



THE IMPACT OF AUDITING AND INTERNAL CONTROLS ON THE MANAGEMENT OF A BUSINESS ORGANIZATION. A CASE STUDY OF PRUDENTIAL BANK LIMITED (WEIJA BRANCH)

Alex Acquah

¹*Business School, Liaoning University, Liaoning, Jiangsu, P.R China*

Takyi Kwabena Nsiah

²*School of Finance and Economics, Jiangsu University, 301 Xuefu Road, Zhenjiang, Jiangsu, P.R China*

Ebenezer Yaw Ofosuhene

³*University of Twente – Netherlands*

Elizabeth Naa Akushia Antie

⁴*University of Cape Coast - Ghana*

DOI: <https://doi.org/10.36713/epra3828>

ABSTRACT

For system-based auditing to work effectively the auditor will like to rely on internal controls to reduce the volume of substantive testing. It is therefore important for the auditor to examine the internal control practice and procedures that are in place in the client's business. Where weaknesses are revealed, the auditor recommends ways of improving the systems. This research examines the relationship between some components (risk assessment, control environment and control activate) of internal control systems and the effectiveness of audit program in prudential bank Weija branch. The study exploited information by the help of both primary and secondary data from questionnaires and interview schedules. However, the purposive method of sampling was used in this research work. In all 10 respondents were sampled from the fifty (50) respondents under review. The data captured in this study, was analyzed and interpreted through descriptive method by the help of frequency tables, graphical presentation and tables. Based on the investigations carried, the internal control system was seen to be significant in detection of fraud in banks in Ghana; there is therefore the need for an effective and acceptable internal control structure in banking organizations. It was therefore recommended that Prudential Bank Limited set up internal audit units at their various branches all over the country, so that there shall always be internal audit personnel to ensure adherence to the internal controls that exist in the organization. In view of this, the internal audit personnel should also be revolved at regular intermissions to prevent any form of professional misconducts.

1.0 INTRODUCTION

How extensive should a company's internal control structure be? In today's state of affairs, this is a challenging question to answer. The reason being that some current business, legal, and social trends suggest that companies precondition to intensify their emphasis on internal control, while other trends designate just the reverse. Bank failures and widespread losses in this globalized world have elevated the importance of effective internal control within the formal financial sector worldwide. In the United States for instance, Bank catastrophes rose over 200 percent in the 1980s as a result of fraud and mismanagement. Internationally, the collapse of Barings Bank and Yamaichi Securities further highlighted the financial sector's attention on internal control systems in banking organizations. The Basel Committee carried out investigations on the causes of these losses and concluded that they probably might have been avoided if the Bank had put effective and efficient internal control systems in place (Banking regulatory and auditing guide). As part of its on-going effort to control fraudulent activities at banks and enhance better supervision through guidance that emboldens effective risk management practices, the Basel Committee on Banking Supervisory issued a basic conceptual structure to strengthen internal control systems.

A system of effective internal controls is a major component of bank management and the bases for the safe and sound operation of banking organizations. A strong internal control system will result in the achievement of goals and objectives of a banking organization, that the bank will achieve long-term profitability targets, and maintain realistic financial and managerial reporting. It will also help to ensure that the bank adhere to laws and regulations as well internal rules and procedures, and decrease the policies, plans, and activities that brings about unexpected losses or impairment of the bank's reputation.

Internal control and internal auditing are closely related and it is difficult to separate the two. This is because for system-based auditing to work effectively, the auditor will like to rely on internal controls to reduce the volume of substantive testing. It is therefore important for the auditor to examine the internal control practice and procedures that are in place in the client's business. Where weaknesses are revealed, the auditor recommends ways of improving the systems. The internal control systems also seek to ensure that pre-audit function which is considered the most critical element in financial control concept are put in place by management through the internal audit unit to ensure that operations are carried out according to plan in order to achieve the overall objectives of the business enterprise. The pre-audit function in the past used to be

concerned only with the vetting and passing of payment vouchers. Today the pre-audit function has moved on to includes the operational review of all transactions and offer appropriate technical advice.

Auditing and internal controls can be explained from different point of view and perspectives (Cristina, Mariana & Cristina,2010).

Internal control can be defined as a process, effected by the actions of board of directors and other organizational structure levels in the firm, designed to provide reasonable assurance towards the achievement of a firm's objectives, plans and strategies under the related laws, rules, polices and regulations (Domnişoru & Vinătoru, 2008; Li & Wei, 2008). It can also be defined as policies and procedures adopted by the management of an entity to assist in their objective of achieving as far as practicable, the orderly and efficient conduct of business, including adherence to internal policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information. Whereas Auditing is defined by ISA as a process, carried out by an appointed qualified person or body, whereby the records and financial statements of an entity are subjected to independent examination in such detail as will enable the auditor form an opinion as to their truth and fairness. Currently, most companies increasingly started to include detailed management reports on the effectiveness and efficiency of internal control systems in their annual corporate reports as an indicator to a good corporate governance practice (Leng& Li, 2011; Saha & Arifuzzaman, 2011). However, the evaluation of internal control system is based mainly on assessing the strength of internal quality control of the intended company on three important areas, including appropriate internal control, insufficient internal control and deficient internal control (Calotă & Iana, 2009). The effectiveness of an organization's internal control system is generally seen as a prerequisite to the auditing process as it is considered the major indicator of the collection, timing, and the degree to which auditing measures should be applied or restricted (Terrell, 1974).

The financial and corporate policy of a company is supported by means of operative internal control systems in which the internal audit has a significant role in raising a reliable internal control system, improving the practice of risk management and above all, satisfying the needs of internal users. And the unnecessary legal tussles that characterizes repayments of bank facilities.

Prudential Bank Limited (PBL) was incorporated in (1993). It opened its doors on August 15, 1996 with the first branch in Accra. Prudential bank is a medium-sized bank specializing in meeting

the banking needs of small and medium-sized businesses as well as those of individuals. The bank has three subsidiary companies-PBL properties Limited, Prudential securities Limited and Prudential Stockbrokers Limited.

PBL Properties Limited is engaged in the acquisition and development of banking premises for bank and also management of ancillary staff and facilities.

Prudential Securities Limited (PSL) is engaged in fund management, corporate finance and business advisory services. Prudential Stockbrokers Limited is engaged in stockbrokerage, equity and economic research and advisory services.

1.2 Statement of the Problem

The banking system in Ghana was established purposely to bring the business of banking to the door steps and make banking easier and comfortable for users all over the country and the international world as well. The banking industry is faced with some crucial challenges due to regularity of fraud and embezzlement of funds thereby creating fear, anxiety, and loss of confidence of bank customers. Also, weakened internal control structure leads to high amount of bank losses. Management is required to set up an internal control system but this system varies from one organization to the next reliant on such features as their size, environment of operation, and objectives. Subsequently internal controls function in an environment which impacts its operation, proper care must be taken in its implementation of these systems in other to achieve the final aim of the bank. This crucial interest in internal control is, in part, a result of significant losses incurred by several banking organization. An analysis of the problems related to these losses proved that they could probably have been evaded had the banks adopted proper internal control measures. Such systems could have been disallowed or enabled earlier detection of the problems that brought about the losses, thereby limiting harm to the banking organization.

In view of this many control measures have been implemented to safeguard against loss of revenue from credit or misplacement, misappropriation of assets. This study was conducted to test the effectiveness of the controls in place at Prudential Bank Limited Weija branch in Accra.

1.3 Research Objectives

This study is concerned with the internal control structures that are in operation in Prudential Bank Limited to achieve its short-term profitability and long-term survival.

Specifically, the study seeks to:

1. Identify the internal control measures put in place for risk management and whether procurement procedures are being adhered to by Prudential Bank

2. Identify whether customers are operating within their credit limits that are set for all customers by credit officer
3. Recommend the appropriate policy measure to improve and strengthen the internal control systems in Prudential Bank Limited.

1.3 Research Questions

This paper seeks to test the internal control systems that are in operation in prudential bank in request to achieve its short-term profitability and long run survival. Specifically, this research work seeks to find out the follow:

1. Do customers of the bank operating within their credit limits that are set for all customers by Credit officer?
2. Are the existing procurement procedures in the organization adhered to by the management of Prudential Bank Limited.?
3. What policy measures and strategies put in place in the organization to improve and strength the internal control systems in Prudential Bank Limited?

1.4 Limitations of the Study

The internal control involves human actions which are subject to the possibility of errors in the processing or judgment. Internal controls might be overlooked by both management and employees in the event of prevarication of controls or oppression by top management and superior external influences. Insufficient funds prevented further studies in other areas which are equally important.

Scope of the Study

1.4 Significance of the Study

The study covered the internal control measures in Prudential Bank between 2012 and 2015. This study was conducted to assist all the staff to assess how they discharge their responsibilities and also to assist top management to synthesize, appraise, recommend and offer relevant commentary on the activities of the bank.

The significances of this research work had been that: to assess the Board of Directors finds appropriate solution to the problems of internal control systems of the bank, findings from the study are expected to assist managers to have detailed knowledge about the internal control policies that exist in the bank, to other researchers, studying on a related subject, this study will provide guidelines to enhance their work. It serves as a source of literature to other researchers, and the limitation of this research may be built on by others studying on the same or similar topic.

1.5 Organization of the Study

The project is divided into five major chapters with subdivisions as follows;

Chapter one is divided into the background of the study, statement of the problems, purpose of the

study, Research questions, scope of the study, significance of the study and organization of the study.

Chapter two consists of Literature review on internal control systems especially within the banking framework, Prudential Bank as a focus.

Chapter three looks at the methodology of the research, the population and sample of the study, and organizational summary of Prudential Bank Limited.

Results and discussion of the work is contained in chapter four.

Finally, chapter five covers the summary, recommendations and conclusions.

LITERATURE REVIEW

2.1 Introduction

This chapter therefore seeks to emphasis on the scope of auditing and internal control, its impacts on organizational performance, measurement and the theoretical framework and models that are relevant and suitable for the study, the literature review will comprise the following;

2.2 Studies on Internal Control

Literature review is an important pre-requisite for actual planning and execution of any research work. In this chapter, an attempt has been made to take cognizance of studies which has relevance to present problem. This chapter is the compilation of definitions and nature of internal controls system, definition of auditing and its relationship with internal control, classifications of the system as well as the critical areas of such system. It also considers the benefits of internal controls and their limitation to enable the researchers test their effectiveness in Prudential Bank Limited. The auditing standards define an internal control system as “the whole system of controls, financial and otherwise established by management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records”. It is also defined as a systematic measures (such as reviews, checks and balances, methods and procedures) instituted by an organization to conduct its business in an orderly and efficient manner, safeguard its assets and resources, deter and detect errors, fraud, and theft, ensure accuracy and completeness of its accounting data, produce reliable and timely financial and management information, and ensure adherence to its policies and plans

William F. Messier Jnr; also defined internal controls as the process affected by an entity’s Board of Directors, Management and other personnel designed to provide reasonable assurance regarding the achievement of objective in the following categories.

- Operations control- relating to the effective and efficient use of the entity’s resources.

- Financial reporting controls- relating to the preparation or reliable published financial statement.

- Compliance controls- relating to the entity compliance with applicable laws and regulations.

Internal controls work best when they are applied to multiple divisions and deal with the interactions between the various business departments. No two systems of internal controls are identical, but many core philosophies regarding financial integrity and accounting practices have become standard management practices.

According to the University of Delaware Hullihen hall, internal control is broadly defined as a process, effected by an entity’s board of trustees, management, and other personals, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

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

They further explained that, internal control consists of five interrelated components which include:

- Control environment, this consist of the integrity, ethical values, and competence of the entity’s people and is the foundation for all other components of internal control.
- Risk assessment, every entity faces risks that must be identified, analyzed and managed to achieve its objectives.
- Control activities, these are measures used to help and ensure that management directives are carried out and that risk are addressed. They take many forms including policies and procedures, approvals, verifications, reconciliations, performance reviews, security measures, and segregation of duties.
- Information and communication, information systems must be in place to identify, capture and communicate relevant information in a form and timeframe that enables people to carry out their responsibilities and maintain accountability for the entity’ assets.
- Monitoring, the entire internal control process must be monitored and the quality of its performance assessed as a part of regular management and supervisory activities. Corrective actions must be taken whenever the system does not perform as intended.

2.3 Internal Control and Audit Program Effectiveness

An audit is the examination of an entity's accounting records, as well as the physical inspection of its assets so as to express an opinion on the fairness of the entity's financial statements. It is difficult to separate internal control and auditing due to their highly relatedness. The level of internal control systems in an organization determines the level of audit exercise to be carried. Internal control is sometimes defined as a process, affected by the actions of board of directors and other organizational structure levels in the firm, designed to provide reasonable assurance toward achieving firm's objectives, plans and strategies under the related laws, rules, policies and regulations (Domnişoru & Vinătoru, 2008; Li & Wei, 2008). Recently, big companies increasingly started to include detailed management reports on the effectiveness and efficiency of internal control systems in their annual corporate reports as an indicator to a good corporate governance practice (Leng & Li, 2011; Saha & Arifuzzaman, 2011). However, the evaluation of internal control system is based mainly on assessment of the internal quality control of the intended company on three main levels, including appropriate internal control, insufficient internal control and deficient internal control (Calotă & Iana, 2009). The effectiveness of a company's internal control system is generally recognized as a prerequisite to the auditing process as it is considered the major determinant of the selection, timing, and the extent to which auditing procedures should be applied or restricted (Terrell, 1974).

However, according to Xiao (2011) firms may incorporate many procedures to enhance and develop their internal control systems. These include for example; dividing responsibilities, creating internal audit divisions, using efficient electronic information tools and giving more attention to their employees' skills by sharing them in periodic training courses and seminars. Internal control systems have many aspects and needs to be assessed before starting the auditing procedures in that the evaluation of it involves the joint evaluation of the reliability and credibility of all evidence collected on the various strengths and weaknesses of different aspects of internal control system and then prepare a rigorous audit program based on the result of such evaluation (Weber, 1978). Thus, internal control evaluation is a prerequisite of audit program planning, which is the prerequisite of the audit process itself. In this context, Joyce (1976) argued early that external auditors collect, evaluate, and combine information in forming an opinion about the fairness and credibility of different financial statements by performing professional judgment in determining the type and extent of information to

collect and test using well-prepared audit programs. Accordingly, audit planning process involves preparing audit programs after evaluating the internal control structure, reliability and risk (Murphy & Brown, 1992). This, however, means, that external auditor must evaluate internal control as part of the audit examination (Abdel-khalik, Snowball & Wragge, 1983).

2.4 Risk Assessment and Management

For some time now, risk management in general and internal control more specifically; have been considered as fundamental elements of organizational governance. As a consequence, risk management is beginning to be perceived as a new means of strategic business management, linking business strategy to daily risks and then optimizing those risks in order to realize value (Saarens and de Beelde 2006.) In the United States for instance in 1992, a group of companies sponsored the formation of the Tread way Commission to study and report on how to improve on the effectiveness of internal control systems, and more recently in 2002 the US congress passed the Sarbanes Oxley act giving new directives on how companies are to report on the effectiveness or otherwise of their internal control systems. (Circular 123 spring 2005, KPMG LLP). The Central Bank of Ghana in playing the regulatory role has come not with measures to help regulate the functioning of the financial institutions to improve on the effectiveness of their internal control systems and risk management. In Ghana for example various legislations have been passed to reduce the risk of misstatements, fraud and mismanagement of both corporate and government resources. The government in 2003 passed the financial Administration act (Act 654), the Public Procurement Act (Act 663), and the Internal Audit Agency Act (Act 658), the government also set up certain bodies in addition to existing ones. The Office of accountability at the Presidency was set up in addition to the Serious Fraud Office and the Commission on Human Rights and Administrative Justice (CHRAJ).

Also, the Securities and Exchange Commission (SEC) with support from the United Nation Development Program (UNDP) in 2005 carried out a country assessment of corporate governance standards in Ghana, which lead to issuing of new corporate governance standards in the same year (Corporate Governance Lessons, Ghana Country Report, May 2005). As part of improving their internal control systems, internal auditing function, and reduce risk, most banks in the country have put in place mechanisms to ensure internal control and compliance in credit delivery. These includes setting up an internal audit unit, a monitoring unit and issuing the Accounting, Treasury and Financial Reporting Rules (ATE Rules). It is therefore in this light that this

project work is being carried out to assess the effectiveness of internal control system and how the internal auditor perceived his or her role in risk management in the financial sector.

2.5 Internal Audit function

Internal audit makes a large contribution to the achievement of company goals, and the implementation of strategies for their achievement (Ljubisavljević&Jovanovi, 2011). In addition, the internal audit function is responsible for reinforcing management and audit committee (Hutchinson & Zain, 2009). Likewise, internal audit determines the reliability, reality, and integrity of financial and operational information that comes from different organizational units, on which appropriate business decisions at all levels of management are based. Successful implementation of internal audit tasks means that it must be independent, i.e., company management should in no way influenced by its work, information, conclusions, and evaluations. In this way the internal audit report becomes a means of communication between internal audit and management, and an important guideline for the successful management of the company (Ljubisavljević & Jovanovi, 2011). Furthermore, the internal audit function facilitates the operation and effective working of the audit committee as the audit function goals are consistent with the former's financial reporting oversight responsibilities (Goodwin and Yeo, 2001; Goodwin, 2003; Scarbrough, Rama &Raghunandan, 1998). The creation of an internal audit function is supported by the governance reports (NYSE, 2002) and previous studies (Collier & Gregory 1996; Goodwin & Kent, 2003) as a mechanism to enhance internal governance processes.

Along this line of argument, Al-Shammari (2010) mentioned many factors of internal audit functions and they are provided below:

- The internal control systems and arithmetic evaluations in an attempt to ensure that the accounting system and internal controls systems are appropriate to ensure that the systems are suitable for the facility and propos system enhancements.
- Assessing the plans and procedures to determine weaknesses or defects in the systems and procedures used by the company to propose modifications and enhancements needed, and to provide authority to the internal auditor for the examination of the aspects of establishment activity.
- Taking into consideration the staff commitment to the company policies and procedures and therefore, internal auditor has to monitor these policies and procedures'

implementation and to clarify them to the employees.

- Safeguarding established funds as the development and implementation of systems is an attempt to make sure that the facility safeguards assets and funds against manipulation and fraud, to detect fraud and minimize losses stemming from neglect/abuse (e.g. loss of proper storage).

IAC in this study comprises four factors namely, qualifications of the chief audit executive, size, qualification and experience of the audit department. Generally, the previous study dedicated to examining the relationship between internal audit and firm performance is so limited in both developed countries and developing countries. Several studies have called for further studies to conduct extensive investigations; for instance, Hutchinson and Zain (2009), explored the association between internal (audit experience and accounting qualification) audit and firm performance (ROA) with growth opportunities and audit committee independence in the context of Malaysia. Their study has two future recommendations. First, future studies should examine the role of the board and the interaction between internal audit quality and audit committee independence. Secondly, this study encourages future studies to look into alternate models of factors that would possibly impact IAQ and improve corporate governance.

2.6 Qualifications of the Chief Audit Executive and Firm Performance

In today's dynamic business environment, it is imperative that internal auditors are qualified as they should be thorough in their knowledge of business, systems, developments and other business topics. They should be able to decipher what works and what does the strengths, weaknesses of standards, code systems and procedures (Hala, 2003; Clikeman, 2003). In addition, the high-quality profession of a chief audit executive is to improve the quality of audit and hence, the current study measured this variable through the questionnaire. The head of internal audit qualified with auditing certification such as the Certified Internal

Auditor (CIA), Certified Government Auditing Professional (CGAP), Certified Financial Services Auditor (CFSA), Certification in Control Self-Assessment (CCSA), and Certification in Risk Management Assurance (CRMA) where useful feedback for any mistake is provided. A certified auditor is able to make a good decision in the fastest time without having to wait or to consult with another team. The current study expects the qualification of a chief audit executive to absolutely enhance performance (Eighme & Cashell, 2002). Firms that have undergone a period of strong performance may be

in a more appropriate position to employ external directors. The prestige that an external director holds stems from various sources such as the director's title and the job position (D'Aveni, 1990). Moreover, those with higher qualifications have backgrounds ripe with increased abilities in monitoring management and contributing to the strategic decision making (Hillman & Dalziel, 2003). These directors may also possess the potential to influence external resource provides including financial institutions and to signal firm value to investors. From this logical perspective and with a consistent recommendation as mentioned above, this current study considers the qualification of chief audit executive variable into account.

2.7 Size and Experience of the Internal Audit and Firm Performance

The second factor of IAC, which is the internal audit size (IAS), is essential to improve performance of companies. The size of internal audit is measured by the number of internal audit seating on the committee of the internal audit department. In this section, the role of size in the committee is explained in light of different theories. First of all, Jensen's (1993) study seems consistent with Lipton and Lorsch (1992) who suggested the suitable number of board members to be seven to eight. Also, Firstenberg and Malkiel (1994) claimed that a board with eight to fewer members encourages greater concentration, participation and authentic interactions and discussion. Consistent with the above, Shaver (2005) argued that larger boards are often characterized by responsibility diffusion, which leads to social loafing, it encourages group fractionalization and minimizes group commitment to modifying strategy. From the perspective of resource dependence theory, it postulates that larger board size would result in superior corporate performance owing to the various skills, knowledge, and expertise contributed into the boardroom debate. In addition, large boards could also offer the diversity that would assist companies to obtain critical resources and minimize environmental risks (Goodstein, Goodstein, Gautam&Boeker1994; Ghazal, 2010; Pearce & Zahra, 1992; Pfeffer, 1987). The third value of IAC is experience of internal audit. When a person has many years of experience, he/she can make a right decision, decide fast and deal with any situation. This variable is measured by the number of years the members have gathered through a questionnaire that is sent to every firm by email. Consistent with the resource dependence theory and its proponents, expert individuals help in firm growth because they have a clear insight about how to deal with process and accomplish their tasks with superior quality. And when the firm provides a board with high experts, they help to understand external environment and as a result, will improve performance of companies.

METHODOLOGY

3.0 Introduction

In understanding a project work, it demands a dependable and a concrete method of gathering information. for this reason, this chapter consist of the various and particular mechanisms or techniques used in collecting the data for this project work, and it further explains why the particular techniques were used instead of others. Moreover, the chapter then provides the population, sampling procedure, research instrument, data collection and data analysis.

3.1 Research Design

The research which was the impact of auditing and internal controls on the management of Prudential Bank Limited among the other banks was viewed as something that is needed to be researched into, to find out the impacts the bank has been able to make in the management of the bank in terms of auditing and internal control under study.

3.2 Population and sampling

Population is the total members or items which a sample is taken. The population consisted of customers of the bank, and bank officials. In order to make study more reliable, a complete population of fifty (50) employees was targeted. With regards to the objectives of the study, the sample was taken from Prudential Bank Limited. The sample unit was fifty (50) bank officials. Those who received questionnaire at the bank included the manager, account officers, and a clerk. Those people were selected through no scientific means but for the fact that they represent different levels of the bank's organizational structure. Convenience sampling method was therefore used for the collection of data from other staffs of the bank; some of them were the tellers, those at the front desk as well as the requisition desk.

3.3 Data Collection Procedure

To successfully collect facts on the impact of auditing and internal controls on the management of Prudential Bank Limited, data was collected from both primary and secondary source. This was carried out, based on the data drawn from the questionnaire designed and administered on sample customers of the bank. Primary source of data refers to data that is being collected for the first time of project research. In the collection of this data, there is field work, techniques and procedures for collection. The primary source of data used for this research work was obtained through interview, observation, and questionnaire administration. Secondary source of data refers to published data that was collected for a previous research, but can also be used for the pending research. The secondary source of data used for this research work was collected through the bank's brochures, magazines, textbooks, journals and the internet. To have accurate and reliable data for the research work,

there becomes the need for the use of first-rate instrument for data collection. The instrument used by the researcher for the data collection was based questionnaires and interviews. Two different types of questionnaires were used. Both contained opened-ended and closed-ended questionnaires designed for the bank officials and the other staffs. Twenty (20) opened-ended questionnaire were constructed for the respondents to give information themselves, while thirty (30) closed-ended questionnaire were made up of list of questions with possible answers for respondents to tick. The main purpose was to establish how the employees view the management of the bank and its activities and whether in their opinion it is to their benefit. The research is also to find out whether the bank officials are satisfied with the internal control systems and the audit work performed by auditors. Interviews were conducted to support what was obtained through the use of questionnaires. Both structured and unstructured questions were prepared for the interviews. The interview was the main source of information obtained at the bank.

3.4 Data Analysis

Data processing involves the preparation of data for analysis. The data collected through the various techniques were presented in a form of a

statistical table and charts. It would be used to summarize the responses to the questionnaires. These would include percentages, bar chart and pie charts. The use of the questionnaires therefore, is comparatively convenient and inexpensive method of data collection. The data collected was edited and examined for consistency of respondents. Again, to ensure comprehensibility of the research, most of the information is explained by the use of some statistical table and chart. All the analysis was done through IBM SPSS 26 version.

RESULT AND DISCUSSION

4.0 Introduction

This chapter discusses the findings of the study on the impact of internal control and auditing on the performance of an organization, using Prudential bank Ltd. Weija branch as a case study. In this chapter, the data collected through questionnaires would be analyzed and discussed. The analysis will be in two parts. The first aspect covers data from the internal control of Prudential bank Limited, Weija branch and the second aspect relate to the auditing of the bank.

Analysis of Data

4.1 Below is the summary of finding received from respondents

Table 1: Sex of Bank Officials.

SEX	FREQUENCY	PERCENTAGE
Male	36	72
Female	14	28
TOTAL	50	100

Source: Field Research Data 2019

From Table 1, out of the 50 ‘officials’, 36 were Male (representing 72%) and 14 were Females (representing 28%). The questionnaires were given to a higher

population of male because through personal observation, it was realized that, male staff of the bank outnumbered the female.

Table 2. Age Distribution of Respondents

AGE	FREQUENCY	PERCENTAGE
18-28	13	26
29-39	15	30
40-50	12	24
51and above	10	20
TOTAL	50	100

Source: Field Research Data 2016

Table 2 indicates that Twenty-six percent (26%) of the respondents fell within the ages of 18-28. Thirty percent (30%) also fell within 29-39 years, with Twenty-four percent (24%) being between the ages of 40-50 years. The table also shows that those in the ages of 51 years and above constitute Twenty Percent (20%). This is an indication of the fact that all the respondents fall within the labor force. With the educational background of the respondents, fifty-five

(55%) percent has attained University education, Thirty percent (30%) to the level of polytechnic, with the remaining Fifteen percent (15%) having completed the professional course. The study also revealed that the experience of the respondents ranges between three (3) to five (5) years. The education background of the respondents clearly shows that most of the employees have attained tertiary education.

4.2 The Internal Control Aspect

Internal control is one of the key precautionary mechanisms in the Prudential bank. Internal control is the control of financial and management activities and the use of resources in other to detect fraud and correction of errors.

Types of control adopted by the Internal Control Team

The types of control adopted by the internal control team of Prudential bank was identified by the respondents. This is represented in the figure below:

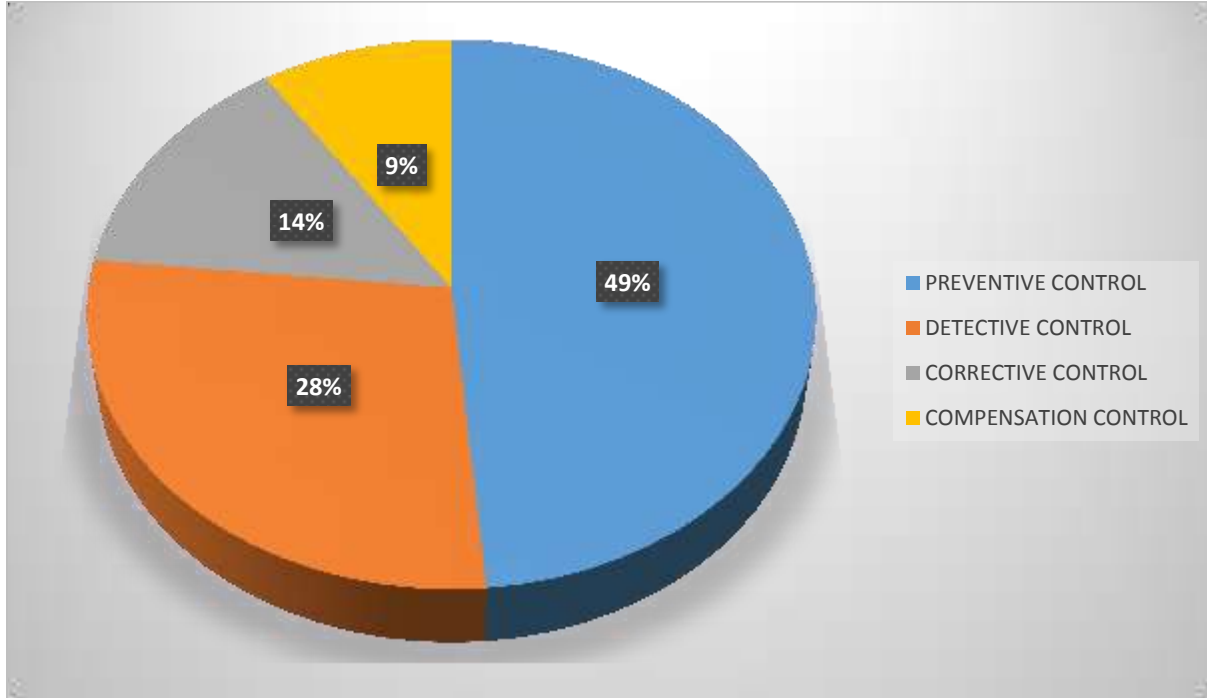


Figure 1. Types of Control

Figure 1 indicates that Fifty-eight (58) percent of the respondents fell within the ages of 40 - 50. Twenty-three (23) percent also fell within the ages of 29-39. The table also shows that those in the ages of 18-28 constitute Ten (10) percent. With the ages of 51 and above also recording Nine (9) percent. This is an indication of the fact that all the respondents fall within the labor force.

4.3 Functionality of Internal Controls of the Bank

The respondents were requested to determine the extent of functionality of internal controls in its effectiveness and efficiency, reliability of financial reporting and compliance with applicable laws and regulations the following aspects of financial performance was in a five points scale. The range was to a great extent, good, less extent and normal. The figure explains more of it.

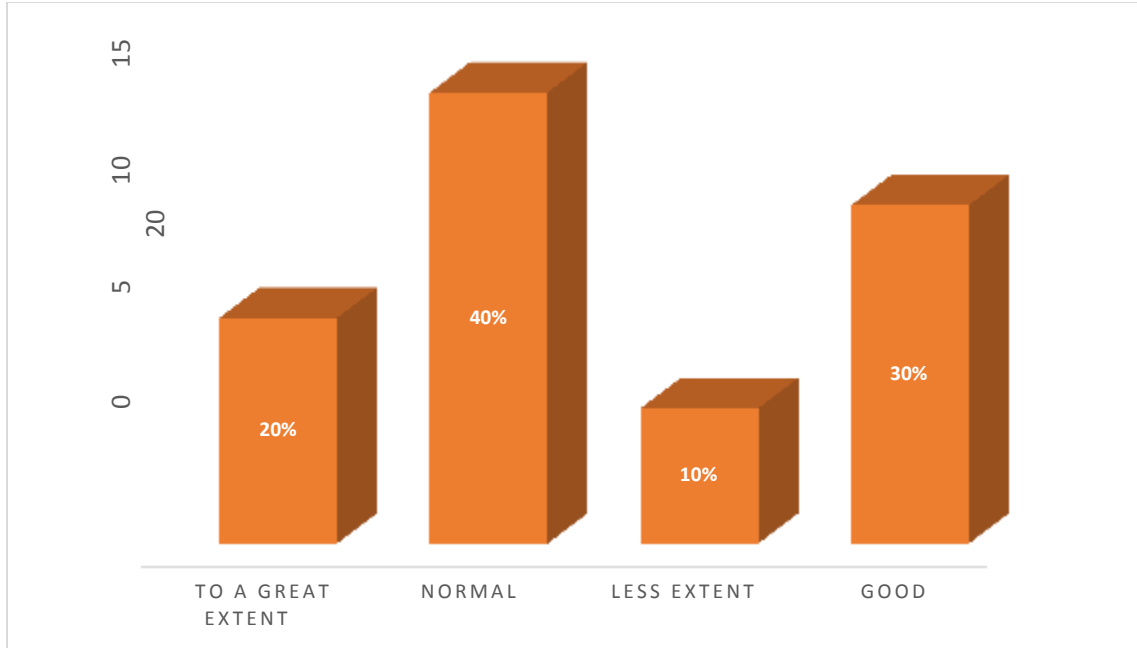


Figure 2. Functionality of internal control of the bank

Out of a sample of Fifty (50), Twenty (20) constituting 40% of the population were of the opinion that the internal control function of the bank is normal and that the right rules and regulations are applied in their duties.

Fifteen (15) respondents believed that the control system is good, they explained that the methods needed for regular check and proper monitoring are used. These respondents constituted 30% of the population. Ten (10) respondents forming 20% of the population were of the view that the internal control system of the bank was to a great extent. They explained that system is very strong to the extent that it is easily to detect errors and fraud. Five

(5) respondents were however indifferent to the question that the internal control system provides assurance of effectiveness and efficiency and therefore were of the view that the system is less extant as to the expectations of the bank. They constituted 10% of the total population.

4.4 Control Environment

The study sought to determine the extent to which the functionality of the internal controls of the organization affects the financial performance of manufacturing firms in Kenya. Below are the findings in table 3.

Table 3. Control Environment

CONTROL ENVIRONMENT	YES (%)	NO (%)
Our organization has an accounting and financial management system.	95	5
Management is committed to the operations of the system.	78	22
Management closely monitors implementation of internal control system.	84	16
Management provides feedback to their junior officers about the operations of the system.	86	14
Appropriate measures are taken to correct misfeasance in operation of our Accounting & Financial Management System.	65	35

Source: Field Research Data 2016

From table 3, it was clear that the bank has controls systems. Majority of the respondent’s emphasis that, the organization had an accounting and financial management system representing 95% of the total percentage wide, 78% of the respondents also agreed to it that the management is committed to the operation of the system whilst 22% disagreed.

As to whether the management provides feedback to the junior officers about the operation of the system 86% of the respondents were in concordance with it but the other 14% disagreed due to the fact that they have not received any report from the management concerning their work. 65% also were of the view that appropriate measures are taken to correct

misfeasance in operation of their work whilst 35% also were in the adverse form. From, the above findings, it is evident that the organization observes control environment as one of the functionalities of internal controls of the organization that greatly impacts on the financial performance of Prudential bank.

4.5 Risk Assessment

The researcher’s assessment as to the reactions of management when there is the probability of an event having an adverse effect on the bank and whenever risk is detected is stated below with the results of the findings:

Table 4. Risk Assessment

RISK ASSESSMENT	YES (%)	NO (%)
Management has defined appropriate objective for the organisation.	100	0
Management identifies risk that affect achievement of the objectives.	95	5
Management has a criteria for ascertainment of which fraud-related risk to the organization are most critical.	80	20
Management has put in place mechanisms for mitigation of critical that may result from fraud	90	10

Source: Field Research Data 2016

From table 4, it was observed that the bank carried out regular risk assessment procedures. From the results, all the respondents emphasized that the bank has as defined appropriate objectives for the organization, some of the respondents also were of the view that the management identifies risks that affect achievement of the objectives, this had (Yes=95%, No=5%). Another reaction of the management as to whether they have a criteria for ascertainment of which fraud-related risks to the organization are most critical also had (Yes=80%, No=20%), the management has put in place mechanisms for mitigation of critical risks that may result from fraud had (Yes=90%, No=10%).It was also established that the management had put in place mechanisms for mitigation of critical risks that may result from fraud. These results are clear

indication that the management observed risk assessment procedures as functionality of internal control of the bank.

4.6 Auditing at the bank

Prudential bank is mandated to submit a report of records to the financial statements of the bank for auditing. The audit reports enable the bank to determine whether funds are properly appropriated as well as proper accounting procedures are used. It also helps to find out whether the banks operational activities are in accordance with the company’s rules and regulations.

Functions of the internal audit to the bank

Respondents considered the internal audit functions of the bank as in figure 3

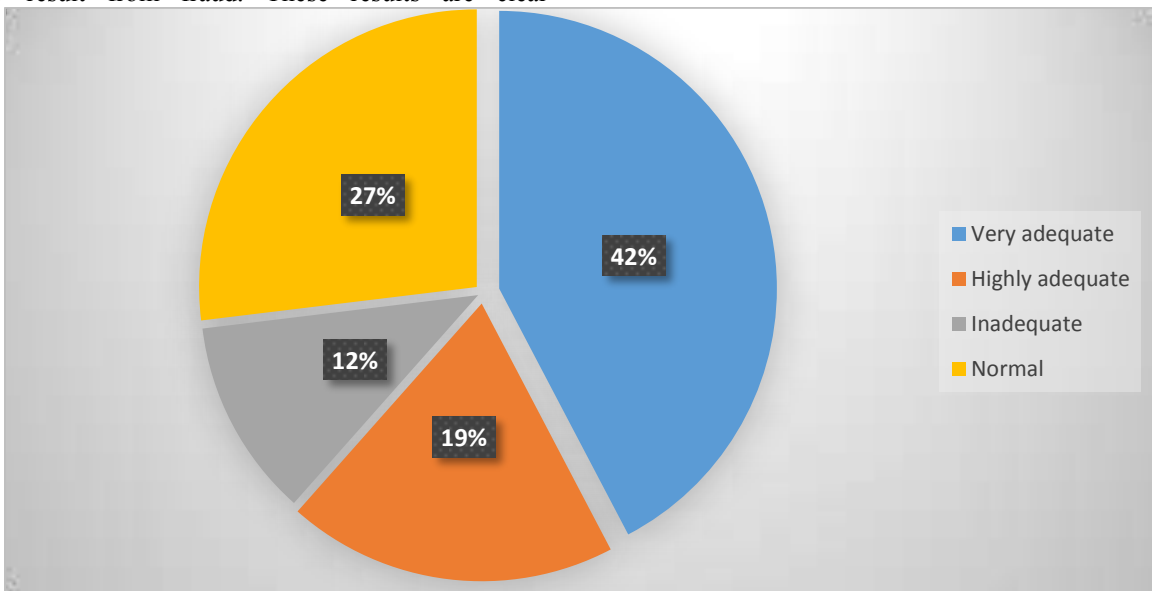


Figure 3. Internal audit functions of the bank

From figure 3, it was realized that majority of the respondents indicated that, the internal audit function

of the bank is very adequate. This is represented by 42% of the total population. 27% were in the view that

it is normal. As to the inadequacy and highly efficiency of the internal auditing function, 19 % and 12% of the respondents were in that opinion.

4.7 Types of Audit carried out at the bank

Respondents were asked to determine the types of audit carried out at the bank. Their responses depict in the figure below.

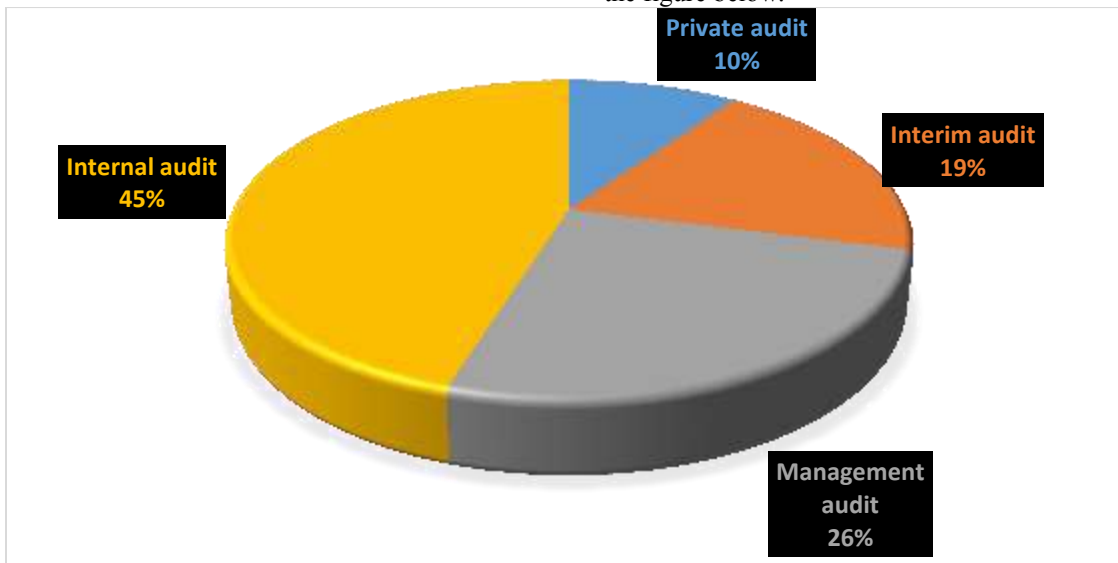


Figure 4. Types of audit carried out at the bank

It can be observed from figure 4 that, the bank carried out internal audit as their major audit activity performed at the bank representing 45% of the total population. Management and interim audit reveal 26% and 19% respectively. 10% of the respondents were of the view that the bank carries out private audit.

4.8 Benefits of Auditing to the Bank

The respondents were asked to identify some of the benefits that auditing offers to the bank. Respondents were of the view that, the procedures, processes and

the policies are well met at a given time. It also helps to check on the bank’s operations, due diligence is carried out and also establishes an operational guideline that guide every staff.

4.9 Problems Faced by the Auditing Team during their Exercise.

Various problems were stated by the respondents as faced by the audit team when performing their duties.

Table 5. Problems faced by the Audit Team

IDENTIFIED PROBLEM	FREQUENCY	PERCENTAGE
Incomplete data	10	20
Accounts imbalanced	7	14
Response to request for information sometimes delay	3	6
Inadequate time	30	60
TOTAL	50	100

Source: Field Research Data 2016

From table 6, sixty percent (60%) of the respondents identified that there is inadequate time for the audit team, twenty percent (20%) also indicated that the response to request for data information and other explanations by who may be responsible to, sometimes also delay. With regards to incomplete data, fourteen percent (14%) of the respondents were of the view that due to more transactions that is done by the bank, sometimes they are not able to complete their data before the auditors carry out their work. Six percent

(6%) respondents also indicated that there are also accounts imbalanced.

4.10 Solutions to the identified problem

Respondents came out with some solutions to the above-mentioned problems. Some were of the view that there should be a proper planning of auditing programs that may help them to have enough time to carry out their audit work. This will help the staffs of the bank to balance off their accounts on time in other to prevent any inconveniences. The respondents also

discovered that there was dalliance of data information when it is being requested by the auditors and therefore wish to recommend that there should be a provision of information list ahead of audit. Others also said that there should be pre-audit discussion with the client before the actual auditing work starts.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter discusses the research findings from the investigation which touched on auditing and internal control system at Prudential Bank Limited, Weija Branch and therefore meets the expected benefits. It also presents the conclusions and recommendation made to ensure that proper accountability is fully assured at the bank. The findings are presented based on the specific issues which were analyzed in chapter four.

5.1 Summary

Based on the analysis of the field data and relevant literature, the following findings were deduced:

- It was clear from the study that, the internal control functions of the bank is normal and that the right rules and regulations are applied in all transactions and that the system is very strong to the extent that it is easy to detect errors and fraud.
- It was also observed that, there are defined objectives of the bank which helps management to monitor the operations in other to be able to identify any risk that may occur.
- Additionally, the researcher also found that, the internal control system of the bank was strong and provides assurance of effectiveness and efficiency, reliability of financial reporting and compliance with applicable laws and regulations.
- Another observation found during the study is that, the procedures, processes and the policies of the bank are well met and the auditing activities provides operational guidelines that guide every staff which in turns put checks on the banks operations.
- It was also observed from the field that, there is inadequate time as a challenge faced by the audit team.

5.2 Conclusion

From the summary, it can be concluded that, the internal control technique helps to achieve the bank's goals and objectives and this was due to the fact that, there are codes of conducts that the staff officers follow. The internal control principles and procedures put in place appear to be well-designed even though it still has some limitations. It can also be concluded that, sometimes the audit team faces some challenges

due to inadequate time. Based on these I hold the view that operations of the bank are always efficient and realistic because there is regular check on the bank operation even though sometimes there are event or actions that have an adverse effect in the course of executing their duties. Additionally, on the effectiveness of audit activities at the bank, the results indicated that, the auditing activities is efficient in the sense that, they make sure all duties are performed well and policies and procedures are followed consistently.

5.3 Recommendations

Based on the conclusions on the effectiveness of banks operations with regards to internal control and auditing at the Prudential Bank Limited, the following recommendations are worth considering in the quest to deepen the internal control and auditing processes:

- Periodic review of policies and programs to meet the test on time should be done and also, there should be control department in the bank in other to improve upon the internal control measures of the bank.
- The bank should also make sure that, its policies and procedures are followed at all times. There should also be a regular staff education or seminars which will help to eliminate risk and to ensure effective controls in the bank.
- The researcher also discovered that there was inadequate period for audits, and therefore I wish to recommend that auditing should be done on timely and regular basis for early detection of deviations from the prescribed control policies.
- Finally, the management of Prudential bank should have proper planning of auditing programs.

REFERENCE

1. *Aguolu, A.O (2002) fundamental of Auditing, Enugu: meridian publishers.*
2. *Abdullah, R., A Rashid, R., & Masodi, M. S. (2008). Establishment of a corporate governance effectiveness performance index using Rasch measurement: Internal audit experience in Malaysian institutions of higher learning. Paper presented at the IIUM International Accounting Conference IV (INTAC IV), Putrajaya, Malaysia.*
3. *Abdullah, R., & Masodi, M. S. (2012). Creating quality precision instrument: VFMA_35 for the conduct of value for money audit using the Rasch Model Malaysian Accounting Review, 11(1), 1-16.*
4. *Ahmad, Z., & Taylor, D. (2009). Commitment to independence by internal auditors: the effects of role ambiguity and role conflict. Managerial Auditing Journal, 24(9), 899-925.*
5. *Audit Executive Center. (2010). Attributes of highly effective quality assurance and improvement programs. Knowledge Report: The Institute of Internal Auditors.*

6. Beale, I. (2012). *Auditor productivity or audit impact – What's the right objective? CEB Views*. Retrieved from Corporate Executive Board website: <http://cebviews.com/2012/02/27/auditor-productivity-or-audit-impact-%E2%80%93-whats-the-right-objective/>
7. Benson, P. (1995). *Improved audit coverage by small audit teams*. *International Journal of Government Auditing*, 22(2), 10-13.
8. Chuke, C.I (2001) *Basic principles of financial management*, Ibadan prentice hill international.
9. Chambers, A. D. (2014). *The current state of internal auditing: A personal perspective and assessment*. *EDPACS: The EDP Audit, Control, and Security Newsletter*,49(1), 1-14.
10. Circular 123 spring 2005, KPMG, LLP
11. *Corporate Governance Lesson, Ghana Country Report, May 2005*
12. Eze, J.C (2005) *Principals and technique of Auditing, New enlarged edition, Enugu JTC publisher.*
13. George, G., & Malane, F. (2003). *Auditors and corporate failure: An analysis of the WA and HHI failures in Australia and the role of the auditors*. *Centre for International Corporate Governance Research (CICGR), Victoria University of Technology*, 4(2), 42.
14. Ghana Government (2003), *Financial Administration Act 654*.
15. Ghana Government (2003), *Public Procurement Act 663*
16. Haron, H., Chambers, A., Ramsi, R., & Ismail, I. (2004). *The reliance of external auditors on internal auditors*. *Managerial Auditing Journal*, 19(9), 1148-1159.
17. Joseph, C.E (2005) *Principles and Techniques of Auditing New and Enlarge Edition Enugu.*
18. Joyce (1983), *Internal Control System Audit*
19. Leng & Li, 2011; Saha & Ariguzzman 2011, *Corporate Governance Practices*
20. Ljubisavljevic & Jovanovi (2011), *Principles of Auditing*
21. Lorsch 1992, Firstberg & Malkeil 1994, Shaver 2005, *Internal Audit and Firms Performance*
22. Morphy & Brown 1992, *Auditing Planning Process*
23. Sarens, G. (2009). *Internal auditing research: Where are we going? Editorial*. *International Journal of Auditing*, 13(1), 1-7.
24. Tubbs, R. M. (1992). *The effect of experience on the auditor's organization and amount of knowledge*. *The Accounting Review*, 67(4), 783-801.
25. University of California (2003) *Understanding internal control a reference guide for managing university business practices*
26. Van Peursem, K., & Jiang, L. (2008). *Internal audit outsourcing practice and rationales: SME evidence from New Zealand*. *Asian Review of Accounting*, 16(3), 219-245.