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**THE EFFECT OF INTERNAL CONTROL PRACTICES ON
ORGANIZATIONAL PERFORMANCE OF CHID BANK**

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THE EFFECT OF INTERNAL CONTROL PRACTICES ON ORGANIZATIONAL PERFORMANCE OF CHID BANK

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ABSTRACT

The objectives of this study are to identify the internal control practices of CHID Bank and to analyze the effect of the internal control practices on the organizational performance of CHID Bank. This study used a quantitative research method. The participants were selected by the simple random sampling method. Primary data were collected from 110 out of 150 employees across various departments, including internal audit, risk and compliance, and operations, representing a diverse and well-qualified respondent profile using Taro Yamane Formula (1973). Correlation and multiple regression analysis were also used to find out the effect of the internal control practices on organizational performance of CHID Bank. The findings of this study indicate that the monitoring activities, risk assessment, and information and communication have a statistically significant effect on the bank's performance. Overall, the findings indicate that while all internal control practices are important, they are essential for improving CHID Bank's performance. It is suggested that CHID Bank consider strengthening its internal control practices through continuous oversight and periodic evaluations. Additionally, promoting timely and transparent communication across departments may support a more cohesive control environment.

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CHAPTER I

INTRODUCTION

The concept of internal control has developed over time in response to the growth of organizational operations and the need for reliable financial reporting. The COSO definition stated that internal control is a process aimed at providing reasonable assurance in attaining operational, reporting, and compliance objectives.

Al-Thuneibat (2015) stated that internal control was a set of rules and guidelines that governed organizational operations and ensured that the board of directors and management were able to successfully accomplish company objectives. Due to its importance, internal control was crucial to firm governance across all industries. It was especially crucial in the banking industry, where dangerous conditions harmed production and profitability. A bank's strong internal control system reduced operational and financial risks, ensuring stability and sustainable growth in a competitive and regulated financial market.

The founding of COSO, which backed the Treadway Commission, marked a substantial advance in internal control. The seminal 1992 COSO paper Internal Control Integrated Framework defined and framed internal control systems. The framework included controlling environment, risk assessment, control actions, information and communication, and monitoring activities. An updated version of the framework was released in 2013 as a result of this action, which aimed to increase its applicability in addressing modern challenges. The updated framework highlighted key elements that were essential to enhancing organizational performance and strengthening internal controls, including monitoring, compliance, risk assessment, and control actions (COSO, 2013). Organization and authorization of valid internal control systems were supposed to yield reliable financial performance.

Internal control practices are among the most important mechanisms an organization can implement to ensure the efficient use of resources and operational effectiveness. These practices include establishing systems and procedures designed to enhance efficiency, ensure compliance with management policies, prevent and detect fraud, and facilitate the preparation of accurate and timely financial reports. By effectively implementing these practices, organizations can improve risk management, protect assets, and promote accountability and transparency at all levels of operations.

Effective internal control practices are necessary for maintaining operational integrity and accomplishing strategic goals in the dynamic and competitive environment in

which CHID Bank, like other financial institutions, functions. Therefore, improving efficiency and attaining sustainable growth require an understanding of the relationship between the internal control practices and organizational performance.

This research examines CHID Bank's internal control methods and organizational performance. Regulators, bank executives, and lawmakers will learn how to strengthen internal control systems to reduce risks and boost performance.

1.1 Rationale of the Study

Banking is crucial to every nation's financial system. Banks need internal control systems because they are complicated, regulated, and dangerous. A well-designed internal control system includes protections, checks, and balances to prevent and identify fraud in banks' large volume of financial transactions, including fraud, cyberattacks, and financial mismanagement.

The effectiveness of internal control systems plays a critical role in ensuring strong governance, efficient operations, and organizational accountability, especially in the banking sector, which is a high-risk sector. Financial institutions regularly face challenges such as fraud, regulatory compliance, mismanagement, and operational weaknesses. In response to these realities, implementing a comprehensive, structured internal control framework is essential.

The widely established COSO framework is effective for creating and assessing internal controls. Critical are controlling environment, risk assessment, control actions, information and communication, and monitoring. These components help businesses identify risks, encourage ethics, and make reliable judgments.

Effective organizational performance depends on internal control methods. The control of the environment fosters integrity, ethics, and responsibility. Risk assessment helps businesses identify and analyze internal and external risks that might impede goals, enabling prompt and informed actions. Control activities are rules and processes that guarantee directions are followed efficiently and consistently, reducing mistake and fraud. Information and communication assist decision-making and responsiveness by ensuring relevant, accurate, and timely data flows across all organizational levels. Last, internal controls are monitored to identify issues and improve. Thus, these approaches create a holistic system that protects assets and improves operational efficiency and goal attainment.

Internal controls are crucial to CHID Bank's financial soundness, regulatory

compliance, and operational efficiency as a semi-government bank, which is influenced by both the public and private sectors. As a government-owned bank, CHID has always followed bank regulations. Since 2014, the bank has implemented internal control and solid corporate governance. And also, the bank has implemented the necessary policies and procedures (e.g., committee charters, code of conduct, etc.). Therefore, CHID Bank has implemented internal control measures in line with the COSO model to meet regulatory requirements, safeguard resources, and enhance efficiency.

The main point of this study is that employees can see whether their actions are in line with internal control. By applying COSO Model, this study aims to highlight how employees of CHID Bank perceive internal control practices and how these perceptions influence the bank's organizational performance. The study aims to explore whether employees understand their role in internal control practices, understand risk assessment, effectively perform their responsibilities, and appropriately communicate control issues in control activities and information sharing and communication. This study seeks to understand how workers see internal control and bank performance.

This research identifies CHID Bank's internal control system strengths and shortcomings and how they affect organizational performance. This research will assist comprehend CHID Bank's internal control system and how to enhance it.

1.2. Objectives of the Study

The objectives of this study are as follows:

- (1) To identify the internal control practices of CHID bank.
- (2) To analyze the effect of internal control practices on organizational performance of CHID Bank.

1.3 Scope and Methods of Study

This research examines CHID Bank's internal control methods and organizational performance. It solely covers CHID Bank's internal control practices—control environment, risk assessment, control activities, information and communication, and monitoring. This research was quantitative. This study uses primary and secondary data. These questionnaires were administered to employees from the risk & compliance department, audit department, and other banking-related departments, including the domestic banking department, loan department, and channel banking department, all based at the CHID Bank (Head Office). For 150 total employees, the sample size for this study was

determined to be 110 using Taro Yamane's (1973) formula for sample size calculation. The study used basic random sampling to eliminate selection bias and assure representativeness. Online surveys with the Five-point Likert scale collected primary data, whereas textbooks, websites, reference books, academic publications, and CHID Bank annual reports provided secondary data. Data will be collected from April 1 to May 31, 2025.

1.4 Organization of the Study

Five chapters comprise this study. Chapter I introduces the study's premise, objectives, scope, and technique. Chapter II covers the study's theoretical basis, preceding studies, and conceptual framework. Chapter III describes respondents' demographics, CHID Bank's profile, and its internal controls. Survey data on CHID Bank's internal control methods and organizational performance is presented in Chapter IV. The end The summary, conclusions, and suggestions in Chapter V suggest future research.

CHAPTER II

THEORETICAL BACKGROUND

Internal control practices' theoretical foundation and organizational performance are discussed in this chapter. COSO framework internal control theory is also covered in this chapter. COSO framework components and past study of internal control techniques and conceptual framework are expressed.

2.1 Concept of Internal Control

Hopkin (2012) defines "internal control" as methods used to preserve assets, increase financial and operational efficiency, and enforce regulations. The board, management, and staff establish internal control to meet operational, reporting, and compliance goals (COSO, 2013). Internal control techniques are crucial in banking owing to high-risk financial activities and tight regulations. Internal control systems assist banks reduce risks, safeguard assets, verify financial records, and improve efficiency (Diligent, 2023).

The Turnbull Report defines internal control as behaviors and processes that help institutions manage business and compliance risks while ensuring quality reporting and regulatory compliance (Wales, Internal control: Guidance for directors on the Combined Code, 1999). Banks operate in a dynamic and complex environment; thus their internal control systems must be robust yet adaptable to provide reasonable confidence that institutional objectives can be accomplished under changing conditions. Thus, internal control in banking is a strategic instrument for performance and resilience, not only a statutory need.

Internal control is a fundamental element in ensuring not only compliance and risk mitigation, but also the long-term effectiveness of the organization. For banks with high operational risks and regulatory requirements, a well-designed internal control system supports the achievement of strategic goals by ensuring transparency, safeguarding resources, and making sound decisions. Ultimately, the presence of strong internal controls significantly contributes to improving the organization's performance by ensuring that operations are carried out efficiently and that objectives are met with confidence.

2.2 Practices of Internal Control

Internal controls are composed of five parts. All five components must work together for successful internal control.

2.2.1 Control Environment

Successful internal control begins with controlling environment, which determines techniques, goals, and organizational structures (COSO, 2008). Control environment provides the "tone at the top," including the board of directors overseas, and guides senior management to adopt goals-oriented strategies and plans. Management sets the processes, reporting lines, systems, and structures needed to apply internal controls consistently across the business. A strong control environment stresses management and staff ethics, honesty, and responsibility.

A good control environment impacts the organization's risk management and compliance culture, which is essential to internal control. An effective regulatory and control environment is a leading predictor of risk mitigation and self-regulation. A strong control environment promotes responsibility, ethics, and governance, which helps establish and maintain effective internal control processes. The control environment established internal controls and shaped staff attitudes and behaviors toward risk management and compliance, improving the organization's performance.

2.2.2 Risk Assessment

Risk assessment, the second component of internal control processes, helps the company identify and manage hazards that might hamper its goals. Senior, middle, and operational management study internal and external elements that may pose financial, operational, or compliance risks in a systematic risk assessment process. The organization's objectives, operational workflows, and system vulnerabilities are assessed to establish control needs.

In the context of the banking sector, where institutions are exposed to complex and high-risk environments due to regulatory demands, financial market volatility, and diverse transactions, a robust risk assessment practice is vital. It enables banks to anticipate, measure, and respond proactively to emerging risks, thereby safeguarding financial stability and supporting the achievement of strategic goals. The COSO Internal Control Integrated Framework (2013) lists risk assessment as one of five fundamental components of an effective internal control system. It assures firms may prioritize and mitigate risks according to their risk tolerance and business goals. Risk assessment is not just a compliance need but a proactive control practise that improves resilience and operational performance.

2.2.3 Control Activities

Management's policies, methods, and actions to restrict risks and achieve corporate goals are the third component of internal control approaches. All corporate levels and functions attend these gatherings. Control activities including approvals, authorizations, verifications, reconciliations, segregation of roles, and asset protection provide consistent and dependable operations.

In the banking sector, where precision, compliance, and accountability are critical, control activities form the backbone of internal control practices. They ensure that financial operations are executed properly, risks are addressed proactively, and organizational goals are supported by sound operational practices. According to Fabiana Melo et al. (2024), control activities are fundamental to maintaining the integrity, transparency, and effectiveness of banking functions. By implementing structured and consistent control mechanisms, banks not only manage operational and financial risks but also ensure adherence to legal and regulatory standards, ultimately promoting trust and sustainable performance.

2.2.4 Information and Communication

Information and communication, the fourth component of internal control, identifies, captures, and communicates relevant and timely data across all organizational levels to enable successful internal control. The COSO Framework requires quality information from internal and external sources to be created and distributed to allow staff to perform their duties.

Within the banking sector, effective communication systems allow management to disseminate control-related policies and expectations, reinforcing the importance of internal control measures across departments. Internal communication also fosters transparency, allowing senior management to promote a culture of accountability and ethical behavior. Bett and Memba (2017) emphasize that information systems should not only support the decision-making process but also facilitate both vertical and horizontal communication throughout the organization. Timely and accurate reporting strengthens organizational responsiveness, while consistent information flows enhance the ability of employees to perform control functions effectively and contribute to overall performance. (Odek & Okoth, 2019)

2.2.5 Monitoring Activities

Monitoring activities, the fifth component of internal control, requires continual evaluations and assessments to ensure that all components are working properly. This process helps management detect control deficiencies and take corrective actions promptly. According to the COSO Framework (2013), monitoring is essential to verify that internal controls remain relevant, responsive to changing risks, and are appropriately implemented throughout the organization.

In the banking sector, where operational, financial, and compliance risks are high, effective monitoring is critical to maintaining system integrity and accountability. Monitoring might involve internal audits, supervisory reviews, and performance indicators to assess policy and process effectiveness. Regular feedback loops allow for timely updates to control mechanisms, ensuring that banks remain aligned with regulatory expectations and internal objectives. By fostering continuous improvement, monitoring activities not only safeguard assets and compliance but also enhance organizational resilience and performance.

2.3 Organizational Performance

Organizational performance refers to an entity's capacity to accomplish its strategic objectives, encompassing financial stability, operational efficiency, customer satisfaction, market competitiveness, and long-term sustainability. According to Dixon (1990), performance indicators guide organizations toward their long-term goals by focusing efforts on measurable outcomes. Performance in the marketplace is a crucial determinant of business success and growth. (Dixon, 1990)

A robust internal control system significantly contributes to improved organizational performance by facilitating smooth operations, minimizing risks, and supporting informed decision-making through reliable and accurate information. As organizations expand their knowledge and learning capacity, their ability to perform successfully also improves (Whyte, 1991).

From a resource-based perspective, organizational performance is also linked to how effectively an organization utilizes its internal resources. Rumelt (1994) highlights that assessing an organization's resource base including assets, financial capital, employee skills, and operational procedures is essential to evaluating performance. Similarly, Barney (1991) emphasizes that competitive advantage and improved performance arise from an organization's ability to manage and leverage valuable resources effectively.

Moreover, internal controls influence employee motivation and performance by establishing clear roles, responsibilities, and expectations. When internal controls are effectively implemented, they foster transparency and build trust within the organization key drivers of employee engagement and efficiency. Employees who have confidence in the fairness and reliability of the control system are more likely to contribute positively to the organization's success.

2.4 Related Theories

Several theoretical methods can characterize organizational performance and justify the functional relationship between these predictions. This study uses agency and contingency theories.

2.4.1 Agency Theory

Meckling (1976) proposed a principal-agent conflict of interest paradigm. This idea argues actors may prioritize self-interest over shareholder interests. Bank managers might have agency issues with investors, regulators, and staff.

All banks are key financial intermediaries that impact stakeholder interests. Investment operations like lending and leasing need commercial banks to protect the interests of owners, managers, and other parties (Nguyen Kim, 2022).

Therefore, internal control practices are closely associated with agency theory. Internal controls ensure that decisions are made efficiently, transparently, and with responsibility because managers don't always operate in the best interests of shareholders. The agency problem can be practically solved by internal control measures, which guarantee appropriate monitoring, risk management, and accountability within an organization.

2.4.2 Contingency Theory

Contingency theory states that internal control systems should be adjusted to an organization's size, structure, risk profile, and external environment. In the banking sector, this theory aligns closely with the COSO Internal Control Integrated Framework. According to contingency theory, banks should not apply internal controls uniformly. They should tailor their implementation of the COSO components based on their unique risk profiles and organizational needs (Burns & Stalker, 1961). The flexibility of the COSO model allows banks to adapt to regulatory expectations and scale and fine-tune control mechanisms.

Moreover, when banks adjust their COSO-based internal control practices to their specific operating and environmental conditions, they can manage risks more effectively,

improve decision-making, and enhance accountability. This approach leads to consistent and effective control systems, which ultimately leads to better organizational performance (Donaldson, 2001).

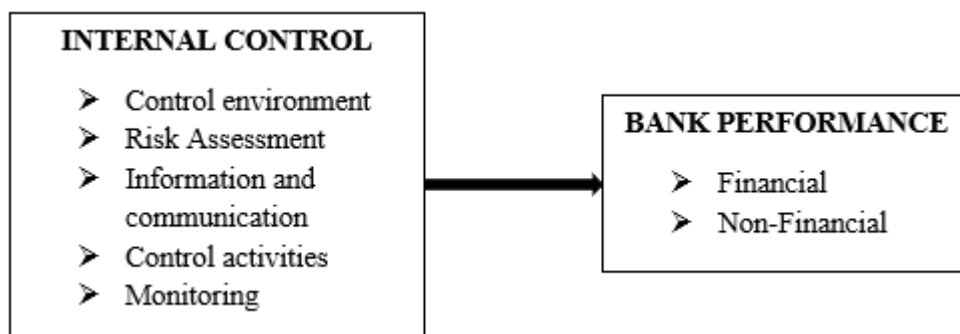
By customizing internal control practices to reflect these different organizational factors, banks can improve the effectiveness and relevance of their control environment. This strategic alignment not only strengthens risk management and accountability but also directly contributes to improving organizational performance.

2.5 Previous Studies

This paper refer to three previous studies to establish a theoretical context and construct the conceptual framework.

Hussaini and Muhammed (2018) provided a theoretical framework for Nigerian commercial banks' internal control system performance. The control environment, risk assessment, information and communication, control activities, and monitoring that affect bank performance are discussed. A conceptual framework for this study is shown in Figure 2.1.

Figure (2.1) Effect of Internal Control on Performance of Commercial Banks in Negria: A Proposed Framework



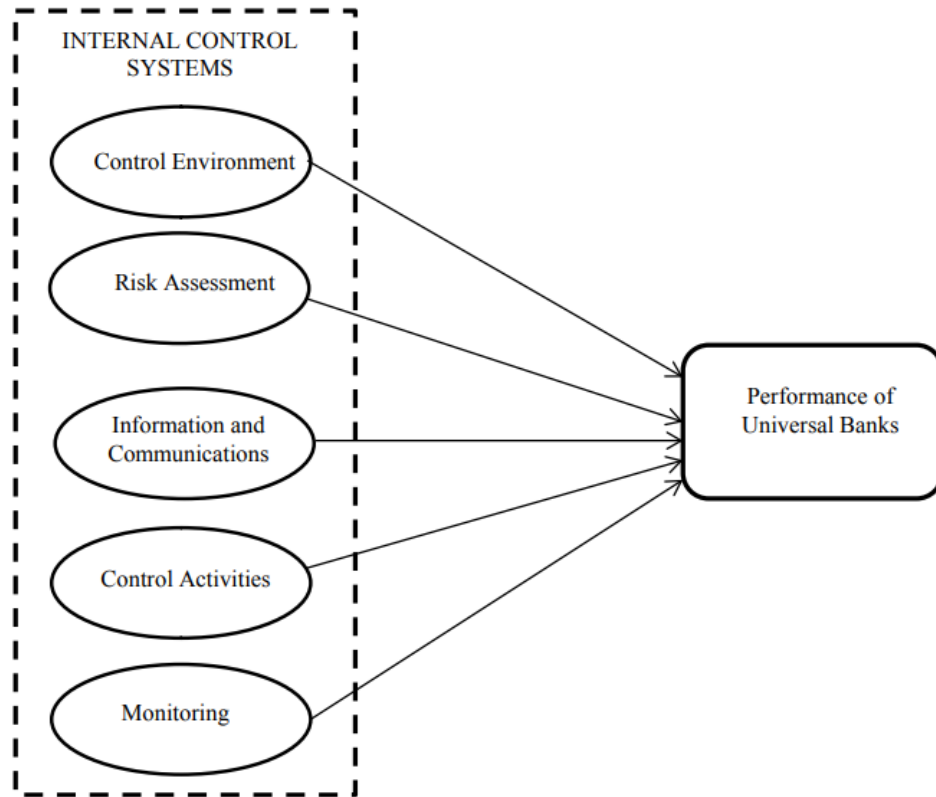
Source: Hussaini and Muhammed (2018)

Internal control techniques enhanced banking organizational results, according to the data. The survey also noted that banks with strong internal control systems, especially those that protect consumer money, increase customer confidence. This increases consumer trust and loyalty, which are crucial to competitive advantage and financial and non-financial success. Thus, a strong internal control system improves operational efficiency and bank reputation and performance (Hussaini & Muhammed, 2018).

Internal control mechanisms impact Ghanaian universal banks, according to Otoo et al. (2021). The researchers used the five COSO internal control components from relevant

literature to create a conceptual framework to examine internal control systems and organizational performance. This study's conceptual framework is in Figure 2.2.

Figure (2.2) Impact of Internal Control Systems on Performance of Universal Banks: Evidence from Ghana

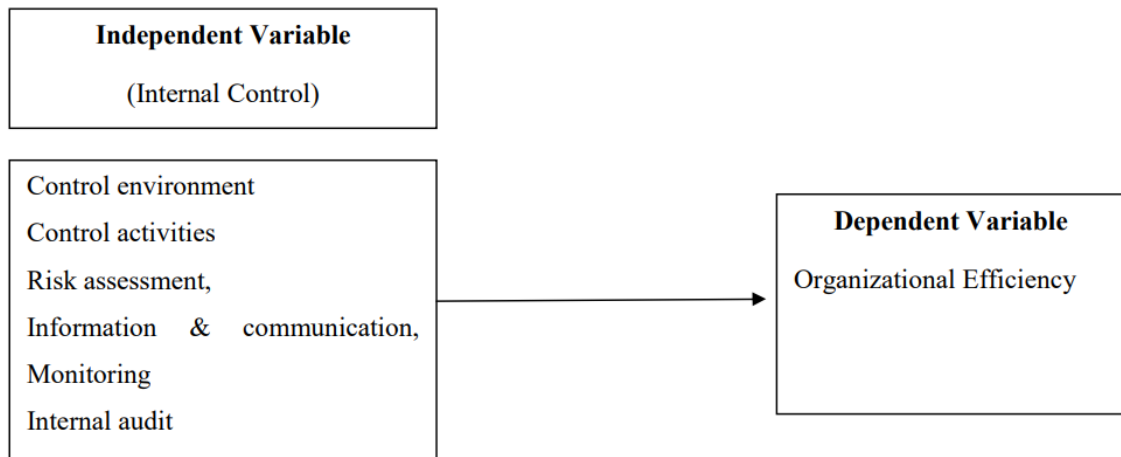


Source : Otoo et al. (2021)

This study by Otoo et al. (2021) showed that using internal control practices in all parts of an organization, when aligned with the organization's goals, significantly boosts overall performance. Drawing from these empirical results, the authors recommended that universal banks adopt risk identification strategies tailored to their specific operational contexts, invest in the development of information and communication systems to support control processes, and strengthen monitoring and evaluation mechanisms through continuous internal audits and periodic performance reviews .

Meshesha (2016) examined how internal control systems improve organizational efficiency at Awash International Bank S.C. Control environment, control activities, risk assessment, information and communication, monitoring, and internal audit were successful internal control components Figure 2.3.

Figure (2.3) Internal Control and Its Contribution To Organizational Efficiency : A Case Study Of AWASH International Bank S.Co



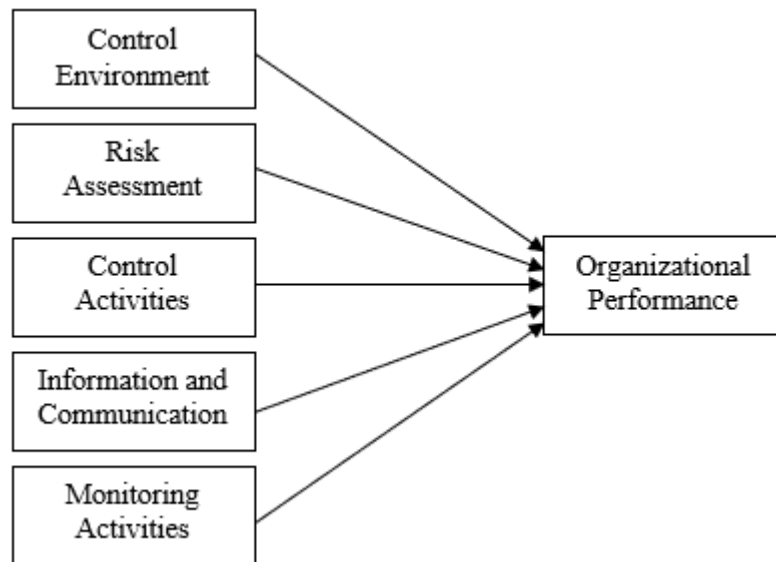
Source : Meshesha (2016)

The studies showed that internal control systems boost bank operating efficiency. The study found that well-functioning internal controls helped detect and prevent mistakes and fraud, assured compliance with organizational rules and regulatory requirements, and enhanced financial reporting accuracy and dependability. Additionally, the presence of strong internal control mechanisms enhanced employee accountability, resource utilization, and service delivery, all of which are essential for promoting efficiency within the organization. Based on these findings, the study recommended that the bank should continuously strengthen its internal control systems by updating policies, enhancing staff training, and conducting regular evaluations to ensure sustained efficiency and alignment with organizational goals (Meshesha, 2016).

2.6 Conceptual Framework of the Study

Previous research have divided the conceptual framework into independent and dependent factors. The conceptual framework shows that control environment, risk assessment, control activities, information and communication, and monitoring activities impact organizational performance.

Figure (2.4) Conceptual Framework of the Study



Source: Own Compilation, 2025

2.7 Working Definition

The CHID Bank Control Environment underpins the internal control system. It represents the board of directors and senior management's ethics, integrity, and dedication to competence, responsibility, and good governance.

CHID Bank systematically identifies and analyzes internal and external risks that might impede company goals. In this procedure, fraud, credit, and operational vulnerabilities are assessed.

Control Activities refer to the specific policies, procedures, and mechanisms implemented to address identified risks. At CHID Bank, these include authorizations, approvals, verifications, segregation of duties, reconciliations, and adherence to standard operating procedures.

Information and Communication encompass the processes through which relevant, timely, and reliable information is collected, processed, and disseminated within and outside the organization. At CHID Bank, this includes internal reporting systems, employee awareness programs, regulatory communications, and customer feedback mechanisms.

Monitoring Activities involve continuous or periodic evaluations designed to assess the effectiveness of the internal control system. CHID Bank implements these through internal audits, managerial reviews, corrective action follow-ups, and structured feedback mechanisms.

CHID Bank's organizational performance measures its strategic and operational goals. It includes profitability, operational efficiency, service quality, customer happiness, regulatory compliance, innovation, and asset protection.

CHAPTER III
PROFILE OF CHID BANK AND
INTERNAL CONTROL PRACTICES IN CHID BANK

This chapter describes CHID Bank and its structure. Additionally, it details the bank's internal control methods.

3.1 Profile of CHID Bank

Although Myanmar's housing market is expanding, the country is experiencing major financial challenges, particularly in the segment of the economy that deals with low-income individuals. Over the course of more than three decades, the government has been making efforts to find a solution to this issue by directing monies from the national budget toward the development of public housing. In the year 2012, the government made a modification to its policy regarding the housing delivery system and implemented housing finance initiatives. The reason for this is that CHID Bank was established under the supervision of MOC in order to devise a financial mechanism that would enable the provision of cheap and low-cost housing development loans through banking as well as low-interest, long-term mortgage loans for homeownership. During the month of January in 2014, CHID Bank was founded as a public limited company through a collaboration between the government and the private sector. This cooperation was overseen by the Ministry of Construction.

Initially, the institution that would later become known as CHID Bank was known as Construction and Housing Development Bank (CHD Bank). On the other hand, in accordance with the orders issued by the national government, it became necessary to also provide support for the development of infrastructure. As stated in the Myanmar Economic Policy, the CHID bank offers financial assistance to the housing industry as well as the development of public infrastructure, which includes the construction of roads, bridges, and electrical power, as well as the development of social infrastructure initiatives. As a result, on June 17, 2018, the name of the bank was changed from CHD Bank to CHID Bank, which stands for Construction, Housing, and Infrastructure Development Bank.

CHID Bank was founded with the strategic aim of becoming the "Bank of Choice" by providing financial services that are responsive to the requirements of the public while operating within the framework of a financial organization that is focused on growth. Through the provision of forward-thinking credit programs and the promotion of financial

inclusion, the purpose of this organization is to enable individuals to ensure a brighter future for themselves. By doing so, the bank intends to make a significant contribution to the process of socioeconomic growth and to the general improvement of living conditions throughout the entirety of Myanmar, including all of its states and regions simultaneously.

Three primary goals have been outlined by the bank, which serve as the foundation for its operations. To begin, it intends to facilitate the provision of construction loans, housing loans, and mortgages by means of financing methods that are short-term, medium-term, and long-term in nature. Second, CHID Bank is working to strengthen its financial foundation by putting into action initiatives that will see a rise in the number of deposits made by the general population. Thirdly, it gives priority to the distribution of financing to projects for the development of infrastructure that are essential to the development goals of both the national government and the government itself. By providing targeted financial services, the bank is demonstrating its dedication to promoting sustainable development and economic advancement through the achievement of these objectives.

One of the goals that CHID Bank has set for itself in terms of its institutional principles is to cultivate a society in which every person has the opportunity to live with peace, dignity, happiness, and long-term well-being. Its function as a socially responsible financial institution is strengthened by the importance of this value system, which is ingrained in both the organization's service philosophy and its organizational culture.

With regard to the geographical scope of its activities, CHID Bank has expanded its operations to a number of important cities in Myanmar recently. There are now open branches of the bank in the following locations: Yangon, Mandalay, Nay Pyi Taw, Magway, Monywa, Patheingyi, Mawlamyine, Bago, Dawei, Hpa-an, and Taunggyi. On the other hand, due to operational reasons, the branches located in Myitkyina and Loikaw have been temporarily closed. Although these obstacles have been encountered, the bank continues to be dedicated to its long-term goal of growing branch coverage across the country in order to guarantee that its financial services are accessible to a wide range of people.

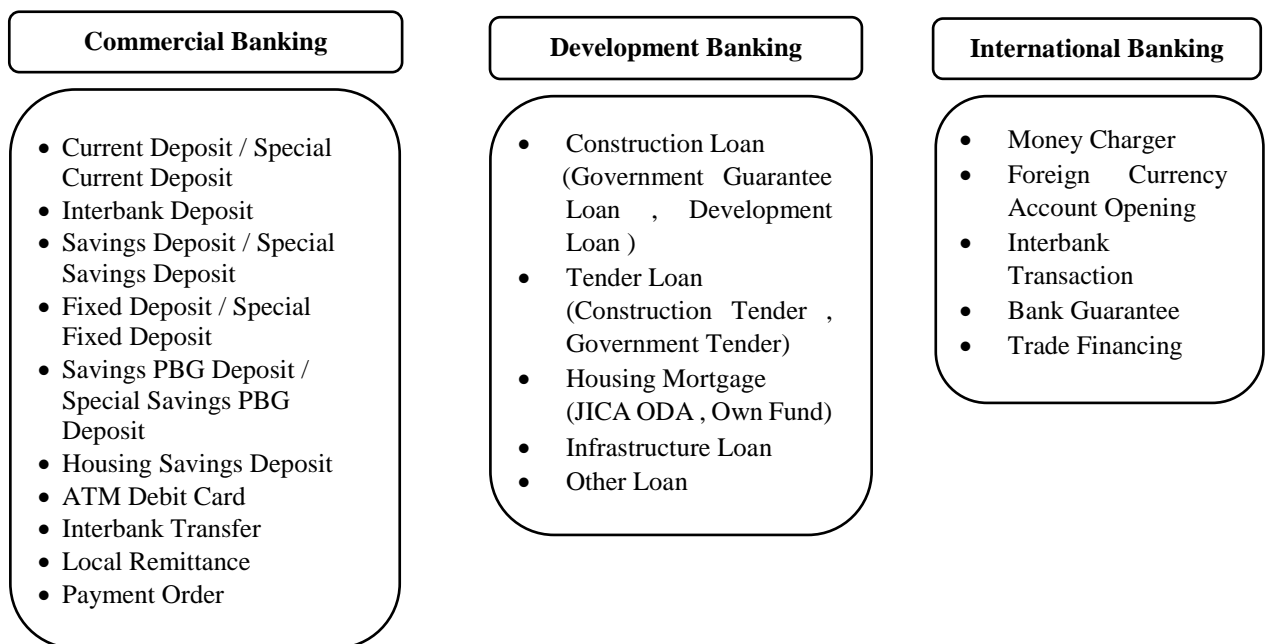
Within the context of the digital era, the digitization and replacement of the whole financial system is made possible by the breakthrough and the expansion of mobile phone penetration in Myanmar. Increasing financial inclusion and modernizing Myanmar's banking environment are two goals that CHID hopes to achieve by becoming a technology-driven digital bank that provides banking services that are both quick and uninterrupted. Mobile banking, Internet banking, and mobile wallet services will be introduced by CHID

Bank in order to accomplish this goal. These services will provide customers across the country with access to innovative and accessible financial solutions. Additionally, CHID Bank intends to link its commercial banking system with MMQR, which is Myanmar's first standardized QR payment platform.

3.2 Products and Services Provided by CHID Bank

CHID Bank provides services primarily through three (3) segments, such as commercial banking, development banking, and international banking, as shown in Figure (3.1).

Figure (3.1) Products and Services Provided by CHID Bank



Source : CHID Bank (2025)

As a primary objective of the bank is to enable all the middle and low income to afford homeownership, especially, the bank is offering the medium to long-term financing with affordable interest rates to government employees , retirees, company staff, and all low-income members of the general public. So, housing mortgage loans are the main product of CHID Bank.

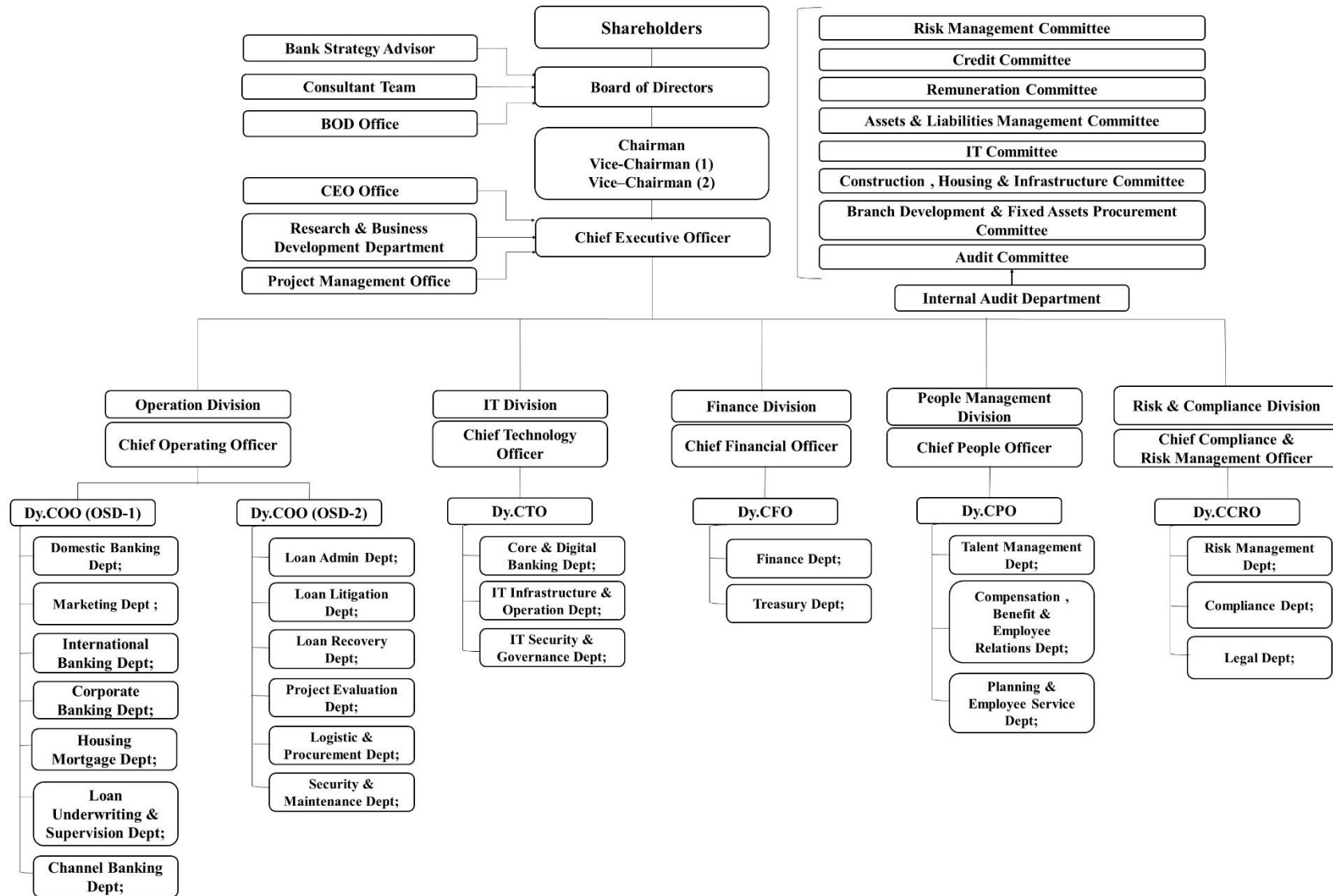
3.3 Organizational Structure of CHID Bank

The chairman of the board of directors leads CHID Bank's well-structured organization. According to Central Bank of Myanmar laws, eight director-shareholder committees have been formed to help the bank operations and management team and set policies.

The CEO runs the bank's daily operations and business decisions. The COO also oversees bank operations. COOs oversee domestic and international banking, loans, corporate affairs, marketing, and administration. In addition, the people management division is headed by the Chief People Officer (CPO), who is responsible for employee policies, training, and human resource development activities. The financial affairs of the bank are managed by the Chief Financial Officer (CFO), who is responsible for financial management and accounting, as well as financial stability. A separate department supports technology and digital banking, with the Deputy Chief Technology Officer (Dy.CTO) currently leading it.

In addition, the bank has a Bank Strategy Advisor who assists in the communication between the bank and ministries and provides effective advice for the development of the bank. In addition, consultants are also appointed from whom they are engaged in the development of the bank by obtaining advice related to audit, risk-based system advice, and legal advice. Thus, CHID Bank has a strong governance structure, and the division of responsibilities according to the relevant departments is shown in the Figure (3.2) below.

Figure (3.2) CHID Bank's Organization Structure



Source : CHID Bank (2025)

3.4 Internal Control System at CHID Bank

Internal control of the bank manages and reduces risks that might prevent it from accomplishing its goals, monitors its assets, and ensures compliance with all necessary authority rules and directives.

To strengthen its internal control practices, CHID Bank has established various governance structures and strategic initiatives. The Risk Management Committee, Credit Committee, and Audit Committee are actively involved in reviewing and recommending internal control measures and risk mitigation plans. Internal Audit routinely analyzes and assesses the bank's operations and reports its findings to senior management, the Audit Committee, and the Board of Directors for supervision and action.

In addition to these governance efforts, CHID Bank has implemented a Whistleblowing Policy, which provides all employees with a secure and confidential platform to report any unethical or illegal conduct. This initiative supports the bank's commitment to transparency, accountability, and ethical standards across the organization.

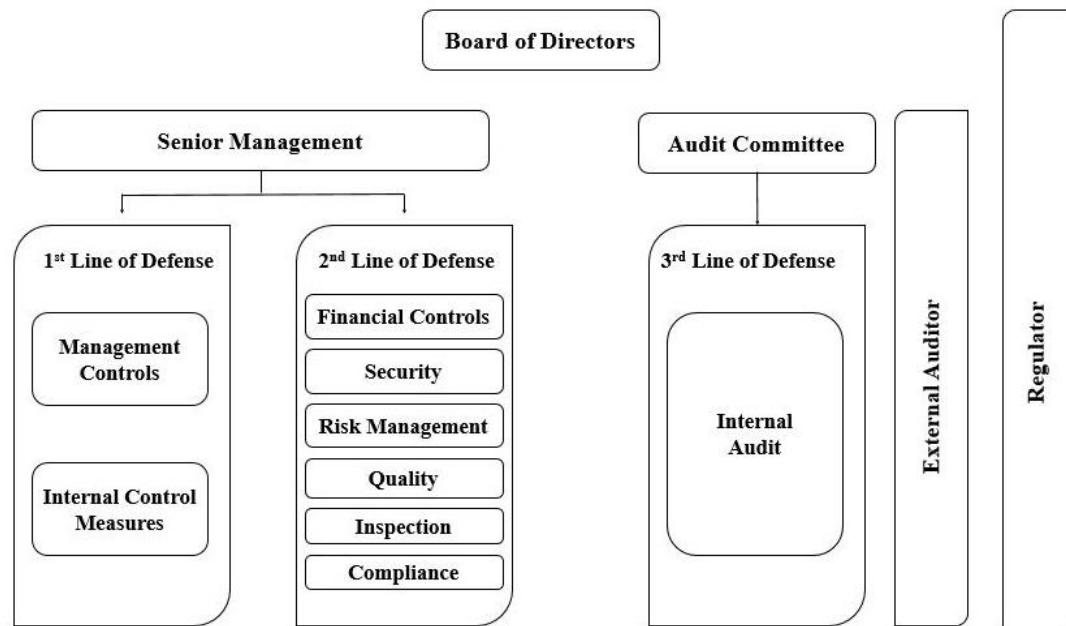
In addition to these measures, CHID Bank is developing risk-based auditing, set to be implemented from FY 2024-25 upon obtaining approval from the board. This approach includes a structured template to identify and mitigate risks such as control risk, compliance risk with Central Bank of Myanmar regulations, AML/CFT regulations, internal control risk, and operational risk. The adoption of this forward-looking auditing system is expected to enhance the capacity of the bank to manage emerging risks effectively and reinforce its overall performance and resilience.

CHID Bank's board and management accept responsibility for building and maintaining a solid internal control and risk management system. This framework encompasses risk appetite development and risk management rules and procedures in accordance with the Central Bank of Myanmar. The bank's internal control processes preserve assets, promote operational efficiency, and assist strategic decision-making while ensuring regulatory compliance. The CHID Bank internal control system manages inherent and emergent risks from internal processes and external influences.

The board and management of CHID Bank constantly review risk assessments under its strong internal control system. Management creates risk management policies and processes, assesses operational and strategic risks, and applies controls to mitigate them. Management must also establish and maintain an effective internal control and risk management system and alert the board of significant risk profile changes. With three-line

defense, the bank has an excellent internal control system. Operational management, risk management, compliance, and internal audit assure risk control. Figure 3.3 depicts CHID Bank's three-line defense.

Figure (3.3) Three Lines of Defense Model



Source : CHID Bank (2023-2024)

3.5 Internal Control Practices of CHID Bank

The CHID Bank internal control processes include five functions. Information and Communication, Monitoring, Control Environment, Risk Assessment, and Control.

3.5.1 Control Environment of CHID Bank

The control environment at CHID Bank reflects the institution's commitment to ethical values, integrity, and sound governance. The tone at the top, established by the board of directors and senior management, promotes a culture of accountability, transparency, and risk awareness throughout the organization.

Ethical conduct is a core value of the bank, reinforced through well-communicated Codes of Conduct, Conflict of Interest, and Ethics Policies. These policies are systematically enforced to ensure that every employee adheres to high standards of behavior and professionalism. Furthermore, CHID Bank places significant emphasis on staff competency by recruiting qualified individuals, offering post-recruitment training, and aligning individual performance targets with the bank strategic goals. The organizational structure of CHID Bank clearly defines lines of authority and responsibility, allowing for effective decision-making and

efficient role execution across all departments.

The board of directors maintains active oversight of the internal control framework, regularly evaluating its effectiveness and addressing any identified gaps. These continuous assessments support the enhancement of operational effectiveness, legal and regulatory compliance, and overall organizational performance.

The control environment of CHID Bank effectively underpins its internal control system. Through strong leadership, well-documented policies, a culture of integrity, and commitment to employee competence, the bank fosters robust governance and sustainable performance across all levels.

3.5.2 Risk Assessment of CHID Bank

CHID Bank has established clear and well-communicated objectives for all key activities, ensuring alignment with the bank's overall strategic, operational, and compliance goals. As part of its internal control framework, the bank systematically implements risk assessment practices across all departments to identify, analyze, and respond to potential risks that may hinder the achievement of these objectives.

The bank's risk assessment process is designed to consider both internal and external risk factors, including financial, operational, compliance, and reputational elements. Each department regularly evaluates potential problems and loss exposures, integrating risk considerations into business processes and decision-making.

CHID Bank utilizes tools such as risk matrices to assess both inherent and residual risks, allowing management to set appropriate risk tolerance levels tailored to specific circumstances. The assessment process also supports the development of response strategies aligned with the bank's strategic options and operational plans.

To maintain a forward-looking approach, the bank continuously monitors changes in the internal and external environment, including shifts in market dynamics, economic trends, and regulatory frameworks. These insights inform updates to the bank's risk assessment strategy, enabling timely responses to emerging risks and reinforcing proactive risk management across all departments.

3.5.3 Control Activities of CHID Bank

At CHID Bank, control activities are implemented as an integral part of the internal control system to support the achievement of strategic, operational, and compliance objectives.

These activities are guided by clearly documented policies and procedures that apply across all functional and hierarchical levels of the bank.

Each department at CHID Bank maintains a well-identified documentation flow, ensuring that all processes are properly recorded, monitored, and followed. All financial and operational transactions are subject to appropriate levels of authorization and approval to enhance control and reduce the risk of errors or irregularities.

To promote operational effectiveness, CHID Bank provides its staff with regular training on the implementation of financial and operational management systems. This provides employees with the necessary knowledge to execute control activities in line with established policies.

The bank also enforces procurement policies and procedures that ensure transparency and objectivity in acquiring assets and materials, minimizing the risk of conflicts of interest. Furthermore, segregation of duties is maintained across critical functions such as authorization, recording, and asset control to prevent errors, fraud, or misuse of resources.

Control activities include both preventive and detective mechanisms such as reconciliations, checklists for compliance with Standard Operating Procedures (SOPs), and automated system checks. Responsibilities for these controls are delegated to designated individuals to reinforce accountability and stratified control.

Through these structured control practices, CHID Bank enhances regulatory compliance, minimizes operational risk, and fosters a culture of responsibility and accountability, all of which contributes to improved organizational performance.

3.5.4 Information and Communication of CHID Bank

Effective information and communication systems are crucial to CHID Bank's internal control architecture. The bank shares relevant, accurate, and timely information across departments and levels to improve coordination and decision-making. Induction programs and policy guides make internal control and responsibility division clear to all workers. This enhances organizational control consciousness and promotes control responsibility sharing.

Communication channels are established to disseminate policies, risk assessments, and operational updates. These channels facilitate the timely distribution of important information to employees, ensuring that everyone is kept informed about changes that affect their roles and responsibilities. In terms of external communication, CHID Bank has strong processes for providing relevant and timely information to regulators, shareholders, and other stakeholders.

Reports are submitted accurately and in compliance with applicable legal and regulatory requirements, strengthening the bank's accountability and transparency.

To encourage feedback and improve internal controls, the bank has implemented two-way communication systems, including whistleblowing mechanisms. These platforms enable employees to raise concerns, offer suggestions, and receive responses, thereby fostering a culture of openness and responsiveness.

Effective internal communication at CHID Bank supports prompt decision-making, improves operational efficiency, and reduces unnecessary delays.

3.5.5 Monitoring Activities of CHID Bank

CHID Bank conducts systematic and periodic monitoring of its internal control system to ensure continued effectiveness and alignment with organizational goals. Each functional unit is responsible for conducting internal reviews to evaluate the proper implementation of controls within their scope. These reviews help identify any weaknesses in control systems and ensure that timely corrective actions are taken.

The Internal Audit Department of CHID Bank conducts frequent, risk-based audits to impartially evaluate operational integrity and control adequacy in addition to continuous line manager monitoring. Audit findings and monitoring results are communicated promptly to senior management and the Board of Directors through the Audit Committee to support informed decision-making and accountability.

Furthermore, CHID Bank maintains a dedicated unit responsible for ensuring compliance with regulatory requirements, including directives from the Central Bank of Myanmar. Any changes in the regulatory environment are continuously tracked and reflected in updates to the internal control framework. Once control deficiencies are identified, they are addressed with documented and monitored action plans to prevent recurrence.

These monitoring mechanisms not only help the bank maintain strong internal governance but also contribute to improved performance by identifying operational gaps and fostering a culture of accountability and continuous improvement across all departments.

CHAPTER IV

ANALYSIS OF INTERNAL CONTROL PRACTICES ON ORGANIZATIONAL PERFORMANCE OF CHID BANK

This chapter highlights the study's internal control and CHID Bank organizational performance findings. It contains four main sections. Respondent demographics are examined first. Part 2 covers internal control and organizational performance. Internal control processes and organizational performance are examined in the last part. Lastly, multiple linear regression analysis indicates how internal control methods impact CHID Bank's fourth segment performance.

4.1 Research Design

This study examines CHID Bank's internal controls and performance. Control environment, risk assessment, control activities, information and communication, and monitoring in internal control processes are studied. This study was quantitative. The study uses primary and secondary data. Primary data are collected online using a standardized five-point Likert scale. The survey targets CHID Bank Head Office risk and compliance, audit, and banking workers. Textbooks, academic journals, the internet, reference books, and CHID Bank annual reports provide secondary data. The sample size is determined using Taro Yamane (1973) formula with a 95% confidence level and a 5% margin of error. Given the total population of 150 employees, the sample are calculated as-

$$n = \frac{N}{1 + N(e)^2}$$

where, n = the sample size

N = the population size (150)

e = the acceptable sampling error (95% confidence level and e = 0.05)

$$n = \frac{150}{1 + 150(0.05)^2} = \frac{150}{1.375} = 109.09 \approx 110$$

Yamane calculated 110 workers for the sample. CHID Bank analyzes data and how internal control systems effect organizational performance using descriptive statistics, correlation, and regression.

4.2 Demographic Information of Employees

Here are the study's respondents' demographics. The list includes gender, age, education, employment, department, and CHID Bank experience. Table 4.1 indicates

frequency and proportion.

Table (4.1) Demographic Information of Employees

No	Characteristics	Items	Frequency	Percent
Total			110	100.00
1	Gender	Female	75	68.18
		Male	35	31.82
2	Age (Years)	Under 25	8	7.30
		26 - 35	57	51.82
		36 - 45	32	29.09
		Over 45	13	11.82
3	Level of Education	Under Graduate	3	2.70
		Graduate's Degree	75	68.18
		Master's Degree	29	26.36
		Other	3	2.73
4	Current Position	Non-Management Staff	19	17.27
		Middle Management	62	56.36
		Senior Management	14	12.73
		Other	15	13.64
5	Department	Internal Audit Department	32	29.09
		Operations and Banking Related Departments	23	20.91
		Risk Management and Compliance Departments	29	26.36
		Other	26	23.64
6	Year of Experience in CHID Bank (Years)	Below (1)	15	13.64
		1-3	31	28.18
		3-5	20	18.18
		5-8	15	13.64
		8-11	14	12.73
		Above 11	15	13.64

Source: Survey data (2025).

According to Table (4.1), the demographic information of the employees provides an overview of the sample population in this study. The sample of 110 employees, 68.18% were female and 31.82% were male, indicating a higher representation of female employees at CHID Bank. Regarding age, the majority of respondents 51.82% were between 26 and 35 years old, followed by 29.09% aged 36 to 45 years, indicating that most employees are in their early to mid-career stage. In terms of education level, 68.18% of the respondents held a graduate degree, and 26.36% held a master's degree, showing that the workforce is generally well-educated. Concerning current positions, more than half of the respondents 56.36% were from middle management, indicating that many participants are in supervisory or decision-making roles. The largest departmental group represented was the internal audit department 29.09%,

followed by the risk management and compliance departments 26.36%, showing that the survey mainly targeted employees involved in internal control processes. As for work experience, the largest group 28.18% had 1–3 years of experience at CHID Bank, while 13.64% had more than 11 years, showing a mix of both relatively new and experienced employees in the sample.

4.3 Reliability Test

This section presents the study's measurement instruments' internal consistency reliability test results. To ensure survey items assess the same idea, dependability is key. George and Mallery (2003) assessed internal control component scale reliability using Cronbach's alpha coefficient. Cronbach's alpha values above 0.70 imply high internal consistency. Scores between 0.60 and 0.70 are acceptable for exploratory study; values below 0.60 require scale or item improvement. Table 4.2 indicates reliability variations.

Table (4.2) Reliability Test of Variables

No.	Variables	No. of Items	Cronbach's Alpha
1	Control Environment	7	0.889
2	Risk Assessment	7	0.883
3	Control Activities	7	0.896
4	Information and Communication	7	0.870
5	Monitoring Activities	7	0.906
6	Organization Performance	10	0.943

Source: Survey data (2025).

The reliability test results in Table 4.2 show good internal consistency for all variables. Control environment, risk assessment, control actions, information and communication, and monitoring activities have Cronbach's alpha values of 0.870 to 0.906. Organizational performance is most dependable at 0.943 Cronbach's alpha. The study's measurement scales are reliable because all values exceed 0.70. This shows that questionnaire questions consistently measure their constructs and may be statistically assessed.

4.4 Employees Perception on Internal Control Practices and Organizational Performance

CHID Bank personnel give their opinions on internal control approaches in five areas: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities. Additionally, bank employees' organizational performance

perspectives are assessed. These viewpoints are examined to assess how personnel see internal controls and their influence on bank performance. The analysis employs a five-point Likert scale for questionnaire responses.

Table (4.3) Mean Value Interpretation

Mean Value	Description
1.00 – 1.80	Very Low
1.81 – 2.60	Low
2.61 – 3.40	Neutral
3.41 – 4.20	High
4.21 – 5.00	Very High

Source: Moidunny (2009)

Table (4.3) provides the interpretation scale for the mean values obtained from the survey responses. According to Moidunny (2009), mean scores between 1.00 and 1.80 indicate a “Very Low” level of agreement or perception, while scores from 1.81 to 2.60 represent a “Low” level. A mean value ranging from 2.61 to 3.40 is considered “Neutral,” reflecting neither strong agreement nor disagreement. Scores between 3.41 and 4.20 provide a “High” level of perception, and mean values from 4.21 to 5.00 indicate a “Very High” level. This scale serves as a reference to interpret the average responses of participants regarding internal control practices and organizational performance in the study.

4.4.1 Employees Perception on Control Environment

This section presents the respondents’ perceptions of the Control Environment at CHID Bank, based on seven key statements measured using a five-point Likert scale. The mean scores and standard deviations for each statement are shown in Table (4.4) , reflecting how employees view various aspects of the control environment within the organization.

Table (4.4) Mean Value of Control Environment

Sr. No	Statements	Mean	Std. Deviation
1	Ethical values and integrity are main principles emphasized by the management of CHID Bank.	4.15	0.562
2	The organizational structure at CHID Bank clearly defines authorities and responsibilities.	3.91	0.749
3	Employees at CHID Bank are aware of their internal control responsibilities.	4.16	0.684
4	Management closely monitors implementation of Internal Control practices in each department.	4.00	0.664
5	The board of directors at CHID Bank actively oversees the effectiveness of internal control activities.	4.30	0.698
6	CHID Bank's internal control practices ensure strong compliance with relevant laws and regulations.	4.23	0.645
7	Internal control practices at CHID Bank contribute significantly to improving overall organizational performance.	4.14	0.735
	Overall Mean	4.13	

Source: Survey data (2025)

Table 4.4 demonstrates that respondents rated the Control Environment highly, with a mean of 4.13. The highest mean score, 4.30, shows that the board of directors routinely reviews internal control, displaying leadership confidence. The judgment that CHID Bank's internal controls provide high regulatory compliance scored 4.23. The mean score for management-emphasized ethics and integrity was 4.15, followed by workers' internal control comprehension at 4.16. The statement about internal control practices contributing significantly to improving overall organizational performance also scored highly at 4.14. Management's close monitoring of internal control implementation had a mean of 4.00, while the lowest, yet still high, score was 3.91 for the clarity of organizational structure in defining authorities and responsibilities.

4.4.2 Employees Perception on Risk Assessment

This section explores respondents' views on CHID Bank's risk assessment processes. Table 4.5 shows the mean scores and standard deviations for seven statements on how the company identifies, analyzes, and manages risk.

Table (4.5) Mean Value of Risk Assessment

Sr. No	Statements	Mean	Std. Deviation
1	CHID Bank has clear objectives for all key activities, and these objectives are communicated effectively to ensure alignment with strategic goals.	3.98	0.590
2	Risk assessments at CHID Bank consider both internal and external factors.	4.39	0.692
3	Potential problems and losses within each department are identified and assessed regularly.	4.09	0.657
4	Management at CHID Bank sets appropriate risk tolerance levels.	4.15	0.623
5	Changes in risk conditions are monitored and addressed in a timely manner at CHID Bank.	4.06	0.625
6	CHID Bank anticipates potential risks by forecasting changes in regulatory and economic conditions.	4.09	0.614
7	CHID Bank systematically implements risk assessment practices that include identifying, analyzing, and responding to potential risks to ensure proactive and effective risk management across all departments.	4.05	0.633
Overall Mean		4.12	

Source: Survey data (2025).

Regarding Table (4.5), the overall mean value for Risk Assessment is 4.12, indicating a high level of positive perception among employees. The highest mean score is 4.39, which reflects the strong agreement that risk assessments at CHID Bank consider both internal and external factors. This is followed by management setting appropriate risk tolerance levels, which scored 4.15. Statements regarding the identification and regular assessment of potential problems and losses, as well as anticipation of potential risks by forecasting regulatory and economic changes, both received mean scores of 4.09. Monitoring and timely addressing changes in risk conditions scored 4.06, while the systematic implementation of risk assessment practices scored 4.05. The lowest value, but still high, mean score of 3.98 relates to the communication of clear objectives for all key activities to ensure alignment with strategic goals.

4.4.3 Employees Perception on Control Activities

This section presents the respondents' perceptions regarding Control Activities at CHID Bank. Table (4.6) displays the mean scores and standard deviations for seven statements that assess how policies, procedures, and operational controls are implemented within the bank.

Table (4.6) Mean Value of Control Activities

Sr. No	Statements	Mean	Std. Deviation
1	Policies and procedures at CHID Bank support the achievement of objectives.	4.13	0.651
2	The documentation flow is adequately identified in each department and adhered to accordingly.	4.09	0.736
3	Appropriate approvals are required for all transactions at CHID Bank.	4.07	0.586
4	Staff are trained to implement the operation and financial management system.	4.07	0.687
5	CHID Bank has procurement policies and procedures to ensure the best choice in purchasing assets or materials without conflict of interest.	4.12	0.602
6	Duties are segregated among employees to prevent errors and fraud at CHID Bank.	4.09	0.671
7	The implementation of effective control activities at CHID Bank contributes to improved organizational performance by reducing operational errors and enhancing accountability.	4.05	0.647
Overall Mean		4.09	

Source: Survey data (2025).

As the results of Table (4.6), the overall mean value for control activities is 4.09, indicating a high level of positive perception among employees. The highest mean score of 4.13 relates to the support policies and procedures provide in achieving organizational objectives. This is closely followed by procurement policies ensuring the best purchasing choices without conflicts of interest, which scored 4.12. The documentation flow being adequately identified and adhered to, as well as segregation of duties among employees to prevent errors and fraud, both received a mean score of 4.09. Appropriate approvals for all transactions and staff training in operational and financial management systems scored 4.07 each. Lastly, the perception that effective control activities have a mean score of 4.05 indicates a reduction in errors and an enhancement of accountability.

4.4.4 Employees Perception on Information and Communication

CHID Bank employees' views on information and communication are also included. Table (4.7) provides the mean scores and standard deviations for seven organizational information flow and clarity assertions.

Table (4.7) Mean Value of Information and Communication

Sr. No	Statements	Mean	Std. Deviation
1	Important information is communicated effectively across departments at CHID Bank.	4.19	0.670
2	All employees understand the concept and importance of internal controls including the division of responsibility.	4.05	0.581
3	Important information at CHID Bank is distributed to all employees in a timely manner.	4.03	0.533
4	CHID bank has processes in place to communicate relevant and timely information to external parties.	4.15	0.572
5	External reporting to regulators and stakeholders is accurate and timely at CHID Bank.	4.29	0.682
6	Feedback systems are in place to enhance internal control communication at CHID Bank.	4.05	0.747
7	Effective internal communication at CHID Bank enhances organizational performance by supporting faster decision-making and reducing operational delays.	4.04	0.765
Overall Mean		4.11	

Source: Survey data (2025).

According to the results of Table (4.7) , the overall mean value for information and communication is 4.11, indicating a high level of positive perception. The highest mean score is 4.29, reflecting strong agreement that external reporting to regulators and stakeholders is accurate and timely. This is followed by effective communication processes in place to share relevant and timely information with external parties, which scored 4.15. The effective communication of important information across departments received a mean score of 4.19. Statements about employees understanding the importance of internal controls and the division of responsibility, as well as feedback systems enhancing communication, both scored 4.05. Timely distribution of important information to all employees scored 4.03, and the perception that effective internal communication supports faster decision-making and reduces operational delays scored 4.04.

4.4.5 Employees Perception on Monitoring Activities

This section presents the employees’ perceptions regarding Monitoring Activities at CHID Bank. Table (4.8) summarizes the mean scores and standard deviations for seven statements related to how internal controls are reviewed, audited, and followed up within the bank.

Table (4.8) Mean Value of Monitoring Activities

Sr. No	Statements	Mean	Std. Deviation
1	Internal reviews of the implementation of internal controls in units are conducted periodically.	4.03	0.676
2	CHID Bank conducts regular internal audits to monitor controls.	4.41	0.670
3	The internal audit department in the bank has developed an internal audit manual that guides audit operations.	3.93	0.637
4	Monitoring results are reported promptly to management at CHID Bank.	4.26	0.689
5	Identified control weaknesses are corrected quickly at CHID Bank.	3.94	0.740
6	Regular monitoring of CHID Bank's operations and their alignment with organizational objectives significantly enhance the bank's performance.	4.08	0.657
7	Monitoring activities at CHID Bank contributes to continuous performance improvement by identifying gaps and ensuring accountability across departments.	4.07	0.637
Overall Mean		4.10	

Source: Survey data (2025).

Table (4.8) shows that workers have a strong favorable opinion of Monitoring Activities, with a mean value of 4.10. The highest mean score of 4.41 reflects strong agreement that CHID Bank conducts regular internal audits to monitor controls. This is followed by the prompt reporting of monitoring results to management, which scored 4.26. Regular monitoring's positive effect on enhancing the bank's performance received a mean score of 4.08, while monitoring activities contributing to continuous performance improvement scored 4.07. Internal reviews of internal control implementation are perceived positively with a mean of 4.03. The development of an internal audit manual guiding audit operations and the quick correction of identified control weaknesses scored 3.93 and 3.94, respectively.

4.4.6 Overall Mean Value of Internal Control Practices

Table (4.9) summarizes the overall mean values and standard deviations for the key variables studied in this research. The results indicate that respondents generally perceive all aspects of internal control practices and organizational performance at CHID Bank positively and the results of overall mean values of variables are shown in Table (4.9).

Table (4.9) Overall Mean Value of Internal Control Practices

Sr No.	Factors	Mean
1	Control Environment	4.127
2	Risk Assessment	4.118
3	Control Activities	4.090
4	Information and Communication	4.112
5	Monitoring Activities	4.091

Source: Survey data (2025)

According to the result of Table (4.9), control environment with a mean of 4.127, and Risk Assessment at 4.118, both indicating high positive perceptions. Information and communication scored a mean of 4.112, showing that effective communication is well regarded within the bank’s internal control framework. Monitoring activities and control activities have slightly lower but still high mean scores of 4.091 and 4.090, respectively, indicating that these practices are also considered effective by the respondents. Therefore, all variables have mean values above 4.0, which according to the mean value interpretation scale, indicates a high level of positive perception towards internal control practices .

4.4.7 Employees Perception on Organizational Performance

This section highlights employees’ perceptions of organizational performance in relation to internal control practices at CHID Bank. Table (4.9) presents the mean scores and standard deviations for ten statements reflecting different aspects of organizational performance influenced by internal controls.

Table (4.10) Mean Value of Organizational Performance

Sr. No	Statements	Mean	Std. Deviation
1	CHID Bank effectively achieves its strategic objectives.	4.13	0.756
2	CHID Bank demonstrates strong compliance with applicable laws and regulations.	4.14	0.772
3	The public image and reputation of CHID Bank are positive.	4.29	0.708
4	Reporting at CHID Bank is timely and accurate.	4.06	0.654
5	Fraud and collusion are minimized within CHID Bank.	4.11	0.596
6	Defects, damages, and asset losses are effectively controlled in CHID Bank.	4.15	0.693

Sr. No	Statements	Mean	Std. Deviation
7	Operational efficiency at CHID Bank is high.	4.12	0.660
8	Customers of CHID Bank are satisfied with its services.	4.13	0.607
9	CHID Bank is profitable and sustainable over the long term.	4.17	0.633
10	Employee productivity and accountability at CHID Bank are high.	4.06	0.793
	Overall Mean	4.14	

Source: Survey data (2025).

Regarding to results of Table (4.9), the overall mean value of 4.14 indicates a high positive perception of how internal control practices impact the bank's performance. Among the items, the highest mean score of 4.29 reflects strong agreement that robust internal control practices have enhanced CHID Bank's public image and reputation. The reduction of defects, damages, and asset loss scored 4.15, followed closely by the bank's contribution to increased profitability and long-term sustainability at 4.17. Compliance with laws and regulations and customer satisfaction both received mean scores of approximately 4.13 to 4.14. Other aspects such as achievement of strategic objectives 4.13, operational efficiency 4.12, and reduction of fraud and collusion 4.11 also scored highly. Timely and accurate reporting and improved employee productivity and accountability scored slightly lower but still indicate strong agreement at around 4.06.

4.5 Correlation Analysis of Internal Control Practices and Organizational Performance

The following study correlates CHID Bank's internal control systems with organizational performance. The correlation coefficient (r) represents the linear relationship between two variables from -1 to +1. Positive correlations mean one variable grows as the other rises. Negative r values indicate inverse correlations. +1 or -1 show stronger linear connection than 0 or close to 0. This analysis reveals how control environment, risk assessment, control activities, information and communication, and monitoring impact CHID Bank's performance.

Table (4.11) Correlation Analysis of Internal Control Practices and Organizational Performance

Sr No.	Factors	Correlation Coefficient	Sig.
1	Control Environment	0.844**	0.000
2	Risk Assessment	0.892**	0.000
3	Control Activities	0.892**	0.000
4	Information and Communication	0.860**	0.000
5	Monitoring Activities	0.905**	0.000

Dependent Variable: Organizational Performance

Source: Survey data (2025).

Note: **. Correlation is significant at the 0.01 level (2-tailed).

The correlation analysis results in Table (4.11) show that all internal control practice factors have a strong and statistically significant positive relationship with organizational performance at CHID Bank. Monitoring activities exhibit the highest correlation coefficient ($r = 0.905$), indicating a very strong positive association with organizational performance. This is followed closely by risk assessment and control activities, both with correlation coefficients of 0.892. Information and communication ($r = 0.860$) and control environment ($r = 0.844$) also demonstrate strong positive correlations. The significance values ($p = 0.000$) for all factors indicate that these relationships are highly statistically significant at the 1% level. These findings suggest that enhancements in each dimension of internal control practices may be positively related to improved organizational performance.

4.6 Analysis on the Effect of Internal Control Practices on Organizational Performance

This section uses multiple linear regression to examine how internal control affects organizational performance. This statistical method analyzes CHID Bank's performance based on control environment, risk assessment, control actions, information and communication, and monitoring. Regression analysis examines each factor's strength and relevance while correcting others to determine which internal control approaches most effect organizational performance. Regression study of internal control methods and organizational performance is shown in Table 4.12.

Table (4.12) Regression Analysis on the Effect of Internal Control Practices on Organizational Performance

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
	B	Std. Error	Beta			
(Constant)	-0.246	0.184		-1.336	0.184	
Control Environment	0.104	0.088	0.097	1.173	0.244	5.17
Risk Assessment	0.329***	0.117	0.284	2.817	0.006	7.67
Control Activities	0.100	0.131	0.092	0.762	0.448	5.88
Information and Communication	0.179*	0.098	0.157	1.824	0.071	5.57
Monitoring Activities	0.356***	0.12	0.342	2.966	0.004	5.01
R Square	0.862					
Adjusted R Square	0.855					
F	129.865***					

Dependent Variable: Organizational Performance.

Source: Survey data (2025).

Note; *** Significant at 1%, ** Significant at 5%, and * Significant at 10% level, respectively.

The multiple linear regression analysis in Table (4.12) shows that internal control techniques collectively affect organizational performance, with a R Square value of 0.862 and an Adjusted R Square of 0.855. The five internal control variables in the model explain 85.5% of CHID Bank's organizational performance variance. The model fits well ($F = 129.865$).

Monitoring activities had the biggest beneficial impact on organizational performance ($\beta = 0.356$, $p = 0.004$), indicating that frequent and effective monitoring considerably improves performance results. Risk assessment ($\beta = 0.329$, $p = 0.006$) is a significant predictor, indicating that proactive and thorough risk assessments enhance performance. Information and Communication ($\beta = 0.179$, $p = 0.071$) shows a fairly substantial influence, just outside the 0.05 significance threshold.

Neither control environment ($\beta = 0.104$, $p = 0.244$) nor control activities ($\beta = 0.100$, $p = 0.448$) are statistically significant factors in this model. When controlling for other variables, these factors may affect performance, but their influence is not substantial enough to differentiate from random fluctuation. All variables' Variance Inflation Factor (VIF) values are below 10, indicating that multicollinearity is not a problem in this model. The regression findings show that CHID Bank's organizational performance is most affected by monitoring, risk assessment, and information and communication.

CHAPTER V

CONCLUSION

There are three primary sections in this chapter. The study's major results and commentary are based on data analysis. It also suggests ways to strengthen CHID Bank's internal controls. Finally, it suggests further study.

5.1 Findings and Discussion

This research will investigate CHID Bank's internal control methods and assess their impact on organizational performance. The demographic analysis of respondents revealed a well-distributed representation across gender, age groups, educational qualifications, years of experience, and departments within CHID Bank.

Regarding internal control practices, the analysis of mean scores for the control environment indicated that CHID Bank maintains a strong foundation of integrity, ethical values, and commitment to competence. Respondents generally agreed that there is clear leadership direction, accountability, and a conducive working environment, which collectively support internal control effectiveness. The consistency of favorable responses highlights the bank's commitment to fostering a culture of responsibility and governance.

For the risk assessment, respondents strongly perceived that the bank effectively identifies and evaluates both internal and external risks. CHID Bank was viewed as having proactive mechanisms for detecting potential threats and addressing them in a timely manner. The high mean scores provide that risk awareness and strategic risk management are integral to the organization's operations, helping it to anticipate and mitigate potential disruptions.

The findings on control activities show that CHID Bank has implemented relevant policies and procedures to guide operations and promote accountability. Respondents acknowledged the presence of necessary controls such as transaction approvals, documentation flow, segregation of duties, and procurement safeguards. While the control activities were rated positively overall, they were perceived as slightly less influential than other components, indicating potential areas for further strengthening and operational refinement.

In terms of information and communication, the results revealed that CHID Bank demonstrates effective internal and external communication. Timely dissemination of critical information and feedback mechanisms were noted as enablers of strong internal control. Employees were found to have a good understanding of control systems and responsibilities, supporting swift decision-making and minimizing operational delays.

The perception of monitoring activities also reflected favorably, with respondents confirm that regular reviews, internal audits, and feedback reporting are conducted effectively. The results indicate that monitoring activities not only ensure compliance and accountability but also drive continuous performance improvement across departments. The findings provide the role of consistent oversight in maintaining control quality and aligning practices with organizational goals.

As for organizational performance, the findings indicate that CHID Bank's internal control practices have significantly contributed to strategic goal achievement, compliance, fraud reduction, and operational efficiency. Respondents widely agreed that strong controls have enhanced the bank's reputation, reporting accuracy, customer satisfaction, and employee accountability. The perception is that internal controls are a critical enabler of sustainable organizational success.

The correlation analysis indicated that risk assessment, monitoring activities, and information and communication had statistical significance for organizational performance. Risk assessment showed a relatively strong correlation, suggesting that regularly identifying and evaluating risks contributes to improved organizational functioning. This implies that when potential risks are clearly understood and addressed, the organization is better positioned to manage its operations effectively. Monitoring activities also demonstrated a meaningful positive, which may reflect the value of consistent internal reviews and follow-ups in maintaining system reliability and addressing control issues in a timely manner. Additionally, information and communication showed a significant, though comparatively moderate, correlation. This implies that clear and accessible communication within the organization supports coordination and improves awareness of control responsibilities. Overall, these three components appear to play a useful role in supporting internal control effectiveness.

Finally, the multiple regression analysis identified that internal control practices, risk assessment, monitoring activities, and, to a marginal extent, information and communication had a statistically significant effect on organizational performance. Among these, risk assessment appeared to have a relatively effect, highlighting the importance of systematically identifying and addressing potential risks. Monitoring activities also showed a positive effect, reflecting the importance of regular audits and follow-up actions in maintaining control effectiveness. Information and communication, while exhibiting a comparatively moderate effect, remained significant, indicating that timely and clear communication supports internal control functions. In contrast, control environment and control activities, though positively perceived, did not demonstrate a significant direct effect. These results show that strengthening

risk and monitoring mechanisms, along with effective communication, may offer the greatest contribution to performance improvement at CHID Bank.

5.2 Suggestions and Recommendations

Based on the key findings of this study, it is suggested that CHID Bank take proactive steps to strengthen its internal control practices, particularly in the areas of risk assessment and monitoring activities, which demonstrated positive effect with organizational performance. The bank should conduct risk assessments more frequently and update them in response to both internal operational changes and external challenges. Establishing a formal risk register and organizing regular departmental risk review meetings can help institutionalize the risk management process and ensure all units are actively engaged in identifying and mitigating risks. Furthermore, staff should be provided with targeted training in risk identification and evaluation techniques to build internal capacity and foster a culture of risk awareness across the organization.

Monitoring activities also emerged as a key driver in the internal control system. It is therefore suggested that CHID Bank maintain consistent internal audits, not only in frequency but also in quality and responsiveness. Incorporating data analytics into the monitoring process would allow for real-time oversight of key controls and help identify control weaknesses more efficiently. A well-designed feedback mechanism between internal auditors and department heads is also recommended to improve accountability and follow-up on audit findings. These measures can strengthen the monitoring function and support a more dynamic and responsive control environment.

In line with the above suggestions, it is recommended that CHID Bank allocate more resources toward improving its risk assessment and monitoring mechanisms, as these areas demonstrated the most substantial effect on performance. Formalizing risk management procedures such as introducing a centralized risk register and establishing cross-functional risk review protocols can enhance institutional preparedness and decision-making. Likewise, training programs focused on practical risk identification and mitigation strategies should be integrated into the bank's human resource development initiatives to support long-term capability building.

Moreover, the bank is advised to leverage technology to improve the efficiency of internal monitoring. The adoption of data-driven tools for continuous auditing and the development of intuitive audit dashboards can enable more effective tracking of control issues. Structured communication channels between audit units and operational departments should

be strengthened to ensure findings are addressed promptly and corrective measures are implemented. While other components such as control environment and control activities were not found to be statistically significant, they remain foundational to a robust internal control system. Therefore, efforts to promote ethical conduct, strong leadership, clear documentation, and well-defined responsibilities should continue as part of the bank's broader governance strategy.

5.3 Needs for Further Research

This study examined CHID Bank's internal control methods and organizational performance, however further research is needed. Future research might examine how regulatory changes and economic situations affect internal controls. Additionally, examining the role of technology adoption, such as automated control systems and data analytics, could provide deeper insights into improving control processes. It would also be valuable to conduct similar research across different types of financial institutions to compare practices and outcomes. Lastly, qualitative studies involving interviews with employees and management could enrich understanding of challenges and opportunities in implementing internal controls.

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SPSS Outputs

Regression Analysis

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.928 ^a	.862	.855	.21355

a. Predictors: (Constant), Monitoring_Activities, Control_Environment, Information_and_Communication, Risk_Assessment, Control_Activities

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29.612	5	5.922	129.865	.000 ^b
	Residual	4.743	104	.046		
	Total	34.355	109			

a. Dependent Variable: Organization_Performance

b. Predictors: (Constant), Monitoring_Activities, Control_Environment, Information_and_Communication, Risk_Assessment, Control_Activities

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error				Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	-.246	.184		-1.336	.184	-.612	.119		
	CE	.104	.088	.097	1.173	.244	-.072	.279	.193	5.170
	RS	.329	.117	.284	2.817	.006	.097	.560	.130	7.678
	CA	.100	.131	.092	.762	.448	-.160	.360	.092	10.886
	IC	.179	.098	.157	1.824	.071	-.016	.374	.179	5.574
	MA	.356	.120	.342	2.966	.004	.118	.594	.100	10.015

a. Dependent Variable: Organization Performance

Correlations

		Organization Performance	Control Environment	Risk Assessment	Control Activities	Information and Communication	Monitoring Activities
Organization Performance	Pearson Correlation	1	.844**	.892**	.892**	.860**	.905**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	110	110	110	110	110	110
Control Environment	Pearson Correlation	.844**	1	.874**	.869**	.831**	.844**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	110	110	110	110	110	110
Risk Assessment	Pearson Correlation	.892**	.874**	1	.908**	.837**	.902**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	110	110	110	110	110	110
Control Activities	Pearson Correlation	.892**	.869**	.908**	1	.885**	.933**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	110	110	110	110	110	110
Information and Communication	Pearson Correlation	.860**	.831**	.837**	.885**	1	.886**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	110	110	110	110	110	110
Monitoring Activities	Pearson Correlation	.905**	.844**	.902**	.933**	.886**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	110	110	110	110	110	110

** . Correlation is significant at the 0.01 level (2-tailed).

Survey Questionnaire

Dear respondents,

The purpose this questionnaire is to collect data for the thesis titled “The Effect of Internal Control Practices on Organizational Performance of CHID Bank” as part of my academic research study for a Master of Banking and Finance (MBF) . This is purely an opinion survey and is used for the academic purpose of maintaining confidentiality of responses. Therefore, any suggestions, comments, and remarks are highly appreciated and kept confidential. Thus, please feel free to let the survey get your valuable input by spending not more than 10 minutes of your time.

Section (A)

Demographic Information

1. Gender:

- Male Female

2. Age:

- ≤ 25 years
 26 ~ 35 years
 36 ~ 45 years
 Over 45 years

3. Level of Education

- Under Graduate
 Graduated
 Master Degree
 Other _____

4. Current Position

- Non-Management Staff
 Middle Management
 Senior Management
 Other _____

5. Department:

- Operations and Banking Related Departments
- Risk Management and Compliance Departments
- Internal Audit Department
- Other _____

6. Year of experience in CHID Bank

- Below (1) Year
- 1 – 3 Years
- 3 – 5 Years
- 5 – 8 Years
- 8 – 11 Years
- Above 11 Years

Section (B)

Internal Control Practices

Please state level of your agreement on each statement by providing the most relevant number.

1= Strongly Disagree

2 = Disagree

3 = Neutral

4 = Agree

5 = Strongly Agree

1. Control Environment

No.	Particular	1	2	3	4	5
1.	Ethical values and integrity are main principles emphasized by the management of CHID Bank.					
2.	The organizational structure at CHID Bank clearly defines authorities and responsibilities.					
3.	Employees at CHID Bank are aware of their internal control responsibilities.					

No.	Particular	1	2	3	4	5
4.	Management closely monitors implementation of Internal Control practices in each department.					
5.	The board of directors at CHID Bank actively oversees the effectiveness of internal control activities.					
6.	CHID Bank's internal control practices ensure strong compliance with relevant laws and regulations.					
7.	Internal control practices at CHID Bank contribute significantly to improving overall organizational performance.					

2. Risk Assessment

No.	Particular	1	2	3	4	5
1.	CHID Bank has clear objectives for all key activities, and these objectives are communicated effectively to ensure alignment with strategic goals.					
2.	Risk assessments at CHID Bank consider both internal and external factors.					
3.	Potential problems and losses within each department are identified and assessed regularly.					
4.	Management at CHID Bank sets appropriate risk tolerance levels.					
5.	Changes in risk conditions are monitored and addressed in a timely manner at CHID Bank.					
6.	CHID Bank anticipates potential risks by forecasting changes in regulatory and economic conditions.					
7.	CHID Bank systematically implements risk assessment practices that include identifying, analyzing, and responding to potential risks to ensure proactive and effective risk management across all departments.					

3. Control Activities

No.	Particular	1	2	3	4	5
1.	Policies and procedures at CHID Bank support the achievement of objectives.					
2.	The documentation flow is adequately identified in each department and adhered to accordingly.					
3.	Appropriate approvals are required for all transactions at CHID Bank.					
4.	Staff are trained to implement the operation and financial management system.					
5.	CHID Bank has procurement policies and procedures to ensure the best choice in purchasing assets or materials without conflict of interest.					
6.	Duties are segregated among employees to prevent errors and fraud at CHID Bank.					
7.	The implementation of effective control activities at CHID Bank contributes to improved organizational performance by reducing operational errors and enhancing accountability.					

4. Information and Communication

No.	Particular	1	2	3	4	5
1.	Important information is communicated effectively across departments at CHID Bank.					
2.	All employees understand the concept and importance of internal controls including the division of responsibility.					
3.	Important information at CHID Bank is distributed to all employees in a timely manner.					
4.	CHID bank has processes in place to communicate relevant and timely information to external parties.					
5.	External reporting to regulators and stakeholders is accurate and timely at CHID Bank.					

No.	Particular	1	2	3	4	5
6.	Feedback systems are in place to enhance internal control communication at CHID Bank.					
7.	Effective internal communication at CHID Bank enhances organizational performance by supporting faster decision-making and reducing operational delays.					

5. Monitoring Activities

No.	Particular	1	2	3	4	5
1.	Internal reviews of the implementation of internal controls in units are conducted periodically.					
2.	CHID Bank conducts regular internal audits to monitor controls.					
3.	The internal audit department in the bank has developed an internal audit manual that guides audit operations.					
4.	Monitoring results are reported promptly to management at CHID Bank.					
5.	Identified control weaknesses are corrected quickly at CHID Bank.					
6.	Regular monitoring of CHID Bank's operations and their alignment with organizational objectives significantly enhance the bank's performance.					
7.	Monitoring activities at CHID Bank contribute to continuous performance improvement by identifying gaps and ensuring accountability across departments.					

Section (C)

Organization Performance of CHID Bank

No.	Particular	1	2	3	4	5
1.	CHID Bank's internal controls support the achievement of organizational strategic objectives.					
2.	CHID Bank's internal control practices ensure high compliance with laws and regulations.					
3.	Strong internal control practices have enhanced the public image and reputation of CHID Bank.					
4.	Timely and accurate reporting has improved at CHID Bank as a result of internal control systems.					
5.	CHID Bank's internal control practices help to reduce the occurrence of fraud and collusion within the bank.					
6.	The CHID Bank's internal control practices help to reduce defects, damages, and asset loss.					
7.	Overall operational efficiency at CHID Bank has improved as a result of internal control practices.					
8.	Customer satisfaction at CHID Bank has improved due to strong internal control systems.					
9.	CHID Bank's internal control systems have directly contributed to increased profitability and long-term sustainability.					
10.	Employee productivity and accountability at CHID Bank have improved as a result of clearly defined internal control roles and processes.					