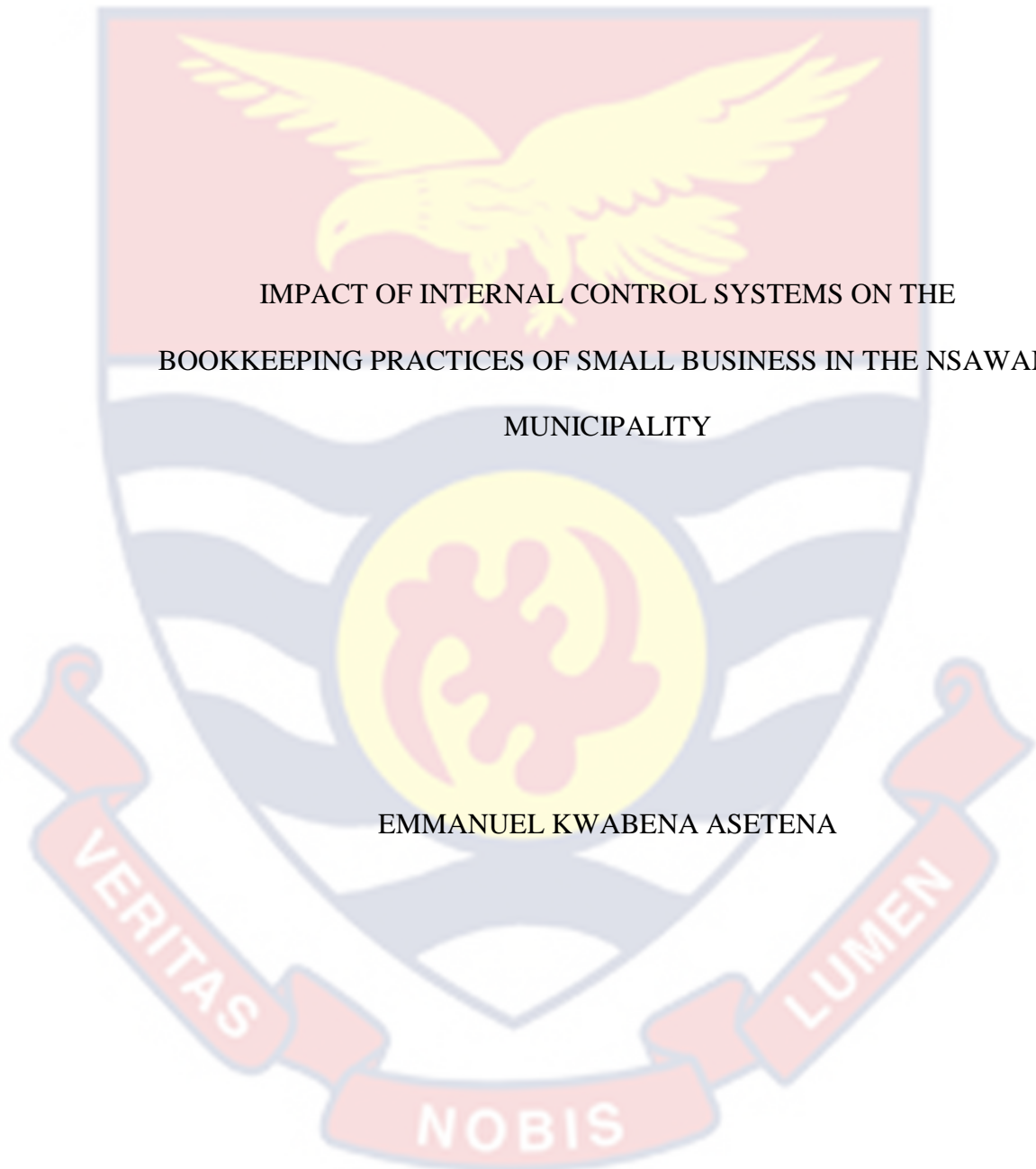


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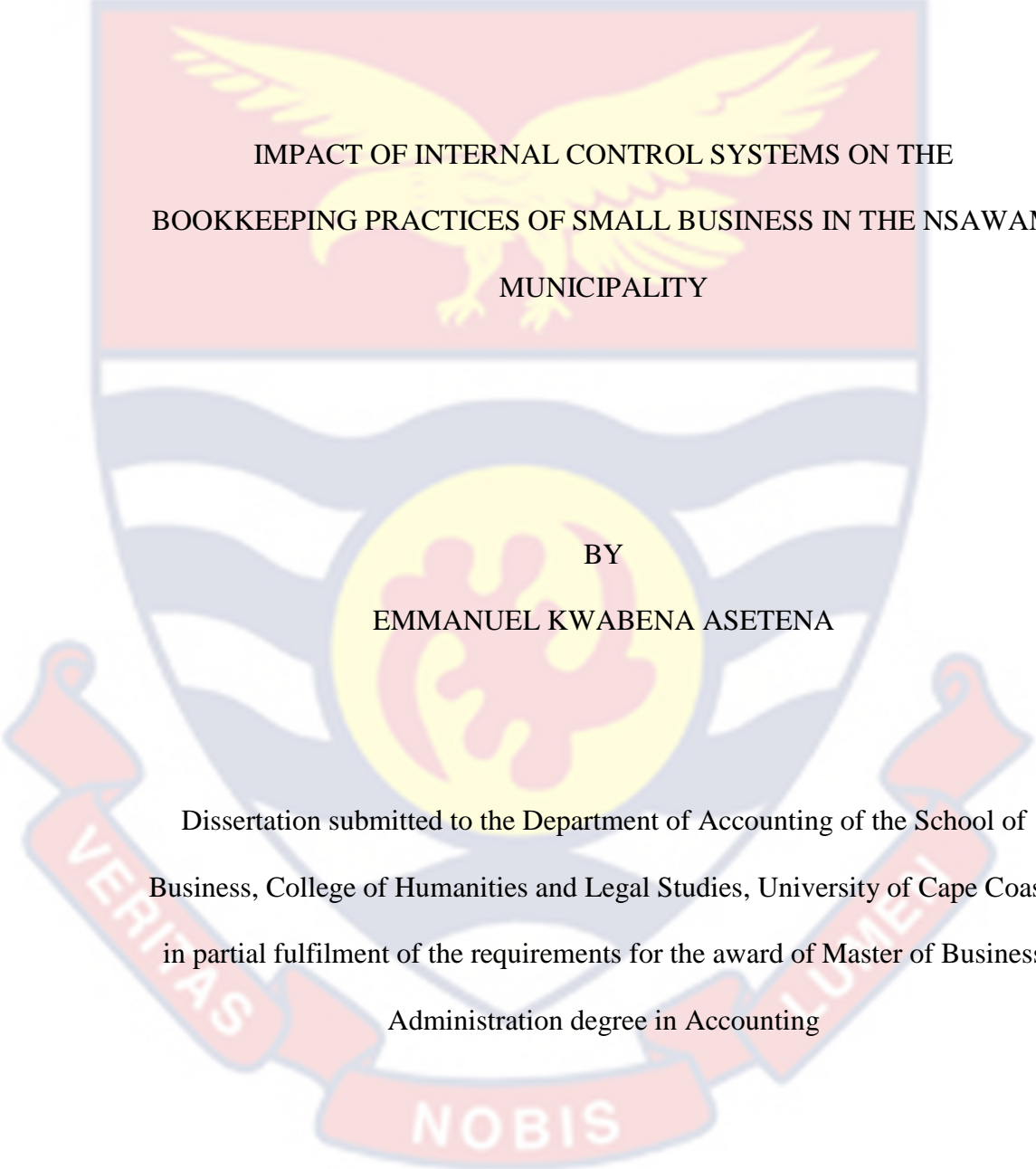


IMPACT OF INTERNAL CONTROL SYSTEMS ON THE  
BOOKKEEPING PRACTICES OF SMALL BUSINESS IN THE NSAWAM  
MUNICIPALITY

EMMANUEL KWABENA ASETENA

2023

UNIVERSITY OF CAPE COAST



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BOOKKEEPING PRACTICES OF SMALL BUSINESS IN THE NSAWAM  
MUNICIPALITY

BY  
EMMANUEL KWABENA ASETENA

Dissertation submitted to the Department of Accounting of the School of  
Business, College of Humanities and Legal Studies, University of Cape Coast,  
in partial fulfilment of the requirements for the award of Master of Business  
Administration degree in Accounting

JULY 2023

## DECLARATION

### Candidate's Declaration

I hereby declare that this dissertation is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

Candidate' Signature..... Date.....

Name: Emmanuel Kwabena Asetena

### Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of dissertation laid down by the University of Cape Coast.

Supervisor's Signature..... Date.....

Name: Rev. Dr. George Tackie

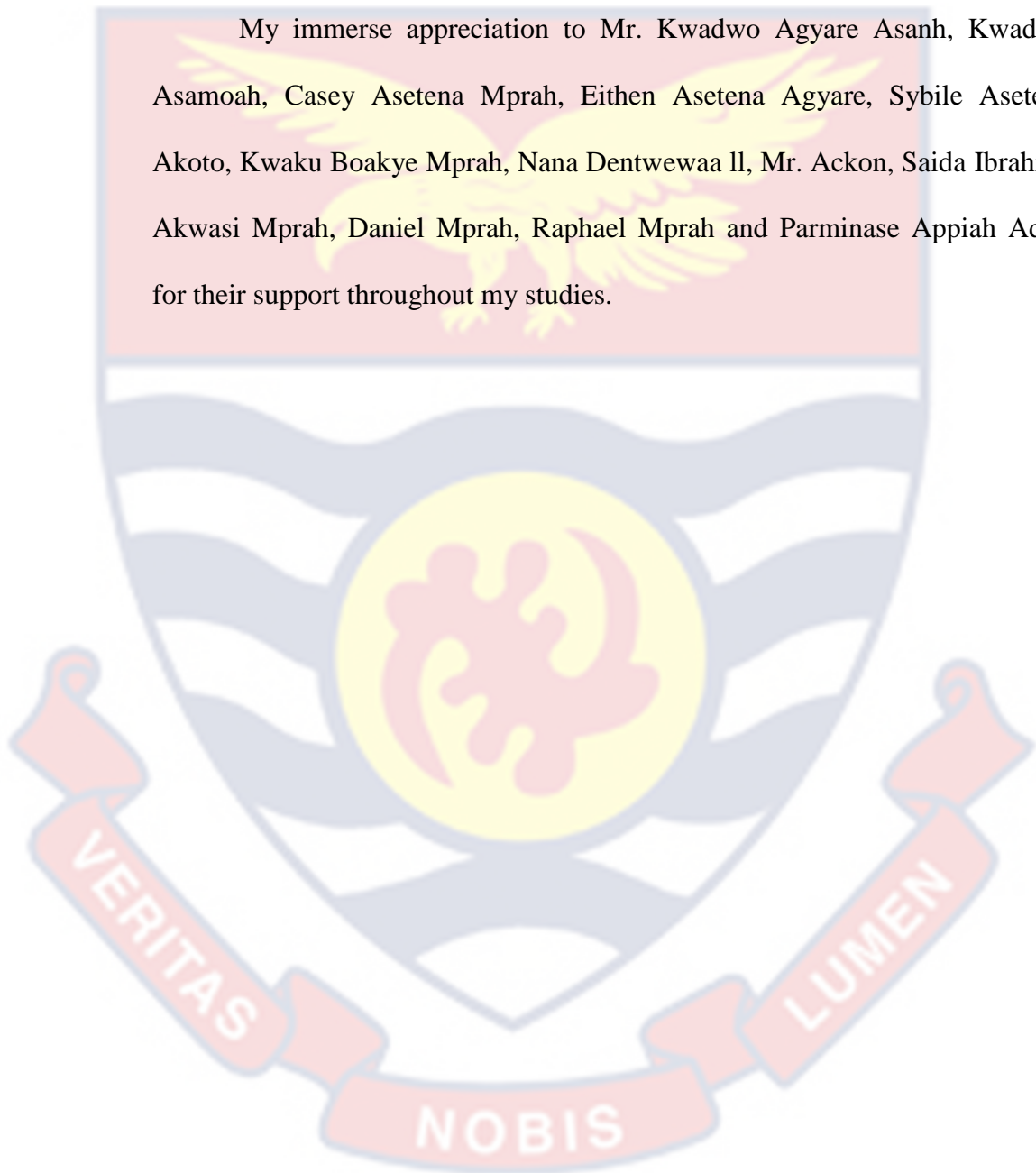
## ABSTRACT

Proper bookkeeping practices is highly dependent on the control systems available in the organisation. Small business are enterprises that mostly do not keep proper records of their operations. This study therefore analyse the effect internal control system on book keeping practices of Small business in Nsawam Municipality. The first objective of the study was to examine the internal control system utilized by small business in Nsawam Municipality. The second objective of the study was to examine the effect of internal control system on bookkeeping practices of small business. The third and final objective of the study to analyse the challenges affecting internal control system among small business. Questionnaires were the data collection instruments. The required sample size was chosen using the cluster sampling technique. A sample size of 362 were considered in the study. Exploratory Factor Analysis, Multiple regression and descriptive analysis were employed to achieve the study's objectives. The study found that control activities was the system most of the small business s have employed in their operations. The study also found that there was a significant relationship between control environment, risk assessment, information and communication and monitoring activities and book keeping practices. There was no significant relationship between control activities and book keeping practices. The study found that, inadequate policies and procedures, lack of segregation of duties, too much politics were the challenges affecting the internal control system of small business. The study recommends that management must be effective and to guarantee continual and separately supervising internal control to assess if controls are there and operates well.

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**DEDICATION**

To my family





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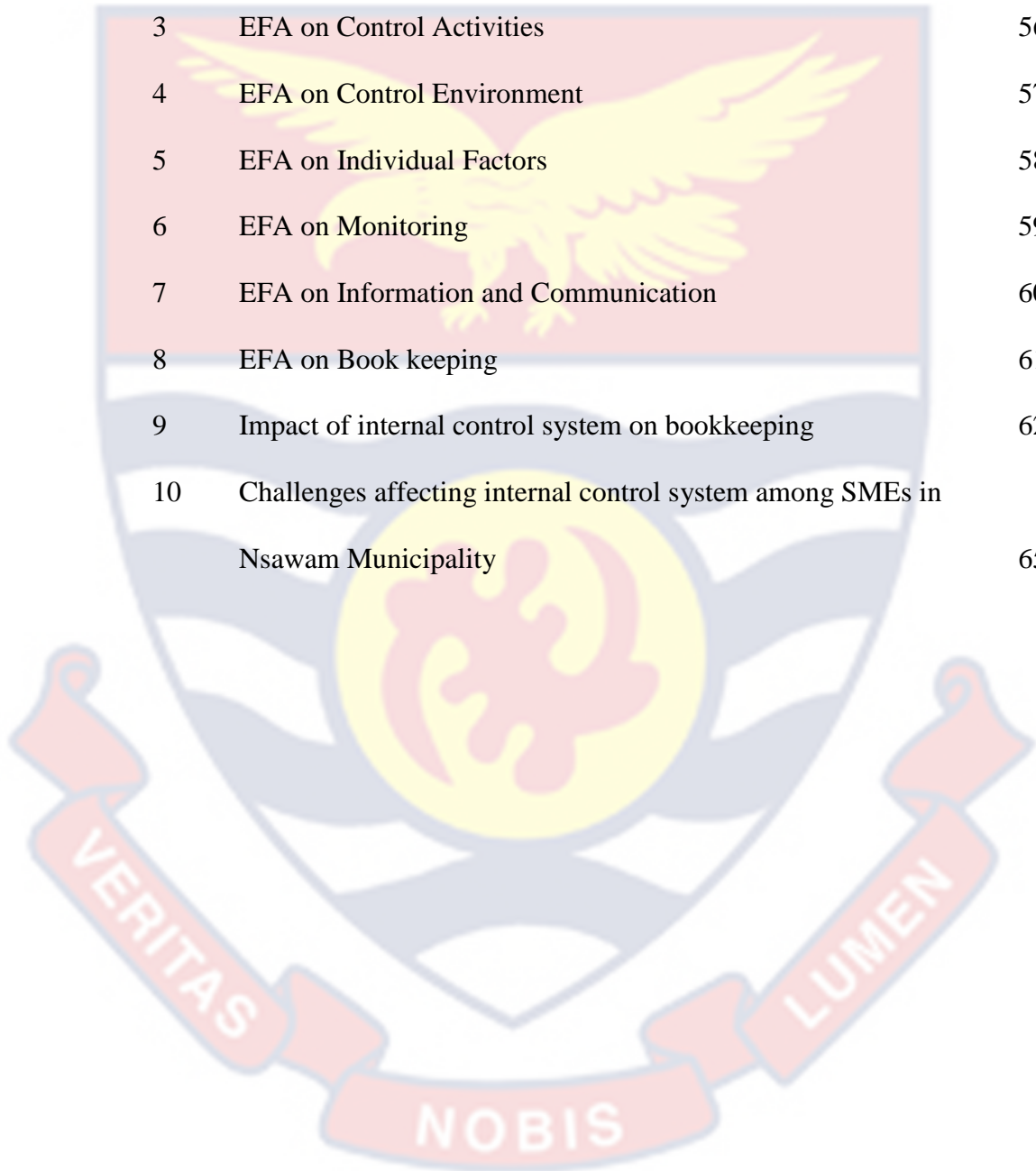
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### LIST OF ACRONYMS

- EFA - Exploratory Factor Analysis
- SMEs - Small and Medium Enterprises
- MRK - Manual Record Keeping



## CHAPTER ONE

### INTRODUCTION

Records keeping can improve and reduce the rate at which documents are falsified at the organisation. Proper internal control system can enhance the book keeping. Small and Medium Enterprises fails to keep proper reports which usually affects their profitability and performance. Series of studies has been on the role of internal control system on performance of SMEs. Limited studies have been done the effect of internal control system on book keeping of small businesses. Studying on how internal control system would enhance book keeping which would improve the performance of firm.

#### **Background to the Study**

The importance of internal control in the world of business today cannot be overemphasized. The responsibility of ensuring that appropriate internal control system is established and maintained in many organizations lies with the management of such organization. Effective internal controls are critical to the sustainability of any organization. It involves monitoring and verification of the functioning of an organization (Mukhina, 2015). Eyaa and Ntayi (2010) observed that poor performance and subsequent high rate of collapse is far superior to the rate of success among all small businesses. Among the biggest contributors of these failures is believed to be poor management. Management implies many functions including controlling. The inadequate internal control mechanisms may not only lead to poor performance of an SME but also to total collapse. Organizations of all sizes regardless of the industry are encouraged to subscribe to the implementation of internal control system.

Likewise, record keeping plays a vital role in development by providing recorded information which is crucial in the strategic formulation of national development policies and plans. According to Ademola et al. (2012), record keeping is essential to business management. It involves identification, classification, storage and protection, receipt and transmission, retention and disposal of records for preparation of financial statements. A comprehensive record keeping system makes it possible for entrepreneurs to develop accurate and timely financial reports that show the progress and current condition of the business. An effective accounting record keeping system will safeguard assets and ensure that your company complies with necessary laws and regulations (Okoli, 2011). Maseko, and Manyani (2011) observed that there is a good measure of independence and confidentiality of report when internal auditors are appointed in every organization to ensure effective detection and prevention of fraud and irregularities. A weak internal control system may lead to total collapse. The statute requires reporting organizations to maintain accurate books and records and a good system of internal controls. The controls must provide reasonable assurance that transactions are authorized and recorded properly. The act also put a disclosure requirement on the accounting and the auditing sector. In the light of this specific requirement, the auditor should include a report of internal control weakness in the reports, especially when it is not possible to verify the legality and property of material amount of expenditure (Chepkemoi, 2013).

Small businesses have been identified as an important strategic sector for promoting growth and social development in both advanced and emerging countries (Karadag, 2015; Muneer et al., 2017). According to Amoako, Marfo,



Gyabaah, and Gyamfi (2014), a major indicator of a booming economy is a vibrant Small and Medium Scale Enterprises and how efficiently they contribute to Gross Domestic Product (GDP). While recognizing the potential roles of small business in national development, one key issue worth considering is their growth and sustainability.

### **Statement of the Problem**

Given the significance they play across the board, small enterprises in Ghana are sometimes considered as the engine of the national economy. Small enterprises have become widely acknowledged as a significant source of employment, revenue production, poverty reduction, and regional development over the years. According to Aryeetey (2001) and Amoako (2019), small enterprises are a distinctive aspect of Ghana's production environment and thus account for around 85% of manufacturing employment in addition to adding to the country's Gross Domestic Product (GDP). As a result, small firms have been referred to as skilled and effective job creators, the precursors to large corporations, and the foundational foundations of economic growth in many countries (Adu, 2017; Quartey & Abor, 2018). In addition to producing revenue for their owners, Alhassan and Muazu (2014) stated that small businesses encourage original thinking and creativity in the business world and create jobs for many of people.

The degree of success reached by these business units' operations will determine how much they can contribute to Ghana's growth and development. It is a known fact that the establishment and implementation of controls by the owners or management, in addition to the systematic record keeping of business transactions, are what ultimately determine whether a business

enterprise succeeds or fails (Mbroh et al., 2020). The proper operation of any company entity, no matter how big or little, depends on having accurate accounting information (European Commission (EC), 2008).

In the meantime, despite its significance for business success, a number of SME's have not paid much attention to book keeping in relation to their commercial transactions and the function of internal control system in this disclosure. Small enterprises may play important roles in the development of the country, but it's important to take their growth and sustainability into account. Small businesses in Ghana still face the threat of failure despite the concerted efforts of successive governments and the financial assistance provided to them, as three out of every five small businesses fail within the first few months of operation according to previous statistics (Bowen, 2009). According to estimates from Acheampong (2015) and Amidu & Abor (2004), 25–40% of Ghanaian small enterprises with less than five years of experience fail every year. The growth of small companies is widespread in Nsawam Municipality. The pertinent study question relates to the effects of the internal control system on the company's bookkeeping procedures.

Small businesses in Ghana have recently reported losses owing to frauds, according to Gesare, Nyagol, and Odongo (2016), and many of these frauds are attributable to inadequate or ineffective internal control systems. It is crucial to look at small firms in order to address the inefficiency in the micro sector. According to Ofori (2011), corporate directors should seek to minimize risks in order to fulfill the organization's mission. Risks, when they arise, pose a threat to the attainment of objectives.

Despite the growing trend in internal control systems in among institutions, there is little knowledge on the type of internal control practices that exist within the small businesses and how they influence their book keeping practices (Amoako, 2019). Also, none of the studies have been done on internal control system on bookkeeping practices of Nsawam Municipal. It is against this background that the study set out to examine how internal control practices influence the bookkeeping practices of small businesses in Nsawam Municipality

### **Purpose of the Study**

The purpose of the study is to investigate the effect of internal control system on bookkeeping practices of small businesses in Nsawam Municipality

### **Research Objectives**

Specifically, the study sought to;

1. Examine the internal control system utilized by small businesses in Nsawam Municipality.
2. Examine the effect of internal control system on bookkeeping practices of small businesses in Nsawam Municipality.
3. Analyse the challenges affecting internal control system among small businesses in Nsawam Municipality.

### **Research Question**

Based on the specific objectives of the study, the following research questions were formulated to direct the course of the study:

1. What are the internal control systems utilised by small businesses in Nsawam Municipality?

2. What is the effect of internal control system on bookkeeping practices of small businesses in Nsawam Municipality?
3. What are the challenges affecting internal control system among small businesses in Nsawam Municipality?

### **Significance of the Study**

The study would be beneficial to internal auditors, top-management level (strategic level) and policy makers. The study will be useful for internal and external auditors to know the internal control system components that is very viable in attaining the procedure and law conformation of goals, which is a narrow aim in attaining the holistic goal of the Small businesses.

Academia will use findings to induce proper knowledge on the effect of internal control system on companies.

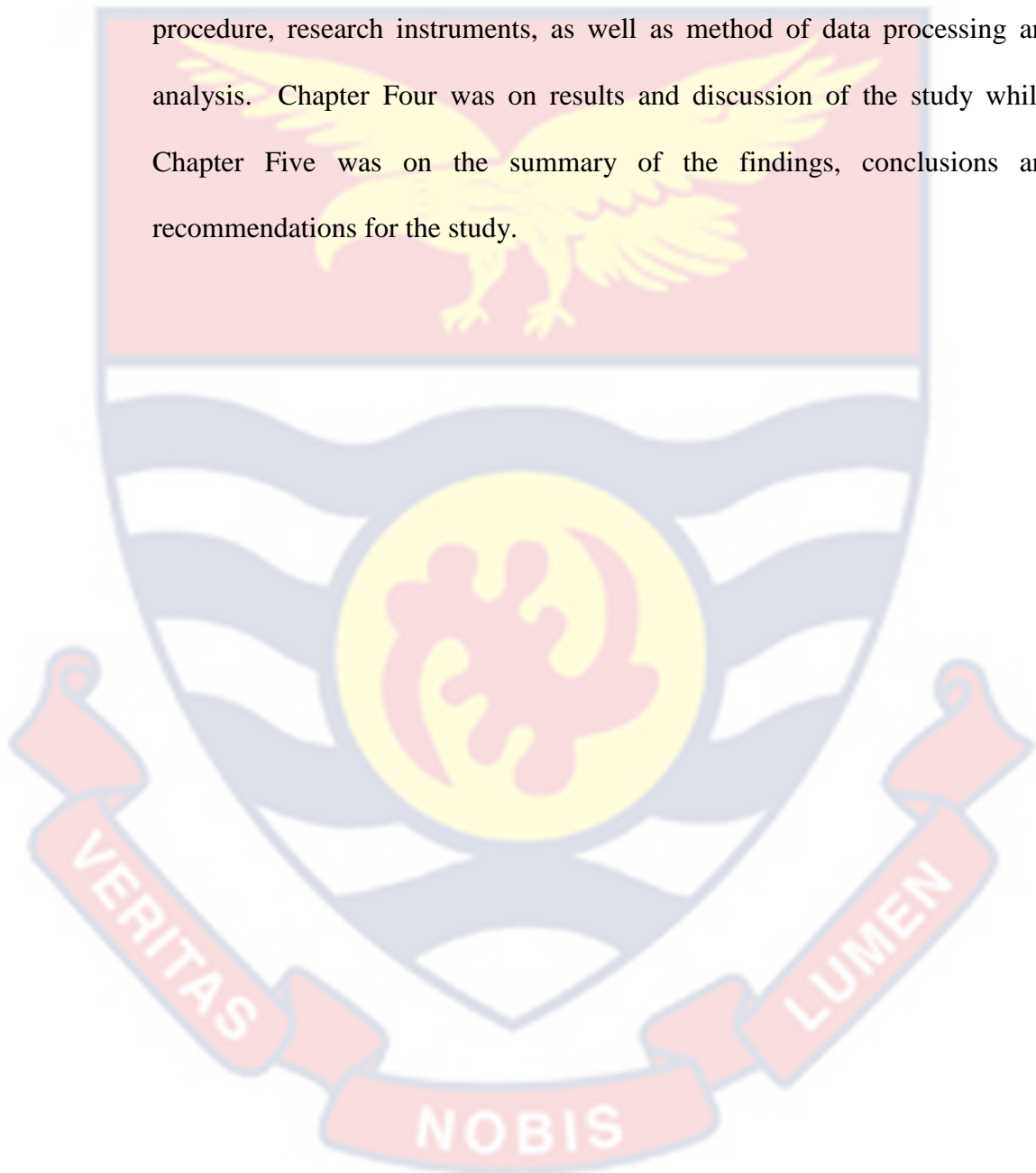
### **Delimitations of the Study**

This study employed the explanatory design. It implied that data used cannot be manipulated to the interest of the researcher. The study made use of the questionnaire to collect information from the fund managers of Church of Pentecost, Ghana. The study analyzed the data collected in frequency, percentage and linear regression result for according to the objectives. The validity and reliability test were carried out on the questionnaire. The study used the Krejcie and Morgan (1970) to determine the sample unit to be shared the questionnaire.

### **Organisations of the Study**

The study was organized into five chapters. Chapter One consists of the background of the study, the statement of the problem, objectives of the study, significance of the study and limitation of the study. Chapter Two was

on a review of related literature. This chapter provides the fundamentals of the study and therefore help to shape the nature and direction of the study. Chapter Three was on the research methods of the study. It covers the research design, the population and sampling procedures, data and data collection procedure, research instruments, as well as method of data processing and analysis. Chapter Four was on results and discussion of the study whiles Chapter Five was on the summary of the findings, conclusions and recommendations for the study.





## CHAPTER TWO

### LITERATURE REVIEW

#### Introduction

This section presents a review of related studies on the effect of internal control system and book keeping practices of small businesses. The chapter is organized in four (4) main sections. Section one presents the analysis of the theoretical review. Section two discuss the conceptual review. The third section covers the empirical review and finally, section four covers the conceptual framework of the work.

#### Theoretical Review

This study is predicated on a number of theories which form the basis. These include Decision Usefulness Theory, Positive Accounting Theory and Agency Theory.

#### The Decision Usefulness Theory

The theory emphasizes the role of accounting in providing the relevant information to the relevant decision makers (Muchira, 2012; Kamau, 2015). Different users and decision makers require different information on which to base their decisions. The accounting systems provide the different information to meet the needs of the different decision makers. For instance, the bank may need information to assess the credit worthiness of the enterprise before giving loan, the tax authorities may require information for tax purpose, the would-be investor may require information on the rate of return on investment, the owners of SME's may require information on the overall performance of the business. It is the responsibility of accounting professionals to determine which information best meets the needs of the



users. This theory emphasizes the relevance of accounting records keeping in effective decision making in SME's. Therefore, in this study, the extent of accounting record keeping practices is operationalised as providing useful information to end users.

### **The Positive Accounting Theory (PAT)**

This theory provides an understanding of an entity's choice of accounting methods. It is the position of this theory that accounting practice of an SME can, therefore, be based on the nature of its business (Kamau, 2015). The understanding of the accounting theories is what brings about the understanding of various types of accounting record keeping. Based on this theory, an entity chooses the type of account to kept based on the understanding of the nature of business in which the entity is into.

PAT often adopts the agency theory framework to analyze the relationship between principals (owners/shareholders) and agents (managers). In SMEs, the owner(s) are typically involved in the day-to-day operations and decision-making. When internal control systems are weak or absent, the potential for opportunistic behavior and agency problems increases. Managers might be tempted to engage in fraudulent activities or misreport financial information for personal gain. In contrast, a strong internal control system can mitigate agency problems, ensuring that managers' actions are aligned with the interests of the owners.

PAT suggests that managers' compensation and incentives influence their behavior. In SMEs, managers might have a greater influence on bookkeeping practices. If their compensation is tied to short-term financial performance, they may be inclined to manipulate financial records to present a

more favorable financial position, especially when internal controls are weak. On the other hand, if internal controls are well-established and transparent, there is less room for manipulation, and managers are more likely to focus on accurate bookkeeping.

Information asymmetry exists when one party has more or better information than the other. In SMEs, information asymmetry can be more pronounced, as external stakeholders might have limited access to the firm's financial information and internal operations. A robust internal control system that ensures accurate bookkeeping and financial reporting can help reduce information asymmetry and improve the credibility of financial information provided to external parties.

According to PAT, accounting practices are influenced by a cost-benefit analysis. For SMEs, the cost of implementing and maintaining an internal control system needs to be balanced against the benefits it provides. Smaller businesses might have limited resources, and implementing complex internal controls could be costly. In such cases, SMEs might opt for simpler internal control measures, which could influence bookkeeping practices.

In summary, Positive Accounting Theory would suggest that the relationship between the internal control system and bookkeeping in small and medium enterprises is influenced by economic incentives, managerial behavior, information asymmetry, and external pressures. A strong internal control system can mitigate agency problems, enhance the credibility of financial information, and align managerial behavior with the interests of owners and other stakeholders. However, the specific choices made by SMEs

will depend on various factors, including the cost-benefit analysis and external influences on the business.

### **Agency Theory**

Agency theory deals with the people who own a business enterprise and those who manage it. The agency theory postulates that the day to day running of a business enterprise is carried out by managers as the agents who have been engaged by the owners of the business as principals who are also known as shareholders (Mosisa, 2011). This theory places emphasis on transaction costs, contracting analysis following the work of (Coase, 1937; Jensen & Meckling, 1976) and most important (Stiglitz & Weiss, 1981).

The work of these writers all point to the challenges that surround ownership, contractual agreements, management interrelationship, credit rationing and so on between managers of small businesses and external providers of finance, thereby subjecting firms to the risk of asset substitution which in practice means a change in the firm's asset structure. For very small and micro-enterprises this asset substitution may well take place between the enterprise and the owner's household.

The presence of these problems in small firms may explain the greater use of collateral lending to small firms as a way of dealing with these agency problems. Lender's strategies for dealing with these problems also add significantly to the cost of dealing with this sector. For a large enterprise the evaluation of an application for finance may be limited to the assessment of (audited) set of financial statements and supporting documentation provided by the applicant, while for small businesses the assessment frequently has to

go far beyond this, implying a substantially higher transaction cost (Muchira, 2012).

The theory is on the notion of the principle of two-sided transactions. It holds that any financial transactions involve two parties and both act in the best interest but with different expectations. The major problem associated with this theory includes information asymmetry, moral hazard and adverse selection (Kamau, 2015). According to Kamau (2015), agency problems such as asymmetric information and moral hazards can impact on the availability of credit and hence, the financial management of small businesses. This can affect accounting record keeping practices since these small businesses do not have enough funds to hire professional accountants.

### **Conceptual Review**

This section analysed and examined the concepts underpinning the study.

### **Internal Control**

Internal control is a process affected by the actions of the board of directors and other organizational structure levels in the firm, which is designed to provide reasonable assurance toward achieving the firm's objectives, plans, and strategies for the related laws, rules, policies, and regulations (Puttikunsakon & Ussahawanitchakit, 2015). Internal control is considered a plan to regulate the methods for using the assets owned by the unit, maintain it and review the accuracy and documentation of accounting data (Accounting Control) and work to achieve the goals of the production plan, efficiently, economically and effectively, in addition to take the appropriate administrative policies (Administrative Control). Al-Sahen *et al.*,



(2006), as it designed to provide reasonable assurance regarding the achievement of the objectives established regarding to reliability of financial reporting, the effectiveness of the operations and efficiency of compliance with applied laws and regulations, (Nour Al-Din, 2015; Jomaa, 2010).

The organizational plan, coordination means and the applied standards in the project aiming at protecting its assets, controlling and reviewing accounting data, ensuring its accuracy and reliability, furthermore, increasing production efficiency and encouraging employees to adhere to the established administrative policies (AICPA, 2014). COSO committee had defined internal control as a process that is designed to provide an appropriate confirmation of the effectiveness and efficiency of operations processes and the possibility of trusting in the financial statements and abide by laws and regulations (COSO, 2013; Wilford, 2012).

### **Types of Internal Control System**

#### **Accounting Control**

Accounting control is a set of methods aimed at protecting assets and assuring the trustworthiness of financial statements, as well as ensuring their preparation in conformity with by-laws, laws, and regulations (Ranglin, 2014). It is associated with accounting procedures and methods aimed at maintaining assets to verify the accuracy of the accounting data used in accounting records (Salam, 2014), tracking the necessary procedures to provide correct and accurate financial information that can be relied on by the entity for the purposes of planning and making the necessary decisions to achieve the company's goals, such as preventing waste and misuse of

company resources (Al-Zoubi, 2014; Al-Thunaibat, 2010; Al-Sahen et al., 2006).

### **Administrative Control**

Administrative control includes the organizational chart, methods and procedures that specialize in productivity sufficiency and commitment to policies and set administrative decisions (Fattah and Mohamed 2012). These procedures are linked indirectly with the financial aspects, accounting records; this control involves the study of time and movement, the use of statistical methods and preparation of personnel training programs and quality control (Nour Al-Din, 2015-2016).

It includes the necessary procedures to ensure that the company's property, human and material resources are used efficiently and effectively and thereby help to achieve goals in the lowest possible cost, adjust the waste and misuse of these resources, and to verify the extent of commitment of the company and all its employees to apply policies, laws and regulations related to the statutes of the company and domestic legislations governing its operations and activities (Nazmi, Al-Azab, 2012). This is achieved by working on the precise and clear definition of the main objectives to be achieved at the general level of the company, in addition to the sub-goals that should be achieved by the different departments within the organization. In order to achieve the overall objectives, and to match the objectives to be achieved with the company's capabilities, and work periodically by a mechanism involving all aspects of the company's own activity through conducting studies and estimated budgets include (expected sales and production needed to cover these expected sales, expenses and revenues) that



will contribute to identify deviations and their causes and take appropriate solutions.

In addition to the development of a system that includes policies, procedures and regulations to be followed and abide by, which covers all processes and aspects of the company (including incentives for employees, policies for the sale and purchase of materials, products and services pricing and production process, procedures and rules for the implementation of financial policies in the project in a way that helps to increase control over all activities and aspects of the company. Allowing the achievement of objectives in a more efficient and effective manner. In addition to the design of a system through which to monitor and control the extent of compliance and adherence by staff at different administrative levels to implement all the steps associated with the implementation of items related to the organizational plan of the company, which will lead to the achievement of general and strategic objectives. Furthermore, the design of a system that allows the provision of correct data and information that can be relied upon to make future sound decisions, that are not contradicted with the objectives and results to be achieved by the company (Al-Sahen *et al.*, 2006).

### **Internal Check**

Internal control means organizing work steps and determine the responsibilities among the employees of the entity, so that two or more persons are required to carry out any process, so that each person will review and monitor each other's work, in order to preserve the assets of the entity and its stock and to discover fraud and errors (Salam, 2014; Al-Khatib, 2010). Internal check depends on dividing work while performing self - monitoring

in order to achieve its objectives, and it also depends on determine the terms of reference, authorities and responsibilities (Thunaibat 2012).

### **Objectives of Internal Control**

It is necessary to work hard to ensure continuous monitoring of internal controls, in order to ensure that there are real controls and that they are working properly in order to achieve the following objectives (Ayagre *et al.*, 2014; Hassan, 2015; COSO: 2012).

1. Maintaining the assets from theft, embezzlement and misuse.
2. Ensure the use of the organization's resources efficiently and effectively without waste.
3. Achieve efficiency and effectiveness of the operational processes.
4. Reliability of financial reporting.
5. Compliance with applicable laws and regulations.

### **Internal Control System**

The internal controls system is defined as a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance of the achievement of the entity's objectives (COSO Framework, 2013). Even though the definition of the COSO is the most widely known and used, other definitions are also found in the literature. Internal control framework is often seen as closely related to the broader area of corporate governance. Internal controls and corporate governance ensure a new strategic outlook through external independent directors and enhance firms' corporate entrepreneurship and competitiveness (Abor, Adjasi 2007). The internal controls can also be viewed more specifically as a set of activities that aim to monitor and protect the company's resources and play an

important role in preventing and detecting fraud. This system also increases the efficiency of business operations. Sampson (1999) points out that if a certain entity has implemented a strong internal control system, then its chances of bankruptcy are considerably diminished.

Internal control is the responsibility of the management of organization or corporation. The Internal Audit Division assists management in discharging its responsibilities in terms of the implementation and monitoring of internal controls. Sawyer and Dittenhofer (1996) state that internal control is the plans of the organization, including management's attitude, methods, procedures and measures, which provide reasonable assurance that the objectives of prudent cash collection are being achieved. The term "internal control" has basically replaced the term "internal check" (Fight, 2002).

### **Components of Internal Control System**

Internal control system consists of five core components: Control environment, Risk Assessment, Control Activities, Information and Communication and Follow-up or Monitoring (Pickett, 2010; COSO, 2013; Kinyua, 2016; Nour Al-Din 2015).

### **Control Environments**

Control Environment can be defined as: "The general attitude of directors, management, and their awareness and actions related to the internal control system and its importance for the entity (Badara and Saidin, 2013), it include of what is considered by the board of directors of control procedures to enhance their ability to face with risks and ensure its effectiveness in achieving their specific goals (Frazer, 2012; McNally, 2014; Pickett, 2010).

### **Risk Assessment**

It is the identification and analysis of the related risks associated with the identification of the objectives set in the long-term performance plans and the policies and procedures used in the preparation of the financial statements and their conformity with generally accepted accounting standards (Thnibat and Kafous, 2012). It is necessary to analyze risks to identify their possible impact in terms of their importance and estimate the probability of their occurrence and how to manage and work to study these risks and develop solutions and alternatives to overcome or reduce the intensity to an acceptable degree (McNally, 2014; Nour Al-Din, 2015; Al-Husban, 2009; Badara and Saidin, 2013). Risks can be from within or outside the company (Al-Bawab, 2015).

### **Control Activities**

They are a set of policies and procedures established by the organization management and they include all methods, procedures and policies that give appropriate and reasonable assurance that the target goal has been achieved of the internal control system, and that the proper methods and procedures have been taken to overcome and face potential risks that the company could face (Frazer, 2012; Njeri, 2014).

### **Information and Communication**

Knechel *et al.* (2002) posits that information and communication element represents a link that connects the internal control system in all sections, activities and processes in the company. The efficiency, effectiveness and quality of the internal control system in achieving its



objectives depend on the quality and effectiveness of the information system available in the company (Al-Shatrat, 2015; Al-Jard, 2013).

### **Monitoring**

It includes continuous monitoring and periodic evaluation of the various components of internal control structure to verify the effectiveness and efficiency of the internal control structure (Ali & Shehata, 2006; Hyde, 2011), and to determine the extent of its ability to achieve its goals (Fadilah and Al-Sharif, 2015).

### **Instruments of Internal Control System**

There are some factors common to each organization and specific instruments in building the system of internal control suitable for the majority of organizations. These are the following:

- 1) organizational system,
- 2) accounting system,
- 3) internal audit,
- 4) cadre,
- 5) balance sheet.
- 6) regulation of product and service quality.

### **Organizational System**

Organisational system directly impacts the system of internal control. The organizational system needs to be established in such a way that the internal control system becomes an automatic process, resulting in a significant decrease of deviations in business. Internal organization, work positions and task systematization organizes work in distinct organizational units: departments, sectors, business functions, etc. Inside the units there is a



task and work position determination. Detailed tasks are defined for each working position together with internal control practices. Therefore, responsibility for internal control is determined. It is important to emphasize the control of worker participation in business performance, and to ensure that the same person does not perform in all phases of the business process. Thus, control should be incorporated into organizational structure as an integral part and contribute to the improvement of business activities. Managers of all organizational levels are responsible for regular and complete functioning of business units, while internal units or departments are responsible for efficient functioning of its internal controls. Competence, authority, and responsibility should be defined through internal acts for long-term functioning without internal conflicts.

### **Accounting system**

Accounting system represents the key instrument of internal control because of the amount and importance of the data it produces. With its segments (accounting, planning, analysis and supervision), it should develop accounting internal controls because the extent and depth of performance examination by external control depend mainly on the reliability of the accounting internal control. The accounting system is important and extensive and has its own internal control instruments as the following:

- 1) accounting standards,
- 2) chart of accounts,
- 3) accounting regulation,
- 4) business plans and programs, decisions and instructions,
- 5) cost accounting system,

6) documentation.

### **Internal audit**

Internal audit is a separate unit in the organization which supervises the functioning of internal controls and estimates their efficiency. By collecting and testing the proofs internal audit provides a professional appraisal of the internal control system and gives recommendations instruments of internal control, and organize a separate professional commission to conduct the analysis of its internal control system.

### **Cadre**

Cadre is a key factor for achieving the established business targets and carrying out the internal supervision. A qualitative professional cadre is a rare and constantly missing resource. Development and functioning of an internal control system depends on its structure and competence. Cadre strengthening improves the system of internal controls and therefore contributes to better business efficiency of the company.

### **Balance sheet**

Balance sheet is a very complex control instrument. It is a legal obligation that must be met once a year, usually at the end of the year, and is incorporated into the annual financial statement. The aim is to determine the real state of assets and sources. Due to exceptional occasions (mergers, separation, division, handover, theft, etc.) the balance sheet may also be requested throughout the year. Usually, additional balance sheets are partial, while end period balance sheet need to be complete. It is a legal obligation, but is conducted upon a manager's order. There is a commission producing it and making the report which is forwarded to the management board for

further consideration and acceptance. The management board approves the balance sheet.

### **Regulation of product and service quality**

Regulation of product and service quality is connected to standards as minimal quality requirements for goods and services. Increasing market demands, competition, ecology, globalization and other factors have contributed to the emergence and development of product quality management. The ISO 9000 series of standards appeared in Europe with a tendency of constant development and enlargement.

### **Book keeping**

Bookkeeping involves the recording, on a regular basis, of a company's financial transactions. With proper bookkeeping, companies are able to track all information on its books to make key operating, investing, and financing decisions. Bookkeepers are individuals who manage all financial data for companies. Without bookkeepers, companies would not be aware of their current financial position, as well as the transactions that occur within the company.

### **Types of record keeping**

Accounting performs massive role in the success stories of modern businesses (Uddin, Biswas, Ali & Khatun, 2017). There is no specific obligation on how records should be maintained and kept provided it shows the capital, liabilities, assets, income and expenses of the business (Ademola, Samuel & Ifedolapo, 2012). According to Olatunji (2013), accounting system is a logical and efficient approach for providing exact financial information. Most schools of thought on accounting categorize

record keeping methods among small business as single entry book keeping and double entry book keeping system.

This school of thought is supported by Amanamah et al (2016) that, accounting can be classified into two systems namely manual accounting and computerized accounting system. According to Abayomi & Adegoke, (2016), bookkeeping represents the recording of business transactions in an orderly and analytical manner, whereas accounting is the recording, analysing, summarizing and interpretation of business records to facilitate decision making.

### **Manual record keeping (M.R.K.)**

#### *Single Entry book keeping*

Single entry book keeping is a system of records keeping where only a single entry is made for a transaction. The client records only one aspect of a transaction instead of two. Daily receipts of money recorded add up to monthly and yearly receipts (Eric & Gabriel, 2012). Financial records such as cheque receipts, cash receipts, cash payments and cheque payments are just recorded once for each transaction. Receipts are entered as deposits and a revenue source whereas withdrawals are recorded as expenses. The double entry rule on debiting and crediting are not followed. The single entry system of keeping records does not portray the complete image of the financial position of an enterprise (Abdul-Rahamon & Adejare, 2014). In order to make the records kept in single entry form more useful, it should be converted into double entry system (Aladejebi & Abiodun, 2019).



### *Double entry book keeping*

Double entry system is the approved system of keeping records by organizations. A well-qualified records keeper will enter all transactions in a chronological order (keeping in the journals) then post them to their respective ledger account and extract a trial balance to test the arithmetical accuracy of the records (Senzu & Ndebugri, 2018).

A trial balance is a list of ledger account balances on daily basis. The trial balance is used with the additional information to prepare the income statement (trading and profit and loss account) and statement of financial statement (Senzu & Ndebugri, 2018).

### **Challenges of manual record keeping**

Manual record keeping requires the knowledge of double entry system of keeping records and how to use a calculator. The manual records systems largely are subjected to errors. In addition, manual record keeping is prone to the possibility of damage to accounting records through vandalism and natural disasters such as fire outbreak, storm, earth quakes etc. (Amanamah et al., 2016). In addition, the quantum of the paper used to keep the records may be voluminous particularly in places like Nigeria where records covering several years may be demanded by government authorities. These side effects of manual accounting system have contributed to the invention of computerized accounting system (Akande, 2016).

### **Small Business in Ghana**

The most commonly criterion to define a small business in Ghana is the number of employees of the business in question. The Ghana Statistical service in 2005 considered firms with less than ten (10) number of employees



as Small-Scale Enterprises and more than ten employees to be Medium-Scale Enterprises. Kayanuala and Quartey (2000) used value of fixed assets to determine whether a firm is seen as large, medium or small scale. The National Board of Small-Scale Industries in the year 1990 used both fixed assets and total number of employees to define what a small business is. It defines a Small-Scale Business as any firm with a maximum of nine employees and assets (excluding land, building and vehicles) valuing 10million Ghana cedis (USD 9506, with 1994 exchange rate) (Amarteifio & Frimpong, 2019).

Classifications made by some institutions such as National Board for Small Scale Industries, Ghana Statistical Service shows that SMEs are firm with employees ranging from 0-30 (Fuseni, 2015). For example, the industrial census conducted by GSS in the year 1987 defined micro- and small-scale enterprises as those employing up to 9 employees, medium-scale enterprises as those employing between 10 and 29 workers, and large-scale enterprises as those employing 30 or more employees (Fuseni). In a similar situation, the NBSSI base their criteria on the number of employees and value of fixed in defining Micro and Small Enterprises (MSE) which are those that employ up to 5 people with fixed assets not exceeding \$10,000 excluding land and buildings being micro whereas small enterprises employ between 6 and 29 with fixed assets not exceeding \$100,000, excluding land and buildings. Thus, SMEs are those enterprises employing 29 or fewer workers.

Other classifications of SMEs are as follows:

Osei *et al* (1993) classified SMEs into three categories. They are;

1. Micro – less than 6 employees

2. Very Small – employing 6-9 people
3. Small – between 10 and 29 employees

Teal (2002) stated in his studies definition given by Regional Project on Enterprise Development Ghana (RPED). RPED classified firms into;

1. Micro enterprises, less than 5 employees
  2. Small enterprises, 5-29 employees
  3. Medium enterprise, 30-99
- Large firms, 100 and above employees.

### **Empirical Review**

Oussii and Taktak (2018) examines the impact of internal audit function on internal control quality. The study gathered data from 59 chief audit executives from Tunisian listed companies. It employed the regression model to examine research hypothesis related to the association between IAF characteristics and internal control quality. The findings of the current study reveal that internal control quality is significantly and positively associated with IAF competence, internal audit quality control assurance level, follow-up process and audit committee's involvement in reviewing the internal audit program and results. The findings of this study also have significant implications for regulatory bodies who are concerned with the internal control quality, managers and audit committees who determine IAF investment, oversight IAF activities and assess internal auditors' performance.

Sawalqa and Qtish (2012) investigated into relationship between internal control and audit program effectiveness. Based on 43 usable questionnaires, the results of the study show that the risk assessment does contribute significantly toward an effective audit program. On the other hand,

the results of analysis indicate that control environment and control activities do not contribute significantly toward an effective audit program. These results give an indicator that Jordanian companies lack the necessary experience to deal with the current tools of internal control evaluation. Some applications and recommendations were suggested for both management of companies and external auditors.

Sari, Ghoha and Achamad (2018) examined the effect of internal audit and internal control system on public accountability. Thus, the objectives are internal audit and internal control in forming accountability which is based on good governance. This research uses 90 respondents of the parties directly involved in financial management in public service universities throughout Indonesia. The research data are the primary data obtained by sending questionnaires to the respondents. The data were analyzed using regression analysis and using WarpPLS application. The research findings indicate the independent variable, internal audit (represented by the parties directly involved in financial management) does not give influence and cannot improve accountability and internal control system (represented by SPI/internal control unit) gives influence and can improve accountability. Then, accountability must be built in order to create good university governance. The study results also provide important implications to researchers and practitioners in university governance.

Kewo and Afiah (2018) investigated into the influence internal control systems and internal audit to financial statement quality of local government. Usefulness of research as input for local government to improve implementation internal control, effectiveness of the internal audit function

and improve quality of financial reports. Data conducted by taking 66 local government unit tool of the 15 districts and city in Indonesia. Analysis data study using path analysis. The conclusion is internal control system and internal audit partially and simultaneously have positive effect on the quality of financial statements.

Najah and Omar (2018) examined the contribution of internal audit to the improvement of internal control system. Thus, this research aims at demonstrating how internal audit can participate to the improvement of internal control system. In this context, we have introduced a qualitative study, which was based on a sample of 10 Moroccan publicly traded companies that operate in many industries. Through the interviews conducted with this sample, we had identified firstly, the different control levels within organizations, and their degree of effectiveness and their capacity to face up risks as well as the limits of each type of control. Secondly, this research explored that internal audit is considered as a response to the insufficiencies of different lower control levels, and a means of monitoring and piloting the effectiveness of internal control system, across notably the recommendations provided.

Matari, Matari and Matari (2017) examined impact of audit committee effectiveness on the internal control system on commercial banks. The study used four attributes which includes; AC meetings, meeting frequency between AC and internal auditors (IAs), AC reviews and internal audit proposals and lastly, AC reviews of the internal audit results. The study results were obtained by using data gathered from the Yemeni commercial banks through the questionnaire survey method. A total of 88 usable questionnaires out of



170 questionnaires distributed to 17 commercial banks were considered suitable for analysis. The results showed that the AC effectiveness, represented by meetings frequency between AC and IAs, AC reviews of the internal audit proposals, and audit reviews of the internal audit significantly related to the commercial banks performance. Literature regarding AC characteristics that are relevant to the present study was reviewed, and practical implications as well as recommendations for future studies were provided towards the end of the study.

Jaya, Muslim and Nuramaliah (2016) aimed to analyse the effect of internal control, total quality management (TQM), and audit committees on the implementation of good corporate governance. Good corporate governance, the dependent variable, was measured by institutional ownership. Independent variables related to internal control were measured in terms of financing, those pertaining to TQM were measured by market shares and those describing audit committees were measured by the number of audit committee meetings in one year. This research uses data presented in the annual reports of Indonesia Stock Exchange Listed Manufacturing Companies in the period 2011 to 2013. The evidence shows that internal control and TQM have no influence on the implementation of good corporate governance, but audit committees do.

Agung and Winarningsih (2016) examined the empirically the effect of Internal Control Auditor and Competence Regional Government Agencies, either partially or jointly on the Quality of Financial Reporting to the Regional Work Units in the Regional Government of Bekasi Regency which consists of agencies, agencies and Regional Inspectorate. The research approach is survey



and descriptive research, quantitative and associative causal. Analysis and hypothesis testing using multiple regression analysis first order confirmation Factor Analysis, Factor Analysis second order confirmation and estimated using structural equation modeling (SEM). The findings of this study indicate that either partially or jointly Internal Control Auditor and Regional Government Agencies Competence proved positive and significant effect on the Quality of Financial Reporting. Dimensions or factors Internal Control Auditor Dominant Objectivity Internal Auditor; dimension or competence factor Regional Government Agencies dominant skills, while the dimensions or factors Quality of Financial Reporting dominant Reliability.

Shanszadeh and Zalfaghari (2015) examined the impact of effective internal control on audit process. The research was conducted through a survey of Iranian Audit Organization's Auditors. The designed questionnaire was sent to respondents after analyzing the reliability and validity. 104 questionnaires were received. Collected questionnaires and formulated hypotheses were analyzed and examined by SPSS and LISREL statistical software. The results obtained from the analysis showed that though the internal controls do not reduce the audit time and cost, but they can reduce incidental auditing during the period. The results also indicate that the effectiveness of internal controls can enhance the quality of audit, and increase the detection of significant errors and distortions. It can also increase the credibility of financial statements.

Mohamud (2013) examined internal auditing practices and internal control system. The demographic profile of the respondents was age, gender, qualification and experience. The main objectives are to identify the role of

internal auditing, and to identify the level of internal control system. The study is based on 83 target population especially Accountants, finance director, chief cashier and chief executive officer in remittance firms. Descriptive and correlation analysis was used. It administers questionnaire as a research instrument. The findings of this article show that internal auditing practices of remittance firms is effective but there is some limitation about separation of duties. The study also suggests that there is a positive correlation between internal auditing and internal control system.

Enofe, Mgbame, Akhor and Okungbowa (2013) investigated into internal control system and quality audit work. Data captured for this study, were analyzed through descriptive and inferential statistical methods. The descriptive analysis involves the use of tabulation and percentages. While the inferential statistical method involved the use of the chi-square. This study reveals that internal control system has a great influence on the operations of the bank and consequently on their quality audit work. Base on the above point, it was recommended that a good internal control system should be employed by the management of every organization.

Mawanda (2008) evaluated the impact of internal control systems on the financial performance of a higher education institution by examining internal controls from the viewpoints of the control environment, control activities, and internal audit. Adopted financial performance metrics were liquidity, financial reporting, and accountability. Mawanda aimed to assess the functionality of its internal control system, the degree of its financial performance, and the link between the two. Mawanda (2008) applied both qualitative and quantitative research methods. The research employed a

combination of correlational survey and case study methods. In order to combine the many units of financial performance, self-assessment questionnaires were used to collect primary data. A framework for interviews was also utilised to collect data from important informants. On the other hand, secondary data were acquired from available records and papers. Although the author omitted to identify the sample size of the study, Mawanda said that 75 percent of department heads and key accounting and finance professionals out of 270 full-time employees comprised the sample. With the use of Statistical Product and Service Solutions, the data were then analysed through regression analysis (SPSS). Other narrative analysis of qualitative data was offered.

The analysis revealed that the institution's administration is committed to internal control systems by actively supervising and monitoring University operations. Mawanda (2008) discovered a substantial association between financial performance and the system of internal control. Mawanda was unable to address all variables of the COSO framework for internal controls, despite the fact that all internal control factors demonstrated a substantial impact on performance. Mawanda advised that the institution build and administer an information management system to ensure that all parties have unfettered access to and use of official information.

Noel (2010) did a distinct study in Uganda on the relationship between liquidity levels and control environment in indigenous commercial banks. Examining the relationship between control environment and liquidity levels, analysing the correlation between monitoring, control environment, and accountability, and determining whether monitoring, control environment, and accountability factors have an impact on liquidity levels in indigenous

Ugandan commercial banks were the specific aims of the study. Noel (2010) utilised competency levels, company culture, audit committee quality, and management integrity and ethics as the components of the control environment, and measured them on a 5-point Likert scale ranging from 1 to 5, where 1 indicates strongly disagree and 5 indicates strongly agree. Consequently, disclosures and openness were chosen as accountability components, whilst internal checks, reconciliations, and audits were utilised as monitoring constructs. Both monitoring and accountability were assessed using a 5-point Likert scale. In the study, the cash ratio and current ratio were used to determine the amount of liquidity.

Noel (2010) adopted a cross-sectional survey, a mixed research strategy, and a stratified sample procedure. The stratified sampling method was utilised to divide the sampling units into top management, middle or senior employees, and other staff, from which a purposive sampling method was used to pick a sample size of 284 from a population of 700 banking workers in four indigenous commercial banks in Uganda. Using questionnaires to collect data, descriptive, principal component analysis, correlation, and regression analyses were used to investigate the link between control environment and liquidity levels. The correlation study found a strong positive association between the control environment and liquidity levels ( $r = .293^{**}$ ,  $P$ -value 0.01). The findings of a regression study also indicated that the control environment, accountability, and monitoring had a substantial effect on liquidity level.

Noel (2010) discovered that the control environment, monitoring, and accountability together explained or predicted 19% of the variance in liquidity



levels. Monitoring was the most important predictor among them. This means that around 81 percent of liquidity levels were explained by variables beyond the scope of the research. Noel said that in order to increase liquidity levels, Ugandan commercial banks must maintain and enhance their control environment and monitoring mechanism.

Despite the fact that Noel (2010) utilised a very large sample size and the required statistical analysis, the R-square was extremely low. The low R-square indicates that additional factors are required to explain the influence of internal controls on liquidity. For instance, according to the COSO (2013) internal control architecture, well-designed internal control systems should consist of five components. In Noel's study, however, just a controlled atmosphere and monitoring were utilised.

Siayor (2010) also investigated how the internal control system and risk management influenced the financial performance of DnB NOR ASA, a Norwegian financial services business, in separate research. The objectives of the study were to identify the risks that threaten the operations of DnB NOR ASA, determine whether these risks affected the financial performance of DnB NOR ASA, identify the internal control and risk management systems implemented by DnB NOR ASA, and assess the impact of these control systems on DnB NOR ASA's performance.

According to Siayor (2010), the study utilised a mixed research technique with a case study as the particular design, despite the fact that case studies are qualitative research designs. There were both primary and secondary data used. Using questionnaires, primary data were collected from key informants at NOR ASA DnB. On the other side, secondary data were



collected from audited annual reports of DnB NOR ASA. Although the author did not specify the size of the research population, he utilised a sample size of ten. Two respondents were selected from the internal audit, finance, insurance, human resources, and administration departments using a purposeful sample approach. The majority of the analyses of the outcomes consisted of descriptive analysis and narratives. The research findings suggested that the organisation has excellent internal controls and risk management mechanisms in place. It was also revealed that the robust internal control and risk management systems increased the overall performance and profitability of DnB NOR ASA. In addition, market risk, credit risk, and liquidity risk were identified as threats to DnB NOR ASA's operations by the research.

A critical analysis of Siayor's study reveals that the author employed a qualitative study technique, despite his assertion that a mixed research approach was utilised. Second, the primary data collection from DnB NOR ASA's key informants was conducted through questionnaire, although an interview guide could have been employed. Thirdly, unlike Noel's (2010) study, Siayor's sample size was confined to DnB NOR ASA and so cannot be extrapolated to the whole Norwegian banking industry. Siayor failed to assess the effect of internal control factors on profitability since no regression analysis was conducted.

Muraleetharan (2011) examined the influence of internal controls on the financial performance of Sri Lankan organisations from the Jaffna district. Muraleetharan modified COSO's five internal control aspects, namely control environment, risk assessment, control actions, information and communication, and monitoring. Indicators of profitability, efficiency, and

liquidity performance were employed to measure financial performance. For the purpose of combining the financial performance indicators and testing the hypothesis, data were obtained via self-assessment questionnaires and personal interviews from 181 employees of 47 public and private organisations in the Jaffna area.

All utilised dimensions were found to be reliable, with Cronbach alpha (a) values exceeding 0.70. Statistical Product and Service Solutions was then utilised to analyse the data (SPSS). Chi square and regression were employed as statistical methods for analysis. The study indicated that internal control predicts performance with statistical significance. Important is the finding that internal controls predict financial performance, despite the fact that they are not statistically significant in comparison to control environment and information and communication. Muraleetharan (2010) suggests that emphasis should also be placed on developing an effective management information system and educating employees.

A close examination of Muraleetharan's (2011) work reveals that he evaluated all components of COSO's internal control variables. This makes Muraleetharan's work far more extensive than that of Mawanda (2008) and Noel (2010). This indicates that Muraleetharan's work addresses the flaws in Mawanda and Noel's choice of internal control variables.

In a similar study, Ndungu (2013) used a mixed research technique to assess the impact of internal controls on income creation at University of Nairobi Enterprise and Services (UNES). The target population for the 2013 calendar year was UNES employees. A simple random selection approach was employed to choose 45 employees from the target population, with a

response rate of 62%. The study employed a descriptive research approach, and primary data were gathered through the use of structured questionnaires. Secondary data were gathered through management reports and other public materials.

Control environment was evaluated based on the ethical principles, degree of integrity, and competence of individuals entrusted with establishing, administering, and monitoring the controls, whereas risk assessment was evaluated based on the acceptable level of risk to be maintained. Information and communication were evaluated based on how information is recognised, collected, and conveyed in the proper format and within the prescribed time limit. Measurement of control activities was based on the number of effective processes, rules, and mechanisms designed to ensure correct management instructions. The frequency with which the quality and efficacy of internal controls are checked and revised throughout time served as the metric for monitoring. The assessment tool employed was a 5-point Likert scale, with 1 indicating severe disagreement and 5 indicating strong agreement.

The examination of the data used descriptive and inferential statistics. The study adopted pie chart, bar chart, and linear regression tools. Ndugu found, based on the data, that the internal control systems of UNES impact revenue creation ( $R^2 = 88.3\%$ ), despite the fact that risk assessment, control activities, information and communication, and monitoring were statistically insignificant with respect to financial performance. In addition, it was discovered that UNES had formal procedures and policies for each activity, which allowed for the achievement of healthy and efficient monitoring, communication, and control of activities, despite the fact that risk assessment,

control activities, information, and communication had no statistically significant relationship with performance. The report suggests that UNES should foster integrity and ethical ideals among its staff and leadership.

In comparison to previous empirical research on the issue, the sample size obtained from the population in the preceding study is quite small. Similarly, the author forgot to reveal the study's population, making it difficult to assess the validity of the sample size. In addition, Ndugu's usage of the Likert scale of measurement is improper since the scale is not on the same dimension.

Similarly, Oyoo (2014) investigated the impact of internal control mechanisms on the financial performance of microfinance banks in Kenya's Kisumu Central Constituency. Internal controls were evaluated based on the control environment, control activities, and information and communication, whereas financial performance was evaluated based on liquidity. A five-point Likert scale ranging from strong agreement to severe disagreement was utilised. We chose descriptive and correlational study designs. The target population consisted of 18 microfinance organisations that were registered. Then, using convenience sampling, a total of seven institutions, representing thirty-five respondents, were selected. Self-administered questionnaires were used to collect primary data, while secondary data were extracted from the annual report and other sources.

Descriptive and inferential statistics were used to analyse the data. For inferential statistics, correlation was utilised instead of regression analysis. Oyoo (2014) revealed a favourable correlation between microfinance organisations' internal control and financial performance. It was suggested



that microfinance institutions create more effective management information systems and tighten debt collection regulations.

A rigorous examination of the preceding study reveals that the influence of control systems on financial performance was not examined since the incorrect analytical instrument was employed. In addition, Oyoo (2014) should have employed a census because the sample size of 35 was insufficient for such a comprehensive examination.

Chebungwen and Kwasira (2014) assessed the impact of internal controls on the financial performance of Kenyan tertiary training institutions: a study of the African institute for research and development studies. To attain this purpose, the study was driven by the agency theory in order to experimentally examine the impact of internal control on financial performance in Kenyan postsecondary institutions. In addition, the purpose of the research was to assess the efficiency of the internal audit utilised by the African Institute for Research and Development's internal control effort. The target audience consisted of all 68 employees of the tertiary institution. A census was conducted because of the magnitude of the target population. Using structured questionnaires, data were collected.

Using Statistical Product for Social Science (SPSS) and descriptive statistics such as percentages, means, medians, modes, and standard deviations, the data acquired from the structured questionnaires were analysed. In lieu of a regression tool, the Pearson's Product Moment Correlation Coefficient (PPMC) was utilised to evaluate the type and strength of the link between the independent factors and the dependent variable. The study's analysis and findings suggested that internal audit reports of the



institutions addressed internal control system shortcomings, hence boosting the financial performance of the institutions. In addition, the data suggest a connection between internal control system and financial success.

The report advised that Kenyan tertiary education institutions not only establish an internal audit department, but also guarantee that it is appropriately staffed and independent. This would guarantee that management influence with the work of the auditors is reduced and, if possible, eliminated, therefore decreasing the vulnerabilities in the internal control system in order to improve performance.

A critical examination of the research undertaken by Chebungwen and Kwasira (2014) reveals inconsistencies between the study's purpose and methodology, particularly the analytical tool. Chebungwen and Kwasira wanted to experimentally examine the impact of internal control on the financial performance of tertiary institutions in Kenya, but no target was established to do so. In addition, both Chebungwen and Kwasira utilised correlation, but no target was established to examine the link between internal control and financial success. According to Khan (2012), correlation measures the relationships between the variables. Therefore, regression analysis was the proper method for evaluating the effects of the internal control system on financial performance.

Ejoh and Ejom (2014) did a similar study in Nigeria to investigate the influence of internal control activities on the performance of tertiary institutions in Nigeria. The research was done at Akamkpa's Cross River State College of Education. Instead of developing a study hypothesis that examines the influence of the independent factors on the dependent variable, Ejoh and

Ejom examined the link between internal control activities and financial performance.

Using structured questionnaires, primary data were collected, while secondary data were gathered from publications and other published sources.

The design of the study was a cross-sectional survey, and stratified sampling was utilised to choose the sample units, which comprised department heads, school deans, internal audit employees, bursary staff, other academic personnel, and non-academic staff. We utilised a 4-point Likert scale ranging from strongly agree to strongly disagree. The data were subsequently analysed using straightforward percentages, tables, and correlation coefficients, excluding regression analysis. The analysis revealed that all activities at Cross River State College were initiated by the administration.

Regarding control operations, Ejoh and Ejom (2014) discovered that the institution's financial department has obvious function separation. The writers also discovered that the institution's financial accounts are annually audited by external auditors. However, it seemed likely that a single employee could access all sensitive financial data without the knowledge of other employees. Regarding financial management, the analysis indicated that the institution carefully adheres to the annual departmental budget and that measures are in place to prevent overspending. In addition, the study showed no correlation between internal control efforts and the financial success of the college.

Examining the research conducted by Ejoh and Ejom (2014) indicates a discrepancy. The topic was to examine the influence of internal control operations on financial performance, however the study hypothesis mainly

focused on the link between the two. Since the authors formulated a flawed study premise, they also employed a flawed method of analysis: correlation analysis. The authors should have generated hypotheses examining the influence of internal control actions on financial performance in order to conduct regression analysis.

In addition, the study was descriptive and narrative, making it extremely difficult to quantify the exact impact of internal controls. In Ejoh and Ejom's (2014) investigation, crucial factors such as the size of the target population and sample size were missing. Despite the fact that an organization's internal control structure impacts all personnel, this study relied solely on key informants.

Widyaningsih (2015) investigated the impact of internal control on accountability in research involving Bandung Elementary School in Indonesia. The internal control was evaluated utilising the COSO framework. Exploratory design was utilised to elucidate the link between variables through hypothesis testing. The target population consisted of all Bandung elementary schools. A sample size of 168 was drawn from the total population by using a technique of convenience sampling. Using questionnaires, primary data were obtained.

The tool for data collection was created using Likert scales. The data collected from the respondents was analysed inferentially. In particular, route regression analysis was employed. On the basis of the findings, it was determined that the internal control system considerably influenced or predicted the variation in responsibility. Statistically, risk assessment and information and communication did not predict the variance in responsibility.

The application of internal control in elementary schools in Bandung was likewise found to be high, except for information and communication. A cross-examination of Widyaningsih's (2015) study reveals that the appropriate method for analysing the research subject was employed. Since Widyaningsih did not reveal the population size, it is extremely impossible to evaluate the representativeness of the sample size.

Opong, Owiredu, Abedana, and Asante (2016) performed second research on the effect of internal control on performance utilising Ghanaian faith-based NGOs. Internal controls were evaluated based on the COSO framework, whereas performance reflected economy, efficacy, and efficiency. Using self-administered questionnaires, information was gathered for the study. According to the authors, 118 of the 150 participants in the sample participated in the study, despite the population size not being stated.

Statistical Package for Social Sciences was used to analyse the gathered data. In displaying the data, pie charts and bar charts were utilised. Internal controls considerably improve the effectiveness of faith-based NGOs in Ghana, according to the research. In addition, the analysis concluded that internal control systems functioned adequately in four of the COSO model's five components, with the exception of risk assessment, for which processes were judged to be extremely deficient.

The report advised that the management of faith-based NGOs implement comprehensive procedures to continuously evaluate their efficacy and operational effects. In order to increase efficiency, management should also implement a rigorous risk management framework capable of detecting every risk intrinsic to the internal control system.



A critical evaluation of the preceding study reveals that the authors forgot to disclose the population size, making it difficult to verify the sample size. Moreover, the researchers failed to analyse the influence of internal control systems on performance since they did not employ a regression technique.

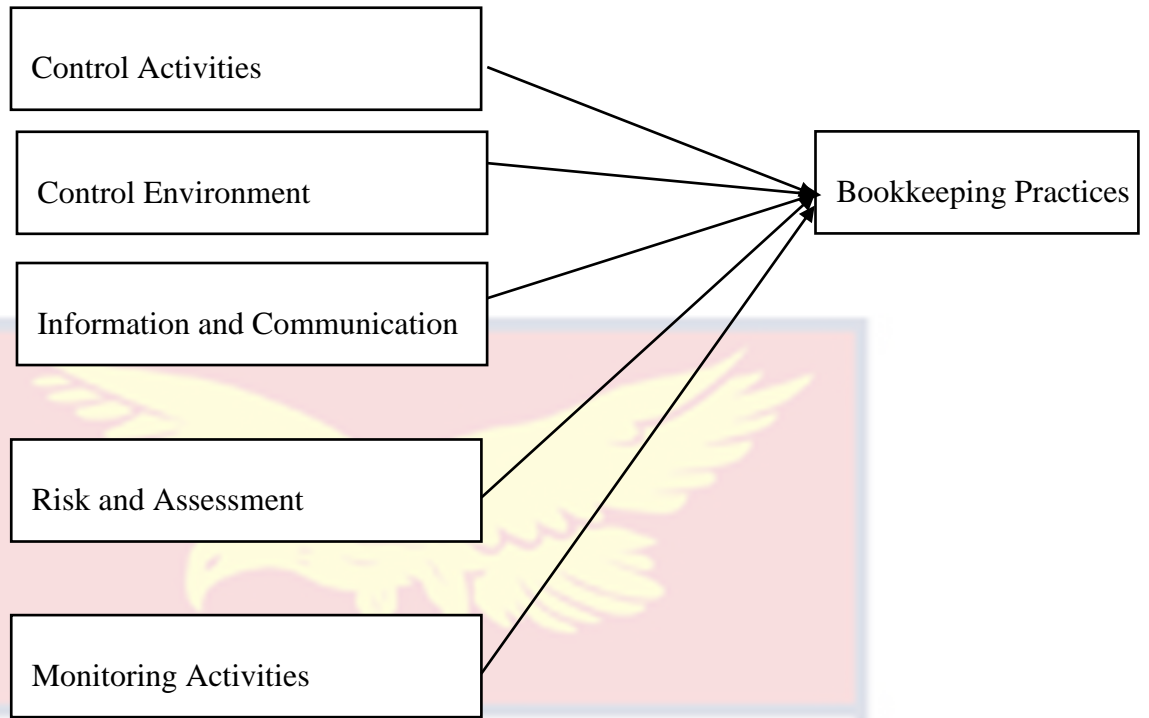
Theoretical reasons for investigating the influence of internal control system on the performance of insurance businesses in Ghana have been established by the theoretical review. In addition to providing a basis for comparison, the empirical and conceptual assessments have helped to identify areas of consensus and substantial disputes. The subsequent phase is a conversation regarding lessons learned and knowledge gaps.

### **Conceptual Framework**

The conceptual framework of this study was constructed from available literature based on the purpose and constructs adopted in this current study. The study bases three internal control variables on COSO internal control framework namely, control environment (CE); control activities (CA); risk and assessment, information and communication (IC). These constructs are interrelated and reflect the independent variables for this present study.

Bookkeeping practices, the dependent variable, is centered on a multi-dimensional bookkeeping indicator known as the building block model developed by Fitzgerald and Moon (1996).





*Figure 1: Conceptual Framework*

Source: Author's Construct (2022)

The conceptual framework above depicts the positive linkage between internal controls and bookkeeping of small businesses at Nsawam Municipal Assembly. This positive relationship is explained by the agency and contingency theories adopted for this study.

### **Chapter Summary**

This Chapter analysed the theoretical framework underpinning this research. The concept within the study was explained from other researchers' perspective. The empirical review of other researchers was also analysed in order to identify the results from other research on the subject matter.

## CHAPTER THREE

### RESEARCH METHODS

#### Introduction

The chapter discusses the methods employed for this research. The methodology consists of the design of the research, approach of the research, study population, research sample size, sampling technique, instrument for the survey, procedure for collecting data, and the statistical analysis employed for the research.

#### Research Paradigm

This study used Positivist research paradigm. Positivism posits that scientific method is the only way to establish truth or reality. Thus, from positivists point of view, every research should be scientific. According to Bogdan and Biklen (2003), positivist research paradigm fits well for establishing causes of a phenomena or to test theory.

#### Research Design

Research design is the plan that has been created to achieved the objectives of the study. According to Saunders, Lewis, and Thornhill (2016), there are three different kinds of research design; descriptive research, explanatory research, and exploratory research with each having its distinctive features. By Considering the purpose of this study, which is to examine the effect of internal control system on Book keeping practices of small businesses in Nsawam Municipal Assembly. The study adopted the explanatory research design. The study used this design because it enables the researcher to examine the extent and nature of the cause-and-effect relationship between internal control systems and Bookkeeping.

## Population

Population of a study is the total collection of the components of research from which the researcher makes conclusions (Saunders et al., 2007). This study focused on small businesses within Nsawam Municipal Assembly in Ghana. An enquiry made at the Nsawam Municipal Assembly office on the number of small businesses in the Metropolis yielded no positive results as official could not provide the information needed by the researcher. This confirms the assertion of Mbroh and Attom (2015) who noted that there is no readily available data on small businesses in the Nsawam Municipal Assembly as most small businesses have not been registered. In Nsawam Municipal Assembly, small businesses are mostly engaged in wide variety of economic activities included but not limited to supermarkets and mini markets, boutiques, pharmacies, businesses that sell general goods, cold stores, hardware businesses, phone shops, cosmetics, textile shops, food processing and bakeries, pubs etc. The total number of small businesses in Nsawam Municipal Assembly is 2,089 (NBSSI, 2020).

## Sampling Procedures

In determining an appropriate sample size, the study adopted the sampling approach of Mbroh and Attom (2015) who did a similar study on the accounting control systems practiced by small businesses in the same study area. They followed this approach because the population size was not known. Nsawam Municipal Assembly was divided into 13 zones taking into consideration the concentration of small businesses in the metropolis. From these zones Mbroh and Attom (2015) settled on a sample of 362 small businesses for their study on the grounds that a sample of 362 small

businesses would be representative enough to enable the researcher arrive at the conclusions of the study. Thus, the owners or managers of a sample of 362 small businesses were sampled for this study.

Simple random sampling technique which is a probability sampling technique was used to select the final sample of the study and this technique was used since it gives each element of the population an equal chance of been selected or not (Saunders et al., 2016). Also, the simple random technique allows the researcher to use the sample to make inference on the population analysis.

### **Data Processing and Analysis**

To ensure effective data processing and analysis, data that will be gathered will be scrutinised to identify errors, check for non-responses, evaluated and measured against the research objectives to ensure their relevance and reliability to the research topic. The data obtained from the field will be processed. The Statistical Package for Social Sciences (SPSS) version 26 was used for data coding, entry, and cleaning. Descriptive statistics analyses included mean and standard deviation. The information from the analysis was presented using frequency tables and percentages. The multiple regression technique was used to examine the effect of internal control system on bookkeeping practices on small businesses in Nsawam Municipality.

### **Diagnostic Testing**

Since multiple regression was used for the data analysis, diagnostics for the model was tested. The error term of the model was diagnosed. The autocorrelation between the independent variables and the error too was be diagnosed using the Durbin Watson Model. VIF and tolerance was also used

to diagnose whether there is multicollinearity existing between any of the independent variables. The coefficient of determination was also be used to assess the percentage of the dependent variable which is been explained by the independent variables.

### **Ethical Issues**

Credible evidence was provided by the researcher to suggest to the respondents that the information provided by them is for only academic purposes. This was communicated to the respondents. This was done by showing to the respondents the student Identity Card of the researcher to prove that the researcher was a student and undertaking such a program at UCC and for that matter the information gathered was purely for academic purposes. Confidentiality and respondent's anonymity was assured to the respondents. To ensure respondents confidentiality and anonymity, the respondents names were not required. Participating in the research by the respondents was optional. Besides, the participants were given enough time to answer the research questionnaires.

### **Chapter Summary**

This chapter analysed the methodology employed in data collection and data analysis. The study employed the explanatory research design. The quantitative approach was employed in the data analysis. The multiple regression was employed to analyse the objectives of the study.



## CHAPTER FOUR

### RESULTS AND DISCUSSION

#### Introduction

The chapter analysed the objectives the study. The chapter started with the demographic characteristics of the variables of the study were explained. The results and explanations are presented with regard to the sequence of the research objectives.

#### Preliminary Analyses of Data

The descriptive statistics of the data obtained is covered by the preliminary data review. It analyzed the demographic characteristics of the data.

#### Descriptive Analysis

The analysis evaluated the demographic profiles of the gathered data from the respondents. The respondents were asked to state their gender, age, highest level of education, operations in the sector and also the regulatory authority registered by the organization. Table 1 shows the demographic characteristics of the respondents.

**Table 1: Characteristics of Demographic Variables**

Demographic Variable	Frequency	Percent
<i>Gender</i>		
Male	201	55.5
Female	161	44.5
<i>Age of Respondents</i>		
18-24	89	24.6
25-34	54	14.9
34-44	65	18.0
45-54	68	23.8
55 and above	86	23.8
<i>Educational Level of Respondents</i>		
Non-Formal	18	5.0
Primary Education	229	63.3
Secondary Education	63	17.4
University	52	14.4
<i>Sector of Operations</i>		
Service	92	25.4
Manufacturing	82	22.7
Agric and Agric Business	98	27.1
Other works	90	24.9
<i>Regulatory Authority</i>		
GRA	92	25.4
RGD	77	21.3
NBSSI/AGI	106	29.3
Other	87	24.0
Total	362	100.0

Source: Field Survey (2022)

Of the 362 respondents, 201 were males, representing 55.5%, while 161 were females, representing 44.5%, from Table 4.1. The male and female part of the survey shows the percentage of the general population of Accra individuals engaged in small and medium-scale enterprises. Males dominate when it comes to the operation, establishment and management of Small and Medium Enterprises.

Of the 362 respondents who took part in the survey, 89 were between the ages of 18-24, comprising 24.6%. This was the highest age group of the data. This was followed by individuals between the age of 55 years and above with a frequency of 86, representing 23.8 percent. Respondents between the age of 45-54 were the next highest age category with a frequency of 68, representing 23.8 percent. The next higher age category of the data was 34-44 which recorded a frequency of 65 respondents representing 18 percent of the respondents. The age category which recorded the least respondent was 25-34 years which recorded a frequency of 54 which also represented 14.9 percent.

The next demographic characteristics on the questionnaire was sector operations. The respondents were given four options to choose from. Out of 362 respondents, 98 were operating in the Agric and Agric Business sector. This represented 27.1 percent of the respondents. The next highest operating sector was the sector that renders services. The Service Sector recorded a frequency of 92 respondents which represented 25.4 percent of the total sample. small businesses operating in other sectors recorded the next highest frequency with a number of 90 which represents 24.9 percent of the respondents. small businesses operating in the manufacturing sector recorded the least respondents with a frequency of 82 representing a 22.7 percent.

The final demographic characteristics was the regulatory authority of the various small businesses. Four options were given to the respondents to choose from. 106 of the respondents out of 362 respondents were regulated by NBSSI representing 29.3 percent. 92 of the respondents were only regulated by GRA due to the taxes which is being collected by the GRA. 77 of the small businesses were been regulated by RGD representing 21.3 percent of the

respondents. Also, 87 of the respondents were being regulated by other regulatory authorities representing 24 percent.

### **Internal control system utilized that Small and Medium Enterprises in Nsawam Municipality**

The first objective of the study was to analyse the internal control system that are utilized by the Small and Medium Enterprises in Nsawam Municipality. The descriptive Statistics was used to analyse this objective. The mean and standard deviation was used. The result is presented in Table 2 below.

**Table 2: Internal Control System utilized**

Components of Internal Controls	Mean	Standard Deviation
Control Environment	3.71	1.137
Control Activities	3.88	1.013
Information and Communication Systems	3.82	1.014
Monitoring Activities	3.67	1.089
Risk Assessment	3.71	1.082

Source: Field Survey (2022)

Table 2 presents the five components of an internal control system according to COSO (2013). These are control environment, risk assessment, control activities, information and communication and monitoring. From Table 2, the majority of the respondents strongly agreed that the practice of time management in the small businesses includes control activities. This was apparent as the respondents' responses on the articulation recorded the highest mean, 3.88. Control activities constitute the approaches, methods, and hones set up to assist guarantee that an organisation's work force carry out board and management directives at each business level through the

organisation. Therefore, control activities happen across every stage and works of the organization (Botez, 2012).

The existence of control activities in the enterprise encompasses a range of manual and automated works which provide evidence of the implementation of these works and proper documentation (Lamoye, 2005). These control activities are performed by administration to ensure the attainment of organisational objectives and risk management. Also, with means as high as 3.82, the respondents again strongly agreed that another internal control system in the Small and Medium Enterprise is Information and Communication Systems. Information and Communication Systems is part of the internal control systems which consists the process of determining, catching and interchanging data regularly to ensure the organisations able to achieve the laid down goals.

Information is essential for every business to undertake internal control duties to help attainment of its goals. Therefore, the board gets and employs essential and facts from within and outside avenues to assist the working of other parts of internal control. This component of internal control is the systems and procedures which assist the determination, catch and reciprocate data within a shortest period which will ensure that personnel perform their duties. Therefore, the effectiveness of the control system hinges on essential and dependable data which must be documented and passed on to the board and other workers in the company (Lamoye (2005).

On the whole, it could be concluded that the respondents, without doubt, strongly agreed that control activities and Information and Communication Systems are the existing internal control components in Small



and Medium Enterprises. These results suggest that control activities and Information and Communication Systems are essential and valued by management since such practices serve as pathways to achieving the goals and objectives of the enterprises. These findings are consistent with Ayagre, Appiah-Gyamrah and Nartey (2014) who reported the same findings in their studies.

### **Internal Control System and Bookkeeping Practices of Small businesses in Nsawam Municipality**

In order to achieve the relationship between Internal Control System and Bookkeeping Practices, the reliability and validity test were run. The outcome of the test has been explained below.

#### **Reliability and Validity Test**

Reliability and validity in research projects are significant to determine the degree to which the scales of the measurements are valid and reliable. To conduct this, the Cronbach Alpha test was used to investigate internal consistency of the constructs. The Cronbach Alpha acceptable test rate was 70% or 0.7 and any construct recording below this limit indicates poor internal consistency. The factor analysis was applied to examine the measurement scale validity. For an acceptable factor analysis number of vital hypothesis is important. For example, Kaiser-Meyer-Oklin (KMO) values must be 50% (0.50) or more and the probability of Bartlett's Test of Sphericity must be significant ( $p\text{-value} < 0.05$ ). Furthermore, the factor loadings of the elements or items must be greater than 0.6 and the Average Variance Extracted (AVE) must be 0.5 or better (Hair, 2010). The reliability and validity of the individual constructs have been presented in detail below.

### Validity and reliability results for Control Activities

In assessing the construct, six elements were used to measure control activities. After the Kaiser-Meyer-Olkin Measure of Sampling Adequacy (.768), determinant (.037) and Bartlett's Sphericity Test ( $\chi^2(10) = 1182.798$ ;  $p < 0.005$ ) assumptions were met, factor analysis was conducted on all six items. The six components used to measure the construct were highly loaded ( $> .5$ ). On the six (6) items using the Cronbach Alpha, reliability tests were carried out. Cronbach's Alpha was registered at .876. This suggests that the five elements were accurate in measuring the control activities of the framework. The naïve method was used to measure the control activities.

**Table 3: EFA on Control Activities**

	Factor Loading
Management determines which relevant business processes require control activities.	.877
Management considers control activities at various levels in the company.	.893
Management segregates incompatible duties, and where such segregation is not practical, management selects and develops alternative control activities.	.809
Management selects and develops control activities that are designed and implemented to restrict technology access rights to authorized users commensurate with their job responsibilities and to protect the entity's assets from external threats.	.781
Management selects and develops control activities over the acquisition, development, and maintenance of technology and its infrastructure to achieve management's objectives.	.730
The company has a process that requires regular back-up of computer files and testing of the back-up files to ensure proper functionality.	.822
Cronbach Alpha	<b>0.874</b>
Eigenvalue	<b>3.363</b>
% of Variance	<b>67.26</b>
KMO=0.768; $\chi^2=1182.798$ ; df=10; p-value=0.000	

Source: Field Survey (2022)

### Validity and reliability results for Control Environment

As far as control environment are concerned, seven elements or indicators were also used to measure it. After the Kaiser-Meyer-Olkin Measure of Sampling Adequacy (.884), determinant (.013) and Bartlett's Sphericity Test ( $\chi^2(10) = 1562.18$ ;  $p < 0.005$ ) were presumed, factor analysis was also conducted on all seven measures. The seven elements used to calculate the construct were highly loaded ( $>.5$ ). On the seven (7) objects using the Cronbach Alpha, reliability tests were carried out. Cronbach's Alpha was registered at .816. This suggests that the seven elements were accurate in determining the control environment as a construct. The naïve approach was used to calculate the variables of the control environment.

**Table 4: EFA on Control Environment**

	Factor Loading
The management of my entity and the board of director's expectations translate into an organizational statement of beliefs, values, and standards of conduct that the staff exhibit daily.	.810
Standards of conduct are communicated and reinforced to all levels of my entity and to service providers.	.909
Processes are in place to evaluate the performance of staff and outsourced service providers (if any) against expected standards of conduct.	.911
The managers define, maintain, and periodically evaluate the skills and expertise needed among its owners to enable them to question and scrutinize management's and present alternate views.	.905
The managers that oversee internal control activities over financial reporting and the integrity and transparency of those reports complete these tasks on time.	.912
The owners establish the expectations and evaluates the performance of the managers or equivalent role.	.877
The organizational structure is appropriate for the size and complexity of my company.	.721
Cronbach Alpha	<b>0.932</b>
Eigenvalue	<b>3.964</b>
% of Variance	<b>79.27</b>
$KMO=0.884$ ; $\chi^2=1562.180$ ; $df=10$ ; $p\text{-value}=0.000$	
Source: Field Survey (2022)	

### Validity and reliability results for Risk Assessment

Four elements or metrics were often used in measuring risk assessment. After the presumption that Kaiser-Meyer-Olkin Measure of Sampling Adequacy (.913), determinant (.013) and Bartlett's Sphericity Test ( $\chi^2(10) = 2047.83$ ;  $p < 0.005$ ) were reached, factor analysis was also conducted on all four variables. The four elements used to calculate the construct were highly loaded ( $> .5$ ). On the four (4) items using the Cronbach Alpha, reliability tests were carried out. Cronbach's Alpha was registered at .957. This suggests that the four elements were accurate in measuring the risk assessment of the construct. The naïve method was used to measure the risk assessment of the construct.

**Table 5: EFA on Individual Factors**

	1
The enterprise responds to risk factors when they appear and treat them comprehensively.	.941
Management appropriately evaluates risk when planning for activity.	.933
The enterprise has established overall strategies for managing important risks.	.954
Overall, the firm frequently undertakes risk assessment.	.924
Cronbach Alpha	<b>0.957</b>
Eigenvalue	<b>4.274</b>
% of Variance	<b>85.48</b>
KMO=0.913; $\chi^2=2047.833$ ; df=10; p-value=0.000	

Source: Field Survey (2022)

### Validity and reliability results for Monitoring

With regard to monitoring, in measuring it, four elements or indicators were also used. After the presumption that Kaiser-Meyer-Olkin Measure of Sampling Adequacy (.837), determinant (.013) and Bartlett's Test of

Sphericity ( $X^2(10) = 1154.05$ ;  $p < 0.005$ ) were reached, factor analysis was also conducted on all four variables. The four elements used to evaluate the construct were highly loaded ( $> .5$ ). On the four (4) objects using the Cronbach Alpha, reliability tests were carried out. Cronbach's Alpha was registered at .886. This suggests that the four elements were accurate in evaluating the monitoring as the construct. The naïve method was used to measure the monitoring variables of the construct.

**Table 6: EFA on Monitoring**

	<b>Factor Loading</b>
The enterprise audits its accounts periodically to ensure compliance.	.769
Internal audit reports to management and the board on unresolved deficiencies.	.881
There exist proficient follow-up strategies to make sure that proper modifications or work takes place in feedback to modifications in risks and control.	.884
The enterprise makes separate evaluations of operating projects.	.865
Cronbach Alpha	<b>0.886</b>
Eigenvalue	<b>3.539</b>
% of Variance	<b>70.78</b>
KMO=0.837; $\chi^2=1154.05$ ; df=10; p-value=0.000	

Source: Field Survey (2022)

#### **Validity and reliability results for Information and Communication**

As far as information and communication is concerned, six items or indicators were also used to assess it. After the Kaiser-Meyer-Olkin Measure of Sampling Adequacy (.814), determinant (.013) and Bartlett's Sphericity Test ( $X^2(10) = 645.113$ ;  $p < 0.005$ ) were presumed, factor analysis was also conducted on all six measures. The six elements used to measure the construct



were highly loaded (>.5). On the six (6) objects using the Cronbach Alpha, reliability tests were carried out. Cronbach's Alpha was registered at .853. This suggests that in evaluating the information, the six elements were accurate. To calculate the information and communication construct, the naïve procedure was used.

**Table 7: EFA on Information and Communication**

	Factor loading
Rules or regulations are reviewed with more than one person.	.788
The company maintains and follows procedures for record filing, retention, and disposal of accounting records and supporting documentation in accordance with applicable regulations.	.814
The company's accounting system provides for separate identification of each transaction.	.869
Communication exists between management and the board of directors so that both have information needed to fulfill their roles with respect to the company's objectives.	.611
The Code of Conduct, or other policies, expressly prohibit override of internal controls by management.	.843
Management has a process for the development, approval and implementation of policy updates and communicates those updates to staff.	.781
Cronbach Alpha	0.853
Eigenvalue	2.846
% of Variance	56.93
KMO=0.814; $\chi^2=645.113$ ; df=10; p-value=0.000	

Source: Field Survey (2022)

### Validity and reliability results for Bookkeeping Practices

With regard to bookkeeping practices, in measuring it, six elements or indicators were also used. After the presumption that Kaiser-Meyer-Olkin Measure of Sampling Adequacy (.837), determinant (.013) and Bartlett's Test

of Sphericity ( $X^2(10) = 1154.05$ ;  $p < 0.005$ ) were reached, factor analysis was also conducted on all six variables. The six elements used to evaluate the construct were highly loaded ( $> .5$ ). On the six (6) objects using the Cronbach Alpha, reliability tests were carried out. Cronbach's Alpha was registered at .886. This suggests that the six elements were accurate in evaluating the bookkeeping as the construct. The naïve method was used to measure the bookkeeping variables of the construct.

**Table 8: EFA on Book keeping**

	1
I keep complete written records of my business transactions.	.769
I update my business records regularly.	.881
I keep manual records.	.884
I have an accountant or bookkeeper who keeps my records.	.865
I sometimes keep mental records of my business activities.	.872
My business has a sales day book	.761
Cronbach Alpha	<b>0.886</b>
Eigenvalue	<b>3.539</b>
% of Variance	<b>70.78</b>
KMO=0.837; $\chi^2=1154.05$ ; df=10; p-value=0.000	

Source: Field Survey (2022)

### **Effect of internal control system and bookkeeping**

The objective two sought to analyse the effect of internal control system and bookkeeping. The result is presented on the Table 9.

**Table 9: Impact of internal control system on bookkeeping**

Internal Control System	Coefficient	Standard Error	Standardized Coefficients	t-statistics	P-value
Intercept	1.627	.144		11.299	0.000
Control Activities	0.087	0.085	0.101	1.022	0.321
Control Environment	0.102	0.046	0.126	2.228	0.002
Risk Assessment	0.188	0.049	0.289	3.870	0.000
Monitoring	0.239	0.070	0.272	3.431	0.000
Information and Communication	0.821	0.223	0.213	3.682	0.000
R-Squared	.527				
Adjusted R Squared	.522				
Standard Error	.59303				
Durbin Watson	1.545				

Source: Field Survey (2022)

Table 9 shows the regression results of the impact of internal control system and boo. The model indicates that 52.20 percent of the differences in bookkeeping are explained by independent variables: control activities, control environment, risk assessment, monitoring and information and communication. That's the factors considered to affect bookkeeping in the study clarified 52 percent of the variations. The remaining 47.8 percent were clarified by other variables that were not taken into consideration in the analysis. The Durbin Watson (DW) proved that there was no autocorrelation in order to diagnose the model. The Durbin Watson calculation was 1.545, which comes within the range of 1.5 to 2.5 as recommended.

The variables or constructs which are important in influencing the dependent variable, bookkeeping, are shown in Table 9. The findings revealed that at the 5 percent significant level, the intercept of the model was positive and significant ( $t(361)=11.263$ ;  $p<.05$ ). This means that bookkeeping would be 1,627, even if the five independent variables do not impact it. Control Activities had a positive influence on Book keeping but it was statistically insignificant ( $t(361)=1.022$ ;  $p>.05$ ). Control Environment had a positive and significant impact on bookkeeping. Control Environment was significant at 5 percent significant level ( $t(361)=2.228$ ;  $p<.05$ ). A unit increase in Risk assessment would lead to .102 increment in Book keeping. Control environment was the fourth factor that had a high influence on book keeping.

Risk Assessment which happened to be the third factor had a positive and significant impact of book keeping ( $t(361)=3.870$ ;  $p<.05$ ). The factor with the highest impact on book keeping (with uniform coefficients = .289) was the risk assessment. A unit increase in the risk assessment will lead to a book keeping practices increase of 0.118. It has a positive and significant effect on book keeping practice with risk assessment. Monitoring was the next internal control system had a positive and significant effect on book keeping. A unit increase in monitoring would lead to an increase of .239 in book keeping.

Finally, there was a positive and significant relationship between information and communication and book keeping ( $t(361)=3.682$ ;  $p<0.05$ ). A unit increase in information and communication would lead to a 0.821 increase in book keeping.

Internal controls are techniques and measures put in place by a company to ensure compliance with accounting laws and regulations and also

prevent fraudulent activities. Internal controls ensure that the accounting or financial information presented by company managers are reliable, accurate and void of fraud. Internal controls help to prevent errors and misstatement of financial statements. For example, reconciliation is a critical internal control procedure in accounting and can ensure the account balances on the balance sheet are correct to prevent misstatement of financial statements. Besides complying with laws and regulations and preventing employees from stealing assets or committing fraud, internal controls can help improve operational efficiency by improving the accuracy and timeliness of financial reporting. Regardless of the policies and procedures established by an organization, only reasonable assurance may be provided that internal controls are effective and financial information is correct. The effectiveness of internal controls is limited by human judgment. A business will often give high-level personnel the ability to override internal controls for operational efficiency reasons, and internal controls can be circumvented through collusion.

Chalmers, Hay and Khelif (2018) had a contradictory result where internal controls had no significant effect on accounting practices and bookkeeping. Gao & Zhang (2019) also recorded similar results and findings. Collier, Berry and Burke (2006)'s study confirmed with the results and findings with the current study. They found that, an effective internal control would influence proper book keeping practices.

### ***Challenges affecting internal control system among Small businesses in Nsawam Municipality***

The objective three was to analyse the challenges affecting internal control system among Small businesses in Nsawam Municipality. In order to



achieve this objective, descriptive statistics was used. The mean and standard deviation was used for the analysis. The result is presented in Table 10.

**Table 10: Challenges affecting internal control system among small businesses in Nsawam Municipality**

<b>Challenges</b>	<b>Mean</b>	<b>Standard Deviation</b>
Inadequate policies and procedures	3.45	1.119
Lack of segregation of duties	3.41	1.043
Too much politics in the enforcement of internal controls rules	3.51	1.206
Inadequate supporting documents and literature on internal control	3.43	1.025
Managerial oversight and review of internal Control	3.43	1.237
Management forcing controls on employees	3.29	1.205
Lack of financial resources to enforce and implement internal control rules and regulations	3.67	1.211

Source: Field Survey (2022)

Scrutiny of Table 4 display a wide range of challenges associated with the application of internal control system in the Sefwi Akontombra District Assembly. Among the challenges outlined in Table 4, the majority of the respondents deemed a lack of financial resources to enforce and implement internal control rules and regulations as the topmost obstacle to the internal control system in the District Assembly as it recorded the highest mean of 3.67 and standard deviation of 1.211. This was followed by a mean of 3.51 and a standard deviation of 1.206 hence making too much politics in the enforcement of internal controls rules the second topmost obstacle to the internal control system acknowledged by the respondents. Also, with a mean of 3.45 and an associated standard deviation of 1.116, the respondents agreed that inadequate policies and procedures are a challenge to the internal control

system in the District Assembly.

Furthermore, with the least mean being 2.98, it is unveiled that the respondents agree that management forcing controls on employees is the least problem to the internal control system in the District Assembly. Similarly, challenges such as managerial oversight and internal control review, inadequate supporting documents and literature on internal control and lack of segregation of duties were considered the least problem to the internal control system. These results suggest that the challenges accompanying with implementing an effective internal control system in the District Assembly are vast and could have staggering effects on the performance of the District Assembly. The results support the findings of Aduam (2016), Affum (2011) and Masanja (2018).

### **Chapter Summary**

The chapter analysed the objectives of the study. The study used the descriptive analysis and the regression analysis. Tables were used to present the study's results. The study found that control environment, monitoring, information and communication and risk assessment had significant effect on book keeping practices.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATION

#### Introduction

This happens to be the study's final chapter. The summary of the findings, conclusions and policy implications and recommendations are discussed in this chapter. For further study, the chapter also includes suggestions.

#### Summary

The research studied on the effects of internal control systems on book keeping practices of small businesses at Nsawam Municipal Assembly. Three objectives were established in order to achieve the purpose of the study. Objective one was to examine the internal control system utilized that Small and Medium Enterprises in Nsawam Municipality. The objective two was to examine the effect of internal control system on bookkeeping practices of Small businesses in Nsawam Municipality. The third and final objective was to analyse the challenges affecting internal control system among Small businesses in Nsawam Municipality.

The study was centered on decision usefulness theory, positive accounting theory and agency theory. The study employed the explanatory research design since the study tested the relationship between the various variables. The data collection instruments were questionnaire. The study employed the quantitative research approach. The simple random sampling technique was used in selecting a respondent of 362. Descriptive and Multiple Regression were also used to analyse the objectives of the study.

### Summary of Key Findings

1. With respect to the first objective of the study, the descriptive statistics was used to achieve it. Mean and standard deviation of the various variables were computed. The results showed that, control activities were the system most of the small businesses have employed. Information and Communication was the second system instated by most of the small businesses at Nsawam Municipal Assembly. The Monitoring activities recorded the least average.
2. The regression analysis was employed to analyse the second objective. The control systems were regressed on book keeping practices. The study found that there was a significant relationship between control environment, risk assessment, information and communication and monitoring activities and book keeping practices. There was no significant relationship between control activities and book keeping.
3. The descriptive statistics was used to analyse the challenges affecting internal control system. The study found that, inadequate policies and procedures, lack of segregation of duties, too much politics were the challenges affecting the internal control system of small businesses.

### Conclusion

The study concluded that, most of the Small and Medium Enterprises in Nsawam Municipal Assembly uses more of the control activities, control environment and information technology. Few Small businesses use the monitoring activities in their business. Also, control environment, information

and communication, monitoring activities and risk assessment had significant effect on book keeping practices.

Finally, the study concludes that inadequate policies and procedures, Lack of segregation of duties, inadequate supporting documents and literature on internal control were the key factors affecting internal control systems at Small businesses in Nsawam Municipal Assembly.

### **Recommendation**

1. The management must be effective and to guarantee continual and separately supervising internal control to assess if controls are there and operates well.
2. The managers of Small businesses must make a conscious effort to acquire the needed logistics and other resources to effectively implement the existing internal control system.
3. Finally, management should as much as possible limit the influence of politics in the enforcement of internal controls rules.

### **Suggestions for Further Studies**

Future research on the same subject matter need-to be carried out on a wide scale over various district in the country to aid generalisation. Additionally, another study of this nature should be carried out amongst institutions that render services to the public, such as bank to ascertain the status quo of how effective their internal control system is.



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## APPENDIX

## QUESTIONNAIRES

## EFFECT OF INTERNAL CONTROL SYSTEMS ON BOOKKEEPING

## PRACTICES OF SME's IN NSAWAM MUNICIPALITY

## SECTION A: Demographic Characteristics

Kindly tick the category you fall.

1. Gender:  Male  Female

2. Age  20 – 30  31 – 40  41 – 50  51 – 60  61 +

3. Marital Status  Single  Married  Divorced

D4. Highest level of education:

PhD  Master's Degree  First Degree  HND

SSCE/WASSCE  other (please specify) .....

5. How many years have you spent in this Department?

< 5  5 – 10  11 – 20  20 – 30  > 30

6. How many hours on the average do you spend at work a day?

< 4  4 – 8  > 8

## SECTION B: CONTROL ACTIVITIES.

I entreat you to tick [  ] the appropriate box indicating the extent to which you agree or disagree with the following statements using the scale:

[1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree]

No	Items	1	2	3	4	5
1	Management determines which relevant business processes require control activities.					
2	Management considers control activities at various levels in the company.					
3	Management segregates incompatible duties, and where such segregation is not practical, management selects and develops alternative control activities.					
4	Management selects and develops control					

	activities that are designed and implemented to restrict technology access rights to authorized users commensurate with their job responsibilities and to protect the entity's assets from external threats.					
5	Management selects and develops control activities over the acquisition, development, and maintenance of technology and its infrastructure to achieve management's objectives.					
6	The company has a process that requires regular back-up of computer files and testing of the back-up files to ensure proper functionality.					

### SECTION C: CONTROL ENVIRONMENT

I entreat you to tick [ √ ] the appropriate box indicating the extent to which you agree or disagree with the following statements using the scale: [1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree]

No	Items	1	2	3	4	5
1	The management of my entity and the board of director's expectations translate into an organizational statement of beliefs, values, and standards of conduct that the staff exhibit daily.					
2	Standards of conduct are communicated and reinforced to all levels of my entity and to service providers.					
3	Processes are in place to evaluate the performance of staff and outsourced service providers (if any) against expected standards of conduct.					
4	The Board of Directors define, maintain, and periodically evaluate the skills and expertise needed among its members to enable them to question and scrutinize management's and					



	present alternate views.					
5	The committee that oversees internal control activities over financial reporting and the integrity and transparency of those reports complete these tasks on time.					
6	The board establishes the expectations and evaluates the performance of the CEO or equivalent role.					
7	The organizational structure is appropriate for the size and complexity of my company.					

#### SECTION D: RISK ASSESSMENT

I entreat you to tick [ √ ] the appropriate box indicating the extent to which you agree or disagree with the following statements using the scale:

[1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree]

No	Items	1	2	3	4	5
1	The enterprise responds to risk factors when they appear and treat them comprehensively.					
2	Management appropriately evaluates risk when planning for activity.					
3	The enterprise has established overall strategies for managing important risks.					
4	Overall, the firm frequently undertakes risk assessment.					

#### SECTION E: MONITORING

I entreat you to tick [ √ ] the appropriate box indicating the extent to which you agree or disagree with the following statements using the scale:

[1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree]

No	Items	1	2	3	4	5
1	The enterprise audits its accounts periodically to ensure compliance.					
2	Internal audit reports to management and the					

	board on unresolved deficiencies.					
3	There exist proficient follow-up strategies to make sure that proper modifications or work takes place in feedback to modifications in risks and control.					
4	The enterprise makes separate evaluations of operating projects.					

### SECTION F: INFORMATION AND COMMUNICATION

I entreat you to tick [ √ ] the appropriate box indicating the extent to which you agree or disagree with the following statements using the scale: [1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree]

No	Items	1	2	3	4	5
1	Rules or regulations are reviewed with one or more of the following: governing board, audit, finance or other committee.					
2	The company maintains and follows procedures for record filing, retention, and disposal of accounting records and supporting documentation in accordance with applicable regulations.					
3	The company's accounting system provides for separate identification of each transaction.					
4	Communication exists between management and the board of directors so that both have information needed to fulfill their roles with respect to the company's objectives.					
5	The Code of Conduct, or other policies, expressly prohibit override of internal controls by management.					
6	Management has a process for the development, approval and implementation of policy updates and communicates those updates to staff.					

**SECTION E: BOOKKEEPING PRACTICES**

I entreat you to tick [ ✓ ] the appropriate box indicating the extent to which you agree or disagree with the following statements using the scale: [1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree]

No	Items	1	2	3	4	5
1	I keep complete written records of my business transactions.					
2	I update my business records regularly.					
3	I keep manual records.					
4	I have an accountant or bookkeeper who keeps my records.					
5	I sometimes keep mental records of my business activities.					
6	My business has a sales day book					

**CHALLENGES OF INTERNAL CONTROL SYSTEM**

	Challenges	1	2	3	4	5
1	Inadequate policies and procedures.					
2	Lack of segregation of duties.					
3	Too much politics in the enforcement of internal controls rules.					
4	Inadequate supporting documents and literature on internal control.					
5	Managerial oversight and review of internal control.					
6	Management forcing controls on employees					
7	Lack of financial resources to enforce and implement internal control rules and regulations.					

**THANK YOU**