

A Study of the Internal Control Systems of Financial Institution

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Abstract:- This research is based on Bahrain employees' perception on the impact of internal control system in the financial institutions. In order to maximize the whole performance of the company, it is very important for the company to understand and implement the different types of internal controls for keeping high quality and good performance. A lot of financial institutions have implemented and adjusted the new procedures of internal control system. The purpose of the study was to investigate the status and effectiveness internal control system. Three types of internal control were discussed, preventive, detective and corrective controls. The research was conducted through a survey, using the questionnaire as the research instrument. The respondents of the study are the workers of different financial institutions like banks and insurance companies. The used research instrument uses the five-points Likert scale. The statistical tools used in the study are Multiple Regression Analyses and weighted mean. The study provides suggestions and recommendations from employee's perception in evaluation the existed internal control in order to improve it.

Keywords:- Internal Control, Preventive Control, Detective Control and Corrective Control.

I. INTRODUCTION

Internal control is a way used to assure that the organization's objectives in operational is effectiveness and efficient, reliable financial reporting, and compliance with laws, regulations and policies.

Understanding the concept of internal control is needed to develop an understanding of its impact on the performance of an organization.

Rules and policies which related to internal control are very important in any organization. It consists of all the procedures taken by the organization in order to protect its assets and resources against waste, and to ensure the existence of accuracy and reliability in recording all of the accounting data, and to evaluate the level of performance in all organizational units of the entity. Generally, internal controls are very essential for a good business practice.

Actually, there is limited research about the impact of internal control system in the Financial Institution. Few works have been written concerning the creation and development of internal control system in financial sector organizations.

1.1 Statement of the Problem

It was observed that extremely weak internal control is implemented in some of the financial institutions either commercial bank or non-bank institutions, the main reason behind that is the absence of internal control rules and procedures adopted by the organization.

The study aims to assess the internal control system at Financial Institution; specifically, it provides answers to the following questions:

1. What is the status of the internal control system at Financial Institution?
2. What is the level of effectiveness of the internal control system at Financial Institution?
3. Is there a significant difference in the perception of the respondents on the status and level of effectiveness of the internal control system at Financial Institution?
4. What is the problems encounter in the internal control of Financial Institution?
5. What recommendations can be proposed to improve the internal control system of Financial Institution?

1.2 Objectives

To start a valuable structure of internal control system that will help financial institutions to be fruitful and have any kind of effect in a profoundly serious climate.

The objectives of the paper are:

1. To determine the status and level of effectiveness of the internal control system in term of preventive control, detective control and corrective control.
2. To determine whether there is a significant difference in the perception of the respondents on the status and level of effectiveness of the internal control procedures at financial Institution.
3. To determine the problems encountered in the internal control of financial Institution and what are the proposed recommendations to enhance and improve the internal control system.

1.3 Hypothesis

H1: There is no significant difference in the perception of the respondents on the status and level of effectiveness of the internal control system at financial Institution.

II. RESEARCH METHODOLOGY

This section presents an overview of the methodological approaches that used in this study of the impact of internal control to measure and analyze the data collection from the field.

Research Design

This paper is a descriptive research since the data has been collected is based on a questionnaire. The study was used quantitative method, which designed to test the relationships of the factors that improve the financial performance.

2.1 Population and Sampling

This study used a cross-sectional survey methodology. The sample has been selected from the members who worked in the financial institutions.

The questionnaire design drew on previous studies identified through the review of literature. The questionnaire was reviewed and revised to correct the weaknesses identified prior to its widespread distribution.

Samples for the study was randomly collected from participants in the Bahrain association of banks available.

2.2 Research Measurement Instrument

In this study, the researcher used the survey instrument to collect data from the participant, interactive process of checking and modification were used to summarize the outcomes. Generally accepted guidelines of reliability and validity were used in order to maintain the dependability and rationality of the research.

A questionnaire was created and improved based on the structure of the research framework. after summarizing the outcomes of the literature review,

The reliability and validity of the research were tested for the reason of adapting a pre-existing instrument that will be useful to measure a key variable in this study. Weighted mean and T-test were employed for checking the reliable of the component variables of all dimensions for internal control factors. So, the reliability result is the degree of the constant result.

The analysis was accepted and having a true quality measurement and can proceed to the next step. The tables below show the summary of " Reliability Statistics - results.

III. PRESENTATION, ANALYSES AND INTERPRETATION OF DATA

Table 1 Comparison of the respondents Perceptions on the status and level of effectiveness of internal control system

| | M | Std. Deviation | Std. Error Mean | 95% Confidence Interval of the difference | | T | df | Sig. (2-tailed) | Decision |
|--------------------|-----|----------------|-----------------|---|-------|------|----|-----------------|-----------------|
| | | | | Lower | Upper | | | | |
| | | | | Preventive Control | -.19 | | | | |
| Detective Control | .27 | .568 | .1467 | -.04393 | .5853 | 1.85 | 53 | .086 | Not Significant |
| Corrective Control | .06 | .535 | .1381 | -.23152 | .3609 | .468 | 53 | .647 | Not Significant |

Table 2 Problems encountered by the respondents on the status and level of effectiveness of internal control system

| Items | |
|-------|--|
| 1. | The company is focusing on detective control more than the preventive control. |
| 2. | There is not enough control on the information system where they usually keep data and information for the entire company. |

IV. RESULT

4.1 Hypotheses Testing

| Hypothesis | Result |
|---|-----------|
| H1: There is no significant difference in the perception of the respondents on the status and level of effectiveness of the internal control system at financial Institution. | Supported |

Table 3 Testing results of research hypotheses

V. RECOMMENDATIONS

The organization could consider enhancing their present internal control system taking in to consideration the new trends in internal control system and also benchmarking from other reputable and successful companies across industries.

The Company could also consider improving their information system that could properly track and monitor data and transactions within the company.

Consider providing seminars or workshops for their employees on the significance of control system and made them aware of the policies on its proper conduct.

There is also a need to properly implement and control all the control system and policies by the concerned officers of the company.

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