

# Assessing the Role of Control Activities in the Financial Performance of Banks in Ghana

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## Abstract

Control activities are one of the key measures adopted by institutions to ensure compliance with laid down procedures and rules in an organization. Effective control activities determine how successful an institution will be in terms of its financial performance. This study examines the control activities used by banks operating in Ghana and how their activities affect the financial performance of these banks. The study uses a survey research design for this current study. The study's accessible population was made up of 20 universal banks in Ghana for the past 8 years out of 23 universal banks operating in Ghana. The study's sample size was 676 participants from the board, management committees and operational staff. The study relied on primary data collected with the help of a well-structured questionnaire. Descriptive, correlation, and hierarchical linear regression were used to analyse the data collected. From the analysis of the data, the findings suggest that control activities were correlated with the performance of the banks in Ghana, implying that an improvement in the control activities of the banks will lead to an improvement in the financial performance of the banks. The results further suggested that control activities had a positive influence on financial performance, implying that as control activities rise, financial performance improves. This result suggests that control actions play a significant role in safeguarding the assets of the bank. It is thus advised that bank management continue to examine their policies on control activities, enhance their control operations, and ensure staff have the necessary resources to guarantee appropriate control. Bank regulators should ensure that banks report on their control activities and any corrective steps made by the banks to ensure that control is done following established rules.

## Keywords

Internal Audit, Control Activities, Bank of Ghana, Financial Performance

Received: August 15, 2021 / Accepted: September 24, 2021 / Published online: October 15, 2021

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## 1. Introduction

A financial institution, irrespective of company size, type, or volume of operations, should have a control system incorporated in its programmes to help in the achievement of organisational goals and objectives [16]. To attain these objectives and aims, there is a need for clear processes to guarantee that actions are carried out following laid-down policy. An efficient and effective control system is critical to

the management of an organisation and serves as the foundation for a successful control system. This indicates that an ineffective control system causes unproductiveness, which eventually leads to losses [9].

In recent years, the global service sector has grown extremely competitive. As a result, industry participants such as financial institutions have continually installed technologies to assure the seamless functioning of commercial activities. Internal control procedures have been used by publicly

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assisted financial institutions to ensure good performance. Internal control systems (ICS) include the control environment, risk assessment, control actions, information and communication, and monitoring. When these systems are properly implemented, they increase performance such as profitability or financial performance.

Control actions occur at all levels and in all departments in any organisation [24]. Control activities include the processes, policies, programmes, strategies, and instructions that lead management to achieve organizational goals [22]. Ngugi [20] went on to say that control activities are acts backed up by policies and procedures that, when carried out correctly and on time, manage or minimise risks [18]. Given the forms and relevance of control activities, the firm's objectives may be realised by improved control activities, which means that every required action should be done to manage risks [8].

### 1.1. Research Problem

The efficacy and efficiency of a financial institution's internal controls are critical to its growth and development. Meanwhile, inefficient control systems can lead to ineffective operations, which can eventually lead to losses. According to Ofei, Andoh-Owusu & Asante [21], the survival of banks in Ghana is dependent on the prudent measures adopted by banks in managing their activities and processes. In Ghana, there used to be 28 universal banks operating in Ghana before 2018. This number was reduced to 23 as a result of a clean-up exercise done by the Bank of Ghana between 2014 and 2016. This clean up, although necessary, did not consider the key aspect of the banking service which ensures the performance of the banks, namely the internal control systems and, more specifically, the control activities performed by these banks and how these activities affect the financial performance of the banks. Earlier studies have shown the contribution of internal audit variables such as internal control environment, control activities, risk management, monitoring activities, and information and communication systems to financial performance in other jurisdictions such as Kenya, Somalia, and Nigeria respectively, without specifically showing results relating to the Ghanaian context, such as [1, 11, 2, 3]. Other studies focused on other unrelated sectors such as agroprocessing by [11], County Government by [1,] and faith-based schools by [5]. A few studies that examined internal audit variables using the Ghanaian context failed to either explore the entire banking sector or consider control activities as a variable of study, such as a study done by [6] which examined banks listed on the stock exchange without considering the entire banking sector, and a study done by [14] focused on health institutions in the Wa municipality without considering the

banking sector.

In line with these gaps identified, this current study seeks to address the identified research gap by examining the role of control activities in the performance of banks operating in Ghana.

### 1.2. Research Objective

This present study has as its objective to determine the extent to which control activities affect the performance of banks operating in Ghana.

## 2. Literature Review

Internal audit is a critical component of performing the duties that businesses need to perform to secure the company's continuity and sustained existence as a business into the near future. The companies' activities are designed to assist in the safeguarding of these organisations' corporate interests and services. In every organisation, control activities take place at all levels and in all departments [24]. The procedures, policies, programmes, strategies, and instructions that guide management in attaining organisational goals are referred to as control activities [22]. According to Ngugi [20], control activities are actions backed up by policies and procedures that, when carried out correctly and on time, manage or minimise risks [18]. This section explains the theory supporting this study and empirical studies done on the effect of control activities and their effect on financial performance.

### 2.1. Theoretical Review

In this study, Contingency theory is adopted because it is a method of studying organisational behaviour that provides explanations for how contingent variables such as technology, culture, and the external environment impact the design and performance of organisations. Contingency theory is based on the premise that no single form of organisational structure is equally appropriate to all organisations. Rather, organisational efficiency is determined by a fit or match between the type of technology, the unpredictability of the environment, the structure of the business, the characteristics of the organisational structure, and its information system. Contingency theories evolved through sociological functionalist ideas of organisational structure, such as proposed by [15] structural approaches to organisational research.

As a result, the notion behind contingency theory is that the selection and use of a management control system are dependent on some internal and external circumstances. As a result, the external environment, technology, structure and magnitude, strategy, and national culture all influence management control systems. According to the idea, the

demands imposed by technical tasks in the organisation stimulate the development of techniques for coordinating and controlling internal operations. According to Bakibinga [7], “Contingency means: one thing depends on another” and “Contingency theory means: it depends.”

## 2.2. Empirical Review

Ofei, Andoh-Owusu, & Asante [21] investigated the effect of control activities on the financial performance of Ghanaian banks in research titled the influence of internal audit practises on the financial performance of Ghanaian banks. The researchers employed a sample of 154 people in their investigation. The data for the study was collected via questionnaires, and the data was analyzed using multiple regression. The outcomes of the study suggested that control activities had a significant positive effect on the financial performance of Ghanaian banks. However, the effect was not statistically significant. It also suggests that existing control rules, methods, and activities be assessed regularly. This research was unable to explain the effects of risk management on the wider banking sector since it only looked at five institutions. Because it only looked at five institutions, this study was unable to explain the implications of risk management on the larger banking industry. The study failed to also control for the effect of demographic variables such as gender, age, education, experience, job tenure.

Ekessa [11] assessed the effect of control activities on the financial performance of agroprocessing firms in Kisumu County, Kenya. The researchers employed a sample of 66 people in their investigation. The study's data was collected using questionnaires, and the data was analysed using multiple regression. The study's findings suggested that there was a significant positive effect of control activities on the financial performance of agroprocessing firms in Kisumu County, Kenya. The study failed to show the contribution of control activities in the Ghanaian context and also failed to show the contribution of control activities to the banking sector. The study also failed to control for the effect of demographic variables such as gender, age, education, experience, job tenure.

Ahmed & Ng'anga [1] studied the effect of the control activities on the financial performance of county governments in Kenya's coastal areas. A descriptive study design was used by the researcher. The study's target demographic consisted of 30 personnel recruited from the Ministry of Finance, Budget, and Planning in the county governments of the Coastal area. The study focused on four counties in Kenya's coastal area, namely Mombasa, Kilifi, Kwale, and Taita, and the respondents were 40 financial managers recruited from the Finance Planning Ministry of the respective county governments. A survey of 40 people

was conducted. Questionnaires were used to obtain primary data. Descriptive statistics and inferential statistics were used to analyse the data. The study discovered that the control activities have a positive and significant effect on financial success. The county governments should ensure that control activities are available to protect shareholders, etc.

Muthusi [19] examined the effect of control activities on the financial performance of commercial banks in Kenya in research titled the effect of control activities on the financial performance of commercial banks in Kenya. The researchers employed a sample of 40 respondents in their investigation. The study's data was collected using questionnaires, and the data was analysed using multiple regression. The study's findings suggested that there was a significant positive effect of control activities on the financial performance of commercial banks in Kenya. The study was conducted contextually in a different country, hence failing to show the effect of control activities on the Ghanaian banking sector, which presents unique banking legislation and regulation, as well as the study failed to control for the effect of demographic variables such as gender, age, education, experience, and job tenure.

Ibrahim, Diibuzie, & Abubakari [14] assessed the effect of control activities on the financial performance of banks using the Health Institutions in the Upper West Region of Ghana. The study made use of 50 respondents. An inferential statistical tool was used to analyse the data in the form of a regression analysis. The study found a positive effect of control activities on financial performance. Sahabi, Gordon, & Mohammed [23] studied The Effect of control activities on Financial Performance: The Case of Health Institutions in Ghana's Upper West Region. Using an ordered logistic regression model and a survey of fifty (50) respondents, this analysis aimed to assess the effect of internal control activities on financial results at five health institutions in the area. The study discovered a correlation between internal control activities and financial efficiency. Just three of the control variables, however, remained important with p-values less than 5%. It was suggested that the institutions' regulatory bodies, likely with the assistance of the audit reports implementation committee (ARIC), ensure that the relevant internal management mechanisms proposed by auditors in health institutions are controlled regularly.

Amissah [4] investigated the impact of control activities on the performance of insurance companies in Ghana. The research aimed to look into the effect of control activities on the success of companies in the Ghanaian insurance industry. The five ICS variables defined by the Committee of Sponsoring Organizations (COSO) were used as independent variables, while the dependent variable was based on

building block model performance measurements. A cross-sectional survey design was used, and data was collected using questionnaires from 91 people out of a total population of 113. Techniques such as stratified, simple random, purposive, and oversampling were used. Descriptive statistics, Kruskal-Wallis, Mann Whitney U Test, and ordinary least square regression techniques from the Statistical Package for Social Sciences version 21 were used to analyse the results. The main results showed that oil and gas, loss adjustor, and reinsurance firms had low levels of performance and poor ICS, while brokerage, life, and non-life insurance firms had high levels of performance and solid ICS. There was also a major variation in the risk management practices of non-life and investment companies, according to the findings. The study also discovered that ICS had a substantial effect on results. It was determined that life, non-life, and brokerage insurance providers placed a high value on their control structures. Reinsurance, oil and gas, and missing adjuster companies in the sector were advised to improve their information and contact processes. Non-life and investment companies were also recommended to implement risk management procedures that are tailored to their organizational background.

Gamage & Low [13] conducted a study that examined the effect of control activities on the financial performance of Peoples Bank in Sri Lanka. Their study made use of primary data which was collected through a structured questionnaire that was distributed to branch managers of banks. These individuals were selected because they were more conscious when it came to the practise of internal control systems in the banking sector. The sample size for the study was 173 middle-level bank branch managers. The researchers made use of descriptive and inferential statistical analytical tools in analyzing the data collected. The study results showed that there was a significant positive effect of control activities on the financial performance of the bank. It further revealed that the management of Peoples Bank has recognized and implemented a strong internal control system. It was contextually done in Sri Lanka. The study neither controlled for the effect demographic variables such as gender, age, education etc.

### 2.3. Conceptual Framework

Based on the reviewed literature, the conceptual framework for this study has been presented in the diagram below in line with variables as identified by previous researchers.

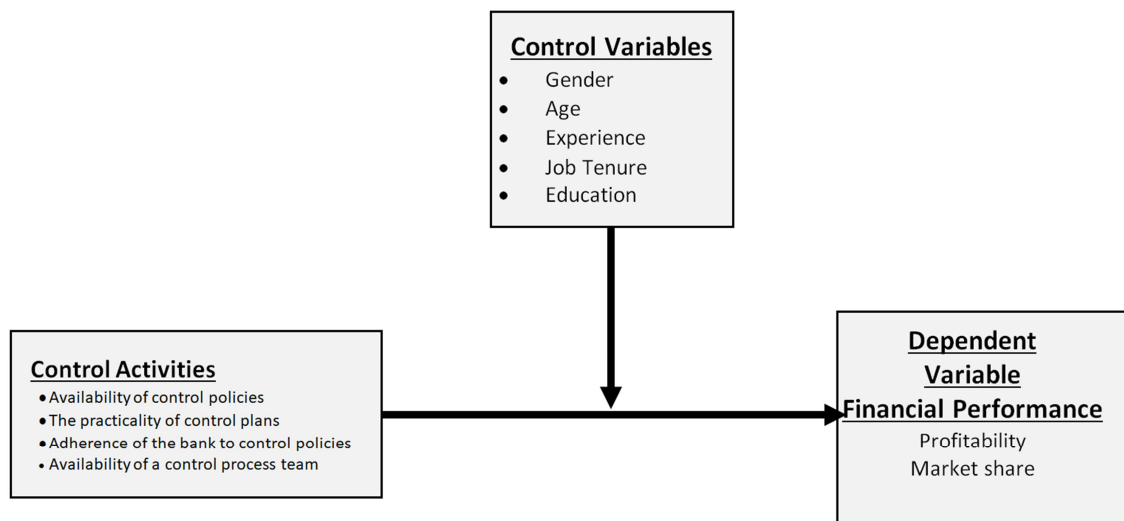


Figure 1. Researchers conceptual framework.

## 3. Methods and Materials

### 3.1. Research Design

In this study, the researcher used explanatory research to describe the study's findings. An explanatory study looks at the relationship between variables [25]. This is applied when there is an existing condition or situation that demand the need to conduct an in-depth inquiry into an existing situation or relationship. Because of this, there is the need to study the data statistically using a quantitative approach such as

correlation and regression with the view of having a more in-depth analysis of the problem on hand making use of quantitative data.

### 3.2. Sample and Sampling Procedure

This study made use of a sample of 760 participants determined. The participants were selected through the use of stratified random sampling and purposive sampling procedures. In all the sample of 760 participants were selected from 20 banks with 38 respondents drawn from each bank.

### 3.3. Data Collection and Instrumentations

A structured questionnaire was used to collect data for this research. This was chosen because it is thought to be a useful technique when the sample size is big and widespread. This approach has also been utilised by other researchers that have done high sample size research, such as [25]. The questionnaire was printed, packed in envelopes, and presented to the respondents in person, following which the survey instruments were collected several weeks later. Saunders et al [25] consider the use of questionnaires to be an effective method of collecting responses from a big sample because it helps the researcher to guarantee that the researcher's thoughts are translated into aspects that a large sample can understand as well as the researcher to conduct a meaningful analysis of the data collected.

### 3.4. Model Specification

To address the research objective, the researcher made use of the regression model as indicated below;

$$FP = \beta_0 + \beta_1 CA + (\beta_1 \text{Gen} + \beta_2 \text{Age} + \beta_3 \text{Exp} + \beta_4 \text{Ten} + \beta_5 \text{Edu}) + \varepsilon$$

Where;

FP = Financial Performance

CA = Control Activities at time t

Gen = Gender

Age= Natural age of respondents

Exp = Experience i.e No of years performing the assigned role

Tenure = Tenure i.e number of years employed

Edu = Level of academic education

$\varepsilon$  = Error term

## 4. Results and Discussion

### 4.1. Descriptive Statistics

**Table 1.** Results of descriptive statistics.

Variable	Statistics	Statistic	SE	Shapiro-Wilk's	p
Financial Performance	Mean	53.11	0.28	0.96	0.000
	Skewness	-1.31	0.09		
	Kurtosis	2.52	0.19		
Control Activities	Mean	16.11	0.13	0.85	0.143
	Skewness	-1.51	0.09		
	Kurtosis	2.86	0.19		

The researcher performed an exploratory analysis of data, the first of which was to check for outliers using the parameters suggested by Garson [12], who states that the absence of outliers in the data and normalcy is fulfilled if skewness and kurtosis fall between -3 and 3. According to this suggestion, the estimated kurtosis or skewness may be less than 3 or larger than -3. This condition is satisfied by all of the variables listed above. As a result, the data for the variables were normally distributed. The usage of kurtosis and skewness, on the other hand, can be deceitful. As a result, the Shapiro-Wilk test was also used, which validates data normality at  $p > 0.05$  [12]. It can be inferred that financial performance was not normally distributed, however, control activities were found to be normally distributed. According to Garson [12], a departure from normality is not an issue if the sample size is big (i.e. sample size 400 or more) and the skewness and kurtosis conditions are fulfilled. With this information, a foundation is laid for carrying out the planned parametric test.

### 4.2. Assessment of Data Reliability and Validity for Multidimensional Constructs

This section evaluates the reliability and validity of the multidimensional construct; the findings are shown in the table below.

**Table 2.** Psychometric properties of multi-dimensional constructs.

Construct	Domain	Item	CR	CA	AVE	MSV
Financial Performance	F1	Sales volume	0.567	0.788	0.597	0.245
		Profit levels	0.832			
		Return on investment (ROI)	0.499			
		Return on sales (ROS)	0.567			
		Market share	0.821			
	F2	Growth in sales	0.543	7.432	5.630	2.315
		Growth in profitability	0.661			
		Growth in ROI	0.801			
		Growth in ROS	0.722			
		Growth in market share	0.555			
All scale	---	---	---	0.822	---	---
Control Activities	---	Availability of control policies	0.861	0.756	63.3	0.717
		The practicality of control plans	0.736			
		Adherence of the bank to control policies	0.802			
		Availability of a control process team	0.840			
		Availability of control policies	0.861			

† CR – composite reliability; CA – Cronbach's alpha; AVE – average variance extracted; ASV – maximum shared variance;



According to the table above, the first construct, financial performance, yielded two variables. The factor loadings for each factor met the acceptable condition of composite reliability been greater than or equal to 0.5. as indicated by [10]. This criterion is likewise satisfied for each control activity component. The factors of the two constructions likewise satisfied the Cronbach's  $\alpha \geq 0.7$  criteria which required an alpha value to be greater than or equal to 0.7. This criterion is likewise satisfied by the whole build. That is, the factors' and constructions' internal consistency was fulfilled. Convergent validity and discriminant validity, which are construct validity indicators ([17]), are evaluated

using the average variance extracted (AVE) and maximum shared variance (MSV) (MSV). The criteria CRAVE ensures convergent validity, whereas the condition MSVAVE ensures discriminant validity [17]. Both requirements are satisfied by the two constructions in the table. As a result, construct validity for the two scales was established.

#### 4.3. Model Fit Indices

This section presents the model fit indices for the measurement models, the results of the assessment are presented in the table below.

**Table 3.** Model fit indices for the measurement models.

Variables	Chi-square( $\chi^2$ )	p	RMSEA	TLI	GFI	AGFI
Financial performance	1.271	0.132	0.021	0.984	0.971	0.991
Control Activities	2.18	0.164	0.062	0.972	0.956	0.945
Recommended	$\leq 3$	$\geq 0.05$	$\leq 0.08$	$\geq 0.95$	$\geq 0.9$	$\geq 0.9$

† RMSEA – random mean square error of approximation; TLI – Tucker-Lewis Index; GFI – goodness-of-fit indices; AGFI – adjusted goodness-of-fit indices.

The model fit statistics for the two measurement models used to generate statistics for the various analysis done is shown in the above table. The table also includes the suggested baselines or criteria. It can be observed that all of the data fulfilled the specified criterion, indicating that both models

fit well. As a result, the results of the preceding exploratory study provide a solid foundation for data analysis using a parametric statistical technique such as hierarchical regression analysis.

#### 4.4. Descriptive Statistics Showing Ratings on the Main Variables

**Table 4.** Results of descriptive ratings on the main variables in this study.

Variable	Maximum	Mean	Mean (% of Maximum)	SE	SD
Financial Performance	50	38.75	77%	0.20	5.24
Control Activities	20	16.11	81%	0.13	3.26

The role of the table above is to estimate the perceived level of the key variables. Since the 5-point scale was associated with a continuum of descriptive anchors, the level of a variable (i.e. whether a variable is high or low) depends on the size of the mean score corresponding to that variable. Similarly, a variable increase as its average score gets closer to its maximum value. The standard error (SE) and SD are indicators of the precision of the estimate [12]. The precision of the variable increases as the SE and SD decrease. It can be said that all the variables in the table are high because they account for more than 70% of the maximum score. Control activities accounted for the lowest relative mean score (Mean = 16.11; SD = 3.26), which is 81% of the maximum score. This result suggests that control activities were rated to be at the highest level of practice concerning the maximum mean score. The financial performance produced the highest relative mean scores representing 77% of the maximum mean score. These findings suggest that financial performance was high, likewise the other variable.

#### 4.5. Correlation Results

**Table 5.** Association between variables.

Variable	#	1	2
Financial Performance	1	1	.462**
Control Activities	2		1

\*\*p<0.001; \*p<0.05.

The table above shows the correlation matrix of relevant variables including covariates. In the table, financial performance is positively correlated with control activities ( $r = 0.462$ ;  $p = 0.000$ ; two-tailed. This result suggests that the financial performance of the bank's increases as the control activities increase.

#### 4.6. Regression Results

This section presents findings on the specific objective and hypotheses as recalled as follows:

*H<sub>1</sub>: Control activities have a significant effect on financial performance among the banks.*

**Table 6.** Results showing direct and controlled effects.

Model	Predictor	Coefficients			Collinearity Statistics		
		B	SE	$\beta(t)$	Tolerance	VIF	Dubin Watson
1 <sup>a</sup>	(Constant)	12.408	1.469	(8.45)			
	Control Activities	.486	.070	0.30(6.96)**	0.42	2.41	1.67
	(Constant)	10.443	1.800	(5.80)**			1.65
	Control Activities	.513	.072	0.32(7.12)**	0.38	2.66	
2 <sup>b</sup>	Covariate	1.384	.323				
	Gender (reference – male)	.069	.225	0.13(4.28)**	0.88	1.13	
	Age	1.376	.443	0.01(0.31)	0.84	1.20	
	Experience	-1.397	.426	0.33(3.10)**	0.17	4.64	
	Job tenure	.157	.218	-0.35(-3.28)**	0.17	4.72	
	Education	12.408	1.469	0.02(0.72)	0.87	1.15	

\*\*p<0.001; \*p<0.05; <sup>a</sup>baseline model without covariates; <sup>b</sup>ultimate model with covariates; SE – standard error; VIF – variance inflation factor

The results of the hypotheses are captured in the table above. With this table, the researcher examined the direct effects of control activities on financial performance. These effects are tested in two regression models. The first model did not adjust for covariates whereas the second adjusted for covariates. Though the source of the final results is the second (ultimate) model, a comparison of the two models is necessary to understand the influence of the confounding variables in the second model. In the ultimate model, the control activities ( $\beta = 0.32$ ;  $t = 7.12$ ;  $p = 0.000$ ) has a positive effect on financial performance after controlling for the covariates, which confirms that as control activities are improved or increased, the financial performance of the banks also improve. The Durbin-Watson statistic of the model is also about 1.65, which falls within the range of 1.5-2.4 recommended by [12]. The Durbin-Watson statistic, therefore, connotes the absence of autocorrelation in the data. Moreover, each predictor accounts for a variance inflation factor (VIF) value  $\leq$  of 5 [12], indicating that the multi-Collinearity assumption is met for the model.

The results of the study showed that control activities in banks had a significant effect on the performance of banks in Ghana. This indicates that there was a positive effect of control activities on the financial performance of banks in Ghana. However, this result is in line with the studies done by; [11, 1, 19, 4, 13] who also found a positive effect of control activities on financial performance in their studies. The plausible explanation for this result is that the banks are performing their control activities per the guidelines as provided by the corporate governance directives issued by the bank of Ghana. Furthermore, it can also mean that banks are more focused on internal control activities and follow their internal policies and procedures. However, the study is in contrast with the study findings of [21] who found a negative effect of control activities on financial performance. Finally, the difference in results with Ofei, Andoh & Asante [21] could be explained to be as a result of the difference in sample size between the two studies.

## 5. Findings and Recommendations

The study results showed that control activities as an internal audit activity was a significant predictor of performance of banks and also has a positive effect on financial performance, this implies that banks performance improves as control activities improve and this is likely to affect the operations of the banks positively as control activities play a significant role in the protection of resources of banks. It is therefore recommended that management of banks, constantly review their policies relating to control activities. The regulators of the banking sector should also ensure that banks report on their control activities and systems are reported on to the regulators along with necessary remedial actions taken by the banks to ensure controls are in line with laid down policies. The study recommends that future studies be replicated in other sectors of the banking sector such as rural banks to determine the contribution of the control activities on the performance of rural banks. Future studies can also consider studies comparing the effects of internal audit variables comparing sectors such as banking and insurance.

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