

Assessment of the Internal Control Policies of Ecobank Ghana Limited

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Abstract

The purpose of this study was to determine the effectiveness of internal control in financial institutions. The study exploited information by the help of primary data from self-structured questionnaire and interview schedules. However, the purposive type of sampling was used in sampling. In all forty (40) respondents were sampled from the population. The data gathered was analyzed and interpreted using both qualitative and quantitative analysis. The findings of the study revealed that there are measures put in place by the Ecobank Ghana to enhance compliance. The measurement put in place is management oversight responsibility for internal control whereby control policies and procedures are being adhered to. It came to light that, the internal audit unit was responsible for monitoring internal control policy compliance whiles management assesses risk but the internal audit unit is not part of branch operations, they only visit the branches on monthly bases. The recommendations drawn from the study was that the Ecobank Ghana Limited should set internal audit units at their various branches across the country, so that there shall always be internal audit personnel to ensure compliance to the internal controls that exist in the organization. In view of this, the internal audit personnel should also be rotated at regular intervals to avoid any form of malpractices.

Keywords: Internal Controls; Financial Institutions and COSO

1.1 Background

Advancement in technology has become the hallmark for businesses today and the banking sector is no exception. Banks have been expanding their operations and activities beyond the domestic borders as a result of globalization and improved technology. As a result, these have led to the expansion of businesses and exposing them to increased risk, fraud, altercations and other irregularities. This has made internal controls an imperative system to maintain by every business and for that matter the banking sector. Globalization of businesses, technological advancements, increasing risk of business failures, fraud and altercations that emerged in the financial sector in Africa call for the proper maintenance of an effective internal control system.

The United States of America and elsewhere in Europe have encouraged nations and corporate organizations to place more emphasis on their internal control systems and internal auditing functions and risk management (Mercer University, 2010: Online). The credit crunch that has hit the world's most developed economies recently is a clear indication of the failure of the system to hold in check some of the excesses in a quest to satisfy their profit making agenda and to outdo one another in competition. Although the financial crises affected mainly developed countries, the results are felt by developing countries of which Ghana is no exception.

The Ghanaian banking industry has evolved from a highly regulated sector into a largely market driven one. The regulatory and institutional framework has improved considerably, yet banks in Ghana are facing some challenges as the world deals with one of the deepest financial crisis in the human history. Internal controls and risk managements, the purpose to ensure effectiveness and efficiency of operational activities, reliability of financial information, compliance with applicable rules and regulations and sustainable business growth have been incorporated into the mundane activities of banks in Ghana. Most banks go through difficulties in recovering facilities granted to customers after expiry. The issue of default of bank facilities is gradually eroding; most gains and crippling business opportunities are gradually taking the centre stage in the banking industry (Ndamenu, 2011). As a result, this study seeks to evaluate the impact of internal control systems on banks in Ghana and specifically Ecobank.

1.2 Justification of the Study

The growth and development of financial institutions is dependent on their effective and efficient management of credits. There are various components of internal financial control systems used to develop and evaluate an organizations financial regulatory compliance. These components are control environment, risk assessment, control activities, information and communication and monitoring. They need to work together to form a strong set of methods and procedures the company follows in its operations.

The concepts of corporate governance also heavily rely on the necessity of internal controls. Internal controls help to ensure that processes operate as designed and that risk responses (risk treatments) in risk management are carried out. In addition, there has to be in place circumstances ensuring that the aforementioned procedures will be performed as intended: right attitudes, integrity and competence, and monitoring by managers.

To ensure the effective and efficient managements of credit delivery and recovery of all facilities granted at expiry, internal controls are normally put in place. In the financial sector to enhance the effectiveness and efficiency on internal control systems various legislations have been put in place by the Central Bank and the republic. Again, internal financial controls are enforced better in profit organisations compared to non-profit organisations. Therefore, there is the need to evaluate effectiveness and efficiency in the implementation of internal financial controls in the financial institutions with a particular reference to Ecobank (Ghana) Limited.

1.3 Objectives of the Study

The general objective of the study is to assess the internal control policies of Ecobank Ghana Limited.

The specific objectives of the study are

- To find out how monitoring affects internal Control Systems in Ecobank Ghana Limited.
- To determine how internal control policies have impacted on risk assessment in Ecobank Ghana Limited.
- To find out how Ecobank manages its information and communication as a measure of internal control

1.4 Research Questions

The following are the research questions that guided this study:

1. How does Ecobank undertake its internal control policies?
2. Do Ecobank undertake serious monitoring of its business activities?
3. Has Ecobank undertaken risk assessment policies as a way of internal control?
4. How has free flow of information and communication in Ecobank enhance its internal control system?

1.5 Problem Statement

Internal control system is an essential tool for the realization of the goals of every organization especially financial institutions and banks where risk of mistakes and fraud are prevalent and their consequences are upsetting. Ecobank Ghana Limited is a financial institution and therefore must operate within a well-structured and effective internal control system.

The nature of the internal control system and how it is implemented may pose numerous challenges to the management and staffs of the bank. The challenges are impediments to realizing the objectives of the internal control system and must be known for appropriate redress.

The realization of the existence of a problem and the identification of the problem is at least a milestone in finding solutions. It is important to know the challenges the internal control system poses on the management and the employees of the bank. Such information is relevant for effective and constructive review of the internal control system. It could be argued that the nature of the internal controls and mode of implementation could affect the perception of service quality, the trust and the confidence of stakeholders of the bank in diverse ways. For instance, the way the control procedures are implemented may require customers to pass through numerous steps to complete a transaction and this may affect customer perceptions of the quality of service of the bank since speed of transactions is an important factor of service quality. On the other hand, simplified control activities and procedures could speed up transaction processes but may result in weak controls. The consequence of weak control may be mistakes and fraud which could affect the level of reliability of the bank to customers. This will also affect customers level of trust in the bank and hence their perception of the quality of service rendered by the bank. Information on the effect of the internal control system on customers is vital in identifying the procedures that add value to the service quality of the bank and those that affect the quality of the service rendered by the bank. A study on the nature of the actual internal control system of the bank, the challenges it poses on the management and employees of the bank and the effects of the internal control procedure and processes on customers' perception of the quality of service of the bank is therefore a valuable project.

2.0 METHODOLOGY

2.1 Research Design

The research design that was employed in this study is a descriptive design. A descriptive design is a process of collecting data in order to answer questions concerning the current status of the subjects in the study. It involves gathering data that describes events and then organizes, tabulates, depicts, and describes the data. Descriptive studies portray the variables by answering who, what, and how questions (Babbie, 2002; Cooper and Schindler, 2004).

2.2 Population Under Study

The population for the study consists of the staff of Ecobank Ghana Limited, Tema Main Branch. The population is a composition of males and females of different ages and levels of education and experiences.

2.3 Sample Size

A sample size of forty (40) staff including the head of the unit was drawn from a target population. This sample size has been arrived at by taking 75% of the target population. Therefore, a non-probability purposive sampling technique was used to arrive at the sample size. As the name implies, the researcher, adhering to the objectives of the study, selects respondents who can answer his research questions. He chooses his own respondents he wants to be included in his sample with a tangible reason or justification.

2.4 Data Analysis

The researcher reviewed the appropriate statistical data analysis tools namely descriptive, inferential and test statistics before analyzing the data. Collected raw data was cleaned and edited for completeness and consistency. It then systematically organized to confirm if it represents the target population and to facilitate objective analysis at a later stage. The responses were also screened for correctness and accuracy and then they were assigned numerical values which was representing various attributes being measured. In analyzing the data qualitative explanations will be made of quantitative data to give meaning to them as well as explain their implications and also descriptive statistics like the mean score and standard deviation. Graphs, bar charts and pie charts are used for further representation. Furthermore, appropriate recommendations are made on the findings of the research.

3.0 DATA ANALYSIS AND PRESENTATION

3.1 Demographic Characteristic

Gender and Position Held

Table 1 below shows a cross tabulation between gender of the respondents and the position held at the bank. Worldwide, gender activists are of the view that most females in the corporate world hold lower positions and most clerical jobs are undertaken by them. As a result, females earn lower income as compared to their male counterparts. Due to that, this study finds out whether that is the case in Ecobank.

Out of the 40 respondents, 19 were males and 21 females. The table below further indicates that, 22.5% of the total respondents are operations officers, 15% are credit officers, 22.5% are customer service officers, 2.5% are tellers, 32.5% are control managers and 2.5% are control officers.

Table 1: A Crosstabulation between Gender and Position Held at the Bank

			Please what is your Gender?		Total
			Female	Male	
What is your rank in the bank?	Operations Officer	Count	5	4	9
		% of Total	12.5%	10.0%	22.5%
	Customer Service Officer	Count	6	3	9
		% of Total	15.0%	7.5%	22.5%
	Credit Officer	Count	5	1	6
		% of Total	12.5%	2.5%	15.0%
	Teller	Count	1	0	1
		% of Total	2.5%	0.0%	2.5%
	Controls Manager	Count	3	10	13
		% of Total	7.5%	25.0%	32.5%
	Intern	Count	1	0	1
		% of Total	2.5%	0.0%	2.5%
	Control Officer	Count	0	1	1
		% of Total	0.0%	2.5%	2.5%
Total	Count	21	19	40	
	% of Total	52.5%	47.5%	100.0%	

Source: Author's own computation using SPSS from June, 2015 Survey.

From the table it can be noted that 5 of the operations officers are female and 4 are males, 6 of the customer service officers are females and 3 males. 10 out of the 13 control managers are males and 3 females. The result confirms the assertions by gender activists, since majority of the male respondents were holding managerial positions, whereas majority of the females held lower positions.

Age and Work Experience

In this subsection, we cross tabulate the age of respondents with years of experience. Prior studies indicate that the higher your age, the higher your work experience. Table 2 below shows that 11 of the respondents are 50 years and above, 23 of them are within age 30 to 39 and 6 are within age 20 to 29.

Table 2: A cross tabulation between Age and Work Experience

		Please select your age group.			Total
		20-29	30-39	50 and above	
How long have you worked for this bank?	0-5	6	1	0	7
	5-10	0	18	0	18
	10-15	0	4	2	6
	15-20	0	0	4	4
	20 and above	0	0	5	5
Total		6	23	11	40

Source: Author's own computation using SPSS from June, 2015 Survey.

From the table above, it can be observed that 5 of the respondents above 50 years have above 20 years experience and 4 of them have between 15 to 20 years experience, with 2 having between 10 to 15 years' experience. 18 of the respondents within age 30 to 39 have between 5 to 10 years experience and 4 of them having 10 to 15 years experience, with only 1 having less than 5 years experience. All the respondents within age 20 to 29 have less than 5 years experience. From the table, it is clear that respondents within the higher age group have more years of experience than those in the lower age group.

Internal Control on Control Activities

The first specific objective of this study is to find out how various control activities are efficiently carried out in Ecobank as part of their internal control practices. Respondents were asked seven questions to help determine whether Ecobank undertakes efficient control activities or not. Here, respondents were provided with a likert scale ranging from 1 to 5, with 1 representing strongly disagree to 5 representing strongly agree. This is analysed using mode, minimum and maximum values.

Table 3: Control activities

	Controls are in place to exclude incurring expenditure in excess of allocated fund.	Security systems do identify and safeguard institutional assets.	Departments/Units adhere strictly to provision of budget.	The Organization provide adequate physical security for cash and other assets subject to theft.
N Valid	40	40	40	40
N Missing	0	0	0	0
Mode	5	4	4	4
Minimum	4	4	2	2
Maximum	5	5	5	5
Sum	189	173	162	167

Source: Author's own computation using SPSS from June, 2015 Survey.

Respondents were asked whether controls are in place to discourage the bank from incurring expenditure in excess of allocated funds. The second column in table 3 above indicates a minimum value of 4 indicates that at least all respondents agree that there are controls in the bank that inhibits them from over spending in excess of allocated funds, so that they can always be within their budget and stipulated funds. A mode of 5 shows that majority of the workers strongly agree that Ecobank has policies in place that prohibit workers from excess spending.

The third column in table 3 above shows whether the bank has security systems that identify and safeguard their assets or not. The results show a minimum value and mode of 4 which explains that at least all the respondents agree that the bank has a security mechanism that identifies and safeguard their assets to prevent wastages. Column four explains whether each department adheres to the budget provision made to it. A minimum value of 2 implies that some of the respondents disagree with the fact that various departments conform to the budget allocated to it. A maximum value of 5 and a mode of 4 explain that most of the respondents agree that most departments adhere to their budget. This only shows that some departments do adhere while others do not adhere to the budget provision made to them.

Column five examined whether the organisation provides adequate physical security for cash and other assets against theft. A minimum value of two indicates that, some respondents disagree that enough security is provided to protect cash and other valuable assets. A mode of 4 explains that majority of respondents agree that enough security is provided to shield cash and other assets. This implies that, although there are security measures in place to protect cash and other valuable assets, there may be a few lapses which need to be addressed.

Table 4: Control Activities Continued

	The organization track the location and uses of all equipment.	Are those who control assets prohibited from also recording transactions related to assets	There is a possibility for a single staff to have access to all valuable financial information without the consent of other staff.
N Valid	40	40	40
N Missing	0	0	0
Mode	4	4	5
Minimum	2	1	1
Maximum	5	5	5
Sum	166	145	159

Source: Author's own computation using SPSS from June, 2015 Survey.

Table 4 column two indicates whether Ecobank has mechanisms in place to track the location and uses of all equipments and assets. A minimum value of 2 signifies that some of the respondents disagree that the bank effectively tracks the location and uses of all their assets and equipment. Yet, a mode of 4 and a maximum value of 5 imply that majority of the respondents are in agreement with the opinion that Ecobank effectively track its location and uses of their equipments.

Column three in table 4 above explains whether those who control assets are prohibited from also recording transactions related to assets. If same person does the two, he/she can easily use the assets for personal gains and decide not to record it. The results exhibit a minimum value of 1 which denotes that, some of the respondents strongly belief that those who control assets are same people who record transactions related to the assets and can easily enjoy perquisites. A mode of 4 indicates that most of the respondents agree that those who control assets are separated from those recording transactions related to assets. This implies that, this might be the case in some branches and so there is the need to determine and identify such individuals and to bring them to book.

The last component of control activities as a determinant of the internal control system is depicted in column four of table 4 above. In that column, respondents were asked whether any single staff can have access to all valuable financial information without consulting other staff. A minimum value of 1 indicates that some of the respondents are of the opinion that there is a less likelihood that a single staff can have access to very confidential financial information. Yet, a mode of 5 explains that majority of the respondents are of the view that there is a high probability that a single staff can have access to valuable information without the consent of others.

On a whole, the findings indicate to a large extent that control activities as a measure of the internal control system of Ecobank are really in place and needs to be enforced a bit harder

Risk Assessment as a Measure of Internal Control

Under this subsection, there are five tools that serve as a measure of risk assessment as a tool of internal control.

Table 5: Risk Assessment

	Your organization carries out comprehensive and systematic identification of its risk relating to each of its declared aims and objectives.	The organisation's board and management involve internal audit staff and other internal control staff in the risk assessment process.	Internal audit staff or other internal control staff involved in discussions about appropriate controls when the organization is developing new product and activities.
N Valid	40	40	40
N Missing	0	0	0
Mode	5	4	4
Minimum	3	4	3
Maximum	5	5	5
Sum	172	179	175

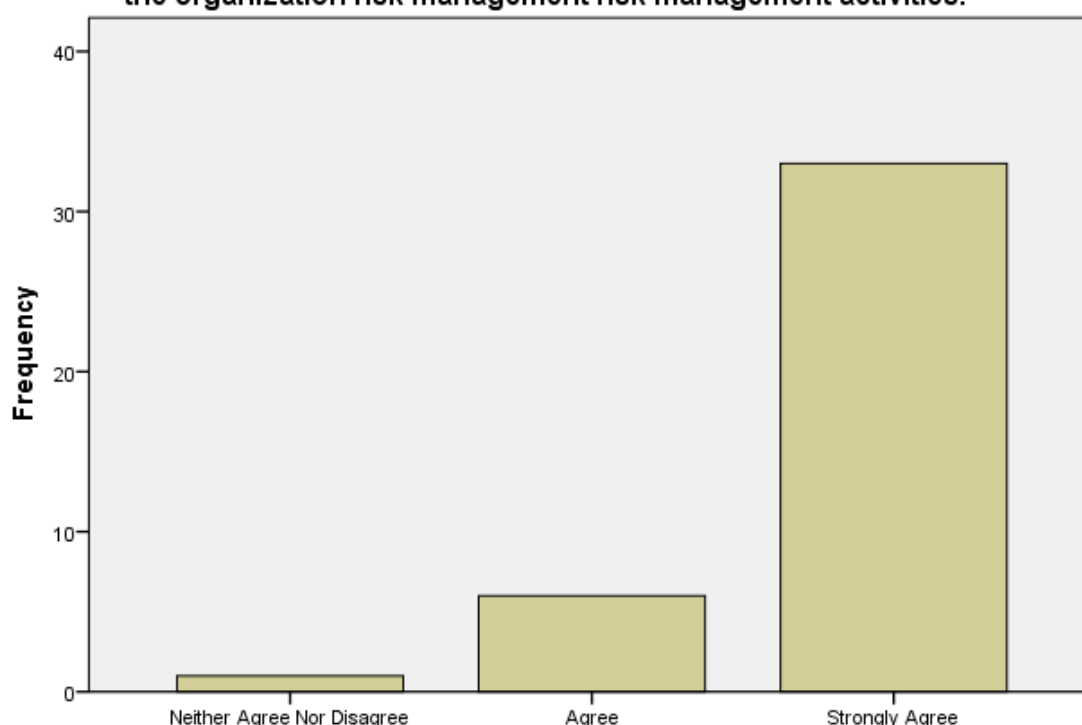
Source: Author's own computation using SPSS from June, 2015 Survey.

Table 4 above column two shows that a minimum of 3 and a mode of 5 which implies that most of the respondents strongly agree that Ecobank carries out a comprehensive and systematic way of identifying risks related to each of its declared aims and objectives to prevent any hindrance. A minimum value of 3 only shows that a few are unsure whether such policies are available or not.

Column three of table 4 above indicates a mode of 4 and a minimum value of 4 to show that all the respondents agree that management and the board of directors involve internal auditors and internal control staffs in risk assessment of the firm in order to control various risks in the initial stages before they aggravate in Ecobank. Column four of table 4 points out that majority of the staff agree that management involves internal control staffs in discussions about appropriate controls when the organisation is developing new products and activities by a mode of 4. This is to ensure that risks are managed right from the decision making stage to the execution stage of any activity of the bank.

Figure 1

There are sufficient personnel who are competent and knowledgeable to manage the organization risk management risk management activities.



There are sufficient personnel who are competent and knowledgeable to manage the organization risk management risk management activities.

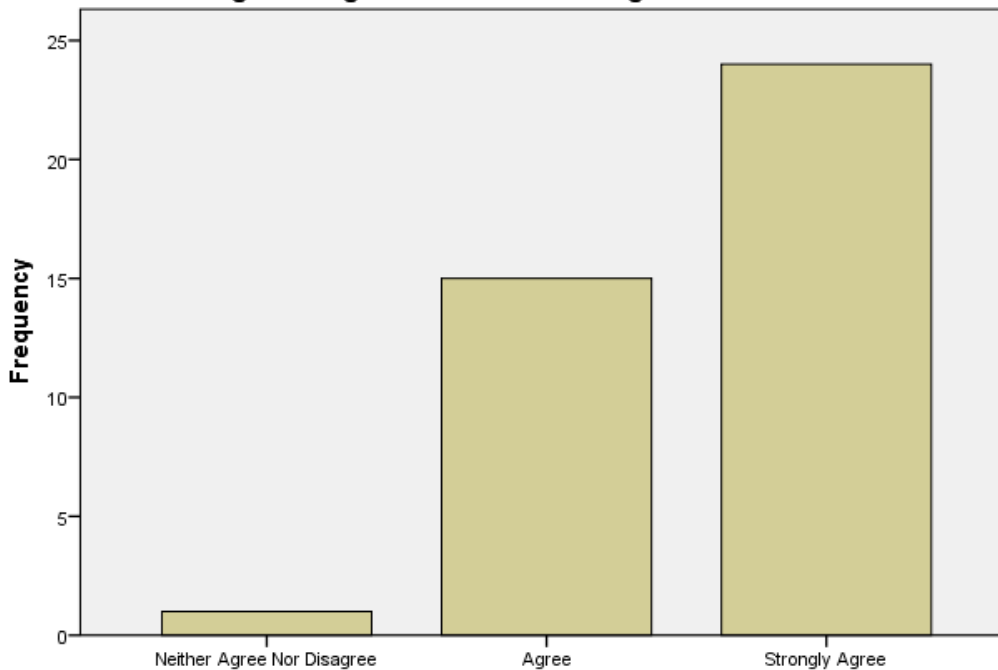
Source: Author's own computation using SPSS from June, 2015 Survey.

In figure 1 above, respondents were asked whether Ecobank has sufficient personnel that are competent and knowledgeable to manage the organisations risk. The figure shows that majority of the respondents strongly agree that there are sufficient and competent staff, with no employee disagreeing with that idea.

Figure 2 below shows that majority of the respondents strongly agree that staffs of Ecobank have been given adequate training and provided adequate resources to manage their organizational risks.

Figure 2

The staff members have been provided with adequate resources and training to manage the organization's risk management activities.



The staff members have been provided with adequate resources and training to manage the organization's risk management activities.

Source: Author's own computation using SPSS from June, 2015 Survey.

Analysing risk assessment as a measure of internal control shows that Ecobank have appropriate internal auditors and the staff has been provided sufficient training to help minimise various risks by the bank.

Free Flow of Information and Communication

Under this subsection, respondents were asked five major questions as a measure of the existence of free flow of information and communication in Ecobank as a measure of internal control.

Table 6: Information and Communication

	All company personnel in the areas of control understand their accountability for their activities.	Are client's complaints taken seriously, investigated and acted upon.	Is key information about your organization operations identified and regularly reported.	Do you receive relevant information regarding legislation, regulatory developments, economic changes or similar external factors that may affect your organization?	Have specific assignments and activities necessary to implement the strategies been identified and communicated to the responsible employees.
N Valid	40	40	40	40	40
Missing	0	0	0	0	0
Mode	5	5	4	4	5
Minimum	4	4	3	3	3
Maximum	5	5	5	5	5
Sum	184	184	177	176	191

Source: Author's own computation using SPSS from June, 2015 Survey.

The findings from table 6 column two shows a mode of 5 and a minimum value of 4 which indicates that almost all the respondents are of the view that, all company personnel are provided enough information to help them understand how accountable they are for their activities in the bank. The third column also shows a mode of 5 and a minimum value of 4 which implies that, all the respondents strongly agree that Ecobank listens to clients complain, examines it carefully, investigates it and then act upon it quickly. No respondent holds a different view from this.

Column four of table 6 posits a mode of 4 and a minimum value of 3 indicates that majority of the staff of Ecobank agrees that key information of the bank is regularly identified and reported on. Column five shows a minimum of 3 and a mode of 4 which signifies that Staff members of Ecobank agrees that they receive relevant information regarding legislation, regulatory developments, economic changes or similar external factors that may affect their organization, with no one thinking otherwise.

The last column of table 6 shows a mode of 5 which implies that staff of Ecobank agrees that they have specific assignments and activities that are necessary to implement the strategies been identified and communicated to the responsible employees.

The findings indicate that, at Ecobank, there is serious free flow of information and communication with little flow bottlenecks. This implies that Ecobank is a very good model of a firm that has a good Internal control system in Ghana.

4.0 SUMMARY, CONCLUSION AND RECOMMENDATION

4.1 Summary and Conclusion

The general objective of this study is to assess how Ecobank undertake its internal control policies. The specific objectives are to find out how monitoring activities, risk assessment and information and communication plays vital role in the internal control policies of the bank.

In this study 50 questionnaires were sent out with only 40 completed and returned. The respondents were only Ecobank workers holding various positions.

The first specific objectives that assesses the monitoring activities of Ecobank reveal that, the bank have controls in place to prevent employees from spending in excess of allotted funds by a mode of 5. The results further indicated that security systems are in place to identify and safeguard institutions assets and most departments also adhere strictly to provisions within their budget to prevent excess spending. Ecobank also provides adequate physical securities for cash and other assets subject to theft, so as to minimise theft cases in the bank. Respondents further indicated by a mode of 4 which implies Ecobank tracks the location and various uses of all equipment in such a way that those who control assets are prohibited from recording transactions related to the assets so that they will be prevented from enjoying perquisites or eating on the job. Ecobank has one main weakness in terms of monitoring that is they ensuring that no single staff has access to all valuable financial information without the consent of others, if that is to be checked, Ecobank will have a more solid internal control system.

The second specific objective which examines risk assessment in Ecobank as a measure of internal control shows that Ecobank carries out comprehensive and systematic identification of its risk relating to each of its declared aims and objectives so that necessary steps will be taken to avert them, this was proved by a mode of 5 and a minimum value of 3. The findings further showed that the organisation's board and management involves internal audit staff and other internal control staffs in their risk assessment process to ensure minimal risk is suffered by the bank. Furthermore, internal audit staffs or other internal control staffs are involved in discussions about appropriate controls when the organization is developing new product and activities to ensure that risk is guarded against from the decision stage to the implementation stage. Staffs of Ecobank have agreed that they have sufficient and competent personnel who are knowledgeable to manage the organizational risk. The staff showed by a mode of 4 that they are adequately trained and all needed resources are provided to manage the organisations risk.

The last research question assessed whether there is free flow of information at Ecobank as a measure of internal control. The findings showed a mode of 5 to indicate that all workers of Ecobank are well communicated to and so understand how accountable they are for their activities. Ecobank also takes into serious consideration clients complaints, investigates and acts upon it promptly. Respondents further indicated by a mode of 4 that information about Ecobank's operations are identified and regularly reported on serve as checks and balances on the bank. Staffs of the bank agree that they regularly receive relevant information regarding legislation, regulatory developments, economic changes or similar external factors that may affect the organisation. The results further showed that specific assignments and activities necessary to implement the strategies are identified and communicated to the responsible employees.

In conclusion Ecobank is a very good model of internal control practices in Ghana. Yet, there is the need to strengthen the implementation of all the policies so that the employees do not take them for granted. In addition, there is the need to prohibit a single staff to have access to all valuable financial information of the bank without the consent of others, which is detrimental to the bank.

4.2 Recommendations

Based on the study above, we make a few necessary recommendations as follows:

- ❖ All banks that are having internal control problems including new banks need to use Ecobank as a model since they have a very solid internal control policy.
- ❖ Firms in other sectors can build their internal control system by learning from Ecobank.
- ❖ Ecobank should also put policies in place to reduce the possibility of a single staff from having access to all valuable financial information of the bank.

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