CHAPTER 2
REVIEW OF LITERATURE

2.1 MEANING OF REVIEW

One of the important parts of study is review of literature because it helps in formulating the methodology of the study, finding out the cause and effect relationship of the study and exploring the existing research gap. Literature reviews provide a multipurpose guide to a particular topic.

A literature review is a critical and in depth evaluation of previous research. It is a summary and synopsis of a particular area of research, allowing anybody reading the paper to establish why we are pursuing this particular research progress. Review of literature is also helpful in developing expertise in the areas toward identifying what contributions can be made and for developing and appropriate research design. While reviewing the literature it is not necessary to read each and every word of each and every reference only relevant portions of the book, article etc. should be carefully read and notes of important portions should be taken into forms of direct quotation, paragraphing or summary. A good literature review expands upon the reasons behind selecting a particular research question. It is not a collection of quotes and paraphrasing from other source. A good literature review should also have some evaluation of the quality and findings of the research. Literature reviews also provide a solid background for a research paper’s investigation. A literature review discusses published information in a particular subject area, and sometimes information in a particular subject area within a certain time period.

2.2 IMPORTANCE OF REVIEW OF LITERATURE

There are several purposes to writing a literature review:

- To provides an excellent starting point for researchers beginning to do research in a new area by forcing them to summarize, evaluate and compare original research in that specific area.

- To inform the design and methodology of the proposed study.
• To be able to detect conflicting points of view expressed by different authors.
• Basis of forthcoming research work.
• We can also be able to discuss relevant research carried out in the same topic.
• To provide summary of the research area
• To provide a justification of the proposed research work

2.3 THE MAIN REVIEWS ARE:

Etengu, R. O., & Amony, M. (2016) investigated the role of internal control system in the financial performance of non-governmental organizations in Uganda. Specifically the study sought to establish the effect of control environment on the financial performance of International Union for Conservation of Nature, to investigate the effect of control activities on the financial performance of International Union for Conservation of Nature, and to examine the significance of monitoring on the financial performance of International Union for Conservation of Nature. They found a significant relationship between control environment, control activities, monitoring, and financial performance. They recommended that control environment, control activities, and monitoring should be enhanced in order to further improve the financial performance of International Union for Conservation of Nature. Additionally, performance standards should be established and communicated to employees of International Union for Conservation of Nature in a bid to improve financial performance.

Kiumars, N. A. et al. (2016) aimed to evaluate the relationship between internal control systems with financial performance of Medical Sciences University of Golestan. They selected financial affairs employees of Gorgan city as 112. By Cochran’s formula, 86 people have been selected by random sampling method. For analysis, statistical tests has been used as descriptive, frequency and mean and inferential statistics as t-test and Pearson. They found that from the view of financial employees of University, there has a positive and significant association between internal control system and financial performance in Medical Sciences University of Golestan and dimensions of internal control had association with
control environment, control activities and internal audit with financial performance.

Michael, O. O. (2016) investigated the issue of controls and frauds by assessing whether churches have effective internal controls and if such can prevent fraud. They used questionnaires for data collection and total 100 respondents randomly selected who are church workers. It has noted that internal controls in these churches are based on trust and not on the basic accounting principles hence they are not in a position to maximize the effectiveness of internal controls to their advantage. They concluded that the trace of internal control in place, churches need to work particularly on the authorization and personnel controls to avoid incidence of fraud.

Magu, J. K. & Kibati, P. (2016) aimed to establish the influence of internal control system on the financial performance of KFA Ltd. They used two variables of internal control; control environment and control activities. For the collection of data 78 managers have been selected. Census design was adopted. Data were analyzed using inferential and descriptive statistics. They revealed that the staffs have been not trained to implement the accounting and financial management systems; and that the security systems do not identify and safeguard organizational assets. They also found that there is a positive relationship between internal control systems and financial performance of KFA Ltd. Further they found that management of KFA Ltd is not committed to the internal control systems actively. They recommended that more commitment by management in monitoring internal control systems, and employment of more graduates.

Okechukwu, E.O., Umebali, E.E. & Ugeh Scholastica (2016) evaluated the performance of co-operative societies in Delta State focusing on the degree of adoption and application of internal control systems. They specifically examined the various Internal Control systems in use by co-operative societies, determined members’ perception of the effectiveness of their internal control system and the challenges of implementing effective internal control systems in co-operatives. Primary data were collected using well-structured and pretested questionnaires, scheduled interviews and panel discussions. Multi stage random sampling
technique was used to select 60 co-operative societies. The data collected were analyzed using descriptive statistics such as frequency counts, means and percentages as well as inferential statistics like ANOVA, Pearson coefficient and multiple regressions. They revealed that internal control system has significant influence on the performance of co-operatives, the internal control system being used by co-operatives are majorly physical control, financial authorization, arithmetic and accounting. There is a significant difference between perception of the effectiveness of internal control of co-operatives in urban areas and those in rural areas, lack of written procedures, poor and inexperienced management are the major challenges of the use of effective internal control system. The study recommended that seminars, workshops and symposiums should be regularly organized by co-operative societies, mostly for those in the rural areas to make the co-operative Societies get exposures; Government should also make and implement laws that would discourage fraud.

Adagye, I.D. (2015) assessed the effectiveness of internal control system in tertiary educational institutions in Nasarawa State, Nigeria with specific focus on the Nasarawa State Polytechnic, Lafia. They developed a questionnaire to collect data from 27 member staff from the Bursary and the internal audit unit of the Nasarawa State Polytechnic, Lafia. Findings shows that the right people are not assigned to the right job in the department, budget, and management accounting were never used in the institution’s operations and checking of subordinate by their superior officers is not regular. This renders the current internal control structure of the Polytechnic as ineffective and weak. They recommended that transparency should be seen as significant, as the institution work toward meeting its objectives, it therefore means that the right staff be assigned the right job and regular checking of the subordinates by their superiors be ensued.

Channar, Z.A., Khan, M., & Shakri, I. H. (2015) investigated the functionality of each of the five internal control components, effectiveness of the control system and its relationship with financial performance. They used sample size for this research 210 respondents comprising of employees from 6 Banks in Hyderabad. In this study, internal control is measured by the five components whereas financial performance is measured through three profitability ratios. Data is
collected through primary as well as secondary sources. The primary source used is questionnaire taken from a combination of instruments developed by Baker, Castro, Labrena & Meyer (2005). Secondary source used are the financial statements of the sample banks for a period of four years. Return on Asset (ROA), Return on Equity (ROE), Profit expense ratio (PER) are the profitability ratios used to measure the financial performance. Data was analyzed using the Statistical Package for Social Scientists (SPSS). The statistical methods of correlation and one-way ANOVA were used for the testing of the research hypotheses. Results showed that internal control effectiveness is strongest in private banks, followed by public banks and weakest in Islamic banks, although the difference is not statistically large, but slight variation exists. Moreover, private banks had a high level of financial performance; public banks had moderate level of financial performance whereas Islamic banks were found to have low financial performance. Hence it was concluded that internal control effectiveness has a positive relationship with the financial performance of the banks.

Dimitrijevic, D., Milovanovic, V. & Stancic, V. (2015) aimed of this work is to show how the overall quality of control and company performance is improved through implementation of preventive methods by internal controls, and to indicate that a developed system of internal control represents a protective barrier against various kinds of data manipulation and fraud inside the companies. They recommended that companies should be treated with much attention, because their adequate implementation increases the quality of business performance and control. Internal control should gradually implement new methods for fraud prevention. Nevertheless, internal control should at least consult other controls while handling fraud in order to increase the quality of a company’s defense mechanisms. The considered internal control techniques for fraud prevention may be practically implemented only when a company has a developed system of internal control which regularly performs the process of control.

Joseph, O.N., Albert, O. & Byaruhanga, J. (2015) aimed to ascertain the effect of internal controls on fraud prevention and detection in district treasuries of Kakamega County. They used purposive sampling method and selected Treasury
Staffs of Heads of Departments. They used both descriptive and inferential statistics using Statistical Package for the Social Science (SPSS). Reliability and Validity of data collection instruments was ascertained through the test-retest method. They revealed that there is a statistically significant and positive relationship between the adequacy of internal control systems and fraud prevention and detection in district treasuries in Kakamega County. They recommended that effective and efficient internal control policies and procedures should be put in place to prevent and detect fraud within district treasuries and other institutions.

Kinyua, J.K. (2015) determined the effect of internal control systems on financial performance of companies quoted in the Nairobi Securities Exchange (NSE). To achieve the objective of this study, they analysed control environment, internal audit, risk management, internal control activities and role of corporate governance controls on the financial performance of quoted companies in Kenya. They selected 62 companies quoted in NSE for this study and used a sample of 38 companies from a target population. They used both descriptive and inferential statistics. Frequency tables have been prepared, averages determined and tests of Hypotheses like ANOVA, chi-square, correlation analysis have been applied. They concluded that there is significant association between internal control environment and financial performance recommends that internal control environment should be enhanced to further improve the financial performance of companies quoted in Nairobi Securities Exchange.

Shokoohi, M., Saeidi, P., & Malekmahmoudi, S.K. (2015) investigated existence of a relation between the internal control system and financial performance of Telecommunication Company of Golestan province. For the collection questionnaire has been used and total 70 individuals of faculty members, deputies, managers, heads of office staff and towns and also financial staff selected. They found that there is significant and positive relation between internal control system and financial performance of the Telecommunication Company of Golestan province. They concluded that existence of internal control system influences financial performance positively and an internal control system seems to be necessary for effective performance.
Al-Matari, E.M., Al-Swidi, A.K. & Fadzil, F.H.B. (2014) attempted to propose a structure of the relationships between the internal audits characteristics (IAC); such as professional qualifications of the chief audit executive of the Internal Audit (IA), size, experience, and qualification; and firm performance. The presence of an internal audit department is significant as it is considered as the main element in employing accounting systems and this, in turn, assists in evaluating the department’s work. The internal audit is deemed as the core of business accounting as it is the section that keeps track of all businesses associated with the sector. The internal audit efficiency assists in developing the company’s work because the financial reports present the internal audit department’s quality. In addition, an internal audit is a crucial part of corporate governance structure in an organization and corporate governance (CG) covers the activities of oversight conducted by the board of directors and audit committees to ensure credible financial reporting process (Public Oversight Board, 1994). The main objective of this study is to fill up the gap in the literature and provide an opportunity for future research to deeply to investigate this relationship.

Adewale, O.H. (2014) examined the part played by internal control system in the management of Nigeria Customs Service. It recognizes two main groups of players in the Nigeria Customs Service namely, administration and enforcement from which 100 officers responded to a validated questionnaire titled ‘Nigeria Customs Service Participation Questionnaire’ (NCSPQ) which was validated and the reliability coefficient was found to be 0.71. Three research questions and three hypotheses were raised and tested in the study. Analysis of data reveals that significant difference existed between internal control system and proper accountability. Also, effective utilization of Information Technology plays important role in the collection of custom duties. The study also ascertains that effective internal control system ensures high revenue generation. However a positive correlation was found to exist between internal check and high level of accountability. These findings provide vivid evidence for recommendations such as adequate motivation of officers to avoid financial fraud; information
technology gadgets should be provided for all commands and competent team, of experts to work out the logic of standard internal control should be put in place.

Al-Zubi1, Z., Shaban, O.S. & Hamdallah, M.E. (2014) explained a sound system of internal control depends on an effective management, and the awareness of its employees of the policies and procedures adopted. It is a combined responsibility to maintain it properly and make sure it’s effective and reliable. Its management responsibility to make sure that, the internal control procedures adopted and applied is still valid and suitable to achieve. A questionnaire has been designed for this purpose and it was distributed randomly to the working employees and to different management levels. The number of questionnaires analyzed were (100) questionnaires. Resolution data were analyzed using the statistical program SPSS, in addition to other statistical methods. They concluded that, the effectiveness of the internal control systems in the Jordanian commercial banks is not attributed to demographic variables (sex, age, profession, etc) but mostly, attributed to tight internal control systems adopted, and demonstrated by management. They recommended that, management should keep tight recruiting policies in order to implement its internal control systems effectively, and finally internal control systems adopted should be applicable and easy to understand.

Badara, M.S. & Saidin, S.Z. (2014) presented the empirical evidence of antecedents of internal audit effectiveness from the Nigerian perspective. Antecedents here constitute; risk management, effective internal control system, audit experience, cooperation between internal and external auditors and performance measurement. Data of the study were collected through research assistant employed, in which 500 questionnaire were sent to internal auditors, audit committee and chairman of local government or their representatives within the sampled local government in Nigeria. They used stratified random sampling, in which samples were drawn from six geo- political zones in Nigeria; data were analyzed using Statistical Package for Social Science (SPSS) version 21. Descriptive statistic, factor analysis, correlation matrix and finally, multiple regression analysis were carried out. They revealed that, all antecedents have a significant positive relationship with internal audit effectiveness.
Baharud-din Z., Shokiyah A. & Ibrahim M.S. (2014) investigated the factors that contribute to the effectiveness of internal audit in the Malaysian public sector. It is to determine the auditors’ perception toward the effectiveness of internal audit work, influenced by the quality of audit work in order to perform in an effective manner as control instrument in public financial management. It also aims to determine the relationship between factors that contribute to the effectiveness of IA works in promoting better transparency and integrity of public management. The scope of this study covers the internal auditors that work in the ministries in Putrajaya. This study employs a cross sectional survey to investigate the effectiveness of internal audit. Several statistical techniques such as the descriptive statistic, correlation and regression analysis were used to analyze the data from the survey. They showed that there were significant positive relationships among the factors analyzed in this study such as auditor competency, auditors’ independence and objectivity and management support to the effectiveness of internal audit. Thus, the effectiveness of internal audit will depend strongly to the attributes of the factors analyzed in this study.

Chebungwen N. & Kwasira J. (2014) tested the effects of internal control on financial performance in tertiary institutions in Kenya. They used a case study research design. The target population of the study comprised all the employees of the institution who totaled 68 and due to the finite number census was used. Data was collected using structure questionnaires. The data was subjected to analysis by the aid of Statistical Package for Social Science (SPSS) using simple descriptive methods such as percentages, means, median, mode and standard deviations. Further, to assess the nature and strength of relationship between the independent variables and dependent variable, the Pearson’s Product Moment Correlation Coefficient (PPMC) was used. They showed that the institutions Internal Audit Department was not sufficiently staffed. It was recommended that The Internal Audit Department should be sufficiently staffed and the recruitment process of the auditors should be free from the management influence.
Queensland Audit Office (2014) identified this year points toward greater maturity and strengthening of systems of financial controls. This is a positive result that lowers the risk of fraud and error occurring or remaining undetected. Building on this strong foundation, departments can now turn their focus to the efficiency of their systems of controls. In this respect, more sophisticated risk management processes will balance risk and controls better; strengthening controls that are important and reducing or eliminating unnecessary controls.

There is significant scope also to better harness the functionality afforded by IT systems to streamline expenditure processing without weakening control. Post-processing compliance checking can complement this approach to maintain controls effectiveness.

Ayom A. (2013) examined how MSH South Sudan has ensured effective payment to different department in the organization, to establish how MSH South Sudan has ensured financial records are subject to internal audit, to establish how MSH South Sudan has ensured effective Procurement policies, to assess how MSH has exercised budgetary control on the expenditure of all departments in the organization, Self-administered questionnaire, and interview were used to collect data of 60 respondents, the SAQ were distributed to the respondents within the Finance and accounting department, Human resource department, Procurement department, Administrators and field officers. Data was analyzed using frequency tables, Pie charts computer programs such as SPSS 11, Microsoft excel and word. They found that the payment procedures followed by MSH attracted a positive response with majority acknowledging it performed well. The internal audit function attracted a relatively fair response with some agreeing and others not meanwhile majority of respondents gave a negative view about the procurement process indicating it was fraud, likewise they did not appreciate the budgeting process. In conclusion therefore internal controls can affect performance of an organization. It is therefore recommended that the implementation of internal control system be reviewed especially in the area of procurement, budgetary control and internal audit.

Alzeban A. & Sawan N. (2013) debated on the role of internal auditing in the public sector by focusing on the nature and practice of internal auditing in
organizations that are subject to audit by the General Audit Bureau. Archival and documentary analysis, supported by 29 semi-structured interviews revealed that the underpinnings of the Saudi Internal Audit Regulation did not tie in directly with perceived international best practice - the International Standards for the Professional Practice of Internal Auditing. Institutional factors are also likely to play a part in terms of the existence of the state-required ‘Follow-up department’ in all organizations, tasked with performing investigation and inspection, the ‘auditing department’ (which monitors the propriety of transactions and accounting), and the work of the mandatory ‘Financial Representative (Controller)’.

Alazzam F.A., Al-Omari B.A., Allahawiah S.R. & Rumman M.A. (2013) found that the administrations of the industrial companies in Alaqaba city seek to achieve the goals and objectives of the internal control, although the administrations do not revise the plans and financial policies consistently, and they do not adopt the concept of information exchange and communication between the employees, departments and administrations. They also found that there is an appropriate organizational structure for the process of strengthening the internal control, although it is not flexible enough.

They also indicated that executive control strengthen the internal control, although the employees do not have enough knowledge about the laws, regulations, instructions, tasks and programs relating to the work of the company, and there is sufficient capacity to assess risks. They recommended that industrial companies in Aqaba should take more care in revising plans and financial policies consistently, to adopt the concept of information exchange and communication between employees and divisions and administrations. They also recommended that the organizational structure should be developed towards greater flexibility so that they can make any adjustments to it in the future, to provide employees with enough laws, regulations, instructions, tasks and programs relating to the work of the company and to develop a mechanism for improving processes that reduce and control the risks.
Abiola I. & Oyewole A.T. (2013) focused on evaluation of the effects of internal control system on fraud detection in selected Nigerian commercial banks. Data were analyzed using General Least Square Regression Analysis, Correlation Analysis, and Panel Data Analysis. Results were statistically significant at 5% with 95% degree of freedom; internal control system 0.53 and 0.423. Fraud detection 0.33 with correlation being significant at 5% level and 0.234 relationships between ICS and FD at the significant level of 0.001. Improved employee training, 0.338 and 0.23 with correlation being significant at 5% level and 0.524 relationships between ET and FD at the significant level of 0.001.

Badara M.S. & Saidin S.Z. (2013) explained that effective internal control system plays an important role in ensuring objective achievement of organizations. The aim of this paper is to examine the relationship between effective internal control system and internal audit effectiveness at local government level. They found that the effective internal control system can influence the effectiveness of internal auditors at local level. The paper needs to be validated empirically.

Leng J. & Zhao P. (2013) examined whether the internal control quality affects the M&A performance (stock market return and accounting return) of acquiring firms after the Chinese SOX (Sarbanes-Oxley Act) issued, they selected 126 mergers and acquisitions (M&A) deals of Chinese non-financial listed companies on Shanghai and Shenzhen Stock Exchange in 2010 from the CSMAR (China Securities Market & Accounting Research) Database. And they used content analysis to construct a score to quantify the internal control quality of Chinese listed companies. They examined the relationship between the quality of internal controls and the performance of bidding firms with event study and multivariate regression analysis. It found that the internal control quality of acquirers is positively related to the accounting rates of firms. The higher quality of internal control means that acquirers with better internal control system would be more likely to benefit from M&A activities and create more value for the their own companies and shareholders. Another result is that investors on the stock market are more optimistic about M&A activity launched by firms which enjoy higher ICQS (the Internal Control Quality Score).
Magara C.N. (2013) explored the effect of internal controls on the financial performance of deposit taking Savings and Credit Cooperative Societies (SACCOs) in Kenya. The findings of this study conducted on 122 deposit taking SACCOs in Kenya relied on both primary and secondary data which was obtained from the annual reports of the SACCOs. Regression analysis was mainly used to reveal that the financial performance of SACCOs in Kenya is largely influenced by the level of internal controls instituted by the management of these institutions. If the SACCOs improve the effectiveness of their internal controls, then the financial performance of these SACCOs improves drastically. The regression analysis conducted established that the independent variables have a positive strong correlation with the dependent variable. Each of the independent variables namely, the control environment, risk assessment, control activities and monitoring mechanisms contribute positively to the financial performance of SACCOs in Kenya. It is also evident from the study that without the presence of strong internal controls within these institutions, the SACCOs would be performing poorly with the risk of eventual collapse as a result of poor financial performance.

Nurwati (2013) aimed to identify and assess the relevance of management control on employee performance by considering the organizational culture, compensation, and work behavior as determinants of employee performance improvement. This study sampled 135 employees at 18 Village Unit Cooperatives se Sulawesi Tenggara. Data collection is done by distributing questionnaires followed by in-depth interviews (in-depth). They used descriptive analysis to determine the characteristics of the respondent and respondent description of indicators each study variable. While to examine the pattern of relationships between the study variables used inferential analysis tool that analyzes point to the approach of SPSS version 20. They found that adequate management controls to improve employee performance when attention to the factors that contributed to the culture of the organization, compensation and workplace behavior on cooperatives in the province of Southeast Sulawesi. They also produced findings to improve employee behavior for the better when the culture of the organization and compensation factors considered.
Ondieki N.M. (2013) determined the effect of internal audit on financial performance in commercial banks in Kenya. Internal audit was looked at from the perspective of internal audit standards, professional competency, internal controls and independence of internal audit. They selected one senior manager in the finance department. It administered a survey questionnaire to each member of the target population since it was the most appropriate tool to gather information. Quantitative analysis and regression analysis were used as data analysis technique. Descriptive statistics such as mean, standard deviation and frequency distribution were used in the analysis of data. Data presentation was done by use of tables for ease of understanding and interpretation. They concluded that internal audit standards, independence of internal audit, professional competency and internal control had a positive relationship with financial performance of commercial banks, the study found that a unit increase in internal audit standards would lead to increase in financial performance of commercial banks, a unit increase in independence of internal audit would lead to increase in financial performance of commercial banks, a unit increase in professional competency would lead to increase in financial performance of commercial banks and further unit increase in internal control would lead to increase in financial performance of commercial banks.

They recommended that management in commercial banks in Kenya should adopt effective internal audit practices such as internal auditing standards, independence of internal audit, professional competency and internal controls to enhance financial performance of the banks.

Shbiel M.O.A. (2013) aimed to identify the risks of communication between internal control and computer departments and its impact on the efficiency of the accounting information systems at the commercial banks. The study sample consisted of 62 employees in the computer & internal control departments; they adopted the theoretical and field approaches of the descriptive analytical methodology. They found that there is a significant effect for the risks of communication between internal control and computer departments on the efficiency of the accounting information systems at the commercial banks. It illustrated a positive effect for each component of risks of communication
between internal control and computer departments (problems of the centralization of decisions, problems of the absence of the legislations and laws, problems of the external environment) and the efficiency of the accounting information systems at the commercial banks.

Tunji S.T. (2013) explained effective internal controls system as an antidote for distress in banking industry in Nigeria, was carried out to ascertain the role of effective internal controls system can play in the reduction or total elimination of distress in the banking sector in Nigeria. A survey research design was adopted in which fifty six workers of selected deposit money banks were used and data were collected using questionnaire. Four research hypotheses were raised and tested; while the demographic information of the respondents were analyzed using simple percentage, the hypotheses were tested using t-test statistic at a significant level of 5%. They revealed that: existence of effective internal controls system has positive effect on fraud elimination in banks; effectiveness of internal controls system can be accurately ascertained; effective internal controls system has great impact on accuracy and reliability of records of banks and distresses in banks were traced to non-adherence to established internal controls system. Based on the findings, it was recommended that banks should employ competent professional accountants to take charge of their internal controls functions, as it is only the existence of functional/effective internal controls system that can serve as means of thoroughly checking and preventing mismanagements, which usually lead to distress, in banking industry.

ALshbiel S.O. & AL-Zeaud H.A. (2012) identified the impact of support provided by Management on performance improvement of internal auditors at Shareholding companies in Jordan, The randomly selected sample (N=142) consisted of internal auditors at shareholding companies. The descriptive analytical methods including theoretical and empirical approaches were followed. Results demonstrate a positive statistical association between composite dimensions of management support and performance improvement of internal auditors at Jordanian shareholding companies. Specifically, the study supports a steady association between management support (material and immaterial incentives, and Professional development as dimensions of the variable) and
internal auditor's performance level improvement. However, no statistical significant association was found between modern technology offered by the corporate and internal auditor's performance level improvement. They concluded that most importantly, managers at industrial shareholding should pay greater attention to employees at internal auditing departments since internal audit is an essential function in such companies and a major internal control mechanism.

Atuguba R.N. et al. (2012) examined the internal control systems of Offense Rural Bank Limited. The total population of the employees of the bank comprised of twenty-eight of the three branches including head office and ten thousand self-employed and salary workers. The structured interview questionnaires were distributed to twenty staff both at head office and the branches and one hundred self employed, and two hundred salary workers representing seventy-one percent (71%) of the total sample size selected from employees and zero point zero three percent (0.03%) of the total customers’ population of the bank. It was found that procurement committee was in place and all transactions were duly authorized and approved by the appropriate Officers. The Bank has instituted an effective mechanism to ensure that, the duties of one person are being checked by another. However the assets of the bank have not been embossed with its initials and its identification numbers. They recommended that all the fixed assets must be embossed with initials of the bank and its identification numbers and also, all fixed assets must be properly insured against fire, accident, theft, and natural disaster.

Abbas Q. & Iqbal J. (2012) found that a properly developed and effectively implemented internal control system helps to protect against wastage of resources and a basis for the smooth operations of all types of organizations. It produces reliable financial reports which are helpful to the stakeholders to make their best decision. This paper finds the importance that internal control system helps the organizations reduce their operational risk and improve the reliability of financial reporting to build confidence of shareholders.

Ewa U.E. & Udoayang J.O. (2012) aimed to determine the impact of internal control design on banks’ ability to investigate staff fraud and staff life style and
fraud detection in Nigeria. Data were collected from thirteen Nigerian banks using a Four Point Likert Scale questionnaire and analyses using percentages and ratios. Multiple regressions were used in testing the hypotheses. They revealed that Internal control design influences staff attitude towards fraud, that a strong internal control mechanism is deterrence to staff fraud while a weak internal control mechanism exposes the system to fraud and creates opportunity for staff to commit fraud. That most Nigerian banks do not pay serious attention to the lifestyle of their staff members and that most staff members are of the view that effective and efficient Internal control design could detect employee fraud schemes in the banking sector. The study concluded that effective and efficient internal control system is necessary to stem the malaise in the banking sector. Based on the findings, they recommended that banks in Nigeria should upgrade their internal control designs and pay serious attention to the lifestyle of their staff members as this could be a red flag to identifying frauds.

Guruswamy D. (2012) examined the current level of internal auditor’s independence and corporate governance of Ethiopian Telecommunication Corporation, Mekelle branch. The study design was descriptive type and to achieve the objectives of this study, they used both primary and secondary data. The primary data were collected through questionnaires and secondary data would be gathered form company reports and manuals, different published books, journals, articles and other publications. The result of the study implies that the internal audit department position has been at corporate level, audit committees have significant responsibility for the governance of internal auditing and the internal audit is facing a risk of lack of expertise, lack of management respect, lack of opportunity for professional development and domination by dishonest management.

Hayali A. et al. (2012) analyzed importance of internal control system and its impacts to the banking system. Moreover, the current structure of the internal control system in Turkish Banking sector is explained and evaluated through the annual reports. The method used in this research is evaluating and comparing of selected 15 Turkish banks and 3 main international banks. The data is collected
from the 2012 year-end annual report of each bank and analyzed with qualitative research methods.

They showed that the internal control activities of the banks are adapted to the international standards in Turkey and effective control procedures exist in the banking system. In addition, efficient internal control mechanisms have great impact on the strong and stable outlook of Turkish banking sector.

Ismail T.H. (2012) explored the role played by internal auditors in the audit of risk management. They also, attempted to collect internal auditors’ opinion regarding other factors on risk-management auditing, where it uses surveys from internal auditors working in banks to test its predictions. They found that there is a strong association between the type of bank ownership and the quality of the risk-based audit procedures. The results show that this relationship is in favor of private and joint-venture banks, hence suggesting that internal auditors see themselves capable of playing a larger role in the audit of risk management framework rather than outsourcing experts such as consulting certified public accountants (CPA). A majority of internal auditors recommend that risk management audit might be carried out, as a second option, by an independent risk management consulting firm.

Kiabel B.D. (2012) assessed the internal auditing practices on the financial performance of government-owned companies (GOCs) and to consider the effect of a contextual factor-Political influence – on this relationship. They concluded that the present study provides some evidence on the performance consequences of internal auditing practices in GOCs in Nigeria. Specifically, the internal audit function, where it exists, in a GOC does not significantly influence financial performance and that political interferences by way of government’s appointment of board members does not significantly impact these enterprises’ financial performance. The absence of a relationship arose from possible under emphasis on internal auditing by these enterprises. Where the internal audit function is de-emphasized (as the present study shows), clearly, it cannot impact positively on financial performance. Consequently, we strongly recommend the creation of an Internal Audit Department in those enterprises where there is none.
Lakis V. & Giriūnas L. (2012) analyzed the concept of internal control system is an important subject that involves the analysis of the latest scientific results, and on its basis to perform an updated analysis of the concept of internal control system which meets the modern business conditions and tendencies. Such an assumption has been made upon exploring famous scientists’ concepts of internal control system, in which the basic values needed for internal control system: (honesty, trust, respect, openness, skills, courage, economy, initiative, etc.) were not included. Only a modern concept of internal control might ensure an effective internal control system. They explored control, the concepts and conceptions of control, internal control and the system of internal control, as well as to present their own idea of the concept of internal control system and to compile a structural scheme of their conception. The structural scheme may alleviate the process of compiling a new model of an effective internal control system. The structural scheme of the conception may also be used in compiling a model of internal control system in different branches of industry.

Mihaela D. & Iulian S. (2012) explained in Europe and around the world, after the financial crisis, some measures have been taken in order to stabilize the financial system. Through present research they analyzed the statements regarding the internal control in corporate governance, statements made by both external auditors and those responsible with the management of listed entities. These statements help the auditor in preparing the audit plan. Following this review, the auditor determines necessary staff and time needed for the audit. They analyzed effectiveness of internal control in companies listed on Bucharest Stock Exchange. An effective internal control leads to a fair presentation of the financial statements and thus increases stakeholders’ confidence in the financial statements. Control risk is a risk that the auditor can’t eliminate it, but may decrease it.

Ramachandran J., Subramanian R. & Kisoka I.J. (2012) examined the effectiveness of internal audit function in Tanzanian commercial banks since this function is now a mandatory requirement as per the Banking and Financial Institutions Act 2006. Results of this study deliberate that, the risks management and corporate governance related activities of internal auditors are incorporated.
merely as statutory obligations and do not provide additional value to the stakeholders. They asserted that that internal auditing in Tanzania commercial banks is still embracing the conservative approach which is primarily concerned with compliance and monitoring rather than adopting value added approach. The inference of the study is more crucial to the agency theory whereby public funds are being spent on activities which do not add value to the stakeholders. This could in turn dilute the principal agent relationship, which is already a tenacious issue due to the corporate collapses witnessed over the last decade. The study comes as a timely contribution to practice since, Tanzanian economy is now at a growth and development stage and the Commercial Banks of Tanzania are the major contributors to the development of Tanzanian economy. They suggested that it is time to change the outlook of internal audit system by Tanzanian Commercial Banks.

Wangui N.R. (2012) objective of this study was to establish the effectiveness of internal audit in promoting good governance in the public sector in Kenya with special focus on the government ministries. A descriptive cross-sectional design method was preferred for this study. The target population of this study targeted the CIA of all the 44 government ministries. They collected both primaries on the current state of affairs of government ministries. The main instrument for data collection was questionnaires with both structured and open ended questions. The research is both quantitative and qualitative in nature. This implies that both descriptive statistics and conceptual content analysis was employed. They also used a multivariate regression analysis to determine the relationship between the independent variables and the dependent variable. They found that internal control had the greatest effect on corporate governance within Kenya government ministries followed by risk management while compliance and consulting had the least effect. They recommended that in order for the government to be effective in its operation and service delivery they should recognize contribution of internal auditing. Additionally, they recommended that for the ministry to be effectively mitigating risk they should institute internal auditing in its operation. They also recommended that all ministries should institute internal control in its operation to ensure effective operation. Likewise the study recommended that
government ministries to accept internal auditing as a tool for effective internal control so as to realize their objectives set with ease.

Austin P.A. (2011) examined the current practices and involvement of Internal Audit Agency in budgetary control among MDAs and MMDAs of public sector in Ghana. As an exploratory study they made used of both primary and secondary data which include face - to - face interviews; structured and unstructured questionnaires administered to fifty (50) respondents of the Management and Staff of the Internal Audit Departments and Finance, and budget offices in some selected MDAs and MMDAs in Accra, Greater Accra Region.

They revealed that audit work by IAA is not limited to only pre-audit and financial compliance as suggested by World Bank (2006) but has extended to budgetary control audits in the MDAs and MMDAs. IAA is engaged in providing services aimed at ensuring compliance with budget laws, regulations and policies; effective internal control systems; ethics and fraud detection. These services therefore would play an important role in enhancing the accountability and transparency of the budget cycle and hence in detecting and preventing corruption (Szymanski, 2007). Internal Auditors should therefore plan and perform their audit procedures, evaluate and report on the results, recognizing that non-compliance by the entity with law or regulations may materially affect the financial statements.

Byanguye M. (2011) examined the effectiveness of Internal Control Systems in achieving Value for Money in SFG projects in Local Governments. A cross sectional survey design was used. Data was gathered using a self administered structured questionnaire. Respondents who directly and indirectly in charge of implementing the SFG projects in Kamuli District Local Government filled the questionnaire. The respondents were drawn from the elected and appointed staff, staff from the Office of the Auditor General, members of the District Public Accounts Committee and the School Managers for the schools that received SFG project by the Financial Year (FY) 2007/08. The data was analyzed using SPSS. They revealed that Internal Control Systems have a significant positive effect in achieving Value for Money. All the constructs of Internal Control Systems
(Control Environment, Control Activities, Risk Assessment, Information and Communication and Monitoring) have a significant positive relationship with Value for Money in Local Governments. This implies that the more sound the ICS, the more the ICS are adhered too, the high the chances that LGs will achieve Value for Money. Having known the significance of Internal Controls, LGs need to ensure that they continuously review them and ensure that they are operational.

Birabwa W. (2011) examined the relationship between internal control system, managerial competence and management of public funds in NSSF. Examination of the internal control system was as well done. A cross sectional, correlation and regression survey designs were used for to examine information, evaluating the internal control system and analyzing the relationship between internal control system and management of public funds, managerial competence and management of public funds and internal control system and managerial competence.

They found that the internal control system was ineffective, there was a significant positive relationship between internal control system and management of public funds, there was a significant positive relationship between managerial competence and management of public funds and the relationship between managerial competence and internal control system was also significant and positive. NSSF management has highly mismanaged public funds. The fund has made a lot of losses out of negligence and incompetence. Something should therefore be done before the situation reaches ugly levels.

Charles E.I. (2011) evaluated the effectiveness of internal control system in Nigerian banks. They emphasized the effect of internal control on the effectiveness and efficiency of operations, the reliability of accounting and management reporting and compliance with applicable laws and regulations in Nigerian banks. In evaluating the effectiveness of internal control system in Nigerian banks, five (5) banks – Diamond Bank Plc, Ecobank Nigeria Plc, First Bank of Nigeria Plc, United Bank for Africa Plc and Zenith International Bank were chosen from the twenty four (24) existing banks in Nigeria. Data were obtained from the various departments/sub business units (SBUs) of the selected
banks through the use of questionnaires, observation and personal interviews. The data obtained were subjected to extensive analysis. They used statistical tools such as Spearman’s Rank Correlation model, Pearson Product Moment Correlation and Chi-Square model in testing the hypotheses. They also used descriptive statistics and simple percentages. They confirmed that the presence of Internal Control system in the banks has provided reasonable assurance regarding the effectiveness and efficiency of operations of banks in Nigeria, the reliability of financial and management reporting and guarantees compliance with applicable laws and regulations.

Douglas N.K. (2011) exploited information by the help of primary data from interview schedules. The purposive type of sampling was used in sampling. In all five respondents were sampled from the thirty (30) respondents under review. The data gathered was analyzed and interpreted by the help of percentages and frequency tables. They 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. They recommended 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’s should also be rotated at regular intervals to avoid any form of malpractices.

Dormán Z.I., Gorgenyi G. & Horváth M. (2011) determined that in 2011, the development and operation of the internal control system of central budgetary institutions fundamentally fulfilled its function. The operation of internal controls proved to be 85 per cent partially or entirely compliant at the 28 institutions and chapter-managed appropriations audited. The assessment proved that if internal controls were missing or not adequately established at the budgetary institutions audited, the deficiencies in their operation could be linked to the errors uncovered.
in the budget reports; furthermore, a correlation could be observed between the quality of internal audit activity and the compliance of the operation of the internal control system.

Njanike K., Mutengezanwa M., & Gombarume F. (2011) assessed factors that influence the internal controls in ensuring good corporate governance in financial institutions in developing economies with special reference to Zimbabwe. They explained that how lack of internal controls affected good corporate governance and aimed to bring out elements of good corporate governance. It emerged that failure to effectively implement internal controls contributed significantly to poor corporate governance. They discovered that internal control system overrides and the issue of “fact cat” directors also contributed to poor corporate governance. They recommended that there is need for the board of directors to guarantee an organizational structure that clearly defines management responsibilities, authority and reporting relationships. There is also need to ensure that delegated responsibilities are effectively carried out to ensure compliance with internal controls of the financial institution concerned.

Popescu S. & Omran A. (2011) presented how the internal audit helps the organization to achieve its objectives by evaluating, through a systematic and methodical approach, its risk management processes, control and governance by formulating proposals for enhancing its effectiveness. They used the conceptual concepts of internal control and internal audit highlighting the significance and role of internal audit in providing advice, counseling feedback strands within an organization. It is discussed delineation of objectives and scope of activity of internal audit and internal public audit. During much attention is paid to the work of internal audit planning as it appears from research and case studies that incorrect or incomplete planning leads to a loss of risk-bearing activities. The practice requires careful selection of activities in high risk areas audited, based on the risks associated with these activities. It follows from the analysis of economic and financial and administrative practices of firms, the performing case studies, the effectiveness of internal audits is expected if we apply a risk management policy.
Sultana R. & Haque M.E. (2011) explained a critical evaluation of internal control structures in organizations is necessary to determine their capacity to ensure that the organization’s activities are carried out in accordance with established goals procedures. They examined six listed private banks of Bangladesh. They developed a conceptual model in evaluating the internal control structure. They found that almost all the banks achieved most of components of control objectives in a greater extent and the deviation regarding achievement of these is minimum. Only one or few banks have lacking regarding some of the control components. This indicates that more or less the current internal control structure is effective for all the sample banks used in the study.

Dinapoli T.P. (2010) emphasized that internal controls have limitations, and managers need to know that even the best system will only provide reasonable (not absolute) assurance that financial reporting errors, fraud and operating inefficiencies will be identified and controlled. The level of assurance that system provides may very well be determined by the amount of monitoring conducted by management. When management takes the time to find out if controls are being implemented as designed, a message is sent to all employees that internal controls are important. Conversely, when management doesn’t pay attention to controls that they think are in place, it is probable that these controls are not functioning effectively. In addition to performing some level of continuous monitoring, management needs to communicate its expectations for internal controls to all employees, and to establish a system of communication that relays information from the bottom of the organization to the top and vice versa. The tone at the top regarding internal controls will determine to a great extent the success of the various elements of the internal control framework.

Siayor A.D. (2010) examined out the risks that threaten the operations of DnB NOR ASA, the impact of these risks on the financial performance of DnB NOR ASA, the risk management and internal control systems put in place by DnB NOR ASA and how these control systems have impacted on the performance of DnB NOR ASA. They used the combination of theory and empirical work. Primary and secondary data has been gathered though qualitative and quantitative approaches. Questionnaire was used to collect primary information from key
informants in DnB NOR ASA in the financial sector of Norway. At the end of this study, significant findings in the company revealed that risk management and internal control systems exist in the company and that these control systems are very important, effective and therefore provide adequate checks and balances in DnB NOR ASA. They also revealed that due to the strong risk management, internal control systems and credit strategies put in place by DnB NOR ASA, the company performed fairly well despite the down turn on the economy, such that the bank experienced less negative effect both on performance and profitability.

Costello A. & Moerman R.W. (2009) exploited the syndicated loan market to study the impact of financial reporting quality on debt contracting. They used internal control reports over a firm’s financial reporting as a measure of financial reporting quality. It found that when a firm experiences a material internal control weakness, lenders decrease their reliance on financial covenants and financial-ratio-based performance pricing provisions. A material weakness is also associated with higher interest rates; this adverse effect on loan pricing is mitigated if a loan is issued by a relationship lender. Further, following the internal control weakness report, lenders substitute financial covenants with loan collateral. They also found that lenders continue to view a firm’s financial reporting quality as deficient even after the weakness is corrected, suggesting that a material internal control weakness has a long term reputation effect.

Cristina P. & Cristina B.A. (2009) focused on one of the most important aspect of the internal control in banking system – information and communication. The research methodology is based on an empirical analysis between Romanian regulation and international models of control (COSO or CoCo). To reach to a conclusion they tried to identify several key issues closely related to information and communication, and to determine the degree of similarities and dissimilarities between the three selected frameworks, by using statistical indicators. They found that the level of similarities between the national framework and the two international regulations

Khanna A. & Arora B. (2009) examined the issue of frauds from the perspective of banking industry. It evaluated the various causes that are responsible for banks
frauds. It aims to examine the extent to which bank employees follow the various fraud prevention measures including the ones prescribed by Reserve Bank of India. It aims to give an insight on the perception of bank employees towards preventive mechanism and their awareness towards various frauds. The study signifies the importance of training in prevention of bank frauds. A strong system of internal control and good employment practices prevent frauds and mitigate losses. They revealed that implementation of various internal control mechanisms are not up to the mark. The results indicate that lack of training, overburdened staff, competition, low compliance level (the degree to which procedures and prudential practices framed by Reserve bank of India to prevent frauds are followed) are the main reasons for bank frauds. The banks should take the rising graph of bank frauds seriously and need to ensure that there is no laxity in internal control mechanism.

Karagiorgos T., Drogalas G. & Dimou A. (2008) explained internal audit is to be carried out on the basis of standing laws and regulations, which generally include also the policies and decrees of state as well as rules and by-laws of enterprise. Within this framework of extremely fluid business environment, the purpose of our study is to underline the importance of a well-organized internal control system for ensuring the safe and soundness of a credit institution’s activity, and by this the stability of the banking system as a whole. According to up-to-date theoretical and empirical literature, the results point out that all components of internal audit is vital in the effectivenees of internal audit and consequently in the business survival and success.

Stanciu V. (2008) presented that Romanian banking system has known in the last year’s significant changes determined by the implementation of Basel II requirements and governance principles on one hand and assimilation of the EU Directives for the banking sector on the other hand. The function of internal audit is new in the Romanian banks, being implemented as a result of the new regulation established by the Romanian National Bank in the effort to align the Romanian banking legislation to the international regulations and practice in the field. In the dynamic banking environment the internal audit has to define and strengthen its statute and role. They said that in the new context – regulatory
environment for banking system and professional requirements – internal audit become one of the most influential and value added function in the bank.

Shiu Y. & Yeh M. (2008) investigated current use of RBIA by Taiwanese banks and to explore factors associated with the adoption of RBIA by Taiwanese banking industry. To understand banks’ demand of RBIA, they examined whether the use of RBIA varies with factors reflecting banks’ risk management, internal control, corporate governance and internal auditors’ technical competence. They found that a significant negative correlation exists between the level of RBIA employed by a bank and the board size. Our finding suggests that a small board size seems to be more effective, and is more likely to use RBIA, as a complementary mechanism. Contrary to our expectations, the percentage of non-executive directors and supervisors on the board of directors is significant negative associated with the use of RBIA, the finding indicates that the higher percentage of independent directors and supervisors on the board presents better corporate governance, hence may not employ higher percentage of RBIA for monitoring of risk management, this result presents that the use of RBIA as substitute mechanism. Finally, the result support the hypotheses that banks use a relatively high level of RBIA when have a higher percentage of shareholdings held by institutional shareholders and internal auditors’ technical competence are higher.

Chye O.H. (2007) examined the relationship between mandatory and voluntary disclosures on internal control, as well as the relationships between audit committee and internal audit function on the quality of internal control of public listed companies on Bursa Malaysia. They also examined the relationship between the quality of internal control on operating performance. It used agency theory as the underpinning theory, which postulated internal control disclosure as a tool shareholders used to monitor the quality of internal control designed by management. The study employed content analysis for measuring the quality of internal control. Questionnaires were sent to 181 public listed companies on Bursa Malaysia and the study received responses from 141 companies. Questionnaires were used to collect the data on internal audit function and annual reports were used to collect the data on audit committee and operating
They found a significant relationship between mandatory and voluntary disclosures on internal control. This meant complying with the mandatory disclosure of Bursa Malaysia leads to higher voluntary disclosures. Of the two board oversight mechanisms, the study found a significant relationship between internal audit function and the quality of internal control but did not find a significant relationship between audit committee and the quality of internal control. They also found that there is no significant relationship between the quality of internal control on operating performance.

Ferreira I. (2007) attempted to discover the role of internal auditors in the professional development of audit committee members, leading to enhanced performance, through the provision of induction programmes and professional development opportunities to committee members, with due regard for the principles of good governance and international best practices. A secondary aim of this study was to propose methods to improve the relationship between the internal audit activity and audit committees in providing additional support to its members. The audit committee’s needs and requirements were assessed by using the audit committee charter as the basis in identifying the responsibilities of the committee and the professional development needs of committee members in an organization. It was found that a framework for the induction and professional development of audit committee members would be most useful to internal auditors to assist audit committees to meet their requirements and improve their performance.

Tseng C.Y. (2007) investigated two research questions arising from the regulation of internal controls required by Sarbanes-Oxley Act of 2002 (SOX). The first research question asks whether better internal controls can enhance firm performance. To address this question, the relation between market-value and internal control is estimated by a residual income model. Firms with weak internal controls are identified as those that disclose material weaknesses in internal controls in periodic filings from August 2002 to March 2006, as required by SOX. The empirical results, based on a sample of 708 firm years with the disclosures of material weaknesses, show that firms with weak internal controls have lower market-value. Building on the’ efforts for SOX to improve internal
controls, more and more firms are starting to adopt Enterprise Risk Management (ERM), because sound internal control system rests on adequate and comprehensive analysis of enterprise-wide risks. In light of this trend triggered by SOX, the second research question in this dissertation asks whether implementation of ERM has an impact on firm performance? The basic approach to answer this question uses a contingency perspective, since all risks arise from the firm’s internal and external environment. More specifically, the basic argument states that the relation between ERM and firm performance is contingent on the proper match between ERM and five key contingency variables: environment uncertainty, industry competition, firm size, firm complexity, and monitoring by the firm’s board of directors. A sample of 114 firms disclosing the implementation of ERM in their 2005 10Ks and 10Qs are identified by keyword search in EDGAR database. In developing the proper match, high performing firms are defined as those with greater than 2% one-year excess return to develop the proposed proper match. An ERM index (ERMI) is constructed based on the Committee of Sponsoring Organizations (COSO) ERM’s (2004) definition of four objectives: strategy, operation, reporting, and compliance. The contingency view is supported by the empirical evidence, since the deviation from the proposed proper match is found negatively related to firm performance.

Beasley M.S., Clune R. & Hermanson D.R. (2006) provided evidence about factors associated with the overall impact of enterprise risk management (ERM) on the internal audit function’s activities. Based on responses from 122 organizations in several countries, we find that ERM has the greatest impact on internal audit’s activities when (a) the organization’s ERM process is more completely in place, (b) the CFO and audit committee have called for greater internal audit activity related to ERM, (c) the chief audit executive’s (CAE) tenure is longer, (d) the organization is in the banking industry or is an educational institution, and (e) the internal audit function has provided more ERM leadership. We offer implications and future research directions.

PIFC Expert Group (2004), provided an effective overview of the state of development in introducing internal control systems in candidate countries,
promote the exchange of knowledge and experiences among SAIs and initiate discussions on further developments in the area concerned. It described existing internal control systems, gives an opportunity to highlight current situation in candidate countries regarding introduction of changes and development of ICSs. It also gives main results and conclusions concerning existing situation and progress made, and main problems encountered through SAIs experience and issues to be addressed for further improvement and development.
REFERENCES


