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THE EFFECT OF INTERNAL CONTROL SYSTEM ON
ORGANIZATIONAL PERFORMANCE OF uab BANK IN
YANGON

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**THE EFFECT OF INTERNAL CONTROL SYSTEM ON
ORGANIZATIONAL PERFORMANCE OF uab BANK
IN YANGON**

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ABSTRACT

The objectives of this study are to identify the internal control system practiced by uab bank in Yangon and to analyze the effect of the internal control system on performance of uab bank in Yangon. The data were collected using survey questionnaires and the target population of this study is 50% of respondents who are currently working at Head Office in uab bank. The descriptive statistical value of mean and standard deviation was used to describe the internal control practices and performance of uab bank. Internal control is a broad concept, covering the whole range of procedures, methods, and controls that an organization has developed to increase its likelihood of meeting its business objectives. Correlation and Multiple regression analysis were also used to find out the effect of the internal control system on the bank's performance. The results found that control activities have no significant effect on organizational performance while control environment, risk assessment, information and communication and monitoring have positive and significant effect on organizational performance. It is recommended that uab should evaluate the efficacy of its present methods of internal communication on a regular basis, develop communication plans and policies, and use advanced internal communication.

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CHAPTER 1

INTRODUCTION

The survival of organizations is dependent on the reliable and efficient use of resources available to the organization which is both financially and non-financially. Thus, various forms of control are established by organizations, among these main controls are internal controls and internal audits, to make optimum use of the resources entrusted to each employee in an organization. Internal control ensures that the business is conducted most efficiently and strictly adheres to management policies, safeguards the assets, prevention, and detection of fraud, and timely preparation of trustworthy accounts by all the policies and procedures taken in the management of the entity to help achieve the primordial objectives of management. Internal control is a broad concept, covering the whole range of procedures, methods, and controls that an organization has developed to increase its likelihood of meeting its business objectives. Internal control may also be considered as a set of policies and procedures which form control over the activities of the firm to ensure that the management and board of directors are able to meet the objectives of the company (Al-Thunebat, et al., 2015). In this way, internal control is essential for all corporations. It is also important for the banking sector which is vulnerable to risks for performance and profitability in its business environment.

The five main elements of internal control systems include the assessment of risk, information, and communication, and the environment for control and control and monitoring (COSO, 2011). It is a general expectation that the institution and authorization of legitimate systems of internal control will lead to financial performance to progress reliably. The COSO (2011) framework has shown that well-established internal control systems promote solid reports that foster an organization's accountability capacity and enhance reporting. Internal controls are maintained to safeguard the sustainability of all the assets of companies, to prevent the abuse or mismanagement of equity, and to detect and protect company resources from likely fraud.

For the country's economy, the banking sector is essential. It manages the huge volume of transactions per day and provides customers with different types of services. The stability and strength of the bank sector are crucial to all economic activities

(Gamage, et al., 2014). A system of good internal controls can ensure the achievement of banks ' goals and objectives, that the bank helps to achieve long-term targets in profitability and that financial and management reports are reliable (Gamage, et al., 2014). Such a system can assist the bank to comply with internal procedures, plans, laws, and regulations, and reduce the risk of bank reputation damage or unexpected loss. This helps the bank's management and Boards to comply with legislation and regulations, generate reliable financial reports, and protect bank resources (Gamage, et al., 2014).

Amongst those initiatives, the development of the banking sector, given the role played by a successful financial industry in enabling private sector growth, has, in particular, become a major focus of recent reforms. Both policy reforms and payment infrastructure investment have been part of recent efforts to develop the banking sector. The Government has adopted several new legislations, including the (2012) Foreign Exchange Management Act, (2013) Central Bank of Myanmar Law, and (2016) Financial Institution Law on legislative and regulatory issues. These laws put an end to Myanmar's dual-trade system, established the independence of the central bank, and set strong corporate governance standards for banking. At the same time, the government has also taken preliminary steps to allow external banking participation.

The Central Bank of Myanmar (CBM) published a Guideline on Risk Management practices of banks in November of 2020. This is done to encourage banks to improve their risk management practices, taking developments in the financial system in Myanmar and the bank's strategy and plans for the development of its businesses into consideration. Additionally, this is done to set out the standards that CBM uses in assessing risk management systems as part of its risk-based approach to supervision. This demonstrates how a system of operational and financial internal control that is properly developed and regularly implemented may assist management in protecting the bank's resources, producing reliable financial reports, and complying with laws and regulations (Allen & Gledhill, 2021).

It is crucial for banks to perform well in order to promote client satisfaction and lower the number of complaints received. Therefore, banks should continually work to enhance the quality of their services while also increasing their flexibility, as well as accumulate more assets. Since the internal control system interacts with the bank's operational activities and is at its most efficient when controls are built into the bank's infrastructure, these controls should be considered an essential component of the

organization's success in terms of maintaining a high level of performance and contributing to the bank's position as a market leader in its industry. United Amara Bank (uab bank) is a leading bank in Myanmar that is recognized for its remarkable transformation in the banking industry of Myanmar. Despite the fact that having an effective internal control system is essential for banks, uab is afflicted by a number of issues in this area, including supervisory problems within the bank and ineffective risk management practices. Therefore, in order to enhance the performance of the bank, it is required for the bank to implement the appropriate internal control systems. Hence, this study is to conduct the internal control elements used by uab bank and the effect of internal control elements which are control environment, risk assessment, control activities, information and communication and monitoring on organizational performance of uab bank.

1.1 Rationale of the Study

The efficacy of internal control regarded as very important since it is a responsibility to prevent and detect fraud. The installation of internal controls ensures the security of all assets; maintains a strategic distance from misuse, and mismanagement, and detects and safeguards against fraud (Reid & Ashelby, 2002). Records and accounting systems of companies should be developed and audited by reputable and professional auditors. Because it was known that weak internal control systems were a very fertile source of fraud and scandals. Myanmar Central Bank has stated that a continuous internal control system is a critical part of a framework for managing risk. Banks are expected to take ongoing measures to ensure compliance with policies and procedures, laws, regulations, and guidelines. The four-eye principle should be reinforced and conflicts of interest should be avoided. Adequate separation between operational and control functions, such as headquarters and back quarters' activities, should be employed, for instance. The internal audit function should be a separate function and should be submitted directly to the Audit Boards. The effectiveness of the bank's ML / FT risk management framework and practices should be assessed periodically and the bank should pay special attention to compliance with established policies and limitations as well as applicable laws, regulations, and guidelines.

Through a balance of quality and costs, banks in Myanmar strive to achieve an optimal level of outcomes. That means that they want to preserve quality and provide

their products or services as cost-effectively as possible. The system for internal control can prevent duplication of work, undesired theft, and unnecessary cost. However, even if the banks established the appropriate internal control system, poor performance can occur. Although the system of internal control in some bank corporates is highly established, some still ignore the concept of internal controls as they do not fully understand the benefits of the system or because the system is strongly controlled internally. Hayes (2005) reports that limitations in all internal control systems affect the likelihood of achievement (Hayes, 2005). Indeed, the internal control system will not end all kinds of frauds, errors, and crime, but it will remain an important guide on the journey to victory.

These days, banking systems are robust and blooming, and in order to put up positive images and performance, good internal control is required. The UAB Bank was chosen for this study because it has been transitioning from traditional banking systems to paperless banking systems for the last two years, making it an ideal choice for this study. The researcher was interested in finding out whether or not uab Bank had a competent internal control system that is capable of contributing to boosting the bank's performance. In addition, the previous studies have found that the majority of banks use five elements from the COSO Framework for internal control. The purpose of this study is to determine whether or not those five elements—control environment, risk assessment, control activities, information and communication, and monitoring—have any influence on the performance of banks. This research will also give insight on the internal control factors that have an impact on the performance of uab Bank as well as those factors that do not. As a consequence of the findings of this research, uab Bank will be able to get a better understanding on the importance of an internal control system and the ways in which it can improve the activities they do. Therefore, this study focuses on the practice of the internal banking control system and its effects on the performance of the uab bank in Myanmar.

1.2 Objectives of the Study

The objectives of this study are as follows:

1. To identify the internal control system practiced by uab bank in Yangon
2. To analyze the effect on banking performance of the internal control system of uab bank in Yangon.

1.3 Scope and Method of the Study

This study only focuses on the effect of the internal control system on bank performance. And, it only focuses on internal control practices namely control environment, risk assessment, control activities, information and communication, and monitoring at uab in Yangon. To implement the objectives of the study, both primary and secondary data are used. Primary data is collected by using structural questionnaires with the Five-point Likert scale from employees of uab bank in Yangon. Secondary data is collected from textbooks, company records and documents, journals, articles, and research papers.

The data collected using survey questionnaires and the target population of this study is 50% of respondent who are currently working at head office in uab. The descriptive statistical value of mean and standard deviation is used to analyze the internal control practices. Correlation and Multiple regression analysis used to find out the effect of the internal control system on the bank's performance. The independent variables of this study are control environment, risk assessment, control activities, information and communication, and monitoring. The dependent variable of this study is the bank's performance.

1.4 Organization of the Study

This study consists of five chapters. Chapter 1 presents the introduction of the study, the rationale of the study, objectives, scope, methods of the study, and the organization of the study. Chapter 2 presents the theoretical review of the study which consists of the internal control system, banks' performance, and the relationship between the internal control system and bank's performance. Chapter 3 presents the profile of uab bank in Myanmar. Chapter 4 presents the data presentation and data analysis on the effect of internal control system on bank's performances and Chapter 5 contain the summary of findings, recommendations and need for further studies.

CHAPTER II

THEORETICAL BACKGROUND OF THE STUDY

This chapter discusses the concept of an internal control system and components of an internal control system that together provide a systematic approach to accomplishing the organization's objectives. Additionally, a theoretical review of organizational performance and the relationship between internal control systems and organizational performance is also investigated during the phase of this study. Additionally, previous research on the internal control system as well as the conceptual framework for the study is also described in this chapter.

2.1 Internal Control System

According to Hopkin (2012), the term "internal control systems" refers to the combined methods, plans, and procedures that are used to safeguard the assets of a company in order to improve its financial and operational performance as well as to foster the observance of policies that have been prescribed (Hopkin, 2012). It is a collection of organizational processes and regulations that are designed to guarantee that all activities are carried out in the appropriate manner in order to prevent the theft, waste, and abuse of an organization's resources (Ndungu, 2013). Martin (1994) characterizes the internal control as internal checks and internal audits, and it projects the whole system of controls to be relevant to sales, purchasing, finance, cost, manufacturing, and other areas of business (Martin, 1994). These controls ensure the safety and protection of the assets as well as carry out continual checks on the transactions that take place daily. Internal control is defined by Ramaswamy (1994) as the plan of the organization as well as all of the methodologies and processes employed by the management in order to fulfill the organization's objectives (Ramswamy, 1994). Woolf (1992) defines internal control as the system of financial and other controls developed by management to ensure the orderly and efficient operation of the firm, the protection of its assets, and the maintenance of reliable records (Woolf, 1992). Based on these definitions, it is possible to conclude that internal control encompasses an organization's plan as well as all of the coordinated measures and procedures adopted within it to safeguard its assets, verify the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial

policies. The purposes of internal control are directed at assuring compliance with management rules and, more generally, the accomplishment of organizational objectives.

Internal control necessitates the organization's strategy as well as all of the organized procedures and steps that are put into place within a company in order to protect its assets, verify the quality and reliability of its accounting data, and promote both operational efficiency and compliance with the specified management policies (Rahim, et al., 2017). An organization's internal controls are the systems and practices it has put in place to assure the reliability of its financial reporting, encourage employee responsibility, and prevent any possibility of fraudulent activity. Internal control refers to a system of checks and balances built into an organization's daily operations to prevent misuse of funds, reduce the likelihood of mistakes, and guarantee compliance with regulatory guidelines (Chang, et al., 2019; Hogan & Wilkins, 2008). Controls may be broken down into two categories: financial and administrative. Transparency in financial records and safekeeping of assets are both essential components of good financial management. Work processes, such as schedules, regulations, and rules, as well as practices, such as standards, and operating procedures, are all subject to change as a result of administrative controls (Kisanyanya, 2018). From the standpoint of AIS, internal control is affected by the characteristics of adaptability to internal processes and management (Alawaqleh, 2021). Internal controls are therefore implemented to guarantee the accomplishment of goals and objectives.

2.2 Components of Internal Control System

As stated by Jacksonville (2000), the internal control process has become increasingly comprehensive throughout the years, considering the whole range of risks that modern businesses must contend with. The need of a strong internal control mechanism for ensuring that a company can achieve its objectives is now widely accepted. Control environment, control activities, risk assessment, communication and information, and monitoring are the five components of internal control that work together to ensure that a company is operating as efficiently and effectively as possible (Naser, et al., 2017).

2.2.1 Control Environment

It is a commonly held belief that an environment that is regulated effectively is one of the most dependable predictors of successful self-regulation. The shared commitment of an organization's management and workforce to its control environment, as well as their understanding of the need of having internal controls, is what makes up an organization's control environment (Tijani, 2022). It is the result of the philosophy, style, and supporting attitude of management, in addition to the competency, ethical principles, integrity, and morale of the individuals that work for the firm. The control environment is significantly impacted by major elements such as the organization structure and the responsibility relationships. A comprehensive internal control system will have the control environment as its foundation. This environment leads to the advancement of discipline and structure, both of which have an effect on the quality of internal control. The control environment has a significant impact on the formulation of the strategies, goals, and organizational structures of control operations (COSO, 2008). An environment in which qualified people understand their responsibilities and the limits of their authority, as well as an environment in which these people are knowledgeable, mindful, and committed to following an organization's policy and procedure along with its ethical and behavioral standards, is an environment that has effective control. The control environment includes both technical proficiency and ethical dedication (Muhammed, 2015).

2.2.2 Control Activities

Control activities are made up of many regulations and protocols, and they assist to make sure that management orders are followed (Noorvee, 2006). Control activities are the actions that are backed up by policies and procedures. These rules and procedures assist to ensure bank's managements and offer directions to address activities that are carried out correctly and on schedule. According to COSO (1994), control activities comprise a wide variety of responsibilities such as approvals, authorizations, verifications, reconciliation, and monitoring of operational performance, as well as security of assets and division of functions. Mugo (2013) asserts that physical controls, division of roles, information processing, and performance evaluations are the four components that identifies as defining an organization's control activities (Mugo, 2013). Control activities may be either manually or automatically performed, and they serve the purpose of preventing or

mitigating risks that might hinder the organization's ability to accomplish its goals and fulfill its mission. Monitoring procedures need to be settled by management in order for the organization to fulfill its goals and responsibilities in a timely and successful manner (Mjaku & Pristina, 2019).

2.2.3 Risk Assessment

Risk assessment refers to the processes that organizations go through in order to identify and evaluate the relevant risks that may have an impact on the organization's capacity to accomplish its primary goals. The evaluation of risks is a crucial process for businesses of all sizes, due to the fact that every company is exposed to a unique set of threats, either from the environment or from inside its own operations, which need to be evaluated. Similarly, Njeri (2014) asserts that risk assessment is a detailed analysis of the elements that influence the likelihood that the goals of the organization will not be accomplished (Njeri, 2014). The procedure refers to the identification and evaluation of pertinent risks that are related with the organization's goal of accomplishing its mission. The establishment of clear organizational goals is essential to the risk assessment process. According to COSO (1992), taking risks without exercising proper control may put an organization's operations in risk and prevent the organization from achieving its goals. As a result, management is required to conduct an analysis of all potential risks in order to ascertain what those risks are, which controls are necessary, and how they should be handled. Therefore, risks are occurrences that act as roadblocks on the path to achieving objectives. In the end, they have an impact on an organization's capacity to achieve the objective for which it was established. The process of identifying potential threats, evaluating them, and determining how to respond to them is known as risk management. There is a potential for both internal and external barriers to hamper the organization's progress toward achieving the objectives that have been established at all levels (Wang, 2019).

2.2.4 Monitoring

Monitoring is a procedure that evaluates the level of performance quality of a system a period . Monitoring includes all of the actions and processes that are meant to evaluate how successful the entity's internal control system is in meeting its financial reporting goal. According to Collins (2014), the actions in monitoring may be continuous or may be a distinct evaluation, and it is significant in the complex and

dynamic contexts that many businesses must manage with (Collins, 2014). The goal of monitoring is to verify that the systems are operating as intended; this may be done by continuous monitoring, periodic review, or a hybrid of the two. COSO (2008) has summed up the principles of monitoring as ongoing monitoring, which allows management to determine whether internal control is present and functioning, separate evaluation and reporting, which allows management to determine the effectiveness of internal control over financial reporting, and reporting deficiencies, which aids in detecting the deficiencies in the internal control system and allowing corrective actions to be taken (COSO, 2008). To determine whether or not controls are efficient, one must conduct periodic monitoring of the operations and transactions of an organization. The main focus of management's monitoring should be on assuring that the company's internal processes are running smoothly and that its objectives are being met. Effective monitoring requires that all staff members be familiar with the organization's goals, objectives, and roles, as well as its tolerance for risk (Shomiah, 2015).

2.2.5 Information and Communication

According to Bett and Memba (2017), an organization's information and communication systems are in place to help employees do their jobs more efficiently by locating, collecting, processing, and reporting timely, accurate information. Furthermore, the data created or requested by these systems moves both vertically and horizontally within the company (Bett & Memba, 2017). It is necessary to recognize relevant information, collect it, and then transmit it in a manner and time frame that makes it possible for employees to achieving their tasks. In order for there to be effective communication, it is necessary for it to take place in a more general sense, flowing down, across, and up the organizational structure. Important information must be sent upstream by all people, and everyone must have a way to do so (Sharon, 2013). According to Noorvee (2006), the benefits of internal and external communication that is relevant, timely, and effective are listed out by various authors as including enhancing decision making, improving communication about the expectations, responsibilities, and objectives of an organization, and reducing dependence on individual employees who assist in the avoidance and detection of fraud (Noorvee, 2006). Communication is the process of exchanging meaningful information, both internally and externally, in order to facilitate the making of choices and the planning of operations. Within the company, information should be delivered to management as well as any other workers

who need it in a manner and within a time period that makes it possible for them to carry out their duties. Communication also takes occur with other parties, including as clients, vendors, and government officials (Rae, et al., 2017).

2.3 Organizational Performance

According to Brown (1996), performance measurements in organizations need to shift focus to what produces, identifies, and communicates the drivers of success; promote organization learning; offer a foundation for evaluation and reward; and support organizational growth (Brown, 1996). According to Dixon (1990), the best performance indicators are the ones that help businesses focus their efforts on accomplishing their long-term goals. Moreover, the success and growth of a business depends on how well it performs in the market (Dixon, 1990). Whytes (1991)'s study demonstrates that evaluating performance is possible at both the group and individual levels. The term "performance appraisal" is also used to describe this kind of evaluation. Whyte contends that organizations may achieve their potential in terms of capacity, attractiveness, and manual share if they choose. The gap between the two is a measure of a company's financial success and strength. Whyte says that an organization's effectiveness is heavily impacted by its capacity to accumulate human capital and physical assets in order to innovate and compete in the marketplace. Subsequently, the organization's success and performance improve along with its knowledge base (Whyte, 1991). According to Remelt (1994), one may also evaluate an organization's performance by looking at the resources available to it and the amount of those resources. Key indications of an organization's success include resources, such as assets, funding, staff skills, and organizational procedure. Barney (1991) agreed by proposing that a company can only improve its performance if it is unable to reduce the impact of its resources. These resources include both human and financial assets (Barney, 1991).

Although strong financial performance is indicative of a strong institution, Ryne (1994) argues that qualitative indicators, such as the nature of management and the education level of the labor force, must be complemented by the quantitative indicators to enable the enterprise's ability to meet its focus and objectives. Successful operation, profitability, survival, growth, and adaptation to environmental possibilities and risks are all aspects of performance, as defined by Stoner (2003). Kim (2005) agrees, stating that performance is based on how well a company meets its goals with its available

resources. It is the measure by which the benefit of a person, group, company, or procedure is measured (Kim, 2005). According to Hitt et al. (1996), underperforming assets are to blame for the underachievement of many businesses. Poor asset performance is generally the result of strategic errors committed during the initial purchase phase. Such errors often occur when acquisition team members overestimate their own abilities or are blinded by their own egos (Hitt, et al., 1996).

2.4 Theoretical Review

There are a number of different theoretical techniques that may be used to describe the performance of firms, to choose the predictors that will go into the models, and to justify the functional connection between these predictors. The theories applied in this study are the agency theory and the stakeholder theory.

2.4.1 Agency Theory

Jensen and Meckling (1976) contributed to the development of agency theory that was published in the economics literature. It posits that there is a connection between the ownership structure and the performance of a company. The idea proposes that the owners of a company, known as principals, employ an agent, known as the manager of the company, and give that person the authority to administer the company on their behalf by delegating decision-making responsibilities. The idea that ownership of a business should be kept apart from decisions about how it is run is the most important takeaway from the agency theory. Jensen and Meckling (1976) observed that an agency issue occurs when there is a conflict of interest between the principal and the agent. They called this problem the agency problem. When issues at an agency are attempted to be solved, this often results in additional expenditures for the agency, such as monitoring costs, bonding costs, and residual loss. Internal controls that are very effective can be utilized to address the agency problem and reduce agency costs by removing information misunderstandings that could occur between an agent and the principal. This can be done by ensuring that all relevant information is communicated clearly and accurately (Jensen & Meckling, 1976).

The agency relationship, in which one party, the principal, assigns labor to another party, the agent, is identified by agency theory as the agency relationship. Due to the opportunism or self-interest of the agent, the agency relationship may have a variety of potential drawbacks, including the following: There is an issue known as

information asymmetry, which occurs when the principle and the agent have access to different levels of knowledge. In actuality, this puts the principal in a worse position than the agent, who is better informed. Because shareholders, who are the owners of the banks, have assigned the duties of daily running of the companies to the management, who acts as their agents, there is a great need for strong internal control systems to ensure that shareholders and other stakeholder's interests are adequately safeguarded. Because of this, the theory was therefore very relevant in this study. As a result, the theory lends support to the presence of control environments, internal audits, and risk management within the banking sector as a means of achieving efficiency and effectiveness inside the internal control system (Tijani, 2022).

2.4.2 Stakeholder Theory

The theory was established by Edward Freeman and Di Reed (1983), and it is based on the concept that shareholders are not the only people who have interest in the business; rather, there are other the company's stakeholders who are interested in the business. Freeman and Reed (1983) emphasized that in the same measure that the interests of shareholders are protected, management and the board of directors must also work toward the goal of ensuring that various parties, including employees, customers, lenders of capital and raw materials, the government, potential and current investors, and the general community. Freeman and Reed (1983) mentioned this as one of important aspects of protecting shareholders' interests. Edward Freeman made the observation that the board of directors has a significant duty in that it is the protector of the stake that diverse parties have invested in the company at stake. The concerns that arise with moral and ethical conduct on the part of management and the board of directors in relation to all of the parties involved in the business are often addressed by the various stakeholder theories. According to this notion, managers should begin each effort by putting the necessity of the many stakeholders at the forefront of their minds. During the process of the company's liquidation, the preferred creditors are the ones whose debts are paid off first. After them come the secured creditors, then the preference shareholders, and finally the regular shareholders (Freeman & Reed, 1983).

Thus, when all the aforementioned parties have been paid in full, the leftover sum is distributed to shareholders. Ordinary shareholders stand to lose out if there is no cash surplus left over. Because the management and the board of directors make up the control environment, and because this internal control aspect is focused on protecting

the interests of stakeholders and shareholders by boosting the company's financial performance. When carrying out their responsibilities, the board of directors and the management team must do so with the utmost honesty, ethics, dedication, and expertise on the side of the company's stakeholders and shareholders. This theory contributes to the understanding since it reflects the priorities of boards of directors and top executives when it comes to protecting the interests of all stakeholders. These parameters are part of the internal control system's control environment, which is itself a variable in the study (Leonard, 2022).

2.5 Relationship Between Internal Control and Organizational Performance

Coco (1992) provided a standard for evaluating the efficacy of internal controls. Efficient internal control may be determined by whether or not the entity's operational goals are met, whether or not accurate financial statements are created, and whether or not all relevant laws and regulations are followed. While internal control may be thought of as a process, the degree to which it is successful at any one moment is a state or condition of the process. Thus, the efficient operation of internal control systems ensures a high level of performance for the company by providing reasonable certainty that one or more of the mentioned categories of goals will be met (Coco, 1995). Wells (2001) demonstrates how theft may be uncovered in the real world by qualified accountants and what such accountants have to say about how they spot fraudulent transactions. An organization's productivity, effectiveness, trustworthy financial reporting, and regulatory compliance may all benefit from a well-established system of internal controls (Coso, 1994).

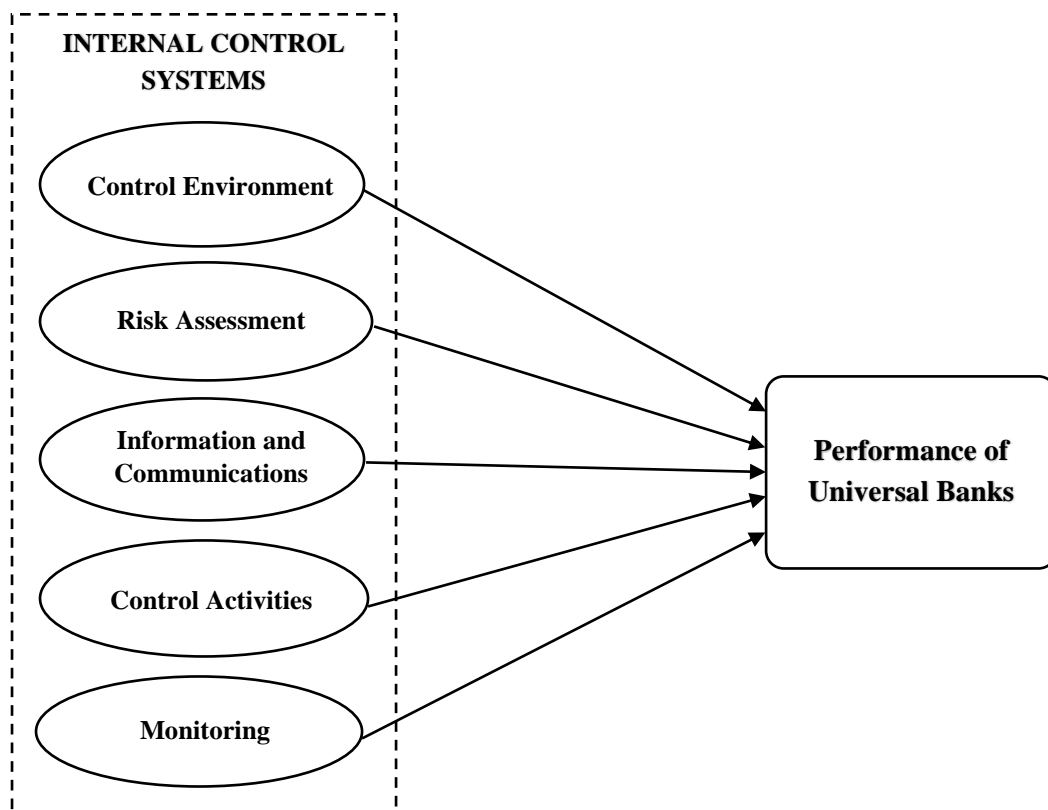
Controls are there to help the system achieve its objectives by guiding the system's activity in the right direction in response to changes in the environment. As a result, internal controls may boost efficiency and competitiveness inside businesses. According to Muraleetharan (2011), the link between internal control and performance is impacted by a subset of the variables constituting internal control systems (Muraleetharan, 2019). On the other hand, research carried out by Njeri (2014) found that all components of the COSO framework of internal control systems, with the exception of information and communication, accurately predict the positive association with organizational performance (Njeri, 2014).

2.6 Previous Studies based on the Internal Control System and Performance

Internal control problems are common in the banking industry, and that allowed rogue traders to cause huge financial losses to these banks. An effective internal control system is the nerve center of every organization, the breakdown of which leads to the failure of organizations. Internal control is a crucial aspect of an organization's governance system and ability to manage risk.

Otoo et al., (2021) made research on the effect of internal control systems on the performance of Ghanaian universal banks. It ought to examine at how universal banks in Ghana are affected by internal control systems. The study used a quantitative methodology. Data was gathered through questionnaire from 160 participants from 20 universal bank branches in Ghana. The study's independent variables are internal control systems of control environment, control activities, information and communication, risk assessment and monitoring and dependent variables are organizational performance. The conceptual framework for this study is shown in Figure (2.1).

Figure (2.1) The Effect of Internal Control System on the Performance of Ghanaian Universal Banks

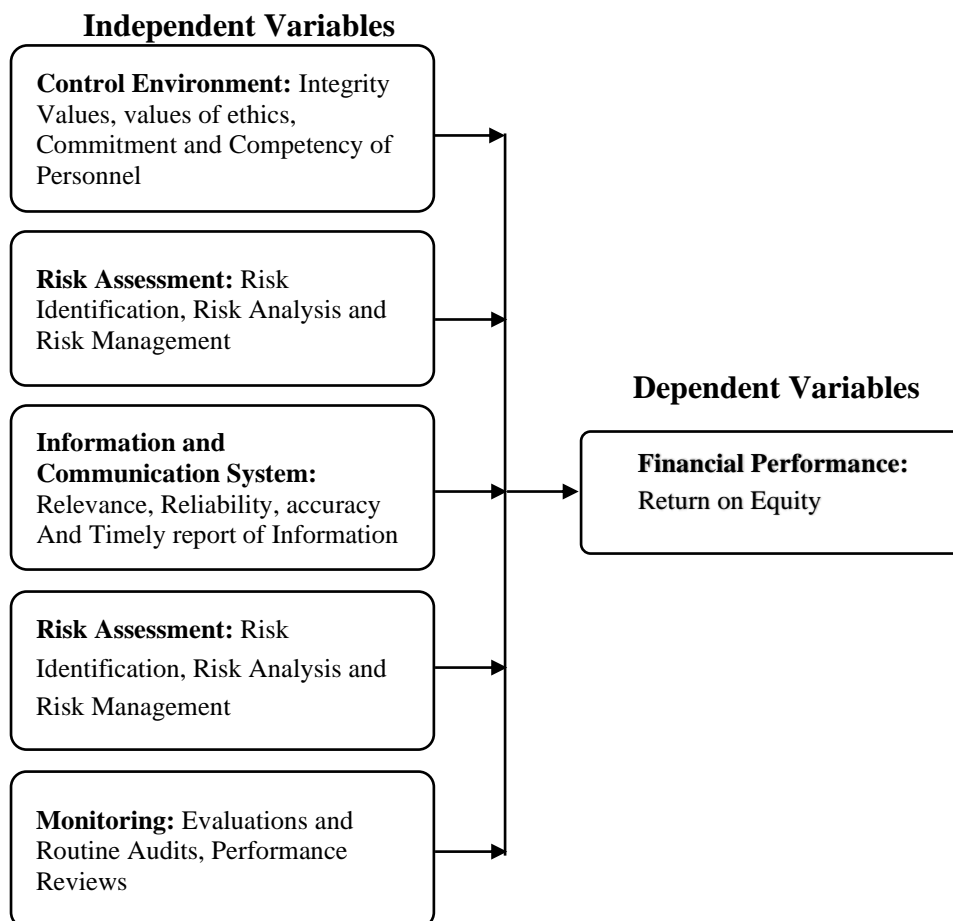


Source: Otoo, et al., (2021)

It can be deduced from the results that if universal banks' management has defined appropriate objectives for the organization, implemented an effective internal control system, and identified risks that affect achievement of the objectives, the bank's performance will increase in terms of return on asset, liquidity, customer base, quality of service, flexibility, resource utilization, and innovation.

Leonard (2022) made research on effect of internal control systems on financial performance of commercial bank branches in Bomet and Kericho Counties in Kenya. The primary aim was to analyze the impact of commercial banks' internal control systems on their financial performance in specific counties throughout Kenya. The study used a combination of correlation and causation analysis. Eighty-six individuals working in commercial bank branches in Bomet and Kericho Counties were chosen. The framework of the study is shown in Figure (2.2).

Figure (2.2) The Effect of Internal Control System on Financial Performance of Commercial Bank in Kenya



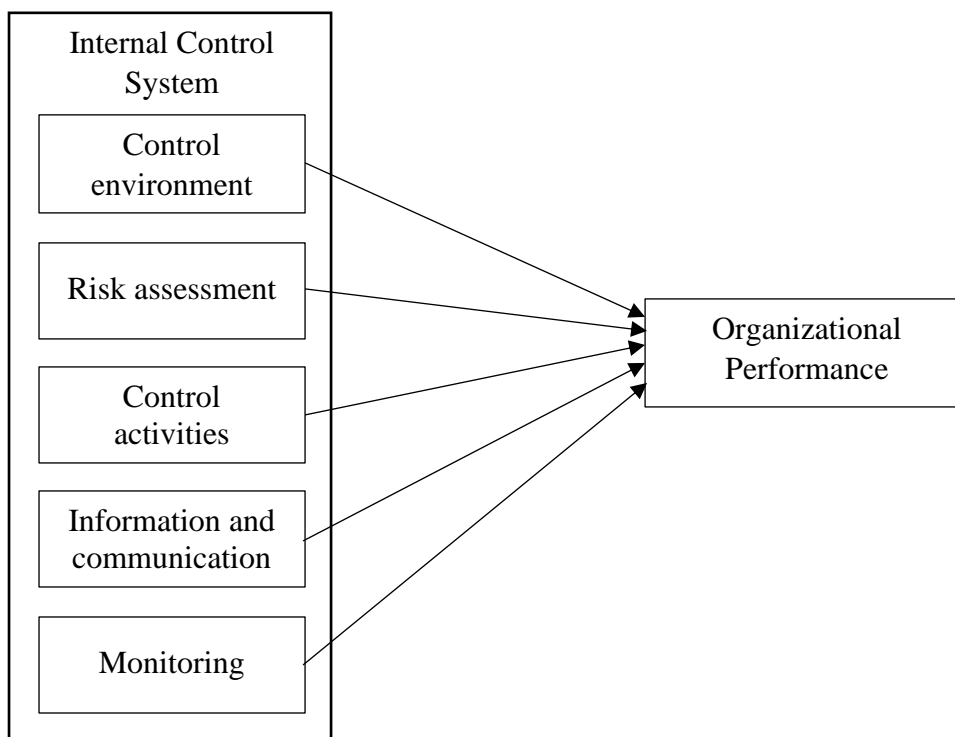
Source: (Leonard, 2022)

In this study, the researchers found that each component of an internal control system has an impact on financial results, both favorably and positively. It is also found that control environment has negative and insignificant effect on financial performance, information and communication systems have a positive and insignificant effect on financial performance, risk assessment and control activities have a positive and significant effect on financial performance, and monitoring has a negative and significant effect on financial performance.

2.7 Conceptual Framework of the Study

Following Otoo, et al., (2021), the conceptual framework of this study was developed. The conceptual framework shows the link between the independent variables; (control activities, risk assessment, control environment, monitoring and information) and dependent variable (organizational performance).

Figure (2.3) Conceptual Framework of the Study



Source: Own Compilation Based on Previous Studies

According to above conceptual framework, the study proposed that the components of internal control systems are control environment, risk assessment, control activities, information and communication and monitoring. They are considered as independent variables of this study. On the other side, the study proposes

organizational performance as dependent variable. This study analyzed the effect of internal control system on organizational performance by using multiple regression analysis in SPSS. The results are expected to provide the internal control systems of uab bank have positive and significant relationship with organizational performance.

2.8 Working Definitions of Key Terms

Based on the literature and previous studies, the working definition of internal control system and performance of bank are defined. The following table (2.1) presents working definition of the variables used in the study.

Table (2.1) Working Definitions of Key Terms

No.	Variables	Working Definitions
1.	Bank's control procedure	Consists of the methods, policies, and procedures that have been implemented by a bank in order to protect the integrity of financial and accounting information, promote accountability, and prevent fraud.
2.	Control environment	The set of policies, procedures, and organizational structures that serve as the foundation for the implementation of internal control within an organization.
3.	Risk assessment	A systematic procedure that includes identifying, evaluating, and minimizing potential issues and threats.
4.	Control activities	Policies and processes that help ensure management directions are carried out including range of activities such as approvals, authorizations, verifications, etc.
5.	Information and Communication	Internal communication by disseminating information throughout the organization, flowing up, down, and across the entity.

Table (2.1) Working Definitions of Key Terms (Continued)

No.	Variables	Working Definitions
6	Monitoring	Determining whether or not the internal controls have been developed sufficiently, correctly performed, and are effective at any particular moment in time.
7	Bank's performance	Compares actual outcomes or outputs with the results that were supposed to be produced as part of the process of assessing a company's performance in relation to its objectives and goals.

CHAPTER III

BACKGROUND OF uab BANK

In this chapter, profile of uab bank, purpose, mission and values of uab bank, organizational structure of uab and internal control system of uab are presented.

3.1 Profile of uab Bank

uab Bank Limited is a Private Bank Limited in Myanmar with a registered address of No.3, Bank Development Zone, Corner of Kyaing Tone Road and Mawlamying Road, Oaktaya Thiri Township, Nay Pyi Taw. The bank first opened its doors in 2010 as a full-fledged domestic private bank. uab bank is widely regarded as Myanmar's top financial institution due to its ability to adapt and lead the country's banking industry in the face of recent regulatory and governance reforms. Over 79 of the bank's branches can currently be found in 53 of Myanmar's townships. Consumer banking, premium banking, small and medium enterprise banking, corporate banking, trade financing, and treasury services are all part of uab bank's extensive financial offerings. The bank's uab securities subsidiary engages in brokerage, corporate and financial advising, investment banking, and capital market services.

Currently, the bank has all necessary authorizations to issue letters of credit and conduct international money transfers. A major license for the acquiring business was obtained from VISA and Mastercard in 2013, and the bank began offering inbound remittance service through its correspondent agreements with Western Union payment on December 27th, 2012. In addition to traditional branches that are wired together online through the bank's core banking system, this bank also makes available a wide variety of automated teller machines (ATMs) around the country and an internet banking service that is accessible at all times. uab bank now runs a full-fledged banking operation in local and international currencies, with branches and an online platform servicing customer across Myanmar. The bank's mission is to be a pioneer in bringing about positive change in Myanmar by humanizing banking, fostering community, providing new possibilities, and enhancing people's quality of life. To promote positive change in Myanmar, uab established the uab Foundation in 2020 as the Bank's CSR branch, and in December 2017 they unveiled their "Be the Change Myanmar" project (uab, 2021).

3.2 Mission and Values of uab Bank

uab bank's purpose is to be Myanmar's top commercial bank by bringing humanity to banking, fostering community, expanding access to economic possibilities, and improving people's quality of life. The missions of uab bank are;

1. To lead changes in financial services
2. To deliver banking with a heart
3. To connect people and build relationships to foster a stronger community spirit
4. To create opportunities and a better future for staffs and customers
5. To change that can empower the communities

uab bank's values are;

A desire to connect: uab bank is committed to fostering a culture of inclusion by encouraging its employees to work together toward shared goals while also recognizing the importance of respecting the unique perspectives of each team member, customer, and community (uab, 2021).

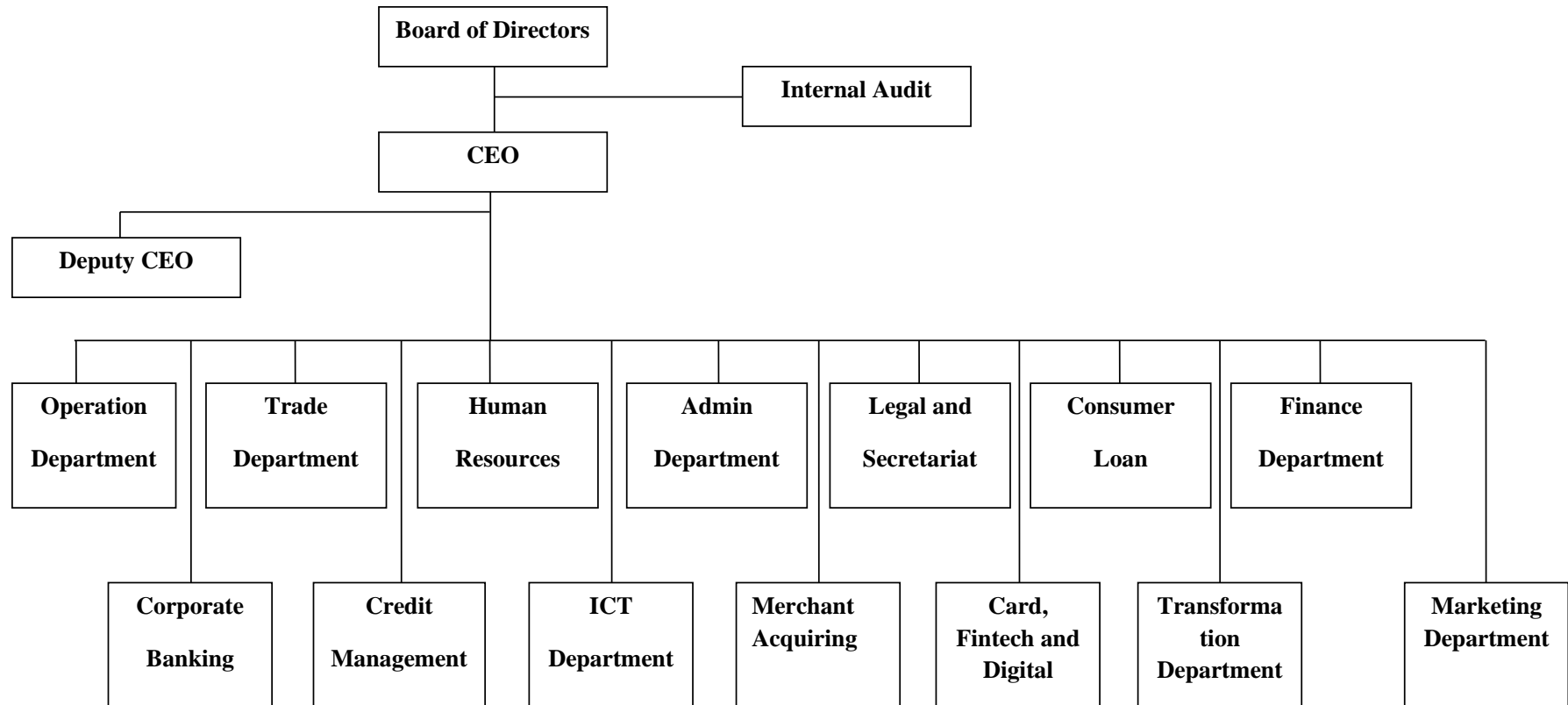
A passion to create: uab bank balances the type of creativity that is always on the lookout for reasonable solutions to banking's ongoing challenges (uab, 2021).

The courage to lead change: uab bank is willing to take the lead on change, despite the fact that it knows that such action may be both difficult and important. The bank is performance-oriented, but it never loses sight of the significance of ethics, responsibility, and long-term planning for its customers and the community at large (uab, 2021).

3.3 Organizational Structure of uab Bank

The Board of Directors of uab Bank has a prominent position at the very top of the organizational hierarchy, and they oversee the Audit Department with the help of the CEO (CEO). The Chief Executive Officer (CEO) is assisted by the Deputy Chief Executive Officer (Dy.CEO) and the Directors of the various departments. Trade finance, corporate banking, and investment banking all are under the control of the Dy.CEO. CEO oversees Retail Banking, Credit Management, Human Resources, Information Technology, Risk and Compliance, Administration, Operations, and Legal & Secretariat. The organizational chart of uab bank is as follows:

Figure (3.1) Organizational Chart of uab



Source: uab bank

3.4 Internal Control System of uab Bank

The bank's management structure and policies have been codified in a Corporate Governance Framework. Internal control and risk management are more likely to work well if there is a consistency between policies and their corresponding functions. One of the most important parts of any risk management strategy is a system of ongoing internal controls. The bank's assets have been protected, risk has been mitigated, and the bank's goals have been attained thanks to the internal control in place in the form of systems, policies, procedures, and processes. Techniques such as segregation of jobs, dual control, limit control, training, and staff rotation are used. It is crucial to keep conflict of interest to a minimum by maintaining a clear division between front- and back-office operations. uab bank's internal control employs a wide range of methods, including both preventative and investigative procedures.

The Board of Directors (the Board) understand that it must take the lead in establishing and maintaining an adequate and effective risk management and internal control system. The Board has established the mechanism to ensure that the risks are managed within the tolerance level set to achieve the Bank's business objectives, including setting overall risks and ensuring that mechanisms are in place to effectively mitigate risk; setting appropriate policies, procedures, and controls to manage such risks; and setting arrangements in place for the effective reporting on all issues related to the functioning of the risk management system. Banks in the process of financial intermediation are confronted with various kinds of financial and non-financial risks viz., credit, interest rate, foreign exchange rate, liquidity, equity price, commodity price, legal, regulatory, reputational, operational, etc. These risks are highly interdependent and events that affect one area of risk can have ramifications for a range of other risk categories. Thus, top management of banks should attach considerable importance to improve the ability to identify, measure, monitor and control the overall level of risks undertaken.

The Board establishes a risk appetite, and it is the responsibility of management to develop policies and processes to manage risks within that appetite. Their responsibilities include determining which risks are relevant to the Bank's business and the achievement of its business objectives; developing and implementing policies and procedures to manage these risks; designing, implementing, and monitoring the effective implementation of a risk management and internal control system; and

reporting to the Board in a timely manner on any changes to the risks and the corrective actions taken.

To further improve management, uab bank provides 3 (three) separate layers of protection.

- 1st line of Defense – Business units, departments and retail branches who own and manage risk as part of their day-to-day activity. The business operations side is fully responsible for all the risks in its area of activity and has to ensure that effective controls are in place
- 2nd line of Defense – Independent risk functions including Risk and Compliance Department, Finance Dept and other functions overseeing risks. The second-line risk and control functions formulate their own opinion regarding the risks. they provide an adequate degree of certainty that the first-line control function is keeping these risks under control, without taking over primary responsibility from the first line. In this regard, the second-line functions are tasked to identify, measure and report risks. The risk function has a veto right to ensure that it is respected. The second-line risk and control functions also support the consistent implementation of the risk policy, the risk framework, etc., throughout the group, and supervise how they are applied.
- 3rd line of Defense – Internal Audit performs independent assurance activities to evaluate and improve the effectiveness of governance, risk management and control processes, to support the board and senior management in protecting assets, reputation and sustainability.

The internal control system of uab bank has five functions. They are;

- Control environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

(1) Control Environment

uab bank starts by establishing its internal control environment. For implementing or improving internal control within an organization, the control environment is a pervasive factor that impacts all of the other aspects of internal control.

For sound control environment, uab bank always assist to implement the management guidance and the department structure is also clearly defined. The BOD and management at all levels of uab demonstrate a code of conduct and/or ethics policy through their directives. uab bank has established performance measures and goals which are periodically reviewed in relation to responsibility, accountability, and ability of the employee. A strong internal audit and/or compliance function is critical to assessing and maintaining of uab bank control environment. uab bank comply with applicable law, internal regulations and accepted standards of conduct. uab bank regularly evaluates the Bank's compliance to the policies, processes, restrictions, and duties set out in the relevant legal frameworks, regulatory frameworks, and other relevant guidelines. The frequent direction and monitoring of the uab bank always try to provide. Not only that, but uab bank actively promotes a culture of compliance throughout the organization via official pronouncements and policies, training, and disciplinary actions.

An internal auditor is also appointed by uab bank to check the overall performance with respect to the administrative, executive, financial, and legal standards. The audit effectively identifies corporate frauds while assessing the internal controls to ensure a business' efficiency. An internal audit is conducted to properly check whether a company follows the internal protocols, regulations, and standards. Auditors are accountable for issues with the bank's operational infrastructure. A separate Internal Audit department has been set up to verify for the Bank's internal control system's reliability and efficacy on behalf of the Board and the Management. uab bank's internal audit function always provide periodic reviews of the Bank's risk management structure and processes, focusing on the Bank's adherence to established policies, procedures, restrictions, and relevant laws, rules, and recommendations.

(2) Risk Assessment

The second step in the design and implementation of internal control of uab bank is to identify and analyze threats or risks to the achievement of bank's objectives. It describes the risk assessment component of internal control in greater detail. Day-to-day operational responsibility for the Bank's successful identification, measurement, monitoring, management, and mitigation of risks falls on the Risk and Compliance Department (RCD). Establishing risk assessment and measurement systems, establishing policies, practices, and other control mechanisms to manage risks,

establishing risk tolerance limits for Senior Management and board approval, monitoring positions against approved risk tolerance limits, and reporting results of risk monitoring are all tasks that include the responsibility of the risk management function. RCD assists Senior Management and the Board with day-to-day operations to make that the aforementioned goals are met. Credit risk is managed by the Credit Management Department of uab bank while the Risk Control Division keeps an eye on the operational, liquidity, and market risks.

(3) Control Activities

Through policies and procedures, control activities or actions are put into place to address risks. As control activities, uab bank categorized number of actions within an organization by type and nature. The specific actions that can be observed and documented for future inspection or re-performance by a third-party. Staff are trained to implement the operation and financial management system. uab bank uses employees' individual performance, as a tool of internal control, which assists the staff, follow, and comparing with the targeted objective. This requires that an organization customize even the best framework to align with its needs. The checking process of inventory record accuracy is examined regularly by uab bank.

(4) Information and Communication

Through strategic distribution of information, uab bank aims to keep its employees enthusiastic and committed to the bank's mission. All employees are trained to understand the concept and relevance of internal controls including the division of responsibilities, and all information from project managers is adequately supported to management decisions. uab Bank is cautious about getting critical updates out to all employees promptly once they become available. In addition, uab bank has mechanisms in place for disseminating information to external stakeholders in a timely manner.

(5) Monitoring

Monitoring activities of uab bank are periodic or ongoing evaluations to verify that each of the five components of internal control, including the controls that affect the principles within each component, are present and functioning. Uab bank creates and is continually refining a comprehensive MIS system that offers a trustworthy data base for the identification, measurement, management, monitoring, and mitigation of risk across all areas of the Bank. Daily, weekly, and monthly reports detailing the

Bank's risk management performance and highlighting any instances of noncompliance with risk management policies, procedures, limits, and obligations arising from applicable laws, regulations, and guidelines are also prepared and submitted to Senior Management and the Board.

3.5 Performance Management in uab Bank

The success of the uab bank, its business activities, and the employee's individual attainment of performance objectives are all factors that are considered when determining performance-based variable pay. Each employee's performance is assessed based on a combination of performance goals, competences, and behaviors that are considered to be in alignment with the uab's values. At the end of each year, each employee's performance is evaluated and used to determine how much of an increase or decrease they should get in their variable pay. Regular evaluations of the pay policy are carried out by the Board of Directors and Senior Management. These reviews are carried out to ensure that compensation practices and programs are in accordance with legal requirements and that they are responsive to changes in the market. The remuneration, awards, and pay those employees receive consider factors other than the short-term financial measurements, as well as the longer-term sustainability goals.

At the end of each fiscal year, the Board of Directors conducts an evaluation of the Chief Executive Officer. The Bank's financial performance, governance, and risk management are all considered as part of the criteria. The top leadership of the company conducts performance reviews of workers twice a year, once on each of their teams and once on individual members of the workforce. These reviews are done individually. The evaluation of employee performance is a component of performance management, which enables a culture of high performance to exist across the whole of the business, ensures that workers continue to be motivated, and gives them the authority to perform to the best of their abilities. Planning performance, maintaining frequent monitoring and evaluating, and conducting formal appraisals are all part of uab's performance management. In addition to measuring whether or not key performance indicators have been met, performance appraisals also look at how employees behave. The post-evaluation process consists of providing feedback and coaching, as well as taking efforts to manage the varying levels of performance (uab, 2022).

CHAPTER IV

ANALYSIS OF INTERNAL CONTROL SYSTEM ON ORGANIZATIONAL PERFORMANCE OF uab BANK

In this chapter, the findings from the analysis of the data from the survey are provided. This chapter is broken up into six parts that address topics such as research methods, demographic characteristics of the respondents, and the evaluation of the reliability of the scale. The study also included analysis on respondents' perception on internal control system in uab bank, organizational performance of uab bank and the relationship between internal control system components and organizational performance in uab bank using Regression analysis.

4.1 Research Methods

This study has used descriptive research method with the use of structured questionnaire. It was administered on 50% of the respondents who are currently working at uab bank. There were three parts in the questionnaire. Part 1 contains characteristics of respondents including gender, age, educational level, etc. Part 2 consists of respondents' perceptions on the extent of the internal control practices; including control environment, risk assessment, control activities, information and communication and monitoring. Part 3 contains respondents' performance level in uab bank. Part 2 and 3 questionnaires were structured by Five Point Likert Scale. Mean values were calculated depending on the results of the respondents' perceptions. The interpretation of the Likert Scale is shown in Table (4.1).

Table (4.1) Interpretation of Likert Scale

No.	Mean Score between	Interpretation
1	1.00 - 1.80	Lowest
2	1.81 - 2.60	Low
3	2.61 - 3.40	Neutral
4	3.41 - 4.20	High
5	4.21 - 5.00	Highest

Source: Survey data, 2022

This study has used simple random sampling method to collect the data. In the process of sampling, 120 employees that is 50% from uab bank have selected randomly. The questionnaires were sent to the research participants through Google links via Facebook messenger, Viber and Email. After collecting the required data, the data were analyzed by using SPSS software. Descriptive analysis and inferential analysis such as Multiple Regression Analysis were used to study the effect of internal control system on organizational performance of uab bank in Yangon, Myanmar.

4.2 Profile of Respondents

This part consists the results of profiles of the respondents who participated in this survey containing gender, age, and job experience.

4.2.1 Gender

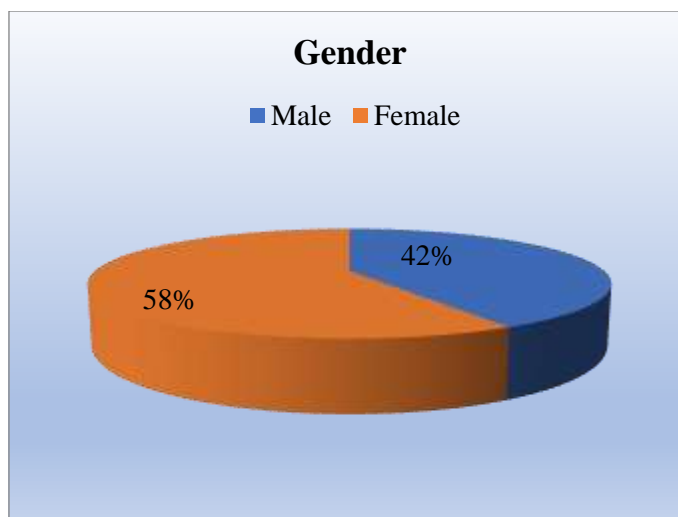
The demographic profile of respondents is divided into two; Male and Female. Table (4.2) and Figure (4.1) show the gender of respondents.

Table (4.2) Number of Respondents by Gender

Category	No. of Respondents	Percent
Male	50	41.7
Female	70	58.3
Total	120	100.0

Source: Survey data, 2022

Figure (4.1) Pie Chart of Respondents by Gender



Source: Survey data, 2022

According to above result, 41.7% of the respondents are male and 58.3% of the respondents are female. This shows that the majority of the respondents of this study are female.

4.2.2 Respondents by Age Group

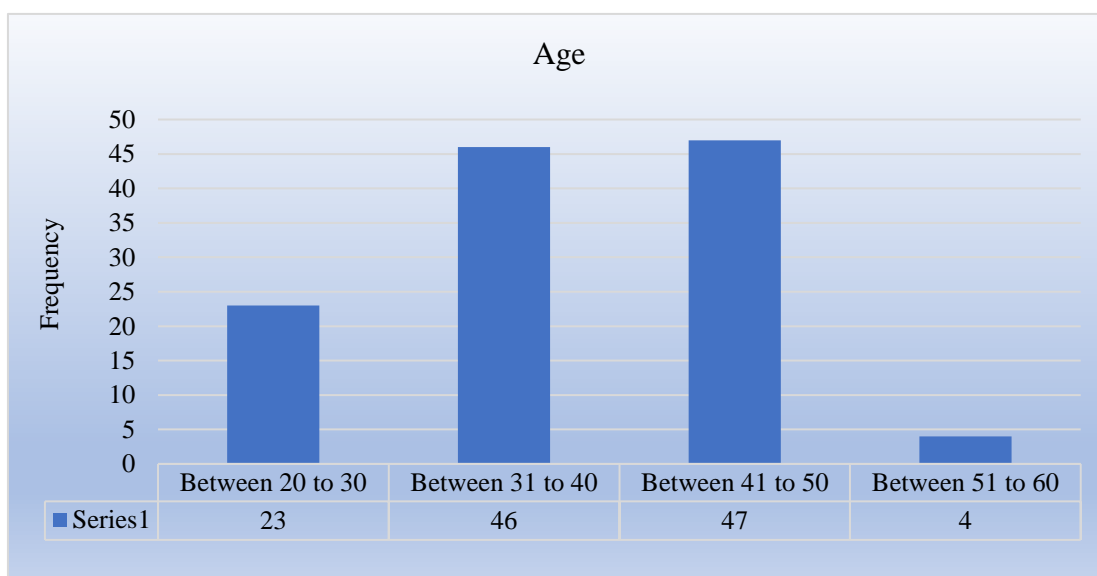
The age group of the respondents is divided into four groups: between 20 to 30, between 31 to 40, between 41 to 50 and between 51 to 60. The results are shown in Table (4.3) and Figure (4.2).

Table (4.3) Number of Respondents by Age Group

Age Group	No. of Respondents	Percent
Between 20 to 30	23	19.2
Between 31 to 40	46	38.3
Between 41 to 50	47	39.2
Between 51 to 60	4	3.3
Total	120	100.0

Source: Survey data, 2022

Figure (4.2) Bar Chart of Age Group



Source: Survey data, 2022

According to Table (4.3) and Figure (4.2), 47 respondents fall in the age group between 41 and 50 years, followed by 46 respondents fall in the age group between 31 and 40 years and 23 respondents fall over under 30. Only 4 respondents fall in the age

group between 51 and 60. The result showed that most of the employees who are working at uab banks are at the age of between 31 to 50 years.

4.2.3 Respondents by Job Experience

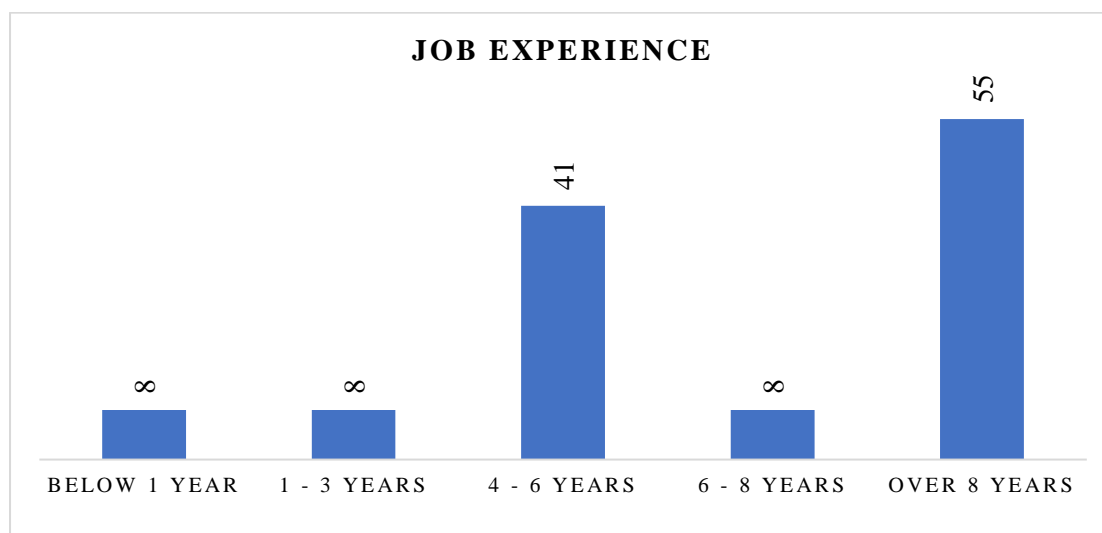
Job experience of the respondents is divided into 5 groups: below 1 year, 1-3 years, 4-6 years, 6-8 years and over 8 years. The results are shown in Table (4.4) and Figure (4.3)

Table (4.4) Respondents by Job Experience

Description	No. of Respondents	Percent
Below 1 year	8	6.7
1 - 3 years	8	6.7
4 - 6 years	41	34.2
6 - 8 years	8	6.7
Over 8 years	55	45.8
Total	120	100.0

Source: Survey, 2022

Figure (4.3) Bar Chart of Job Experience



Source: Survey data, 2022

Table (4.4) and Figure (4.3) showed that 45.8% of respondents are over 8 years of job experience, 34.2% are between four and six years of experience.

4.3 Reliability Analysis

In order to measure to assess the reliability, or internal consistency of a set of test items, reliability analysis is used in this study. Cronbach's alpha reliability coefficient normally ranges between 0 and 1. However, there is actually no lower limit to the coefficient. The closer Cronbach's alpha coefficient is to 1.0 the greater the internal consistency of the items in the scale.

According to George and Mallery (2003),

- > .9 – Excellent,
- > .8 – Good,
- > .7 – Acceptable,
- > .6 – Questionable,
- > .5 – Poor, and
- < .5 – Unacceptable (George & Mallery, 2003)

Table (4.5) Reliability Analysis

Description	No. of items	Cronbach's Alpha
Control environment	6	0.819
Risk assessment	6	0.834
Control activities	5	0.717
Information and communication	5	0.737
Monitoring	6	0.789
Organizational Performance	6	0.811

Source: Survey data, 2022

Cronbach's alpha is a measure of internal consistency reliability that can be calculated and reported for any scales or subscales used in this study that employ the Likert-type scale. The internal consistency of the items on the scale seems to be high, since all of the Cronbach's alpha values are more than 0.7, as shown in table 4.5.

4.4 Respondents' Perceptions on the Extent of the Internal Control Practices

This part presents the respondents' perceptions on the extent of uab bank's internal control practices, namely; control environment, risk assessment, control activities, information and communication and monitoring. A survey was conducted to 120 uab bank managers to assess their perception of the bank's internal control

procedures. Data from the completed questionnaires are summarized using frequency and percentage distributions.

4.4.1 Respondents' Perceptions on Control Environment

This section explored employees' perception on control environment with 6 sets of sub-questions. The mean and standard deviations were presented from statistical analysis as follow.

Table (4.6) Respondents' Perceptions on Control Environment

Sr. No.	Description	Mean	Std. Deviation
1.	The BOD and management at all levels of uab demonstrate a code of conduct and/or ethics policy through their directives.	3.48	0.565
2.	The control environment in uab assist to implement the management guidance.	3.54	0.660
3.	The department structure in the uab bank is clearly defined.	3.81	0.690
4.	Control environment of the bank depend so much on the level of commitment to work by the staff.	3.71	0.509
5.	The responsibility and chart of authority in uab bank is distinctly identified.	3.58	0.752
6.	uab bank has established performance measures and goals which are periodically reviewed in relation to responsibility, accountability, and ability of the employee.	3.68	0.594
	Average mean	3.63	

Source: Survey data, 2022

According to above table, uab bank have a code of conduct and ethics policy through BOD and management's directives (3.48), control activities uab bank assist to implement management guidance (3.54), the department structure in the bank is clearly defined (3.81), bank's control activities depend on employees' commitment level (3.71), responsibility and authority of chart in uab is clearly defined (3.58) and uab bank has performance measures and goals and they are periodically reviewed in terms of

responsibility, accountability, and ability of the employee (3.53). The total mean score control environment is 3.63 which means respondents are satisfied with how uab bank's control environment practices.

4.4.2 Respondents' Perceptions on Risk Assessment

This section explored employees' perception on risk assessment with six sets of sub-questions. The mean and standard deviations were presented from statistical analysis as follow.

Table (4.7) Respondents' Perceptions on Risk Assessment

Sr. No.	Description	Mean	Std. Deviation
1.	The documented objectives for all key activities of uab bank have been established.	3.65	0.603
2.	Potential problems and losses within each department are identified and assessed regularly.	3.70	0.574
3.	The targets and objectives for all departments have been modified according to potential risk.	3.74	0.680
4.	uab's risk measurement system is accurate and clear.	3.64	0.591
5.	Management encourages reporting of events in order to identify the risks.	3.71	0.456
6.	The bank forecast the trends of changes in the country's regulation and economic condition.	3.48	0.565
	Average mean	3.65	

Source: Survey data, 2022

Above table showed respondents' agreement level on risk assessment. The results stated that uab bank have documented objectives for all its key activities (3.65), potential problems and losses within each department are identified and assessed regularly (3.70), the targets and objectives for all departments have been modified according to potential risk (3.74), the bank's risk measurement system is accurate and

clear (3.64), the bank’s management encourages reporting of events in order to identify the risks (3.71) and the bank forecasts the trends of changes in the country’s regulation and economic condition (3.48). The total mean score control environment is 3.65 which means respondents are satisfied with uab bank’s risk assessment practices.

4.4.3 Respondents’ Perceptions on Control Activities

This section explored employees’ perception on control activities with 5 sets of sub-questions. The mean and standard deviations were presented from statistical analysis as follow.

Table (4.8) Respondents’ Perceptions on Control Activities

Sr. No.	Description	Mean	Std. Deviation
1.	The documentation flow is adequately identified in each department and adhered to accordingly	3.46	0.564
2.	Staff are trained to implement the operation and financial management system	3.54	0.548
3.	The checking process of inventory record accuracy is examined regularly	3.45	0.500
4.	Control activities can measure employees’ individual performance, as a tool of internal control, which assists the staff, follow, and comparing with the targeted objective	3.53	0.709
5.	Guidelines observed by the staff in daily banking operations have some relationship with the performance of the bank	3.58	0.669
	Average mean	3.51	

Source: Survey data, 2022

The results showed that uab bank’s documentation flow is adequately identified in each department and adhered to accordingly (3.46), staffs are trained to implement the operation and financial management system (3.54), checking process of inventory record accuracy is examined regularly (3.45), uab bank’s control activities can measure employees’ individual performance, as a tool of internal control, which assists the staff,

follow, and comparing with the targeted objective (3.53) and staffs' guidelines in daily banking operations have relationship with bank's performance (3.58). The total mean score control activities is 3.51 which means respondents are satisfied with uab bank's control activities practices.

4.4.4 Respondents' Perceptions on Information and Communication

This section explored employees' perception on information and communication with 5 sets of sub-questions. The mean and standard deviations were presented from statistical analysis as follow.

Table (4.9) Respondents' Perceptions on Information and Communication

Sr. No.	Description	Mean	Std. Deviation
1.	All information from project managers support very well to management decisions	3.63	0.673
2.	All employees understand the concept and importance of internal controls including the division of responsibility	3.52	0.608
3.	If uab has important information, it is distributed to all employees on time	3.73	0.632
4.	uab bank has processes in place to communicate relevant and timely information to external parties	3.51	0.661
5.	Management has a good system of information and communication across all the bank departments and as a result, influences the performance of the bank	3.65	0.603
	Average mean	3.61	

Source: Survey data, 2022

Above results stated that project manager supports very well to management decisions (3.63), all employees understand the concept and importance of internal controls including the division of responsibility (3.52), uab bank distributes important information to all employees (3.73), uab bank has processes to communicate information to its external parties (3.51) and uab bank's management has a good system of information and communication across its departments (3.65). The total mean score

is 3.61 which means respondents are satisfied with uab bank's information and communication system.

4.4.5 Respondents' Perceptions on Monitoring

This section explored employees' perception on monitoring with 6 sets of sub-questions. The mean and standard deviations were presented from statistical analysis as follow.

Table (4.10) Respondents' Perceptions on Monitoring

Sr. No.	Description	Mean	Std. Deviation
1.	Internal reviews of the implementation of internal controls in units are conducted periodically	3.45	0.563
2.	Adequate and timely actions are taken to correct deficiencies reported by external auditor report	3.54	0.564
3.	The overall regular monitoring of the bank operations and alignment to objectives greatly influence the performance of the bank	3.61	0.555
4.	Management has proper tools for monitoring and evaluation which can assist in boosting the performance of the bank	3.73	0.635
5.	uab has internal auditors who follow up on the internal control and raises reports about its application of it to the management	3.65	0.603
6.	The bank's management routinely evaluates the overall effectiveness of all internal control practices.	3.58	0.616
	Average mean	3.59	

Source: Survey data, 2022

Table (4.10) showed that the majority of the respondents agreed on which internal reviews of the implementation of internal controls in units are conducted periodically (3.45), adequate and timely actions are taken to correct deficiencies reported by external auditor report (3.54), overall regular monitoring of the bank operations and objectives influence the bank's performance (3.61), uab bank's

management has proper tools for monitoring and evaluation process (3.73), uab bank has internal auditors for internal control processes (3.65) and the bank’s management evaluates the overall effectiveness of internal control practices (3.58). The total mean score is 3.59 which means respondents are satisfied with uab bank’s monitoring system.

4.5 Respondents’ Perceptions on Organizational Performance

The respondents were requested to indicate the extent to which internal control practices on organizational performance. The mean and standard deviations were presented from statistical analysis as follows:

Table (4.11) Respondents’ Perceptions on Organizational Performance

Sr. No.	Description	Mean	Std. Deviation
1.	The uab bank’s control system aids to reduce defects, damage, and asset loss	3.68	0.648
2.	uab bank's control system helps to reduce, the occurrence of fraud and collusion in the bank	3.75	0.554
3.	uab bank's control system props up service quality in order to meet client's expectations.	3.53	0.501
4.	uab bank's control system help to minimize unnecessary costs (e.g. purchase of materials, misuse of assets).	3.78	0.542
	uab bank benefits from positive profit growth from its internal control system.	3.59	0.667
5.	uab bank's control system ensures the accuracy and reliability of financial records	3.66	0.704
	Average mean	3.66	

Source: Survey data, 2022

According to table (4.11), uab bank’s control system aides to reduce defects, damage and asset loss, the bank’s control system helps to reduce (3.68), the occurrence of fraud and collusion (3.75), it props up service quality in order to meet client’s expectations (3.53), the bank’s control system can help to minimize purchasing costs or misuse of assets (3.78), the bank benefits from positive profit growth using internal

control system (3.59) and the system ensures the bank’s accuracy and reliability of financial records (3.66). The total mean score of 3.66 indicates that uab bank’s internal control system helps to increase organizational performance.

4.6 Correlation Between Internal Control Activities and Organizational Performance

A statistical procedure known as correlation is used to assess the courage of the linear connection that exists between two variables and to calculate the association that exists between them. The positive correlation between two variables describes the relationship in which a rise in one variable leads to an increase in the other one. A negative correlation, on the other hand, indicates that when one variable increases, the other variable decreases and vice versa. The value is in the range from -1 to 1.

Table (4.12) Correlation between Internal Control Activities and Organizational Performance

Variables	CE	RA	CA	I & C	M	OP
Control Environment	1	0.109	.389**	.227*	.462**	.292**
Risk Assessment	0.109	1	.423**	.606**	.278**	.496**
Control Activities	.389**	.423**	1	.394**	.634**	.516**
Information and Communication	.227*	.606**	.394**	1	.459**	.351**
Monitoring	.462**	.278**	.634**	.459**	1	.601**
Organizational Performance	.292**	.496**	.516**	.351**	.601**	1
**. Correlation is significant at the 0.01 level (2-tailed).						
*. Correlation is significant at the 0.05 level (2-tailed).						

Source: Survey data, 2022

CE = Control Environment, RA = Risk Assessment, CA = Control Activities, I&C = Information and Communication, M = Monitoring, OP = Organizational Performance

Based on above results, all five independent variables (control environment, risk assessment, control activities, information and communication, monitoring and organizational performance) are positively correlated with dependent variable of

organizational performance. The correlation between control environment and organizational performance is at 0.292, significant at 1% level, which means there is a weak positive relationship between control environment and organizational performance. The correlation between risk assessment and organizational performance is at .496, significant at 1% level, which means there is a moderate positive relationship between risk assessment and organizational performance. The correlation between control activities and organizational performance is at .516, significant at 1% level, which means there is a moderate positive relationship between control activities and organizational performance. The correlation between information and communication and organizational performance is at .351, significant at 1% level, which means there is a weak positive relationship between information and communication and organizational performance. The correlation between monitoring and organizational performance is at .601, significant at 1% level, which means there is a fairly strong positive relationship between monitoring and organizational performance. Therefore, all of the independent variables are positively and significantly correlated with dependent variable at 1% significant level.

4.7 Analysis on the Effect of Internal Control Activities on Organizational Performance of uab Bank

Multiple regression analysis was applied to identify the level of relationship between independent variables; control environment, risk assessment, control activities, information and communication and monitoring and dependent variable of organizational performance. The results are shown as below.

Table (4.13) Regression Analysis on the Effect of Internal Control Activities on Organizational Performance of uab Bank

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.428	0.342		1.251	0.213
	Control environment	0.022***	0.072	0.023	0.3	0.004
	Risk assessment	0.432***	0.089	0.427	4.86	0.000
	Control activities	0.081	0.097	0.077	0.831	0.408
	Information and communication	0.170**	0.089	0.174	1.924	0.057
	Monitoring	0.532***	0.1	0.503	5.311	0.000
R Square		0.499				
Adjusted R Square		0.477				

Dependent Variable: Organizational Performance

*** Significant at 1% level, ** Significant at 5% level

Source: Survey, 2022

As shown in above table (4.13), the effect of internal control system on organizational performance is analyzed with multiple regression analysis. According to the results, the R square value of dependent variable of independent variable is found to be 0.499. This indicates that 49% of variation of the organizational performance can be attributed to the independent variables, i.e. the variation in independent variables is explained by the variation in organizational performance with 49% and the other 51% is not explained. The results revealed that control environment is ($\beta = .0.022$, Sig = .004), risk assessment is ($\beta = .0.432$, Sig = .000), control activities is ($\beta = .0.081$, Sig = .408), information and communication is ($\beta = .0.170$, Sig = .057) and monitoring is ($\beta = .0.532$, Sig = .000). This shows that control activities have no effect on organizational performance ($p > 0.05$) while control environment, risk assessment, information and communication and monitoring is significantly and positively affecting organizational performance in uab bank since p-values are less than 0.05.

CHAPTER V

CONCLUSION

This chapter consists of the study's key findings, recommendation based on the results and limitation and needs for further research.

5.1 Findings and Discussions

The objectives of this study are to identify the internal control system practiced by uab bank in Yangon and to analyze the impact on banking performance of the internal control of uab bank in Yangon. To meet the two objectives of this study, the data are collected through both primary and secondary data collection method. The primary data is collected through sample survey of 120 managerial employees from uab bank. The respondents were asked of their demographic profile, internal control practices of uab bank and organizational performance. The results showed that the majority of the respondents are female. Most of the respondents are at the age of between 41 to 50 years old. The majority of the respondents have been working in uab bank for over 8 years.

For internal control practices, this study has divided into five factors, namely, control environment, risk assessment, control activities, information and communication and monitoring. According to the outcomes, the majority of the respondents agreed that uab bank has good practices regarding to control environment which means uab bank have code of conduct and ethic practices demonstrated by BOD and management and they assist to implement the management guidance. Further, the department structure is clearly defined and they are dependent on employees' commitment level. The responsibilities of each employees are clearly identified and the bank has performance measures and goals to accomplish by each employee. In risk assessment factor, the majority of the respondents sated that uab bank have documented objectives for all activities and potential problems are regularly assessed. Accordingly, the targets and objectives for all departments are modified. Moreover, the risk assessment system is clear and the bank forecasts the trends of changes in country's regulation and economic condition.

The majority of the respondents also agreed that uab bank implements good control activities through documentation flow, trained staffs to implement the financial

management system, accurate checking process of inventory, employee performance measurement and guidelines for employees to improve performance in their daily operations. Most of the respondents agreed that uab bank provides good information and communication system such as project manager's information support in management decisions, all employees understand internal control and responsibility, uab bank distributes important information to its employees, the bank communicates to its external parties for timely information and uab bank has a good management system for information and communication.

The majority of the respondents agreed that uab bank has effective monitoring system such as internal reviews for internal control implementation, auditor, regular monitoring system for bank's performance, uab bank has proper monitoring and evaluation tools and internal auditors follow up on internal control system. Further, uab bank's management evaluates all internal control practices. Based on organizational performance results, uab bank's control system helps to reduce defects, damage, asset loss, fraud, collusion and helps to increase service quality to meet customers' requests. Further, uab bank's internal control system helps to minimize unnecessary costs and with the help of the system, uab bank has benefited from positive profit growth.

According to regression analysis, control environment and control activities have no significant effect on organizational performance with p-value of greater than 0.05. However, risk assessment, information and communication and monitoring have positive and significant effect on organizational performance with p-value of less than 0.05. With the results from standardized coefficient, monitoring ($\beta = 0.532$) is the most important in explaining organizational performance, followed by risk assessment ($\beta = 0.432$) and information and communication ($\beta = 0.170$). The model could explain 49% of the variation in organizational performance but 51% is not explained because of the factors that are not considered in this study.

5.2 Suggestion and Recommendation

The study's results provide a foundation upon which managers and decision-makers at uab bank may build better internal control systems and enhanced organizational performance. There is a common understanding of the significance of uab bank's internal control system, and its components are all implemented to varying extents. Components of an organization's internal control system may make a big difference in how well the business performs. This suggests that strategies for

organizations should include the use of internal control systems to boost performance and achieve a strategic advantage. In order to enhance uab's control environment, the bank's governing board and management team should establish and effectively communicate written policies and procedures, a code of ethics and standards of conduct, behave in an ethical manner and require the same standard of conduct from everyone in the organization.

Risk assessment, control activities, information and communication and monitoring are also high importance to organizational performance. Therefore, in order to improve risk assessment factor in uab bank, all key activities of uab bank should have documented objectives, potential problems and losses within each department should be identified and assessed regularly. All of the departments' targets and objectives should be modified according to potential risks. Since the bank's management and BOD is responsible for forecasting the trends of changes in the country's condition, it is to suggest that risk assessment reporting should be periodically reported to them. In addition, uab should set up a specialist unit in the structure that can construct a risk profile including all internal and external risk, assess the risk profile on a regular basis, and construct contingency plans to maintain business continuity in the event of a crisis.

Further, in order to improve control activities factor in uab bank, it is to recommend that uab bank evaluate the efficacy of its present methods of internal communication on a regular basis, develop communication plans and policies, and use advanced internal communication. For the improvement of monitoring factor, uab bank should consider adopting a business model that incorporates a quality control system with quality checks and balances to enhance daily monitoring and encourage performance assessment. In addition, uab bank should occasionally offer special incentives in order to engage its employees and develop institutional loyalty. The following are some of the additional recommendations from this research.

1. uab Bank should invest more resources to improving its internal control system by hiring an independent and competent team of internal auditors with clearly defined roles and duties.
2. If uab bank wants to keep the quality of its reports consistent, it should update to more current accounting and financial systems that place a premium on system security.

3. The salary and compensation system at uab bank should be integrated with employee performance and the control report in order to improve internal control.
4. Training sessions and seminars on internal auditing employees should be done on a consistent basis to improve productivity in the workplace.

5.3 Limitation and Need for Further Research

This study only focusses on the effect of internal control system of uab bank in Yangon, Myanmar. This study is only contributed to 120 employees from uab bank. Hence, this study does not represent the whole employee population from uab bank or other employee population around banking context. Secondly, this study does not represent other banks in Yangon. Additionally, some of the respondents in this study may have misunderstood or have a different interpretation. This can lead to result errors. Further studies can consider particular bank that could contribute to the same content scenarios. Further, this research only focuses on the effect of internal control system of uab bank in Yangon, Myanmar. Hence, even though this study shows control environment and control activities have no effect on organizational performance and risk assessment, communication and information and monitoring have significant and positive effect on organizational performance, this can change according to the study area and the selected respondents' responses. Future researchers can investigate leadership and organizational performance, internal control system and organizational effectiveness, etc.

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APPENDIX

Survey Questionnaire

Part 1: Characteristics of Respondents

1. Gender

Male

Female

2. Age

Between 20 to 30

Between 31 to 40

Between 41 to 50

Between 51 to 60

3. Educational level

Diploma

Bachelor

Vocational

Master and above

4. Job experience

Below one year

1-3 years

4-6 years

6-8 years

Over 8 years

Part 2: The Extent of the Internal Control System

No.	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
		1	2	3	4	5
Control environment						
1	The BOD and management at all levels of uab demonstrate a code of conduct and/or ethics policy through their directives					
2	The control environment in uab assist to implement the management guidance					
3	The department structure in the uab bank is clearly defined					
4	Control environment of the bank depend so much on the level of commitment to work by the staff					
5	The responsibility and chart of authority in uab bank is distinctly identified					
6	uab bank has established performance measures and goals which are periodically reviewed in relation to responsibility, accountability, and ability of the employee					

Risk assessment						
1	The documented objectives for all key activities of uab bank have been established					
2	Potential problems and losses within each department are identified and assessed regularly.					
3	The targets and objectives for all departments have been modified according to potential risk					
4	uab's risk measurement system is accurate and clear					
5	Management encourages reporting of events in order to identify the risks					
6	The bank forecast the trends of changes in the country's regulation and economic condition					
Control activities						
1	The documentation flow is adequately identified in each department and adhered to accordingly					
2	Staff are trained to implement the operation and financial management system					
3	The checking process of inventory record accuracy is examined regularly					
4	Control activities can measure employees' individual performance, as a tool of internal control, which assists the staff, follow, and comparing with the targeted objective					

5	Guidelines observed by the staff in daily banking operations have some relationship with the performance of the bank					
Information and Communication						
1	All information from project managers support very well to management decisions					
2	All employees understand the concept and importance of internal controls including the division of responsibility					
3	If uab has important information, it is distributed to all employees on time					
4	uab bank has processes in place to communicate relevant and timely information to external parties					
5	Management has a good system of information and communication across all the bank departments and as a result, influences the performance of the bank					

Monitoring						
1	Internal reviews of the implementation of internal controls in units are conducted periodically					
2	Adequate and timely actions are taken to correct deficiencies reported by external auditor report					
3	The overall regular monitoring of the bank operations and alignment to objectives greatly influence the performance of the bank					
4	Management has proper tools for monitoring and evaluation which can assist in boosting the performance of the bank					
5	uab has internal auditors who follow up on the internal control and raises reports about its application of it to the management					
6	The bank's management routinely evaluates the overall effectiveness of all internal control practices.					

Part 3: Performance of uab Bank

No.	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
		1	2	3	4	5
1	The uab bank's control system aids to reduce defects, damage, and asset loss					
2	uab bank's control system helps to reduce, the occurrence of fraud and collusion in the bank					
3	uab bank's control system props up service quality in order to meet client's expectations.					
4	uab bank's control system help to minimize unnecessary costs (e.g., purchase of materials, misuse of assets).					
5	uab bank benefits from positive profit growth from its internal control system.					
6	uab bank's control system ensures the accuracy and reliability of financial records					