formal and informal controls in smaller organisations. Moreover, in what capacity can small companies ‘internal controls be compelling when just a few of the components recommended by COSO are available? Yet, the controls could still be valid?’ COSO did not address these questions (Amudo & Inanga, 2009).

Another problem with the COSO framework is its failure to recognise information technology (I.T.) and people as major control components. I.T. is crucial to an internal control framework. Today, organisations use I.T. for initiation, authorisation, recording and processing of transactions. I.T. ensures the effectiveness of internal controls (Amudo & Inanga, 2009). Besides, people are vital in the control system. The commitment and capability of people play a critical role in whether a control system will be useful or not. On the other hand, COSO’s inability to recognise I.T. and people as a control component inspired other bodies to design and create frameworks to remedy the oversight. Two such frameworks are the Criteria of Control and Control Objectives for Information and Related Technology.

The Control Objectives for Information and Related Technology (3rd edition) deals with I.T. systems and supports security and control to support business practices. Several definitions are applied to this standard, including

Control policies, procedures, practices and organisational structures designed to provide reasonable assurance that business objectives must be accomplished, stopped or observed and corrected inappropriate events. *Information technology control objective* states the desired results of the purpose to be achieved by implementing control procedures in a particular I.T. activity. *Information technology's governance* structures relationships and processes to direct and control the company to achieve the company's objectives by adding value while balancing risk against I.T. and process returns. According to Putra (2015), COBIT has four main components (domains), and for these domains, there are a further 34 high-level control processes. The four main components are planning and organisation; acquisition and implementation; delivery and support; and monitoring.

The BCOBS committee represents the work carried out by the Basel Committee for Banking Supervision, which was established in 1975 by the Central Bank's governors of a community of ten countries, on internal controls for banking organisations. Top officials from the Banks and central banks comprised of: Belgium, Canada, France, Italy, Japan, Luxembourg, the Netherlands, Sweden, Switzerland, the United Kingdom, the United States and Switzerland. The Bank is usually present at its permanent secretariat at the International Settlement Bank in Basle. It has been working on internal control principles that relate to the banking environment for some time, and in September 1998 (Putra, 2015) the Committee developed a framework for Internal Control Systems within Banking organisations.

Empirical Literature Review

Several studies on internal auditing have been carried out both locally and globally. Local studies have been done by researchers such as Mugo (1998), Keitany (2000), Kibara (2007), Kibet (2008) and Donaldson and Davis (1991). Mugo (1998), in his study, aimed to determine the scope and independence of internal audit function in the publicly quoted companies in Ghana. Additionally, the study sought to establish the degree of independence accorded to internal auditors in the same companies.

Mugo (1998), in his study, established that the scope of internal audit is wide enough to cover not only financial/accounting data but also the data from other operations of the organisation. Independence from operations in terms of objectivity was found to be quite high, unlike in terms of organisational status which was found to be moderately high. The study concluded that the accounting discipline remained the source of internal audit staff and recommended I.T., specialists, in Internal Affairs Divisions (IADs). The study was limited to an only small section of Ghana industrial and commercial sector. Similar research was suggested to do on all Companies registered with the registrar of companies' office.

Keitany (2000) concluded that though the extent of reliance on internal controls is not sensitive to the strength of internal audit departments, companies should not do away with it. The measure is crucial because as a management tool, it assists management in day to day operations and not necessarily of relevance to the external auditor. Limitation of the study included the following: the outcome of the study might not have been conclusive as there was a possibility that some quoted companies who responded were not necessarily the ones whom the external auditor reported on; quoted companies that formed part of the analysis all had Internal Affairs Divisions; however, three were excluded due to lack of Internal Affairs Divisions and finally inherent weaknesses in using questionnaires for data collection purposes. The study suggested areas of further studies: (1) to research on whether Internal Control Systems originating from companies not having Internal Affairs Divisions are different from those having such departments; (2) a study to establish the fee structure among audit firms for the quoted companies and linking it to the presence and absence of Internal Affairs Divisions.

Kibara (2007) in his study ‘a survey of internal auditor’s risk management practices in the banking industry in Kenya’s found that most banks in Kenya were in the process of drafting the enterprise risk management process and strategies.

Kibet (2008) concluded that an internal audit function played a role in corporate governance. The limitations of the study were time constraints, restriction to state-owned corporations and having to make prior arrangement to meet the heads of IADs. Recommendations of further study were the effectiveness and contribution of internal audit in promoting corporate governance for companies listed in the National Stock Exchange (NSE).

Additionally, a study on the influence of internal audit and audit committee on financial reporting quality was recommended. Donaldson and Davis (1991) in his study contrasting stewardship theory and agency theory on governance, an incentive of the chief executive officers (CEO) and shareholder return found out that CEO duality is associated with higher returns to shareholders than is an independent chair of the corporate board. The study suggested that a similar study could be conducted, which utilises a more sophisticated market-based measure which adjusts for risk. Stewardship theory could also be investigated in strategic management whose premise should not be restricted to the narrow confines of agency and organisational economics.

Components of Internal Control System of Companies

There are various studies carried out to assess the nature of the Interal Control Systems of companies. Some of these studies were carried out in Ghana, Africa, and other parts of the world. These researches came out with different results. In this section, empirical findings relating to components of Internal Control Systems are reviewed. One of the researches that have been review in this section was conducted by Girinjnas (2009) on the topic 'Valuation of Condition of Internal Control Systems in the Company.' The objectives of this study included to reveal the main factors influencing the Internal Control System in the company from a theoretical aspect and to analyse the condition of the Internal Control System in the companies. The study revealed that factors of the internal control environment, data generation system, information and communication connection, the system of indicators, and feedback do influence activities of the studied company.

Notwithstanding, the study detected that the internal control frameworks of the studied companies analysed are not satisfactory. Assessment of this study shows that the components of the Internal Control System of the companies studied are internal control environment, data generation system, information and communication connection, the system of indicators, and feedback. That means that Girinjnas (2009) used an internal control model other than the COSO framework since the components revealed in his studies are quite different from the COSO framework, which this current research adopts.

Globally, Donaldson and Davis (1991) conducted a study contrasting stewardship theory and agency theory on governance, an incentive of the Chief Executive Officer and shareholder return. It sought to examine the effect of Chief Executive Officer duality on shareholder returns. A comparison was made of corporations whose board structure had a dual CEO-chair and where the Chief Eexcutive Officer was independent of the chair.

The research sample was a convenience sample of 337 US corporations taken from a compensation survey. However, only 321 firms had complete data, and those were included in the sample. The firms covered a wide range of industries, consumer products, technology, financial contributors, transportation and services. The study used a cross-sectional design and examined changes in structure and their effects on changes in shareholder returns. The data was taken from Standard and Poor's Industrial reports and the million-dollar directors. The board structure was coded as the presence of CEO duality if the top executive was also chair of the board in 1987. The board structure was coded as independent if the board chair was not the CEO. Thus, the board structure had a binary code. Shareholder returns were measured by ROE and gain in shareholder wealth.

The next research reviewed under this study was conducted by Oseifuah and Gyekye (2013) on the topic 'Internal Control in Small and Microenterprises in the Vhembe District, Limpopo Province, South Africa.' The goal was to analyse the efficacy of the study of internal controls in SMEs in South Africa. Specifically, the research focuses on SMEs in the Vhembe District of the

Limpopo Province. The study found that internal control practices among small business sector enterprises in the Vhembe District are low, with only 45% of the surveyed enterprises having adequate Internal Control Systems in place. The study also found out that the size of business in the sector studied determines the possession of insurance cover (a significant component of internal control). A critical problem with this study is that the study failed to explicitly reveal the different parts of the internal control framework of the SMEs studied in line with the COSO framework or any other framework for comparison purposes. The second drawback of this study is that it was conducted in South Africa but not in Ghana.

In this regard, the findings of this study cannot be generalised to cover financial institutions, notably savings and loans companies in Ghana. A major drawback because the business environment and culture of South Africa differs from Ghana.

The above researches relate to countries other than Ghana. Thus, an empirical analysis of findings in Ghana becomes imperative. A recent study conducted by Ayagre et al. (2014) on the topic 'The effectiveness of Internal Control Systems of banks: The case of Ghanaian banks' found healthy controls and monitoring operations in the Ghana management environment are aspects of the Ghana internal control structures. The participants with an average mean of 4.72 and 4.66 rated both components highly on a Likert scale of five points, respectively. Albeit the Authors used the COSO framework, they focused only on the control environment and the monitoring aspects of the framework. Thus, the authors did not test the control activities, information and communication, and risk assessment. Besides, other crucial internal control components like information technology and people were not assessed.

Effectiveness of Companies' Internal Control Systems

Internal Control System becomes essential when it is useful. After all, what is the essence of having a well-designed Internal Ccontrol Systems when it is not able to achieve its stated objectives? In this regard, many studies have been carried out to assess the viability of internal control frameworks of various institutions.

Ali (2013) examined the 'Contribution of Internal Ccontrol System to the Financial Performance of Financial Institutions – a Case of People's Bank Of Zanzibar Ltd.' A sample of 60 employees of the People's Bank of Zanzibar (PBZ) was used. The study findings indicated that the internal controls used in PBZ were adequate and satisfactory. Analysis from Ali (2013) further showed that the majority of respondents (32%) could confirm that 'adherence to internal control mechanisms in the firm as inferior.' Another 9% also describes 'adherence as very poor', whiles 19% of respondents described 'adherence to be barely acceptable.' In the opposite sense, 22% of employees asserted that 'adherence to the internal controls in the organisation is good' wiles another 18% of employees also described the systems 'adherence rate to be very good.'

Affum (2011) in his study 'Evaluation of Internal Controls in Papso Ghana Limited' discovered that Papso Ghana Limited has an effective Internal Control System and the internal auditor contributes immensely to it, but he is not independent.

Challenges of Internal Control System

Various studies have revealed challenges that confront the Internal Control System of companies. Saha and Arifuzzaman (2011) examined 'Management Disclosures on Internal Control in Annual Reports- a Study on Banking Sector: Bangladesh Perspective.' The study revealed that there are some inherent limitations of internal controls, and these limitations are also carefully acknowledged in the respective annual reports. Twenty-nine per cent of them pointed out that the systems 'designs provided only' — reasonable assurance of meeting stated objectives. Another 29% said the internal controls 'cost should not exceed anticipated benefits' (Saha & Arifuzzaman, 2011).

Ntim-Sarpong's (2012) study identified significant challenges influencing the effective implementation of the Internal Control System of the Agricultural Development Bank in the Bono Region of Ghana. The study highlighted the ensuing internal control barriers:

1. The desire of management to accomplish specific reporting results,
2. Confusion over who is in charge of internal control,
3. Indefinite segregation of duties,
4. Personal interest over corporate and public interest,
5. The problem of choosing the right as against the acceptable,
6. The problem of the substance of issues as against their legal form,
7. The problem of concern for both the fact and appearance,
8. Inappropriate and unreasonable executive compensation
9. The issue of selecting lose control activities and rejecting tight control procedures,

10. The issue of compliance with rules and regulations as against principles and values,
11. The changing business environment is resulting from the implementation of the bank's policies.

Although the Ntim-Sarpong (2012) and Saha and Arifuzzaman (2011) have revealed some of the challenges that constraint Internal Control Systems of their respective case study, these findings cannot be generalised. The reason is that businesses and organisations differ in terms of their culture, philosophy and the general business environment. Thus, albeit Ntim-Sarpong (2012) discovered the Internal Control System challenges of the Agricultural Development Bank in Ghana, it does not mean that the same challenges confront PBL in Ghana. Therefore, investigating the challenges that face the Internal Control System of PBL helps to assess whether the findings in the work of Ntim-Sarpong (2012) and Saha and Arifuzzaman, (2011) apply to Prudential Bank.

Effects of Internal Control System on Business Operations

Tunji (2013), in his study 'Effective Systems of Internal Controls as Antidote for Distress in the Banking Industry in Nigeria', examined the role of active internal control network in the banking sector in Nigeria to limit or complete eradication of distress. A survey study method was introduced using a questionnaire for the 56 employees of selected deposit funds banks. The author established and evaluated four hypotheses, and the study findings checked using 5% T-test statistics.

Testing the hypotheses showed that the presence of a system of adequate internal controls has positive implications for banking fraud; the performance of the system can be calculated precisely; a useful framework for internal controls has a significant influence on the quality and reliability of bank records. The author's study has shown the importance of effective Internal Control System by correlating an effective Internal Control System to operational business issues such as fraud detection and accuracy and reliability of records. However, Tunji (2013) study differs from this research in two significant ways.

Firstly, the research design of Tunji (2013) study is causal while this research adopted the descriptive research design. Secondly, the study scope was deposit banks in Nigeria, but this research focuses on PBL in Ghana. A similar study conducted by Abiola and Oyewole (2013) in Nigeria on the topic 'Internal Control System on Fraud Detection: Nigeria Experience' revealed that there is a strong relationship between Internal Control System and fraud detection. Secondly, the authors found that a suitable and well-designed employee training techniques improve fraud detection and that adequate employee training on Internal Control System also has an effect on fraud detection.

An earlier study conducted by Schneider and Church (2008) examined the effect of internal control reports on lending officers 'assessments of a company's creditworthiness in the United States of America.' The researchers gathered data from loan officers and considered the auditor's study on the performance of internal controls to influence their decisions. If the company provides an unfavourable internal control view, relative to an unqualified, the lender determines the likelihood of extending a credit line and the potential for extending the loan line. Additional analyses suggested that an adverse internal control opinion weakens the importance assigned to the balance sheet and income reporting in lending decisions and decreases the confidence of borrowers in the fair presentation of financial statements in compliance with commonly accepted accounting standards (Schneider & Church, 2008).

Ali (2013) also discovered that there is a significant positive relationship between internal controls and organisational financial performance of the PBZ. This study further revealed that internal control activities relate positively with responsibility, reliability of financial reporting and performance, effectiveness, productivity and general organisational objectives inward PBZ.

Historical Overview of Banking in Ghana

The early days of the modern banking system in Ghana were in the late 19th century, according to Antwi-Asare and Addison (2000). In 1888, the Post Office Savings Bank (POSB) commenced operations via the post offices of the nation. It was founded in 1896 at the then Gold Coast and then followed in 1917 by Barclays Bank DCO, now Barclays Bank Ghana (BBG) Ltd, and the then Standard Chartered Bank (SCB). Such banks have been international branches of United Kingdom-based banks (Abdallah, 2015).

In 1935, farmers' cooperatives and the colonial government also established a Co-operative Bank. Beside POSB the banking offices in major mining towns, shopping centres and critical cocoa buying centres are established. In 1912, to issue currency for different denominations in British colonies in the West African Republic (Gold Coast, Nigeria, Gambia, Sierra Leon) and restore English currency, the U.K. government established the West African Currency Board (WACB) in 1912 (Abdallah, 2015).

The colonial administration was subjected to tremendous local pressure as the two biggest established banks (BBG and the Bank of West Africa) supported the activity of the European, Levantine and Asian populations but rarely provided loans to indigenous business people (Antwi-Asare & Addison, 2000). In 1951 the government contracted Sir Cecil Trevor, in particular on the establishment of a National bank on commercial lines, to examine the entire banking sector on the Gold Coast. He suggested that a bank part of the government be formed to be managed and staffed by local people. He emphasised that the goal would be to function to support the indigenous private sector while retaining the accounts of the government and serving as agents for the flotation of government bonds. The Gold Coast bank was established, and operations began in 1953 based on these recommendations (Antwi-Asare & Addison, 2000).

Ghana left the WACB after independence and split the Gold Coast Bank into two branches. The new Bank of Ghana (BOG) initiated central banking activities, and commercial banking activities were carried out by the Ghana Commercial Bank. The government's socialist policies and related lack of a large volume of private-sector capital contributed to a government-driven banking sector growth in the period instantly following independence. Using the BOG and State Insurance Corporation (SIC), Social Security and National Insurance Trusts (SSNIT), several state-owned banks were formed as foreign investors in one case.

Alfred Engleston was appointed the BOG's first Governor in July 1957. In July 1958, the BOG took over the administration of the currency to replace the old Western African currency banknotes by issuing its first National

Monetary Bill – the Cedi. The Ghana Commercial Bank took over the positions and functions of public banks and started to take over the finances of the majority of public departments and companies. Through opening branches in several cities, the BOG has quickly become a powerful competitor of the expatriate banks and centres where they worked and expanded into new areas like the Ashanti and the Northern Regions. The arrival of the new government in 1957, elected by popular vote, led to the development of more banks (Abdallah, 2015).

The Ghana Investment Bank, as an investment banking institution; the Agricultural Development Bank for the Production of Agricultural Resources; the Merchant Bank for commercial banking and the Social Security Bank for savings have been established by law between the years 1957 to 1965. Both these institutions were established as government banks following the economic policy of the time. The government initiated the Economic Recovery Program (ERP) in 1983, under the guidance and assistance of the International Monetary Fund (IMF) (Abdallah, 2015).

That marked the end of Socialism in Ghana and offered an instrument for growth by adopting the market economy, according to Antwi-Asare and Addison (2000), privatisation, trade liberalisation, financial constraints, and a break-in of government interest in state-owned firms. Import license was abandoned quickly, and many restrictive exempted from Exchange Control Act provisions (Abdallah, 2015).

Besides, an Investment Code has been introduced to loosen many of the previous trade and finance restrictions and promote private investments. Such recent principles, particularly for banks, non-banking financial institutions and

Securities, have been incorporated into legislation. The Banking Law was adopted in 1989, enabling appropriate local authorities to submit license applications like banks. A variety of companies, including Meridien (BIAO), Trust Bank, CAL Merchant Bank, Allied, Metropolitan and ECOBANK, were subsequently approved to operate as banks (Abdallah, 2015).

Until the end of 1990, banks had been able to meet the new criteria for capital adequacy. Therefore, in 1991, the government announced the formation of the First Finance Company to support struggling yet potentially viable businesses recapitalise. In response to calls for easier access to loans for businesses impacted by ERP initiatives, the business was established in a financial sector adaptation programme. The transaction was a joint venture between the BOG and the National Insurance Trust and the Social Security (Abdallah, 2015).

In November 1990, the Ghana Börse started operations, with 12 companies known as the best operators of the country. While the minimum investment requirements for registering on the exchange were strict, the government hoped that shareholding would facilitate the creation of new companies and increase savings and investment. The exchange, however, lost a principal French affiliate after just a month of operations which reduced the initial capitalisation to approximately US$ 92.5m. Accra lifted exchange control restrictions in June 1993 and granted non-resident authorisation. Without the prior approval of Ghana Bank, Ghanaians and foreigners invest in the exchange. In April 1994, after the government sold part of their holdings in Ashanti Goldfields Corporation, the exchange received a significant boost (Abdallah, 2015).

Current State of Regulation and Supervision in Ghana

The legal structure and governing principles of a country decide the positions of its banking and financial industries, as well as those of regulatory authorities (e.g. central banks), lay down rules on the enters and exits of financial institutions, set and regulate their businesses, and identify the sound and sustainable business standards and standards (Anku-Tsede & Deffor, 2014; Atuguba & Dowuona-Hammond, 2006). The key reason why conventional financial institutions are regulated and monitored is investor security of public depositors in financial institutions. Intending to achieve a sound, efficient banking system for the sake of depositors, other clients of these institutions and the whole of the economy, the BOG has overall supervisory and regulatory authorities in all matters on banking and non-bank financing activities. BOG also has to ensure that the financial system remains stable such that wealth generation, economic growth and development are facilitated (Abdallah, 2015).

Legal and Regulatory Framework for Bank Regulation in Ghana

The BOG also has to ensure that the financial system remains stable such that wealth generation, economic growth and development are facilitated. The ensuing BOG Act 2002 (Act 612), Bank of Ghana Code, 2004 (Act 673), Companies' Code, 1963 (Act 179), Banking (Amendment) 2007 (Act 738), BOG's Notices/Directives/Circulars/Regulations (Osakunor, 2009). ARB Apex Bank Limited Regulations of 2006 are the legislative and legal structure under which banks operate in Ghana (L.I. 1825), respectively. The supervisory roles of the BOG are structured to comply with Basel's core principles for efficient banking supervisory to improve the legal and regulatory structure (Abdallah, 2015).

The BOG is required, by the Banking Act of 2004 (Act 673), to revoke a banking license given to a bank when the Bank's entire capital base is eroded, and liabilities surpass the assets unless shareholders can restore the Bank to normality within six months following the capital erosion (see Section 62). The legislation forbids banks from voluntary liquidation unless the BOG has in writing confirmed that it is compliant with its obligations to depositors and creditors to prevent banks from secretly disadvocating customers (Abdallah, 2015).

The Banking Act (Section 81) mandates that all banks show in a prominent place during the year a copy of their most recent audited financial statements concerning the bank's activities to educate the public and customers about its operations and their financial status. Providing a copy of the audited financial statements, along with statutory audit reports and a lengthy format, to the BOG; and publishing the financial statements in a daily newspaper circulating in Ghana, together with the auditors' certificates. The Banking Act also ensures that consumer information is kept confidential. It provides that, except if the disclosure of the information is required by law, by a court of the competent authority or the BOG, or is authorised by the client or is in the interests of the bank, the managing director, an officer or any other employee of a bank shall not disclose information concerning the affairs of a customer on that bank (Section 84).

According to Ackah and Asiamah (2014), Ghana has been able to create one of the most vibrant financial service centres in the sub-region through sustained restructuring and transformation of the financial sector. Consequently, the number of banks in Ghana, including Pan-African parties, increased pointedly with the deposit base snowballing. Ghana currently has 27 banks, 15 of which are overseas and six of which are African banks.

The current banking industry has become relatively saturated according to PwC 2014 survey, consisting of 27 commercial banks, 137 rural and community banks, and 58 non-bank financial institutions including insurance companies, savings and loans, leasing and mortgage enterprises (Addo et al., 2014; Alnaa, Adongo, & Juabin, 2016). The BOG has upgraded the minimum capital needed to operate in the country for new banks. A minimum stated capital of GH₵120m is required of new commercial banks. Current banks are obliged to retain previously developed capital of GH₵60m (Abdallah, 2015). Established banks were aware of the fact that their wealth would voluntarily rise to GH₵120m as a result of their sector. Since then, four existing banks have intentionally increased their resources to more than GH₵120m.

Supervision by Bank of Ghana

Generally, since 2014, Ghana’s macroeconomic growth has recently been unimpressive. Thanks in part to the massive and unprecedented fiscal and current account deficits during 2012-2013, the Ghanaian economy faced significant macroeconomic challenges in 2014. To Ghanaians, the year 2014 was extremely challenging as both internal imbalances, and extreme terms of trade and exchange rate shocks had to be confronted by the State. The expanding economic inequalities led to enlarged financial fragility and volatile expectations, leading to rapid capital flow and increased the possibility of a severe crisis resulting from declining exchange rates and an increased interest rate (Ackah & Asiamah, 2014). Ghana's current account deficit increased to 13.2% of GDP in 2013, from 12.2% of GDP in 2012. Ghana's net foreign reserves were also declining significantly by the end of February 2014, covering less than one month of goods and services imports.

Net global reserved products, services and factor payments have decreased from 3.2b USD in Dec 2012 to 2.1b USD by the end of 2013 and to 1.7b USD by January 2014 for just under one month import. The headline inflation surpassed the monetary policy target of 9% ±2 for 2013. Consumer price inflation surged to 13.5% in December 2013 from 10.1% in January 2013, and to 14.0% in February 2014. On 4 February 2014, the Central Bank reacted by announcing new measures to restore foreign-currency stability. Under the new regulations, the issuing of cheques and chequebooks on foreign currency accounts and foreign exchange accounts was forbidden for commercial banks and other financial institutions. The new measures also provided for the transformation into local currency facilities of all undrawn foreign-currency-denominated facilities (Abdallah, 2015; Ackah & Asiamah, 2014).

The Central Bank further ordered no bank to provide a customer who was not a foreign exchange owner with a foreign currency loan or an external currency-related facility. The central bank also forbade offshore financial transactions by resident and non-resident firms, including national exporters. The measures also prohibited over-the-count cash withdrawal from foreign exchange account and foreign currency account not exceeding 10,000.00 USD or equivalent in convertible currency per person per travel. These measures came in response to local currency pressure, which depreciated sharply in the first few months of 2014.

Nevertheless, following these measures, all major foreign currencies were still being depreciated by local currency. The Central Bank reactions have been very disconcerting to many policy observers and the business community because the underlying drivers of uncertainty have never been unknown in the recent economic history of Ghana. The Central Bank relax some of the constraints (Abdallah, 2015), and later revoked them all together, as it became clear that the measures did not work optimally and that the business community continued to express frustrations regarding currency restrictions.

The Cedi continued to plummet after the Central Bank introduced exchange rate restrictions, with the Cedi dropping by around 40% against the USD between January and September 2014. However, the currency stabilized after the infusion of 2.7b USD into the economy via the 1.0b USD Eurobond floating scheme and the 1.7b USD loan scheme for cocoa syndicated (Ackah and Asiamah, 2014). A process that inspired some confidence in the economy, the government concluded negotiations with the IMF. This process expected investors to stabilise the economy that has grown since the last few years in the wake of its exports of cocoa, gold, and oil. In compliance with the agreement, the first tranche was published by the IMF in 2014.

The regulator expanded its monitoring of these non-bank financial institutions during the year. The institutions that failed to meet the regulatory requirements were thus closed down. In August 2013, a minimum capital of micro-finance deposit and non-deposit institutions was increased to GH₵300,000.00 respectively and GH₵500,000.00. The capital requirement for institutions with more than five branches increases to an estimated GH₵200,000.00. Total deposits (10%) were set as primary reserves of liquidity. The industry has been involved in applying technological innovation to improve supply systems in the country. The BOG launched the collateral registry in May 2013 to streamline the country's credit system. In case of default, this eases difficulties for the securities to complete and understand. In the year under review, Ghana Interbank Payment and Settlement System (GhIPSS) and its Nigerian payment firm eTranzact announced a new technological innovation. It is part of the mission of GhIPSS to turn Ghana into an electronic payment corporation.

In January 2011, BOG created a microfinance office in the Banking Supervision Department to govern and monitor microfinance institutions consistent with its goal of ensuring the safety, health and stability of the whole financial system. For information to the general public and operators in the subsection of micro-finance, the Bank released operating rules and guidelines on micro-finance in July 2011 in a bid to sanitise their business and protect patrons' interests. The regulations and guidelines cover the classification of microfinance institutions into third parties, specified permissible operations, minimum capital payments and other licensing requirements.

The above studies have looked at the scope of independence of Internal Control System functions and implications of the external auditor for risk management, the role of internal audit in promoting good corporate governance and the agency theory. Therefore, the current study aims to establish the perceived position that internal controls have in the financial performance of commercial banks and the challenges they faced as they carry out these roles.

The target industry is the banking industry and study looks at the perceived role and challenges of the Internal Control System and financial performances in the banking industry in Ghana. Furthermore, the discussion in this chapter has provided an overview of domestic auditing issues in organisations. Various researches have been carried out by different scholars on internal auditing and its theoretical framework in the banking industry globally.

CHAPTER THREE

RESEARCH METHODS

Introduction

This chapter provides a discussion of the research methodology that was used in this study. It discusses the research design, especially concerning the reason choice of a research plan. It also discusses the population of the study, techniques of sampling, data collection methods, data interpretation and presentation approaches used in the research.

Research Design

The research design of this study is descriptive. Descriptive research is to portray an accurate profile of persons, events or situations (Saunders, Lewis, & Thornhill, 2009). This study is descriptive because the study sought to describe whether Prudential Bank Limited‘s Internal Control Systems has any effect on its business operations. The study is quantitative research because it adopted questionnaires, and the data collected analysed using statistical methods. The study also used a case study strategy by focusing on the Techiman Branch of PBL. According to Arthur (2012), a case study is an intensive description and analysis of a single individual.

Also, the specific type of case study used was single case holistic. According to Saunders et al. (2009), there are four case study strategies based upon two discrete dimensions: single case versus multiple; and holistic case versus embedded case. Saunders et al. (2009) stated that holistic research is where the research is concerned with the whole organisation. On the other hand, embedded research is where the research is concerned with part(s) of the organisation but not the entire organisation. This study is a single holistic case holistic because it used only PBL Techiman Branch to study institution as the whole.

That means all employees of PBL were part of the population of this study. According to Arthur (2012), the advantages of case study research strategy are that: (1) it opens the way for discoveries; (2) it is a step to action, and (2) it generalises either about an instance or from an example to a class. The disadvantages of case study research strategy include the problem of (1) generalising from a single unit; (2) it may look deceptively simple; and (3) possible biases in data collection (Arthur, 2012). The study was deductive because the study adopted a conceptual framework to which data were gathered to confirm or deny. The study also utilised a cross-sectional time horizon. Thus data were collected within two weeks.

Organisational Profile

On June 17, 1993, under the Law of the Companies of 1963 (Act 179), Prudential Bank Limited, a wholly-owned Ghanaian Bank, was established as a private limited liability company. On 15 August 1996, after the BOG granted a Banking License on 13 August 1996, this bank opened its doors for enterprise. The Bank is also accredited as a Foreign Exchange Dealership License, Trustee License and Custody Services License. The Bank is a universal bank providing a full range of domestic and international banking services. As at the end of December 2017, the Bank had 41 business locations comprising 39 branches and two agencies spread across seven out of the ten regions in Ghana. The bank has two wholly-owned subsidiary companies, namely: Prudential Securities

Limited and Prudential Stockbrokers Limited. Prudential Securities Limited provides fund management, corporate finance, and business advisory services. Prudential Stockbrokers Limited offers stock brokerage, bond, and economic analysis and advisory services.

The Bank's shareholders are:

1. Ghana Amalgamated Trust PLC
2. J.S. Addo Consultants Limited
3. Ghana Union Assurance Limited
4. NTHC Limited
5. Trustees of PBL Staff Provident Fund
6. Frank Owusu
7. Kwasi Atuah
8. Nortey Kwashie Omaboe
9. Stephen Sekyere-Abankwa
10. Kofi O. Esson
11. John Kpakpo Addo – Current Managing Director of the Bank
12. Nana Agyei Duku

Vision

'To be a successful indigenous and the preferred Bank in Ghana, offering the most remunerative banking services to the public.'

Mission

'To provide domestic and international banking services with a strategic focus on project financing, trade financing, export development and SME financing. PBL is committed to playing a positive and innovative role in the financial intermediation process and, most importantly, to offer the best banking services to the business community.'

Value

'We continue to build a corporate culture that respects and values the unique strengths, weaknesses and cultural differences of the entities that we deal with.'

Quality, Creativity and Innovation are the hallmarks of PBL:

1. 'Customers first –our customers' interests are our utmost concern; we build strong relationships with our customers and provide quality services;
2. Integrity – this is our trademark; we demonstrate fairness and honesty in all we do and observe confidentiality at all times;
3. Innovation and creativity – we provide unique business solutions for our customers;
4. Commitment to human capital development – the welfare of our employees is paramount; we are committed to training, developing careers based on merit and rewarding achievement;
5. Social responsibility – we invest in our communities and build relations.'

(Source: www.prudentialbank.com.gh)

Study Area and Population

The population size of this study comprised core staff directly involved in matters of internal control at PBL (branch managers, loan officers, accountants, ATM specialist, compliance officer, credit and credit card officers, system analysts, etc.). The study targeted a population of 650 employees in all the 39 branches directly associated with principal banking activities

Sample Size

In every branch of the bank, at least three invited respondents participated in the survey via a posted link. So, out of the targeted 117 participants, 79 staffers voluntarily completed the online questionnaire. The final sample size is 79, implying an acceptable response rate of 67.5% (Saunders et al., 2009) mostly for online surveys

Sampling Method and Data Collection Techniques

Purposive sampling is a sampling method in which researchers use their judgment when selecting population participants to participate in a survey was employed in this study. The researcher believes that a representative sample was obtained through a sound opinion that saves both money and time (Hair, Black, Babin, & Anderson, 2010). The main instrument used for data collection from the primary source was the questionnaire (see Appendix A). Of the common types of data collection instruments (Hair et al., 2010), agree and stated that questionnaire is handy when data is to be collected from several respondents and when their anonymity is to be assured. Moreover, the online survey approach was used because of the convenience and safety it offered respondents amid the COVID-19 global pandemic.

Therefore, questions or statements that sought to test the same construct and have similar responses were put in table form. All these were to make it easier and less time consuming for the respondents to answer. The closed-ended questions were in the way of multiple-choice questions and Likert scale items with 1 (Strongly Disagree) to 5 (Strongly Agree). The questionnaire has four SECTIONS. SECTION A collected personal data on participants such as age, work experience, gender and educational attainment using multiple-choice questions. SECTION B elicited data on the effectiveness of the Internal Control System. SECTION C obtained data relating to the components of Internal Control System and their PBL's financial performance. The last SECTION D collected data on fraud types. SECTIONS B, C and D, asked the respondents to rate Likert items on a scale of 1 (Strongly Disagree) to 5 (Strongly Agree).

The researcher collected other data which has already undergone statistical analysis. Such data include no specific collection methods obtained other data from both internal and external sources to the organisation. For example, the company's profile and published data of the bank in the form of the financial statement were analysed.

Data Analysis Techniques

Data analysis usually involves reducing accumulated data to a manageable size, developing summaries, looking for patterns, and applying statistical techniques (Cooper & Schindler, 2011). The study is descriptive; both non-parametric and parametric tests were used in the quantitative data analysis.

To ensure easy analysis and minimise the margin of errors, the questionnaire was coded according to each variable after preprocessing, entered and analysed using Statistical Package for Social Sciences (SPSS) version 21. The one-sample t-test estimated the differences between in mean scores of the 18-item relating to Internal Control System effectiveness and components, and fraud types with a threshold set at 3.50 ($\mu = 3.50$) for a 5-point scale, where μ is the test value. Vital demographic characteristics of participants were described employing descriptive statistics.

The mean score (MS) analysis (Equation 1) identified the critical items on Internal Control System effectiveness and components, and fraud types and their importance levels derived. A mean score of 3.00 or more, based on the grades of the 5-point Likert scale, suggests that the item is at least significant. Also, used was rank differentiation where two or more items had the same mean values by selecting the variable with the lowest standard deviations (SD).

$$MS = \sum_{i=1}^{5} \omega_i \frac{f_i}{N} \qquad Eqn\ (1)$$

To Chen et al. (2010), scale ratings only represent the ranking order of significance of the criteria, rather than the value of each score. Using parametric statistics to rank datasets would not yield meaningful results. So, the non-parametric technique (relative importance index) was introduced (Equation 2) to rank the items along with their levels of relative importance.

$Relative\ Importance\ Index\ (RII)$

$$= \left(\sum_{i=1}^{5} \omega_i \frac{f_i}{N} \times 100\right) \Big/ (\mathrm{A} \times 100) \qquad Eqn\ (2)$$

Where i is score as given to each item by respondents (1 to 5), ω_i is wight for each item, f_i is the frequency of item i by all respondents, N is the total numbers of responses, and A is the highest weight/score.

The value of RII ranges from 0 to 1 with 0 not inclusive and higher values, indicating more significant item and vice versa. Accordingly an adopted (Chen et al., 2010; Waris et al., 2014) five translated important levels from RII was used to draw comparisons on the ordinal data: Highly (H) = (0.8≤RII<1.0); High–Medium (H–M) = 0.6≤RII<0.8, Medium (M) = 0.4≤RII<0.6), Medium–Low (M–L) = (0.2≤RII<0.4), and Low (L) = (0.0≤RII<0.2).

Ethical Consideration

Ethics are rules of behaviour which are based on ideas about what is morally right and wrong. It also concerned with a collection of social and moral principles that guide research. Ethics in a study provides rules that specify appropriate and inappropriate behaviour in the conduct of research and application of findings. The study was a social process that comprises human collaboration and gave rise to various ethical issues. The researcher was well conversant with the fact that the collection and use of data require ethical sensitivity. The researcher assured respondents of the confidentiality with which information provided was handled. This assurance was part of the consent form that was attached to the introductory letter and questionnaire. The researcher also provided all information necessary to allow the respondent to give informed consent to participate in the study.

Bryman and Bell (2015) outlined some points represent the most important principles relating to ethical considerations in dissertations: examples are that researcher should not in any way be disparaging; priority should be given to maintaining the integrity of research subjects; the subjects should have full consent before the study and several more.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

The chapter focuses on the presentation, analysis and discussion of empirical data collected through the administration of questionnaires. The analysed results were presented according to divisions of the questionnaire survey and designed except for personal data, in tandem with the research objectives, the chapter presented under the headings; descriptive statistics, internal control components, internal control effectiveness, and types of fraud.

Descriptive Statistics

This section presents the personal profile of respondents which are gender, age, educational background, and working experience with PBL. Males respondents represent 74.7%, while 25.3% of respondents are females (Table 4.1).

Table 1: Descriptive Statistics of Respondents.

Attribute	Description	Frequency (n)	Percent (%)
Gender	Male	59	74.7
	Female	20	33.3
Age (Years)	≤ 25	8	10.1
	26-35	23	29.1
	36-45	37	46.8
	56-55	9	11.4
	≥ 56	2	2.5
Education	HND/Diploma	13	16.5
	First Degree	42	53.2
	Second Degree	18	22.8
	Others (CIB/CA)	6	7.6
Work Experience (Years)	≤ 1	2	2.5
	2 – 5	28	35.4
	6 – 9	28	35.4
	≥10	21	26.6
Total		79	100.0

Source: Field data (2020)

However, questionnaire responses demanded objectivity, implying that the gender binary was fully involved in this study, and finding will not suffer from gender bias. Also, the respondents' gender orientations did not affect the validity and reliability of the responses.

The respondent's ages distribution indicates that the majority of 35.4% is within the 36-45 years. The minimum age representation is 20 years or less (10.1%). The implication of the data is that majority of the respondents (89.9%) are mature to work in the institution. The general observation is that the respondents' age is well-distributed somewhat.

The educational background of the respondents (Tabe 1) showed that 16.5% had a diploma, first-degree holders, 53.2% and 22.8% possess second-degree educational qualifications. Also, 7.6% of the participants are at least Chartered Bankers (CIB) or Chartered Accountant (CA) and professional members of Chartered Institute of Bankers or Institute of Chartered Accountants, Ghana respectively. That is, CIB and CA (2.5%), CA (1.3%) or CIB (3.8%). The implication of the results is that majority of the respondents had university degrees which may profoundly influence their understanding of Prudential's internal control systems and its business operations. It further may show the level of competence in their capability to comprehend the idea of controls as well as scam detection and prevention at working spheres. There is also reinforced dependability of all responses.

Again, Table 4.2 showed that the majority (35.4%) have worked with the company for 6-9 year with a few (2.5%) worked for less than a year as presented in PBL. Moreover, 35.4% of the participants have worked with the bank for 2-5 years, and 26.6% have worked with PBL for more than nine years. The majority of the participants had served for a significant period which indicates that most have vast knowledge which could be relied upon by this study. It is affirmed that the respondents were well-positioned to reply correctly to queries relating to internal controls and scam detection and prevention.

Mean Score Analysis

The mean score analysis was employed to identify significant elements associated with the bank's internal control systems effectiveness and components of internal control and types of fraud in PBL. The mean score and rankings in Table 4.2 measured the relative importance staff attach to 18 items on internal control systems and components and fraud. Results show that the RII of 18 determinants affecting internal control systems and bank fraud from range 0.646 to 0.929 which translate into 'Medium-High' to 'Highly' levels of relative importance with an overall average score of 4.646. The relatively low SDs between 0.780 and 1.116 further reinforce the consensus between participants in the ranking of the 18 items.

Participants perceived 13 (72.2%) items as 'Highly' important and remaining 5 (27.8%) as having 'Medium-High' level of importance. Also, participants considered all the items at least significant since their mean scores are higher than 3.00. Based on the overall ranking, the top eight variables influencing PBL's internal control systems and their components are:

1. Company's management philosophy and operating style spelt out to staff (MS = 4.646, $t(78) = 12.708$, $p < 0.001$),
2. Company's IT support and infrastructure ensure activities free flow (MS = 4.646, $t(78) = 11.414$, $p < 0.001$),
3. Training equipped with staff resources do duties professionally (MS = 4.620, $t(78) = 11.296$ $p < 0.001$),
4. Company's policies and procedures spelt out to staff always (MS = 4.620, $t(78) = 11.114$, $p < 0.001$),

5. Company's staff monitoring and evaluating system are sound (MS = 4.582, $t(78) = 11.646$, $p < 0.001$),
6. Company conducts regular risks assessment (MS = 4.494, $t(78) = 9.620$, $p < 0.001$).
7. Control systems help achieve company's operational objectives (MS = 4.494, $t(78) = 9.340$, $p < 0.001$).
8. Control system helps achieve the company's operational objectives (MS = 4.481, $t(78) = 8.969$, $p < 0.001$).

Effectiveness of PBL's Internal Control Service

The study discovered that Prudential Bank Company ensures that its banking operations and activities are in line with laws and regulations in the financial industry (see Table 4.2). Further examination of Table 2 indicates that respondents perceived that the "internal control systems help achieve a company's operational objectives" (MS = 4.494, $t(78) = 9.340$, $p < 0.001$), 'company has back-ups for all its activities' (MS = 4.481 $t(78) = 8.969$, $p < 0.001$), 'internal control systems in place reduce errors and risks' (MS = 4.443, $t(78) = 10.742$, $p < 0.001$) and PBL regularly 'conducts and complies with control system audits' (MS = 4.430, $t(78) = 8.413$, $p > 0.001$). These factors ranked as the four topmost tiers that may significantly influence PBL's internal control systems. The mean scores of all items are statistically significant from the critical threshold of 3.0 and highly RII level. Moreover, staff ranked variables, 'company systems in place quickly detected errors and risks' (MS = 4.342 ± 0.904) and 'correct all detected errors' (MS = 4.215 ± 1.070) as 5th and 6th respectively.

The implications are that regular control system audits are conducted to ensure that directives are complied with and that the company has back-ups for all its activities. Moreover, the study highlighted that the control systems have helped to achieve the company’s operational objectives and that the control systems in place reduce errors and risks. Additionally, it means that the control system enables the preparation of reliable financial statements. However, the control systems in place can neither quickly detect errors and risks nor correct almost all detected errors.

Table 2: Mean Score with Relative Importance Levels

	Test Value = 3.5															
Variable	t	df	Sig. (2-tailed)	Mean Diff.	Mean Score	SD	Percentage of a Valid Score (%)					RII	Ranking by Category	Overall Ranking	RII Level
Internal Control System Effectiveness															
The control systems in place reduce errors and risks	8.413	78	0.000**	0.930	4.430	0.983	3.797	3.797	1.266	27.848	63.291	0.886	4	10	H
Internal control systems in place easily detected errors and risks	10.742	78	0.000**	0.943	4.443	0.780	1.266	2.532	2.532	37.975	55.696	0.889	3	9	H
The control systems correct all detected errors.	8.274	78	0.000**	0.842	4.342	0.904	1.266	5.063	6.329	32.911	54.430	0.868	5	11	H
The company has back-ups for all its activities	5.940	78	0.000**	0.715	4.215	1.070	2.532	7.595	10.127	25.316	54.430	0.843	6	12	H
Control system helps achieve company’s operational objectives	8.969	78	0.000**	0.981	4.481	0.972	2.532	5.063	3.797	18.987	69.620	0.896	2	8	H
Regular control system audits conduct and compliance	9.340	78	0.000**	0.994	4.494	0.946	3.797	2.532	1.266	25.316	67.089	0.899	1	7	H
Internal Control System Components															
Company’s IT support and infrastructure ensure activities free flow	11.414	78	0.000**	1.146	4.646	0.892	3.797	1.266	1.266	13.924	79.747	0.929	2	2	H
Training equipped staff with resources to do duties professionally	11.296	78	0.000**	1.120	4.620	0.881	3.797	1.266	0.000	18.987	75.949	0.924	3	3	H
The company conducts regular risks assessment	9.620	78	0.000**	0.994	4.494	0.918	3.797	1.266	2.532	26.582	65.823	0.899	6	6	H

Table 2 continued

Company’s staff monitoring and evaluating system are sound	11.646	78	0.000**	1.082	4.582	0.826	1.266	3.797	2.532	20.253	72.152	0.916	5	5	H
Company defines management philosophy and operating style to staff	12.708	78	0.000**	1.146	4.646	0.801	2.532	1.266	1.266	18.987	75.949	0.929	1	1	H
Company’s policies and procedures spelt out to staff always	11.114	78	0.000**	1.120	4.620	0.896	3.797	1.266	1.266	16.456	77.215	0.924	4	4	H
Fraud Types															
Transfer of funds	-2.205	78	0.030	-0.272	3.228	1.097	7.595	13.924	40.506	24.051	13.924	0.646	6	18	H-M
Identity fraud	-0.058	78	0.954	-0.006	3.494	0.972	3.797	6.329	43.038	30.380	16.456	0.699	4	16	H-M
The use of computers/computer fraud	5.407	78	0.000**	0.627	4.127	1.030	3.797	6.329	5.063	43.038	41.772	0.825	1	13	H
Falsified accounts and financial statements	-0.578	78	0.565	-0.070	3.430	1.070	6.329	8.861	36.709	31.646	16.456	0.686	5	17	H-M
False invoicing	0.655	78	0.514	0.082	3.582	1.116	5.063	6.329	41.772	18.987	27.848	0.716	3	15	H-M
Fraudulent expense claim	0.757	78	0.452	0.095	3.595	1.115	6.329	2.532	44.304	18.987	27.848	0.719	2	14	H-M

Notes: **Mean Difference is statistically significant at 0.001 level (p < 0.001). Diff. = Difference. SD = Standard Deviation. RII = Relative Importance Index

Source: Field data (2020)

In general, PBL's control systems of the company are potent and effective. A high-level system of internal control may be evaluated as useful if the board of directors and management deeply understand how organisational priorities of the company are achieved, reliably prepare published financial statements and comply with applicable laws and regulations. However, this study discovered that the control framework of the company could detect the compliance of general laws and regulations than its ability to detect compliance of detailed rules and regulations. This finding suggests the respondents understood that Prudential Bank's internal control systems cannot adequately detect all errors but have the potential to reduce errors and risks. The overall mean score of 4.215 recorded indicates that the respondents believed that in general, PLB's internal control systems are operative.

Prudential Bank's Internal Control System Components

The subsection analysed the company's policies and procedures for managing directives and activities. The standard and useful internal control components identified in the study constituted free flow of information and communication, sound monitoring and evaluation, control procedures and operations, control environment and risks management. The most robust control variables identified by the respondents were; free flow of information and communication, and sound evaluation and monitoring system.

The ranking in descending order of PBL's internal control system components: 'company defines management philosophy and operating style to staff' (MS = 4.646, $t(78) = 12.708$, $p < 0.001$), 'I.T. support and infrastructure ensure activities free flow' (MS = 4.646, $t(78) = 11.414$, $p < 0.001$), 'training equipped staff with resources to do duties professionally' ($MS = 4.620$, $t(78) = 11.296$, $p < 0.001$), 'company defines policies and procedures to staff always' ($MS = 4.620$, $t(78) = 11.114$, $p < 0.001$), "company's staff monitoring and evaluating system are sound" ($MS = 4.582$, $t(78) = 11.646$, $p < 0.001$), and 'company conducts regular risks assessment' ($MS = 4.494$, $t(78) = 9.620$, $p < 0.001$). The differences between the mean scores of all measured items and the mean threshold are statistically significant with highly (H) important RII levels.

The above findings have practical implications because respondents highly accepted that existing monitoring and the evaluating system require soundness before qualifying as a reliable component of the company. The results also showed a high level of transparency between the board of directors, management and staff of Prudential Bank. Six proxy items measuring the robustness of the components of internal control from COSO report (COSO, 1999) comprising control environment, risk assessment, control procedures, monitoring and information and communication systems were found significant. This finding means that PBL's internal controls are effective and operate efficiently, and can produce a reliable financial report and highly compliant with applicable laws and regulations in the country.

Profile of the Fraud

The current study collected data on the types of fraud and perpetrating schemes. These included the type of fraud, the extent of fraud, negotiable instruments and assets that are targets of fraud, secondary/ancillary scam schemes mostly used to support or hide the fraud. Also, the total costs incurred due to the fraud, the bank's conduct, the results and any financial recovery it earned. Most organisations can prevent frauds, errors and minimise wastage with sound financial and non-financial internal control systems (Origa, 2015). This discussion reflects on the research question, 'What types of fraud occur at Prudential Bank?'

Participants considered three categories of bank fraud as highly important, as evident in the significant differences in means between scores and the threshold. These comprise 'the use of computers/computer fraud' (MS = 4.127, $t(78) = 5.407$, $p < 0.001$), 'fraudulent expense claim' (MS = 3.595, $t(78) = 0.757$, $p > 0.05$), 'false invoicing' (MS = 3.582, $t(78) = 0.655$, $p > 0.05$). Also, 'identity fraud' (MS = 3.494, $t(78) = -0.058$, $p > 0.05$), 'falsified accounts and financial statements' (MS = 3.430, $t(78) = -0.578$, $p > 0.05$) and 'transfer of funds' (MS = 3.228, $t(78) = -2.205$, $p > 0.05$) ranked 4th, 5th and 6th with medium-high level of importance respectively. However, last ranked variables may have practical implications and importance, based on the substantial difference between MS and cut-off mean (> 3.00).

Also, various negotiable instruments and assets are the targets of fraud. Those discovered in the current study based on frequency are cheque (39.0%), cash theft (36.4%), and credit cards (5.8%) with identity theft and conflict of interest (5.2% each), bribery/kickbacks and inventory (3.3%), and intangible assets (2.0%) being secondary (see Figure 4.1).

Figure 1: Types of fraud

Source: Field data (2020)

All over the world, fraud is an issue of concern among corporate organisations, and its occurrence in banks is especially disparaging, given the picture of trust that banks are supposed to present and demonstrate. Banks lose quite a lot of money to fraud and scam schemes every year, but commercial banks are reluctant to go public with these fraud-related losses to protect the reputation of banks. Besides the direct losses arising from fraud, any dent on any bank's reputation can lead to indirect losses – which, in the worst-case scenario, lead to losses of billions of cedis or even business failures. Economic crimes, including financial and bank fraud, are among the fastest-growing industries in developed countries. The current global factors (e.g., pandemics), contagion factors, and domestic factors have the likelihood to make the banking crisis even worst. Although these crimes in Ghana are not yet so structured or institutionalised, they pose a significant threat to bank and state economies, insofar as they often lead to substantial losses for banks and the economy.

The main types of fraud reported were theft (63.4%), conversion (12.9%) and diversion or misappropriation (10.8%). Other schemes include infringement (8.6%), abuse/misuse (3.2%) and others such as cash suppression (1.1%). These findings are consistent with both global (Akinyomi, 2010; DiNapoli, 2016) and local cases revealing that cheque fraud was the most common type of fraud suffered by the banking industry (Arhin, 2019; Asmah, Atuilik, & Ofori, 2019; Kwetey, Caesar, Appiah, & Cobblah, 2018). A number of the frauds involved secondary/ancillary scams that were used to support or hide the first fraud approach. Once again, the vast majority of fraudulent related activity was concentrated in three areas, transfer of funds, computer fraud and identity theft or fraud shown in Figure 4.2. These findings are in line with the commercial bank activity based on the top three fastest-growing technology-related factors (electronic banking, mobile banking and point of sale openings) which have the potential to drive Ghana's growths in revenues significantly (PricewaterhouseCoopers, 2019).

Bank fraud is mainly through a dishonest breach of confidence by bank officials, whether acting on their own or in conjunction with clients or someone else deviations, diversion of money from their rightful holders or owners. These fraudulent activities infiltrate the entire banking system, and no bank is immune from the impact of such criminal and irregular acts.

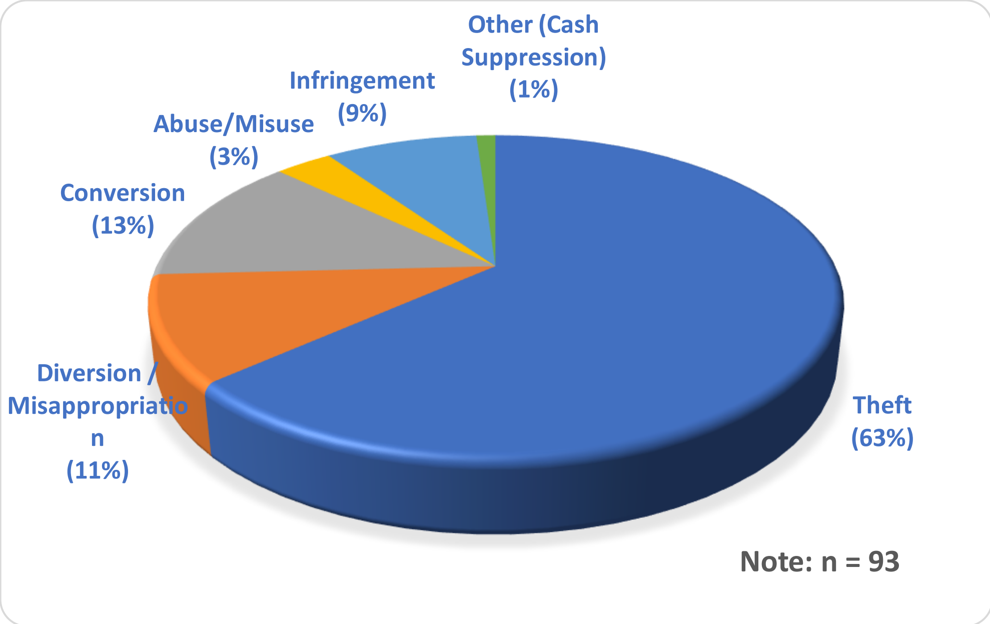

Figure 2: Ancillary types of fraud

Source: Fieldwork (2020)

These also include counterfeits and account manipulation; removal or destruction or both of sensitive information or documents; and hiding unusual and illegal transactions. Dishonesty is central to bank fraud that is directly against the banking profession's principles. According to the former Advisor of BOG, Mrs Grace Akrofi now Director of Research at BOG, as the use of technology in the banking sector advances, attempts to defraud the banking system is also rising pointedly. She stressed that the recorded cases of fraud, including cloning cards, phishing, vishing/ransom attacks are indicative of more advanced technology for fraudsters.

Research carried out by the I.T. company Symantec in collaboration with the African Commission of the African Union in November 2016 reported that Ghana was one of Africa's top ten most targeted. The study found that there have been over 400,000 malware incident events (Source: Ghana Web: Business News of September 16, 2018) and 44m spam incident and 280,000 occurrences in Ghana. However, the individual banks have different internal control systems; inspection and internal controls to counteract or detect or both these fraudulent and irregular activities of dishonest officials. The effect of these harmful and disgraceful actions, however, is growing.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

The study evaluated Prudential Bank's Internal Control System and financial performance to explore the possible operational challenges of the internal control systems to management and employees. The is Chapter has been divided into three main sub-sections; summary of discussion, conclusions and recommendations.

Summary of Key Findings

The study was carried out to assess the effectiveness of internal control on the financial performance of Prudential Babnk Ltd. Three (3) objectives guided this study.

1. To examine the structure and nature of Internal Control Systems in PBL and how it operates,
2. To analyse the relationship among the internal control components, and its effectiveness of the system in PBL,
3. To assess the types of fraud and factors that contribute to the incidence of fraud in PBL.

The study also sought to examine the effectiveness of prudential regulation on the relationship between systems of internal controls and financial performance of the Prudential Bank Ltd. The study discovered that the company ensures that its activities comply with laws and regulations in the Banking financial industry. It also revealed that the conventional control systems by the

Bank's Inspection team are conducted to ensure total compliance with directives, and the control systems can easily prevent and detect errors and risks.

Moreover, the study highlighted that the control system has helped to achieve the company's operational objectives and that the control systems in place reduce errors and risks. Additionally, it was revealed that the control system enables the preparation of reliable financial statements, and the Company has back-ups for all its activities. Lastly, it was found out that the control systems moderately correct all detected errors. In general, it was revealed that the control systems of the company are strong and capable.

Six surrogate items used to measure the robustness of the bank's internal control components showed that the control environment, risk assessment, control procedures, monitoring and information and communication systems are currently significant and meet the three main internal control objectives. The resultant implications are the effectiveness and operational efficiency, and production of a reliable financial report and high compliance with applicable laws and regulations ascribable to relatively sturdy components of PBL's internal controls.

The study uncovered three categories of bank fraud as highly critical; computer fraud, fraudulent expense claim and false invoicing. Others bank-related fraud types equally important are identity fraud, falsified accounts and financial statements and transfer of funds. Several instruments and assets identified as targets of fraud at PBL include cheques, cash, credit card, identity theft, conflict of interest, bribery, inventory and intangible assets.

Dismissal and criminal prosecution were the most common actions taken against fraudsters. Internal control reviews and training employees in fraud prevention were the most common responses to the discovery of fraud within the organisation. The commonly used technological prevention and detection techniques included anti-virus software, password protection, continuous auditing, and filtering.

Conclusions

This research aimed to examine the internal control systems and their impact on Prudential Bank Limited's business operations. Literature relating to the subject area were reviewed, and empirical data from PBL were collected and analysed to achieve this purpose. After the analysis and discussion of the data, it was found that PBL has tapped into the control frameworks (COSO, COCO, and COBIT frameworks) and that the control systems of the bank are highly robust and effective. The study found the inability of the internal control systems to detect errors and risks implying the untenability to identify people who do not comply with control policies, inadequate physical control measures and procedures over the company's assets to protect against theft and unauthorised access.

The score for the control environment suggests the company's internal control environment can be described as very effective. Moreover, the fact that all items have a mean score of above threshold (3.00) indicates that the bank demonstrates a high organisational capability to assess and manage the risk associated with their operations. Similarly, the overall mean indicates sound communication systems in PBL, engagement in monitoring using installed ICT units. The other components had a high score. However, the company had practical challenges in ensuring that the staff did the right things or circumvented by operators.

Notwithstanding the adverse effects of the system, the control system has led to positive financial and non-financial performance at Prudential Bank Limited. External control involves remote monitoring, access control and other control tools. Internal control is the processes, rules, procedures, and procedures for safeguarding bank assets and for the management risks, and for achieving the objectives of the bank. This measure helps the board and management monitor and evaluate internal control adequacy and efficiency; the Internal Ccontrol System allows the internal audit team to conduct an objective, independent review of banking activities, internal controls, and management systems. Risk assessment refers to giving due attention to the present and past banking activities and future banks to evaluate and take necessary measures to correct their results in cases of deviations and prevent them from occurring again.

Accounting, information and communication variable is moderately supportive in the effectiveness of the Internal Control System. This variable indicates the accounting, information system and communication system within the bank. That means the bank has proper, timely reporting accounting method, sound information system over the bank to prevent frauds and errors. This convenient communication system enables to communicate over the bank immediately to overcome problems.

In consideration of control activities variable, it is in a moderately supportive level in the effectiveness of Internal Control System, and majority the of respondents are accepting that control activities within the bank is in supportively moderate level. Control activities should be an integral part of the daily operations of the bank; annually. It will help to function the banking activities to the employees’ mainly newly recruited ones. Scanned and creditors signature should be checked every withdrawal, and in the case of a change in the signature, it needs to verify. Few bank hall cameras were found, so there is a needs to fix more cameras to observe the daily entrances and exits of the customers. Observations found that securities are appointing by outside companies on a contract basis, but PBL needs to recruit guards with some level of proficiency/training on banking activities. Training programs, workshops need to be planned for employees, based on the changes in internal control policy and business environment.

Job rotation should be proceeding in a specific period in the same management level effectively under the top-level management supervision been practised by Prudential Bank. Accounting, information and communication are the systems that can be used bank personnel to perform their tasks. Following are some suggestions made by the researcher to implement in the bank.

The study found out that PBL through operate emergency alarm bell and those operating alarm bells are should be inspecting their operations. Control activities are policies and procedures those institute in the bank to direct bank personnel established under the control environment.

Finally, the study has uncovered similar fraud categories and fraudulent as well as dubious schemes employed by scrupulous perpetrators globally to scam banks and customers. Fraudsters prominently used computer fraud, fraudulent expense claim and false invoicing at PBL. Some principal instruments and assets identified as targets of fraud at the bank comprise cheques, cash theft, credit, identity theft, among others.

Recommendations

Following recommendations are made based on the findings of this study, considering policies and interventions to bolster staff and management knowledge on internal controls and maintain customers confidence in the bank's continuous operations.

1. The staff of PBL should be involved in the formulation of control policies. Employees must be made a natural element of how entities work and so must be engaged in some aspect of policy formulation. Their involvement has the maximum likelihood to ensure commitment and a clear view of what is expected of them for the achievement of overall set targets.
2. The bank should conduct regular control system review to enable it determines if the existing internal controls are subsequently working effectively and efficiently. The company can then learn from the outcome and improve the policies and systems.
3. The company should put in place adequate physical control measures and procedures over the company's assets and protect them against theft and unauthorised access. This measure is highly critical, considering that most survey participants recognised the effectiveness of internal control systems in supporting the bank's operations and performances. For instance, scanned and creditors signature should be double-checked for every withdrawal and verified in the case of changes in signature(s).

Few bank hall cameras were found, so there are needs to fix more cameras to observe the daily entrances and exits of the customers. It is common knowledge that securities are appointing by outside companies on a contract basis, but, PBL needs to recruit guards with some level of proficiency or training on banking activities.

4. Training programs, workshops need to be planned for employees, based on the changes in internal control policy and the company's business environment.
5. Job rotation should proceed in a specific period within the same management level effectively under the top-level management supervision rather than current inter-management level rotation style being practised by PBL.
6. The bank should continue its current implementation of robust ICT infrastructure in all the branches to support employees in task performance regarding accounting, information and communication. The recent PBL's certification (ISO 27001:2013) demonstrates the commitment to manage the I.T. environment securely and to keep customers' valuable data safety as part of its internal control management. It likewise attests to the bank's preparedness to compete effectively within the fast-growing technology-based world. The ICT efficacy may significantly assist in fulfilling the preventive, detective, and corrective roles of the company's internal controls.
7. Adequate information security controls checks are suggested at least semi-annually. These controls are critical for maintaining efficient and reliable operations for customers and other stakeholders, giving

sophisticated surge and threats from cybercriminals in the financial services sector in Ghana and around the world.

Suggestions for Further Studies

A similar study should be conducted in the remaining PBL branches, and analogous commercial banks as levels of technology in the banking sector are very dynamic and keep on changing. Another research on the effect of Internal Control Systems on the financial performance of all commercial Banks in Ghana is suggested. This study will give a broader view of how internal controls affect not only the PBL and to assist the management of commercial banks as a whole. This study concentrated on the banking sector’s internal control systems and discussed their efficiency, effectiveness and operationalisation in commercial bank neglecting the non-bank financial institutions, as most studies in the past have done. Such institutions make enormous significant contributions to the development of Ghana’s economy; therefore, another research in this unattended direction is suggested.

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APPENDIX A

QUESTIONNAIRE FOR STAFF

Dear respondent, I am researching the Topic "**THE EFFECTS OF INTERNAL CONTROL IN THE OPERATIONS OF FINANCIAL INSTITUTIONS: A CASE STUDY OF PRUDENTIAL BANK**" as part of the requirement for the award of MASTERS IN BUSINESS ADMINISTRATION, ACCOUNTING option at Catholic College of Ghana. I will be grateful if you could participate in my survey. All data are strictly for academic purpose and will be treated with the utmost care and confidential.

SECTION A. Personal Data

1. Gender
   a. Male [ ]
   b. Female [ ]
2. Age
   a. 25 Years and below [ ]
   b. 26-35 years [ ]
   c. 36-45 Years [ ]
   d. 56-55 Ears [ ]
   e. 56 years and above [ ]
3. Educational Background
   a. SHS/Equivalent [ ]
   b. HND/Diploma [ ]
   c. 1st Degree [ ]
   d. Master‘s Degree [ ]
   e. Other(s) [ ].

f. If other(s) specify ……………………………………..……………

4. How long have you been working with Prudential Bank Limited?

a. 1 year and below [ ]

b. 2 – 5 years [ ]

c. 6 – 9 years [ ]

d. above 10 years [ ]

SECTION B. Effectiveness of the internal control system.

Please indicate the extent to which you agree or disagree with the following. You are to assess that on a Likert scale of Strongly Disagree (1), Disagree(2), Neutral (3), Agree(4) Strongly Agree (5). Please tick (√) appropriately.

	Control System Effectiveness Constructs	**1**	**2**	**3**	**4**	**5**
1	Regular control system audits are conducted to ensure that directives are complied with					
2	The control systems in place reduce errors and risks					
3	The control systems can easily detect errors and risks in place.					
4	The control systems correct all detected errors.					
5	The company has back-ups for all its activities					
6	The control system helps to achieve the company’s operational objectives					

SECTION C. Components of the Internal Control Systems of Prudential Bank Limited and the relationship between the effectiveness of this control system. Please indicate the extent to which you agree or disagree with the following. You are to assess that on a Likert scale of Strongly Disagree (1), Disagree(2), Neutral (3), Agree(4) Strongly Agree (5). Please tick (√) appropriately.

	Components of the Internal Control System	**1**	**2**	**3**	**4**	**5**
1	The company has provided adequate I.T. support and infrastructure to ensure a free flow of activities					
2	The staff are regularly trained and equipped with resources to carry out their duties professionally					
3	The company conduct regular risks assessment					
4	The company has sound monitoring and evaluating system to monitor and evaluate activities and staff					
5	The company's management philosophy and operating style are spelt out to staff					
6	The company's policies and procedures for carrying out management directives and activities are defined to staff					

SECTION D. Types of frauds. Please indicate the extent to which you agree or disagree with the following. You are to assess that on a Likert scale of Strongly Disagree (1), Disagree(2), Neutral (3), Agree(4) Strongly Agree (5). Please tick (√) appropriately.

	Types of frauds	**1**	**2**	**3**	**4**	**5**
1	Transfer of funds					
2	Identity fraud					
3	The use of computers or computer fraud					
4	Falsified accounts and financial statements					
5	False invoicing					
6	Fraudulent expense claim					