

THE INTERNAL CONTROL SYSTEMS OF GN BANK: A CASE STUDY OF GN BANK CREDIT DEPARTMENT

ABSTRACT

GN Bank is one of the numerous universal banks in Ghana. A bank is considered a universal bank if it is licensed with a license 'A' by the Bank of Ghana. Some of the universal banks in Ghana are GCB Bank, HFC Bank, First Atlantic Bank, Cal Bank and others. A useful and well-organized internal control system is an essential element in managing a bank and a basis for banking institution's operations to be secured. The main objective of this research was to identify the internal system of control used at GN Bank's credit department. A census sampling technique was used by the researcher in getting a sample size of eighty five (85) who consisted primarily of managers and officers of GN Bank's credit and risk departments in the south eastern zone through the administration of questionnaires. The data was analysed using the Scientific Package for Social Scientist (SPSS). The study found that there exists an internal system of control. GN Bank board of directors are ultimately responsible for ensuring that an adequate and effective system of internal controls are established and maintained. Together, both the board and senior management are responsible for promoting high ethical and integrity standards, and for establishing a culture within the organization. It was realised that GN Bank's implementation of a strong internal control system was able to detect and prevent fraudulent acts and practices. Although respondents agreed to GN Bank providing adequate training for credit personnel on internal control procedures, some substantial disagreements were recorded for this particular question. It was recommended that the board of directors should have responsibility for approving and periodically reviewing the overall business strategies and significant policies of the bank; ensuring that senior management takes the steps necessary to identify, measure, monitor and control these risks; approving the organisational structure; and ensuring that senior management is monitoring the effectiveness of the internal control system.

Keywords: Internal Control Systems, Bank, Fraud, Department

1. INTRODUCTION

1.1 Background of Study

Many monetary firms perform key roles in the countries' fiscal system. They are essential actors in the growth of every economy. According to Ntow-Gyamfi and Laryea (2012), financial institutions such as banks are very crucial to every economy but especially crucial in the case of developing economies. In playing these key roles of their setup including credits provision, banks produce money as such influencing the supply quantum of money. This is a critical item in the country's national income growth i.e. Gross Domestic Product (GDP). Banks are essentially fundamental to the payments system by providing assistance during economic transactions between both international and national entities thereby encouraging and promoting trade, commerce and industry.

Increase in fraud has lately heightened the enormous attention on banks' internal control systems. As long as the human element cannot be removed entirely from banking processes, fraud will continually be existent. This coupled with creating an enabling environment for banks to play their roles efficaciously and significantly contribute to the country's development has necessitated stable, safe and sound internal systems albeit the development and operation of internal control systems (Hayali, Sarili, & Dinc, 2012).

Additionally in view of the economic growth in the banking sector, proper organisation and implementation of modern business comprehension is impossible unless there is a prudent system of internal control. A useful and well-organized internal control system is an essential element in managing a bank and a basis

for banking institution's operations to be secured. A very sturdy domestic control system guarantees the achievement of a banking institution's aim and objectives. It guarantees the attainment of future profitability goals and maintenance of authentic fiscal and management reporting. A bank's internal control system ensures it will comply with laws, policies, procedure, rules and plans to lessen the chances of unforeseen damages or indemnification (KPMG, 1999).

The world-wide financial crisis highlighted the need for a well-functioning and healthy banking sector for macro stability (Hayali, Sarili, & Dinc, 2012). One of the factors of banking failures which results in major financial loss and even bankruptcy is as a result of huge risks taken by the management of banks on excessive scales and inability of controlling them.

Internal control is a system integrated within an organization with the aim of raising efficient and effective activities. Such system guarantees that actions and tasks follow rules and set of laws and improves the dependability of fiscal reports. Control systems that are internal are important for the organization to attain its ultimate objectives (Hayali, Sarili, & Dinc, 2012). The control system permits banks foresee potential problems and may bring about monetary losses and as such prevent whichever future occurrence. Research on the basis of bank failures primarily conclude on the premise that effective internal control system will be able to prevent financial lost.

Additionally control systems internally cover all assessments and techniques that are used and effected to aid the discovery of suitable operations conforming to determined policies institutionalised by board of directors, operating a list of accounts and the system for reporting, identifying the duties, responsibilities, power and plan of the organization. In other words, internal control system created and executed by management and employees is a procedure which is planned to make sure the achievement of goals and objectives (Doyrangöl, 2007).

According to COSO's definition in 1992, a control system done internally can be defined as a collection of methods, planned and handled by board of directors (BOD) and senior management which provides restricted guarantee regarding consistency in financial reporting, operations being effective and efficient and how they conform to regulations and laws (Aksoy, 2007). The COSO definition and the model covering all elements of the internal control system is guidance for other regulations throughout the world.

The main objective of internal system of control for banks is to incessantly check the congeniality of all banking procedures with established auditing standards, banking regulations, rules and laws to solve problems that may arise where necessary. In addition to this, in operationalizing an effective internal control system, erroneous, fraudulent dealings and irregularities are less likely to happen in banking (Ozten & Kargin, 2012). Control system internally consequently is a significant requirement necessary to prevent fraud and for competent and expeditious management of banks.

This study was conducted in the South Eastern Zone of GN Bank locations in Ghana. Several factors influenced the choice of location for this particular study. The major factor influencing the choice of the study area was access to respondents to partake in the research and to access the relevant facilities in place.

1.2 Statement of the problem

There are internal control systems in GN Bank specifically the Credit department. But are these internal control systems effective in preventing fraud, help in increasing profitability, also improving the turnaround time in processing loan facilities, are they also able to ensure conformity with established regulations and laws and improved operational activities?

Fraud is advent within established institutions. More often than not, it appears in the news, for example, when an employee diverts an amount of money into clothes, cars, houses and general lavish living. Fraud in institutions is described as an action that exposes the firm to some form of loss. It could be loss of products and good i.e. products stock (staff stealing products from available stock), loss of money (staff

stealing from petty cash), and loss of time (staff not working or absent during contracted work hours) (Addey, 2012).

All organizations, including profit and non-profit ones, operate within resource constraint conditions. As such precautions should to be taken and strategies effected to ensure the usage of firm's assets in accomplishing the aims of the organization. A well-functioning internal control system is crucial in enabling management detect fraud and establish appropriate sanctions and controls within the organization. Utilizing an internal control system is considered a major fraud control and prevention strategy (Fardon, 2006).

The research work is to investigate fraud and the internal control system practices employed by GN Bank to detect and prevent fraud from happening. It would further determine if the existing internal control system has effect on the turnaround time in processing loans.

1.3 Study objectives

The general objective of this research is to access the internal system of control in GN Bank credit department. Thus the study's specific objectives are to:

- i. Identify the internal control systems in place at GN Bank's credit department;
- ii. Examine ways GN Bank's internal systems of control help to prevent fraud in the credit department;
- iii. Analyse the effects GN Bank's internal control system on turnaround time in processing loans;
- iv. Examine the challenges faced in implementing internal control systems at GN credit Department;
- v. Explore measures that can be put in place to mitigate the challenges faced in implementing internal control systems at GN credit Department.

2. LITERATURE REVIEW

2.1 Internal control

The impulsion for control over finance and business operations is not a new phenomenon. Managers have been challenged with the institutionalization of control measures over decades. Defining domestic control, it is a procedure of accounting planned in ensuring efficient protection of assets or checks implementing a policy or avoids fraud and error. This is a critical part of overseeing an institution as it entails the plans, methods, and procedures used to meet an institution's vision, mission, goals and objectives; and by acting in that way, sustain performance based executive. Internal control assists managers to achieve required results through effective management of resources (Hamed & Babak, 2009).

Ideally, internal controls would have to minimize the challenges associated with unnoticed faults and deviations. They act as the primary line of defence in assets protection and fraud detection and prevention (Hamed & Babak, 2009). A good control system internally is a critical part of management of an institution and a cornerstone for its secure and effective transactions (Steinþórsdóttir, 2003).

The Treadway Commission that is the Committee of Sponsoring Organization (COSO) 1994, explained control systems used internally by organisations as a process established by an institution's BOD (board of directors), management and some employees intended to give confidence regarding the achievement of objectives in three ways thus operational efficiency and effectiveness, financial reporting dependability and abidance to relevant rules, regulations and laws.

Ofori (2011) postulates that institutions need internal controls to prevent assets, documents and records from going missing, make sense of how the business is doing, prevent and minimize business risks, improve the efficiency and effectiveness the institutions' managers, ensure asset protection and safeguard and last but not least regulate the institutions' transactions it conducts.

2.1.1 Purpose of Internal Control

Hevesi(2005) compiled functions of internal control. It was stated that the ultimate objective of internal control is to aid an institution attain its mission. It was continued that internal control also allows an institution to:

- i. Produce excellent products and services consistent with the institution's mission while promoting orderly, economic, efficient and effective operations.
- ii. Protect resources from failure due to waste, abuse, negligence, errors and fraud.
- iii. Promote abidance to rules, regulations, contract laws and directives from management.
- iv. Develop and preserve dependable management and financial data, and through timely reports accurately present that data..

2.2 Internal control systems

According to COSO, ICIF (1994) internal control systems are made up of five interconnected elements that render the basis for fraud detection.

2.2.1 Control environment

This allows the institution to set a standard. Control environment is able to bring about the integrity, ethical values, and competence of staff. According to Idowu & Adedokun (2013), the control environment should be able to provide order and structure for the entire structure. First and foremost, the institution should emulate strong ethical values. Based on the fact that different parties have diverse concerns, incentives, and temptations it makes this reasonably difficult. Next, all bodies must be skilled to execute their job schedules. One more issue significantly impacting on the situation to be controlled is authority's values and the way they operate. Finally, the human-resource strategy, inclusive of assigning power and responsibility, enough training, promotion and compensation guidelines, greatly influence the control environment.

2.2.2 Control Procedures/Activities

Control procedures from literature are the orders, rules, methods, decisions, policies and procedures that make sure executive dictums are carried out correctly and in/on time. These include control activities such as processing of information, reviewing performance, physical controls, and duties segregation. These tasks and activities are implemented to ascertain achievement of the institutional goal and objectives and risk mitigation. Management establishes these over a range of duties in the effort that reduces or check risks that are able to affect the institution to attain the objectives. According to GAO (1999), control procedures take place at all the stages and functions of the organisation. They are a part of a wide range of activities such as approvals, authorizations, verifications, reconciliation, performing reviews, maintenance of security and the formation and sustenance of interrelated records that are considered as evidence of activities executed and their appropriate documentation.

2.2.3 Risk assessment

This refers to identifying, analysing, and managing uncertainties that might face institutions from both internal and external activities. Risk evaluation is significant to control activities since internal control is a dynamic system (continuously changing). As such effective objective setting is a needed prerequisite to effective and efficient risk assessment. Risk assessment looks at threats both internally and externally, the institution's staffs, management's thinking and modus operandi; how senior management assigns task and authority and generally organizes and develops its employees (Tadesse, 2006).

2.2.4 Information and communication

This is inclusive of identifying, capturing, and exchanging operations, finance and compliance-related data in an appropriate way. Staffs when dealing with timely, dependable, and apprehensible information are able to manage, conduct, and manage their operations effectively. The stresses on information and communication affect the quality and accuracy on information. Therefore it should be timely, appropriate, accurate, current and accessible. These rudiments are very critical and should be taken into consideration when designing an internal control system. Without this, the parts of the control system internally cannot work as one body. A system of information has to be able to identify, capture, process, and report. Information systems can be formal or informal, should be capable of operating in routine monitoring method or on call, and should be an essential part of every activity (Krishnan, 2005).

2.2.5 Monitoring

This comes with the assessment of the excellence and usefulness of internal control. Such activities make information available likely about and genuine fall in the entire control structure. This activity can be done through self-assessments, outside audits, or straight testing of control. It is crucial that all and any defect be quetched to the right quarters. This can either be done through ongoing activities or separate evaluations. Managers routinely performing comparisons and reconciliations can be described as on-going monitoring. As such ongoing monitoring provides a loop of feedback for managers to make effective decisions on internal control structures (Lawson, 2004).

2.3 Control System and Fraud Prevention

When an individual uses deceit to obtain an advantage, avoid an obligation or cause loss to someone else or to an organization, fraud has occurred. As such fraud within an institution can be defined as an activity which poses some form of threat of loss to the employer including loss of money, time, and products from inventory. It is managements' responsibility to:

- i. Identify fraud risk prone areas and rank its seriousness;
- ii. Establish control systems with the involvement of staff;
- iii. Monitor on a normal basis the control systems to guarantee they are working
- iv. Deal appropriately with fraud of any kind by formal warning or reporting to the police (Fardon, 2006).

According to Adeleke (1996) fraud is an act or cause of deception practiced intentionally to gain illegal or unjust advantage over another person or institution. Certain occurrences stand out to clearly define fraud.

These are:

1. **Criminal acts:** Planned or effected actions forbidden by law that are injurious to the society.
2. **Illegal acts:** Unauthorized actions by law or owner of the property maliciously obtained.
3. **Tortuous acts:** Wrongful actions which affect the rights of other individuals and society committed either by commission or omission.
4. **Deceptive acts:** Actions that are aimed at deceiving another person by enjoying some benefits at the expense of the deceived person.
5. **Concealed act:** These are criminal deceptive actions engaged in by perpetrators which are hidden from the knowledge of others.

Fraud can be classified into two categories; internal and external fraud. Internal frauds like the name suggests are fraud committed by staff members of an institution. Internal frauds are most frequent and by far the highest in terms of numbers (NDIC, 2005). These include over invoicing, unofficial borrowing, fictitious transactions, unauthorized stamps, falsified use of document; converting funds for business for personal use, hasty writing off of assets, fake names on payrolls and falsification of figures.

2.3.1 Fraud detection

Kasekende (2008) suggested that skilled personnel by simple observation and experience are able to detect fraud. Some of the revealing signs of fraud include:

- i. suspicious actions by employee
- ii. higher levels of expenditure exhibited by employees that does not match their earnings like
- iii. working long hours by employees without taking or taking less than the normal holiday entitlement
- iv. staffs who have disagreements with the organisation
- v. employees who are known to be short of money but always make ends meet.

2.3.2 Ways internal control systems prevent fraud

According to several authors including Fardon (2006), Holl & Winn (2005) and Chorafas (2008) fraud risk assessment is part of the risk assessment process which is the duty of public and private organizations. Management risk assessment generally follows a number of distinct stages which is similar to assessment of fraud risk:

- i. Setting up and identifying objectives of a risk management group
- ii. Identifying fraud risk areas
- iii. Rating the extent of the risk in each case

- iv. A strategy development to manage the risk
- v. Allocating responsibility to set up fraud detection systems and how to handle them
- vi. Operating the internal control systems and
- vii. Monitoring the internal control system operations.

A robust internal control system is sine-qua-non if management is determined at detecting and dealing with fraud. A number of ways have been identified to make an internal control system fraud resistant. These include appointment of fraud staff; making management responsible; ensuring management supervision; segregation of duties; provision of security and authorization.

As proposed by Fardon (2006) and Berger & Bouwman (2007), the development and institutionalisation of a fraud policy is a critical function in any internal control system. It is useful for an institution to set up a fraud policy which may include:

- i. An indication of responsible managers for potential areas and levels of fraud
- ii. Control systems set up to help avoid fraud
- iii. Tasks and duties segregation and division of responsibilities
- iv. Regular control systems monitoring to ensure satisfactorily work and required timely amendment
- v. Decisions about which type of frauds are significant (low, medium and high risk) and should be pursued
- vi. Instilling staff explicit integrity i.e. the need for an anti-fraud 'culture', that any form of fraud is wrong and related risks that exist
- vii. Existence of 'whistleblowing' mechanism.

Forgery and fraud have been recognized as the main causes of bank agony and ultimate low performance in the banking segment (Ajayi 2010). Reports have shown that fraud is a major contributory factor to the failure of most banks in the 1990s, the amount involved representing as many as 32.1% of shareholders fund in 1998 (Udegbumam, 1998). According to the ICAN study pack (2006) fraud is made up of both usage of trickery to get an unfair or unlawful financial gain and deliberate misappropriations that affect the financial statements by the culprit or more persons among management, workforce, or third parties. Ajayi (2010) defined fraud as an action of trickery intentionally done to gain an illegal or undue advantage to the disadvantage of another. Kargi (2011) refers to fraud as the twisting of facts by persons in an institution. Fraud is also referred to as intentional falsification of financial records by one or more individuals or by management or employees. Hughes (2007) refers to fraud to be a programmed that is nicely designed complicated procedure or tool usually done by someone or group of individuals, with the only aim of scrutinizing an additional being or institution, to get fictitious rewards, be it financial or otherwise, which the entity would not have gained or profited in the nonexistence of that fake procedure.

2.3.3 Action taken to deal with fraud

A component of an organization's fraud policy is the set-up of a system which ensures right action is taken when fraud is uncovered and reported by someone internal and external to the organisation. Areas which should be dealt with as proposed by Fardon (2006) are;

- i. provision of clear directions to responsible managers on fraud matters
- ii. appointment of a responsible senior manager with fraud detection oversight responsibility for any major occurrences
- iii. disciplinary procedures directions for fraud occurrences which will or will not have to involve the police and possible criminal prosecution
- iv. directions for dealing with fraud cases which are reported to the institution by the police and which may result in a criminal prosecution

Fraud is inevitable it is the duty and responsibility of management to be prepared by putting in measures to prevent it and deter staff from committing fraud.

2.4 Effects of internal control system on loan processing time

Credit risk has been one of the most important risks encountered by banking institutions and their achievement depends on accurate amount and good supervision of this risk to a larger degree than any other risks (Giesecke, 2004). Coyle (2000) suggests credit risk to be loss from the rejection or failure of loan clients to pay what they are indebted in full and on time. Credit risk is therefore the exposures that banks come across when a loan client is not able to meet his obligations as agreed when the date for

fulfilment falls due. This risk also known as 'counterparty risk' is capable of crippling the banking institution if not satisfactorily managed. Credit risk management increases the bank's risk adjusted rate of return by maintaining credit risk exposure within the acceptable minimum limits (Kargi, 2011).

Credit risk is mostly likely caused by limited capacity to repay credit, bad credit policies, unreasonable interest rates, poor credit management, unsuitable laws, inadequate capital and liquidity levels, direct lending, substantial licensing of banks, poor loan appraisal, sloppiness in credit assessment, poor lending practices, government interference and inadequate supervision by the central bank (Kithinji, 2010). A bank which takes on too many credit risk is likely to be saddled with insolvency and liquidity challenges. Furthermore, a bank is likely to face more credit risk if it lends to non-Know your customer (KYC) compliant customers.

In efforts to manage credit risk, bank personnel according to the operations of the internal control system in the bank would have to guarantee the authenticity of the client. This procedure albeit slow it is quite essential in ensuring clients who take loan pay back whatever they take along with the interest. Assessing the capability of the client in this case could take as long as a month in Ghana's Banking economy since majority of the populace are not bankable. For customers who have some form of dealings with the bank, it could take a few minutes to gather the required information on the client. This rigorous process affects the processing time and cannot be overlooked.

Nsiah-Agyeman (2010) assessed the credit risk management practices of Kakum Rural Bank. His findings revealed that, loan granting in the bank generally involved:

1. Acceptance of loan application from the customer,
2. Appraisal of the loan application form by the credit officers
3. Recommendation by the credit officers of the amount of loan that can be granted for onward verification by the Head of Credit at the Headquarters.
4. Communicating to the prospective borrower of the approval or disapproval of the loan application by the Credit Officers

It was further indicated that averagely, it takes two weeks for a loan to be approved. However, where the loan applicant is not able to meet all the requirements at the initial stage of the application, it takes up to two months before the application is approved for disbursement.

Kargi (2011) assessed the effect of credit risk based on the lucrativeness of Nigerian banks. Financial ratios which measure banks performance and credit risk were collected from the annual reports and sampled accounts of banks from 2004-2008. The findings unveiled that credit risk management plays a major role on the profitability of Nigerian banks. It concluded that the profitability of banks has an inverse relationship with non-performing loans as such exposing them to increased illiquidity and distress risks. Doyrangol (2007) assessed the performance of banks in the company of risk for Costa-Rican banking industry from 1998 to 2007. The results also revealed that improvements in performance can be explained from regulatory changes which risk banking institutions' non-performing loans negatively affecting efficiency and return on investment and assets while the capital adequacy ratio has a positive impact on the net interest margin.

2.5 Challenges faced in implementing internal control systems in organisations

Generally, internal control systems have to specify the laws, method and ways of operations, monitor the conduct of operations and evaluate the conduct of operations. Whiles it is quite easy to diverge, it is very difficult to obey the rules. Of course, there are challenges with the implementation of any control system.

Therefore, management has to institute measures to pressure people to be cognisant of control. This is the biggest test in most institutions especially in banking institutions. It may be because of people's reluctance in following laid down procedures. Management can create an effective control environment but if the personnel are not ready to be control conscious, this may fail drastically. As such all the necessary components of an effective control system may have to be considered intricately in developing a control system of which its success may be face some challenges. Steinhoff and Franzel (2006) noted that the bulk of issues of internal controls and causes relating to accountability malfunctioning are:

- 324 i. Management's desire to achieve certain reporting results;
- 325 ii. Executive compensation arrangements that are inappropriate and unreasonable;
- 326 iii. Internal control responsibility confusion;
- 327 iv. Indefinite segregation of duties;
- 328 v. Procedures for selection and rejection;
- 329 vi. Personal interest superseding public interest;
- 330 vii. Conforming to rules and regulations vis-à-vis principles and values
- 331 viii. Rapid changes in the business environment

332 The success of such is largely dependent on how these challenges are managed. Another challenge of
 333 internal control is collusion. Collusion presents risky situations as less risky and as such frustrates every
 334 aspect of the control process. Most of the financial crises in the world are attributed to collusion (Steinhoff
 335 and Franzel, 2006).

336 **2.6 Factors to enhance effective Internal Control Systems**

337 Hughes (2007), proposed the following factors to enhance the effectiveness of an organization's internal
 338 controls:

- 339 i. Proposing a finance committee to champion scheduling, monitoring and control of financial
 340 performance and reporting. This finance committee will have to report to the board and take
 341 absolute accountability for overseeing the financial resources all year round.
- 342 ii. Planning a successful organizational structure. An organizational hierarchy with plain reporting
 343 formation involves the way of life of the business entity, as this is vital for excellent financial
 344 management. Hughes (2007) agrees that a poor organizational structure with uncertain reporting
 345 responsibilities will end up in misapplication or misinterpretation of controls.
- 346 iii. Adequately assigning responsibilities. This includes clear articulation and documentation of job
 347 descriptions, the work schedules of various committees and the board of directors.
- 348 iv. Effective management controls including methods of financial planning and budgeting, reporting
 349 of main result and investigating variances between budgeted and actual amounts.

350 **2.7 Internal Systems of Control in Practice**

351 Upon objectively reviewing literature related to internal control system and fraud prevention, conclusions
 352 gathered from such works are discussed below.

353 **2.7.1 The Need for Internal Control Department/Unit**

354 In the work of Olaniyi (2007), bank fraud, has become a global phenomenon. The wake of fraud is
 355 embarrassing to the country and to the owners of the institution, customers and their family members.
 356 This is evidenced in most institutions and bank failures being associated with large scale frauds. In
 357 conclusion, it was emphasised that the internal control department/unit of any institutions is very crucial in
 358 discovery and prevention of fraud and cannot be overlooked especially by banks. This is so because the
 359 lack of an effective internal control system causes majority of bank frauds. As such it is resolved that
 360 management of every banking institution should endeavour to create and establish a standard internal
 361 control system, capable of detecting and preventing fraud to promote continuity of operations and to
 362 ensure the liquidity and solvency of the banking institution.

363 **2.7.2 The Need for Sound Corporate Governance**

364 Ajayi, (2010) concluded that there should be sound corporate governance and the need to improve on the
 365 existing ones, thus;

- 366 1. Management should not hesitate in aiding its staff, any time there is a genuine financial request
 367 during emergency situations. Such assistance, does not only obviate the inclination to defraud the
 368 institution, but serves to produce a group of dedicated and highly positive workforce.
- 369 2. Also, in recruiting key workforce to handle critical operations, it is crucial for the banks to carry out
 370 a proper background check on the employee which can aid in the establishment of the chances of
 371 the employee engaging in fraudulent activities.

3. Sound corporate governance distinguished by internationally accepted effective operational practices adopted by top management of banking institutions as an important ingredient for the prevention of fraud.
4. Top management endeavouring to maintain a high degree of ethical standards in the day to day execution of their duties.

All these according Ajayi (2010) is imperative as they are required to safeguard the assets of every banking institution.

2.7.3 Roles and Responsibility of External Auditor

The Basle Committee on Banking Supervision (2010) emphasized the impact of an external auditor in assessing a banking institution's internal control system through the duties assigned to every employee. Even though, external auditors are not integral section of a banking institution and subsequently also not members its internal control system, they have indispensable effect on the excellence of internal controls by doing their audit activities. The external auditors make available vital and important feedback on how effective the internal control system. Although the basic aim of the external audit function is giving an opinion on the annual accounts of a banking institution, the external auditor must decide either to fall on the efficiency of the bank's internal control system. In this regard, the external auditors have to comprehend the internal control system to help them evaluate the length to which the auditors can fall on the structure in conducting their audit (Basle Committee on Banking Supervision, 2010).

According to AICPA (2005), it is required that audits are designed and managed to ascertain that monetary statements are without material misstatement. Auditors additionally scrutinize fundamental dealings and the books of the institution. The expectation is that external auditors will understand a banking institution's internal control procedure to such a degree relates to the correctness of the banking institution's statement of account. The level to which attention supplied in favour of internal control system differs from auditor and by banking institution; on the other hand, it is by and large normal that the material fragility recognized by the auditors always be submitted to the supervisors of the business in confidential executive letters and, in other countries, to the managerial command. Moreover, external auditors are in most cases subject to special managerial needs which identify the way that they assess and report on internal controls.

3. METHODOLOGY

To realize the goals of this research, the research employed the descriptive method of study design. The main use of the descriptive approach is to inform the outline of the condition, presently occurring throughout the study period and to discover the reason or reasons of a particular condition. Creswell (1994) iterated that the descriptive method of research is to collect information on the recent state. In light of the nature of the research, only the quantitative research technique was employed. According to Key (1997), quantitative research is also concerned with cause and effect of societal development and makes use of data based on empirical observation and its corresponding critical interpretation.

The population for this study were credit and risk staff members of GN Bank in the south eastern zone. Because the Bank has various departments, the researcher utilized all the staff of the credit department, risk department, and all senior level management staff of the two departments in the south eastern zone. In all the respondents were eighty five (85). This is on the grounds that these classes of individuals are formulators and implementers of internal control approaches and programs of credit. The south eastern zone has about 65 locations with 85 staff in the credit and risk departments. This includes all the top management staff and officers in the two departments.

All the eighty five (85) respondents' of officers and top management in credit and risk departments located in the south-eastern zone were used. The census sampling technique was used in selecting the respondents. The technique is preferred because it reduces sampling error compared to the stratified and random sampling (Kumar, 1999).

This research utilised both primary and secondary sources of data. Primary data was gathered through planned questionnaires. Textbooks, internet, journals and other literature publications in relation to the

topic were sources of secondary data used. A well-structured questionnaire was prepared and administered to obtain information from all respondents. For purposes of this research, close-ended Likert Scale questionnaires items were mostly utilised.

This research used Statistical Package for Social Sciences (SPSS) to analyse the data. The researcher used this to produce frequency tables to present the processed data.

4. RESULTS AND DISCUSSION

4.1 Demographic Characteristics of Respondents

In this sub-section, the study analysed the profile of the respondents to the overall effects on the study as far as their background in the area of gender, designation, educational background, and other relevant information that may affect the success of the study was concerned. Questionnaires were distributed to 85 staff members of GN Bank. Since the questionnaire was self-administered, all were received. As such a response rate of 100% was achieved.

The study first looked at the respondents' gender. This was to determine which gender group was more involved in the study and whether there was gender parity in the respondents who answered the questionnaire. The respondents' views are presented in table 2 below. Out of the total of 85 respondents, 52 were male and 33 female. This represents 61.2% and 38.8% respectively.

When it came to age, majority (51.8%) of respondents are between the ages of 20 and 30. This was closely followed by those aged between 41 and 50 also followed by the 31-40 year group. They represent 35.3% and 12.9% in that order as detailed in table 3 below.

Table 1: Gender & Age representation of respondents

Gender of Respondents		
	Frequency	Percent
Male	52	61.2
Female	33	38.8
TOTAL	85	100.0
Age of Respondent		
	Frequency	Percent
20 - 30 years	44	51.8
31 - 40 years	11	12.9
41 - 50 years	30	35.3
TOTAL	85	100.0

Source: Field Work (2016)

4.2 GN Bank Credit Department's Internal Control Systems

This section discusses the findings in relation to the objectives and research questions that were set to be investigated. Each objective would be elaborated based on the findings on what is happening within GN Bank.

4.2.1 Internal control systems used in GN Bank's credit department

Table 2: Respondents views on Management oversight and the control culture

Management oversight and the control culture	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
GN Bank board of directors are solely liable for ensuring that an adequate and effective system of internal controls are established	32	28	9	16	0
Senior management has duty for implementing strategies and policies approved by the board	33	40	12	0	0
The board of directors and senior management are responsible for promoting high ethical and integrity standards.	19	48	15	3	0
GN Bank recognizes and assesses material risks that could adversely affect the achievement of its goals	21	49	8	7	0
There are appropriate segregation of duties and personnel are not assigned conflicting responsibilities	36	38	7	8	0

Source: Research study 2016

From table 2 above, generally respondents strongly agree to GN Bank having management supervision and the control background. Thornton (2009) agrees with this in the sense that, the control environment in tandem with monitoring activities reinforces the whole system of control in an organization. The Board and senior executives should be putting up right attitude at the top, showing the way to the rest of the organization on the significance of effective internal controls. It is further explained that control activities are the policies and procedures that aid and ensure management directives are undertaken. They help to make sure that necessary measures are taken to tackle risks to achieve the entity's objectives. Control activities happen right through the organization, at all levels and in all functions. They comprise a variety of activities as varied as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and separation of duties. It means that the Board and top management would have to maintain and possibly step up its control procedures to ensure the bank is adequately risk free.

4.2.2 Fraud Prevention in the GN Bank's Credit Department

Table 3: Ways of fraud prevention in the credit department

Ways to prevent fraud in the credit department	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
GN Bank's implementation of a strong internal control system is able to detect and prevent fraudulent acts and practices	14	58	2	11	0
There is effective supervision and implementation of strong internal control system.	22	42	4	17	0
The awareness of internal control system by management and staff reduces an attempt to perpetrate fraud	5	49	9	22	0
The effective internal control system is sufficient enough to reveal the lapses and inadequacies in the credit department.	7	36	17	20	5

Top management adherence and submission to the control procedures set in place in the credit department of the bank.	11	34	23	17	0
GN Bank provides adequate training for credit personnel on internal control procedures	12	11	33	19	10
There is effective machinery that guarantee severe punishment for fraud perpetrators and forgers which discourages perpetration of fraud	15	38	10	9	13
Weak/poor management control, monitoring and supervision of internal control system can cause perpetration of fraud	53	27	5	0	0

Source: Research study 2016

From table 3 above, the data suggests that most respondents agree to the established ways of fraud prevention in the credit department. This means that the Board and top management are making conscious efforts to ensure staffs adequately prevent fraud from occurring within GN Bank. Ofosu-Okyere (2014) in his thesis confirms this iterating that GN Bank is endowed with rich human resources as credit officers with strong accounting and finance background, training programs for this rather potential assets has not been appreciable, the branches lack monitoring and recovery officers to curb the problem of high defaults since they perform other non-related credit functions which have contributed to the raising level of default. Causes of defaults has been mostly human related causes such as improper monitoring, lack of collaterals and inadequate amount granted which if properly handled could achieve high performing loans even though some fractions might be attributable to external conditions.

4.2.3 Effect of GN Bank's Internal Control System on Turnaround Time

Table 4: GN Bank's internal control system and its effect on turnaround time

<i>Effect of internal control system on turnaround time</i>	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
GN Bank credit staff is able to approve a loan in the shortest possible time	8	38	19	18	2
Credit department has experienced staff to process loan applications	20	21	24	18	2
Credit department has adequate credit officers to work on loan applications.	39	31	6	8	1
Loan granting procedure is cumbersome and needs some modifications	64	12	4	5	0
The internal control systems in the credit department affect turnaround time.	14	60	19	2	0
Supervision by senior management at the credit department is paramount	59	21	3	10.2	2

Source: Research study 2016

The data presented in table 4 above presupposes that most respondents agree to GN Bank's internal control system having an effect on the banks loan turnaround time. Again Ofosu-Okyere (2014) emphasised the need for management of GN bank to tighten its internal control system to ensure

adequate checks are performed before granting loans which customers default on. As such having a good internal control system will eventually affect the turnaround time of loans processed.

4.2.4 Challenges Faced in Implementing GN Bank's Internal Control Systems

Table 5: Challenges faced in implementing GN Bank's internal control system

<i>Challenges faced in implementing internal control systems</i>	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Management sets up internal control systems just to achieve certain reporting results	1	14	11	34	25
There are dedicated staff assigned to manage the internal control systems and check for inaccuracies	40	30	11	4	0
GN credit responsibilities segregated	27	44	10	4	0
GN Credit staff are compliant with rules and regulations as against principles and values	38	32	8	7	0
Staff exercises their personal interest when dealing with clients.	17	3	13	30	22
Staff do the right things as against the acceptable things	25	44	8	2	0

Source: Research study 2016

Per the data presented in table 5 above, most respondents agreed to the challenges faced in implementing internal control systems. Generally, internal control systems have to specify the laws, method and ways of operations, monitor the conduct of operations and evaluate the conduct of operations. Management has to institute measures to pressure people to be cognisant of control. Management can create an effective control environment but if the personnel are not ready to be control conscious, this may fail drastically. As such all the necessary components of an effective control system may have to be considered intricately in developing a control system of which its success may be face some challenges (Steinhoff & Franzel, 2006).

4.2.5 Measures to Mitigate the Identified Challenges

Table 6: Measure to mitigate the identified challenges

<i>Measures to mitigate the challenges</i>	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Monitoring of key risks is part of the daily activities of the bank as well as periodic evaluations by the business lines and internal audit	19	50	7	0	9
There is effective and comprehensive internal audit carried out by operationally independent, appropriately trained and competent staff	8	61	13	2	1
The internal audit function reports directly to the board of directors or its audit committee, and to senior management	29	40	15	1	0
Internal control deficiencies are reported in a timely manner to the appropriate management level and addressed promptly	10	48	19	8	0

There are reliable information systems in place that cover all significant activities of the bank	31	43	5	6	0
Control activities are clearly defined and integrated into the daily activities of the bank	4	51	17	11	0

Source: Research study 2016

As depicted in table 6 above, the data clearly shows that respondents agree to the measures suggested in mitigating challenges within GN Bank. Guide (2006), further elaborated on some factors that enhance the effectiveness an organization's internal controls including proposing a finance committee to champion setting up, monitoring and control of financial activities and reporting; designing an effective organizational structure; adequately assigning responsibilities; and effective management controls including ways of financial planning and budgeting, reporting of real results and investigating differences that exist between budgeted and actual amounts.

5. MAJOR FINDINGS

Generally respondents strongly agree to GN Bank having management supervision and the control background. Respondents confirm the performance of regular internal control checks on the internal control system that has been laid by management. In the passage of time, most often workers get so used to an existing system of checks such that they begin to take it for granted, especially when there has not been any bad occurrence as a result of non-compliance. It is therefore important for internal control to ensure that the laid down systems to avoid losses through risk are regularly checked for effectiveness. The work of internal control is greatly enhanced when internal control policies are communicated to all employees.

Thornton (2009) agrees with this in the sense that, the control environment in tandem with monitoring activities reinforces the whole system of control in an organization. The Board and senior executives should be putting up right attitude at the top, showing the way to the rest of the organization on the significance of effective internal controls. It is further explained that control activities are the policies and procedures that aid and ensure management directives are undertaken. They help to make sure that necessary measures are taken to tackle risks to achieve the entity's objectives. Control activities happen right through the organization, at all levels and in all functions. They comprise a variety of activities as varied as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and separation of duties. It means that the Board and top management would have to maintain and possibly step up its control procedures to ensure the bank is adequately risk free.

In examining ways GN Bank's internal control systems prevent fraud in the credit department, respondents strongly agreed to GN Bank's implementation of a strong internal control system which is able to detect and prevent fraudulent acts and practices. There is also effective supervision and implementation of strong internal control systems which are known by both management and staffs. The effective internal control system is sufficient enough to reveal the lapses and inadequacies in the credit department. Top management also adheres and submits to the control procedures set in place in the credit department of the bank.

Although respondents strongly agreed to GN Bank providing adequate training for credit personnel on internal control procedures, some substantial disagreements were recorded for this particular question. As such management would have to reconsidered and ensure adequate training programs are organised for staff periodically to enable them perform their duties judiciously. There is also effective machinery that guarantees severe punishment for fraud perpetrators and forgers which discourages perpetration of fraud. This is ideal since it greatly deters employees and clients from committing fraudulent activities.

Respondents strongly agreed to the fact that if there is weak or poor management control, monitoring and supervision of internal control system can cause perpetration of fraud.

In addressing the objective of analysing the effects GN Bank's internal control system has on turnaround time in processing loans, it came to light that the GN Bank credit staff is able to approve a loan in the shortest possible time. The credit department has experienced and adequate credit officers to work on loan applications. Although the loan granting procedure is cumbersome and needs some modifications, the internal control systems in the credit department do affect turnaround time. Also supervision by senior management at the credit department is paramount.

Examining the challenges faced in implementing internal control systems at GN credit department, management does not set up internal control systems just to achieve certain reporting results but to achieve its organizational goals and objectives of profit making and sound financial operations. There are dedicated staffs assigned to manage the internal control systems and check for inaccuracies. While GN Bank's credit responsibilities are segregated; credit staffs are compliant with rules and regulations as against principles and values. Staffs do not exercise their personal interest when dealing with clients and aim to do the right things as against the acceptable things.

Measures that can be put in place to mitigate the challenges faced in implementing internal control systems at GN Bank credit department include monitoring of key risks as part of the daily activities of the bank as well as periodic evaluations by the business lines and internal audit and undertaking effective and comprehensive internal audit by operationally independent, appropriately trained and competent staff. The internal audit function reports directly to the board of directors or its audit committee and to senior management with internal control deficiencies being reported in a timely manner to the appropriate management level and addressed promptly. There are reliable information systems in place that cover all significant activities of the bank with control activities clearly defined and integrated into the daily activities of the bank.

6. CONCLUSION

The study focused on assessing the internal system of control in GN Bank. It was revealed that there exists an internal system of control. GN Bank board of directors are ultimately liable to ensure that a sufficient and effective system of internal controls are established and managed. Also, the management has oversight responsibility for putting in place strategies and policies Okayed by the board. Together, both the board and senior management are responsible for developing high ethical and integrity standards, and for establishing a culture or tradition within the organization. GN Bank also recognizes and assesses material risks that could adversely affect the achievement of its goals and largely appropriately segregates duties to ensure personnel are not assigned conflicting responsibilities.

7. RECOMMENDATIONS

The study recommends that executives must get the mandate of putting up policies and strategies supported by the board; improving the processes that recognize, determine, watch and control risks banks suffered; keeping an institutions make-up that evidently gives task, power and exposing associations; making sure entrusted assignments are successfully accomplished; set correct internal control policies; and observe the sufficiency and usefulness of the internal control system.

The findings on fraud prevention were that, there is effective supervision by management and staff, top management adheres and submit to control procedures. Although there was adequate training of credit staff, it is recommended that training should be conducted periodically to enable them work judiciously and also effective monitoring and supervision of internal controls to prevent the perpetration of fraud.

An effective internal control system needs the right control make-up, with control performance explained in detail at every stage of the business. This should include: top level reviews; suitable activity controls for diverse sectors or segments; neutral controls; looking for conformity with disclosure restrictions and follow-up on non-compliance; a system of authorisations; confirmation and reconciliation. It also needs that there is suitable separation of jobs and that the workforce is not assigned contradictory schedules.

Any effective internal system of control needs efficient channels of communication to make sure that all employees fully comprehend and stick to policies and procedures that affect the duties and

responsibilities and that other significant information is getting to the right staff. The total usefulness of the bank's internal controls should be monitored on a daily basis. Monitoring of main risks must be part of the everyday activity of the bank as well as periodic evaluations by the internal audit.

The findings internal control systems has on turnaround time in processing loans was that credit staff were able to process loans in the shortest possible time, experienced and adequate staff to process loans. It was found out that the loan process was very cumbersome and so it is recommended that some modification needs to be done on the documentations to reduce the cumbersomeness.

Measures to mitigate the challenges faced in implementing internal controls findings are that The internal audit function, as part of the monitoring of the system of internal controls, must report directly to the directors of the institution or its audit committee, and to senior executives. It is recommended that internal control lapses, whether recognized by business line, internal audit, or other control personnel, should be reported in a well-timed manner to the appropriate management level and addressed promptly. Material internal control issues should be reported to senior management and the board of directors.

It is further recommended that supervisors, in spite of size, have an effective system of internal controls that is regular with the nature, complexity, and natural risk in their on- and off-balance-sheet activities and that responds to changes in the bank's situation and conditions. In those circumstances where supervisors establish that a bank's internal control system is not sufficient or effective for that bank's precise risk profile (for example, does not cover all of the principles contained in this document), they should take proper action.

It is finally recommended that GN Bank board of directors should be very lively and guarantee continuous ongoing and divide internal control monitoring to determine that controls really exist and are implemented well.

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