

THE IMPLEMENTATION OF INTERNAL CONTROL SYSTEM AMONG MALAYSIAN CREDIT CO-OPERATIVES

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ABSTRACT

This study aims to examine the perception on internal control system (ICS) practices among Malaysian credit co-operatives. Specifically, this study provides input to those who are involved in developing ICS in co-operative namely, the Board Members (BOARD), Internal Audit Committee (IAC) and management staff. Using Malaysian Co-operative Societies Commission (MCSC) definition on classification of co-operatives, four groups of respondent cooperatives based on size of cooperatives were developed i.e. micro, small, medium and large. After eliminating with incomplete data, 536 co-operatives were selected to be included in this study, where, two questionnaires were mailed to co-operatives' BOD and IAC. After three follow up procedure, 22% of the respondents returned the questionnaire. To compliment the questionnaire analysis, a case study on four co-operatives using unstructured interview questions was conducted. The data was analysed based on three themes namely ICS awareness, readiness and practices. It was found that the majority of respondents are highly aware on the importance of ICS and they believed that ICS should associate with monitoring activities. Consistently, the large majority of the respondents pointed out that, their co-operatives are ready to perform ICS in the perspective of human resource, knowledge, and training. On the other hand, the majority of Malaysian credit co-operatives are not ready to provide sufficient financial resources to appoint competent and skilled staff. Finally, the majority of the respondents (> 80 percent) have performed 60 percent of the ICS components presented to them. Also, 56 percent of the respondents submitted periodic report to the MCSC as required by the law. These findings indicate that Malaysia credit co-operatives are aware and ready to perform ICS towards good governance in the interest of their members.

Key words: Co-operative; Internal Control System; Internal Audit Committee; Awareness; Readiness; Practices.

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INTRODUCTION

The co-operative movement was introduced in Malaysia by the colonial government with the aim to control debt problems among farmers and government servants. The co-operative sector were placed under the authority of the Malaysian Co-operative Society Commission (MCSC) and has become an important part of the economy and made a major impact on the lives of Malaysians. Co-operatives in Malaysia is governed by the Co-operative Societies Act 1993. Since the registration of the first thrift and loan co-operative in July 1922, co-operatives in Malaysia have undergone tremendous growth in the number of co-operatives, membership size, capital and total assets. From only 11 co-operatives in 1922, by 31 December 2011, the number has increased to 9,074 with membership of 7.04 million people, with RM 10.5 billion capitals and total asset worth RM 92.8 billion. However, in the 1980's there has been a shift from single purpose to multipurpose co-operatives, i.e. co-operatives were involved in more than one activity. In addition, co-operatives also ventured into new sectors such as housing, transportation, investment, banking and etc.

MCSC classify credit co-operatives as a registered co-operative that runs credit function with main activity providing loans or other credit facilities to its members, as specified in the by-laws of the co-operative. As of December 2011 there are 589 credit co-operatives in Malaysia with membership of 1.9 million people, RM 4.7 billion capital and total assets worth RM 9.9 billion. The credit co-operatives were divided into clusters accordingly with the size of the co-operative: big, medium, small, and micro clusters (Table 1). This study focused on the credit co-operatives as the second main contributor after co-operative banks to the total revenue of all co-operatives in Malaysia. In terms of performance, most (39%) of the 100 best rank of co-operatives by MCSC in 2011 were credit co-operatives. Based on the above, credit co-operatives are expected to play a bigger role in co-operative movement in the future.

However, in the last few years, the number of malpractice cases involving co-operatives has come into the public attention. This shows a serious increasing trend in malpractice cases that indicates the integrity of the co-operative sector is at stake. In order to mitigate these problems, several efforts have been taken by the respective authorities. For example, MCSC had launched *Co-operative Governance Guide* in 2007 that provides 15 general principles of good governance for the co-operative movement such as roles of the BOARD, the importance of Internal Control System (ICS) and auditing. In addition, the Co-operative College of Malaysia (CCM) provides appropriate trainings on co-operative management such as financial management, accounting and auditing, law, information and communication technology (ICT), and business management.

In spite of the above, malpractice cases still exist. Since ICS is an important component of good governance, it is important to investigate its current implementation. So far, no such study has been done, hence this study is timely. As an initial investigation, this study focuses on the awareness, readiness and practice of ICS. Credit co-operatives are selected as the subjects of the study, because as a group, they contribute 60 percent of the overall total annual turnover of the co-operative sector. The respondents are selected from among BOARD and Internal audit committee (IAC) members as they are the back bone of the co-operative.

The main objective of this study is to examine the implementation of Internal Control System (ICS) among Malaysian Credit Co-operatives. Specifically, this research aims to:

- a. Examine the level of awareness on importance of ICS in Malaysian credit co-operative
- b. Examine the level of readiness on implementing ICS in Malaysian credit co-operative
- c. Determine the perception on level of ICS practice in Malaysian credit co-operativ

Table 1: Credit Co-operative by Cluster

Cluster	Co-operatives
Large Credit Co-operatives	57
MediumCredit Co-operatives	79
Small Credit Co-operatives	115
Micro Credit Co-operatives	285
Total	536

REVIEW OF LITERATURE

Internal control is a set of system, procedure, and methods in business operation to prevent error and fraud which leads to achieving the objectives and goals of an organization. Internal control consists of five components including control environment, risk assessment, control activities, information and communication, and monitoring. All five components are often used to test the effectiveness of internal control (Gupta, 2008; Jokipii, 2010; Al-Qudah, 2011). Internal control system is also defined as a key system to firm success thus internal control system has been an increasing interest or concern after the collapse of the large firms (Michael, 1993; Fadzil et al., 2005; Kopp and O'Donnell, 2005).

Internal Control is defined differently in different countries. In the USA, the Committee of Sponsoring Organisations of the Treadway Commission (COSO) defined internal control as a process, ensured by an entity's board of directors, management and other personnel. According to COSO, such a system was designed to provide reasonable assurance regarding the achievement of objectives such as effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

The main objectives of an internal control system are summarized in the Auditing Practices Board (APB) and the COSO guidelines. It is to ensure, as far as possible, (1) the orderly and efficient conduct of its business, including adherence to internal policies (2) the safeguarding of assets of the business, (3) the prevention and detection of fraud and error, (4) the accuracy and completeness of the accounting records, and (5) the timely preparation of financial information.

Implementation of Internal Control

As part of COSO's work in identifying the factors that contributed to corporate fraud, the members also designed a model for corporations to address the lack of proper internal controls in corporate organizations (Jackson, 2006). In 1992, COSO established the internal controls integrated framework for developing an effective internal control system. This framework provides direction to any business that wishes to establish an effective internal control system (COSO, 1992). The corporate scandals of the 1980s saw many people lose their jobs (Marchetti, 2005) thus COSO was formed in 1985 to identify the various factors that can lead to fraudulent financial reporting and to develop recommendations to address these issues (Kieso, Weygandt, & Warfield, 2005). In 1987, COSO published its findings on the corporate irregularities of the 1980s. The report indicated that fraud occurred because of improper internal control that included not only financial statement controls but also certain environmental, institutional, or individual forces and opportunities (COSO, 1987). This now recognized framework consists of five interrelated components: control environment, risk assessment, control activities, information and communication, and monitoring (COSO, 1992).

- ***Control Environment***

Control Environment covers issues on corporate governance of an entity that sets the tone of an organization relating to control consciousness of their human resources (Takhiah, Guat Hoe and Kalsom, 2012). Indeed, the wake of the Asian Financial Crisis has drawn attention of public worldwide including Malaysia on the need to carefully examine and improve corporate governance practices in general and internal control practices in specific, with the aim to restore investors' confidence. According to COSO the control environment sets the tone for an organization (Pickett & Pickett, 2005) by influencing the control consciousness of its people. It is the foundation for all of the other components of internal control because it provides discipline, structure (Nearon, 2005), integrity, ethical values, employee competence, management's philosophy and operating style. In its report, management should discuss how the control environment affects the achievement of entities financial reporting. It provides a guideline on how the organization should be designed so that it affects the personnel to have self-control which is necessary to detect and to prevent any error and irregularities.

- ***Risk Assessment***

Risk Assessment is the identification and analysis of risks relevant to the achievement of objectives. This assessment determines how the risks should be managed (COSO, 1992). A precondition to risk assessment is the establishment of objectives that are linked at different levels and are internally consistent. It is because economic, industry, regulatory, and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change. Once the risks are known, appropriate procedures and their control activities are implemented to help ensure the attainment of the financial reporting objectives.

As for risk management it is about managing what should happen if these threats materialise including disaster recovery plans, crisis management and emergency procedures (Borodzicz, 2005). It is also about minimizing the probability of the threat leading to undesired effects by

designing, implementing and operating internal controls that mitigate, avoid or transfer risk. Risk Management is increasingly recognized as being concerned with both positive and negative aspects of risk. Therefore this standard considers risk from both perspectives. Risk management is a relatively a mature research area in various operating functions such as production, logistics, information technology, and health and safety (Charette 1990; Borodzicz 2005).

- **Control Activities**

Control activities are the policies and procedures that ensure how management directives are executed (Whittington & Delaney, 2009). Control Activities include such activities as approvals, authorizations, verifications, reconciliations, reviews of operating performance, the safeguarding of assets, and the segregation of duties (Quall, 2004). These actions dissuade fraud or theft activities that could eventually lead to losses. Control activities also refers to policies, procedures and practices that assure management that objectives are achieved and risk mitigation strategies are carried out effectively. There are potentially many controls activities in the organization: including both manual and automated controls. SAS 94 and COSO suggest that control activities relate to policies and procedures pertaining to the segregation of duties, information processing, physical control and performance reviews (Arens et al., 2006, p.280).

- **Information and Communication**

According to report of COSO, information is needed in all levels of an organization to run the business, and move towards achieve the entity's objectives in all categories of operations, financial reporting and compliance. The quality of information includes ascertaining whether the content is appropriate, and the information is timely, current, accurate and accessible to the appropriate parties. Communication is inherent in the information system and must take place in a broader sense dealing with expectations, and responsibilities of individuals and groups. Effective communication also must occur in a broader sense by flowing down, across, and up the levels of the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously (Quall, 2004).

In addition employees must have a means of communicating significant information upward (Jackson, 2006). Information systems deal not only with internally generated data but also information about external events, activities, and conditions necessary to informed business decision making and external reporting. Effective communication also must exist with external parties, such as customers, suppliers, regulators, and shareholders (COSO, 1992). It should consist of accounting information system to ensure that the accounting process is valid and reliable .The accounting system includes records and documents, accounting methods and the important functions. Moreover, that system should be communicated to everyone in the organization (Guy et al., 1999). In a good organisation, information system is essential to guide its operation process.

- **Monitoring**

Monitoring is a process that assesses the quality of the internal control system's performance over time through ongoing monitoring activities, separate evaluations, or a combination of the

two. It ensures that controls are operating as intended and that they are modified appropriately to cater for change in conditions (Arens et al. 2006). Monitoring on the financial aspect of the organization is an important part of monitoring. All components of ICS for financing will not be effective without monitoring activity (Guy et al., 1999; Meisser, 2003; Seibel, 2008). Monitoring financing system should be applied from the beginning to the end of financing process.

It has been suggested that monitoring from time to time may be useful and provides an opportunity to consider the continued effectiveness of the ongoing procedures. Henri, 2006 have also argued that high monitoring activity is more effective in situations that reflect a routine process meanwhile Fadzli et al., (2005) found that high internal control activity might lead to lower monitoring. To ensure the reasonable assurance regarding achievement of the organizations objectives, the monitoring process should be performed. It can be done directly into each activity or separated from the activity (Meisser, 2003). Monitoring activities may be ongoing or may be separate evaluations. Such activities should also be mentioned in

METHODOLOGY

The main aim of this study is to determine the level of awareness of co-operative's management team and personnel on issues related to internal control system currently present in their establishment. Knowledge on the level of awareness of internal control procedures among co-operatives' management team is important to ensure that they are on the right track in implementing this important aspect of co-operative management. On the other hand, readiness is to measure the co-operatives management teams' on whether their establishment is ready for practicing internal control and also to identify issues associated with it. Finally, the variable practice is to determine the extent of internal control practice as perceived by the respondents representing the respective co-operatives. The data for this study come from a survey using a questionnaire, a case study and additional information extracted from related documents and reports published by MCSC.

Scope of Study

The respondents of this study are sampled from the Board of Directors (BOD)/management staff and Internal Audit Committee (IAC) of credit co-operatives of all sizes or clusters. For the purpose of this study, only co-operatives which are registered as credit co-operative were taken as respondents which consist of 56.4% micro, 20.5% small, 23.1% medium, and 13.4% big co-operatives except two co-operative banks namely Bank Rakyat and Bank Persatuan. Both were not included in this study due to considerable differences in their operation system, membership size, product, rules and procedures of the operations and the total income.

Survey Study

There are 589 credit co-operatives registered with the MCSC as of 31st December 2011. However, only 536 among them have sufficient contact details, and thus form the sampling frame for this

study. A reference was then made to the table of minimum sample sizes and statistical method suggested by Krejcie and Morgan (1970) and Zikmund (2000), and it was found that the study required a minimum sample of 230 credit co-operatives. Since the number of potential respondents was small, it was decided to distribute the questionnaire to all credit co-operatives that have complete background information i.e. 536 credit co-operatives. Those responded then form the sample of the study. The targeted respondents for the survey study are members of the IAC and BOD/management team due to their responsibility to ensure effective internal control mechanisms are being practiced within the co-operatives. The survey instrument for the co-operatives consists of two sets of questionnaires – the first set is on the profile of co-operative and the second is to measure the perception by co-operatives officials and management on the various study variables. For the survey portion of this study, two copies of the questionnaire were mailed to all co-operatives – one for a member of BOD/management and another for a member of IAC and they were given a month to return their responses. In the other hand, for the unstructured interview with the four co-operatives, a list of questions had been forwarded to the respective co-operatives and their feedbacks are further categorized in accordance to the study variables.

Study Variables

The main variables or dimensions for this study are awareness, readiness, and perceived practice. The perception of respondent to each item in the respective dimension is measured on a scale of 1 to 5, where (1) *Strongly disagree*, (2) *Disagree*, (3) *Neither*, (4) *Agree* and (5) *Strongly agree*. The mean scores and appropriate percentage scores are used to represent the respective dimensions in the analysis and discussion of results. The statistical methods considered by objective are summarised in Table 2. Test of normality is first conducted to determine the most appropriate methods of analyses.

Table 2 : Methods of Analysis by Objective

Objective	Proposed Method
1. Examine the level of awareness of Malaysian Credit Co-operatives on the importance of ICS.	Frequency distribution and summary statistics
2. Determine on their level of readiness for implementing ICS in their own co-operative	Frequency distribution and summary statistics
3. Determine the perception of Malaysian Credit Co-operatives on the level of ICS practise in their own co-operative	Frequency distribution and summary statistics
4. To identify factors associated with level of awareness and readiness of ICS among credit co-operatives – Co-operative cluster, category of respondent, etc	Comparison of mean/median between two independent samples or three or more independent samples

Reliability of The Study

Assessing the reliability of the study dimensions is important prior to any statistical analysis. In this study, the Alpha coefficient of reliability measures the reliability of a dimension in terms of its internal consistency, where the resulting coefficient ranges from 0 to 1. It is a common practice to take 0.60 as the minimum acceptable value for Alpha, and thus adopted as the criterion for this study. A pilot study was successfully conducted in September 2012 and the results of the pilot study show that all the study dimensions have high internal consistencies since the Cronbach alpha values are at least 0.9. Therefore, no further modification was made to the items in the scale for each dimension for the survey proper.

FINDINGS AND DISCUSSION

Response Rate

Respondents from 119 of the 536 co-operatives (22.2%) contacted returned a total of 238 sets of completed questionnaire to be used in the analysis of the study (Table 4-1). The response rates for large, medium and small co-operatives are considered satisfactory because generally the response rate for postal survey seldom exceeds 30 percent (Sekaran, 2000). However, the response rate for micro co-operatives is not satisfactory (12.2%) due to several factors. Among them, a few co-operatives have ceased operations, while quite a number refused to cooperate.

Table 3: Response Rate by Co-operatives Cluster

Cluster	Number of Forms		Feedback (%)
	Sent	Returned	
1. Large Co-operatives	57	20	35.1
2. Medium Co-operatives	79	23	29.1
3. Small Co-operatives	115	41	35.7
4. Micro Co-operatives	285	35	12.3
Overall	536	119	22.2

Background of The Study Sample

The discussion on the profile of the study sample is divided into the following three sub-sections:

- i. Co-operatives sample
- ii. Board Members (BOARD)/Management sample
- iii. Internal Audit Control (IAC) sample

Co-operative Sample

Out of the 119 co-operatives represented in this study, slightly more than one-third were small co-operatives (34.5%) followed by micro co-operatives (29.4%) (Figure 1). The rest was made up of medium (19.3%) and large co-operatives (16.8%) The number of respondents from each co-operative was between one to three respondents.

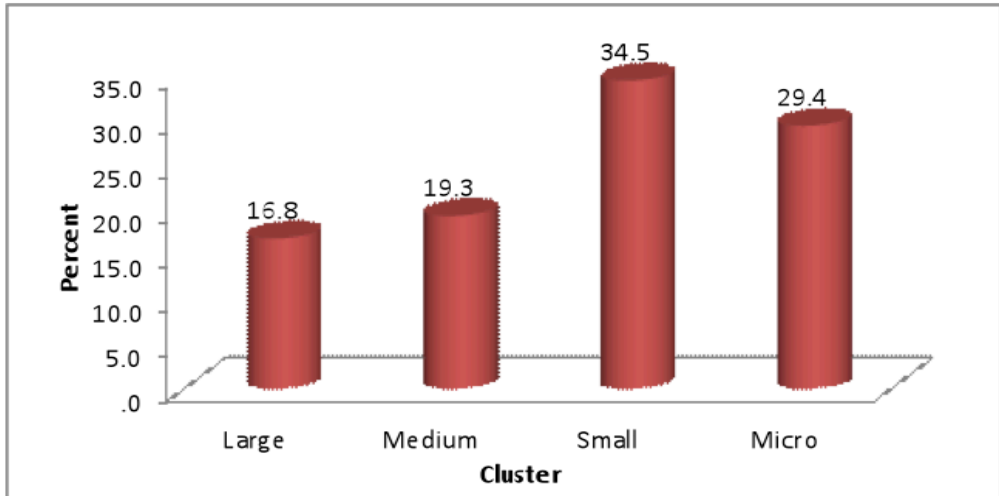


Figure 1: Distribution of Co-operatives by Cluster

Generally there are three categories of loans offered by credit co-operatives (Figure 2). All co-operatives sampled offer personal loans while about one-third (34.5%), provide loan for consumer goods such as household appliances and furniture. However, a small number also offered car loan (8.4%) and others (5.0%) such as emergency loans.

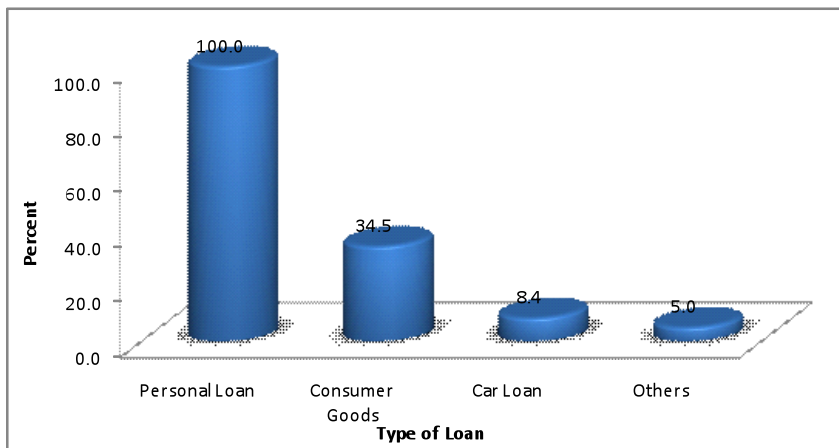


Figure 2: Type of Loan Provided by Credit Co-operative

Figure 3 shows the sources of financing for credit co-operatives in the sample. All those sampled identified internal funds such as share capital and subscription fees as their main source of financing, while slightly less than half (45.4%) received government grants/loans. A small proportion among them (7.6%) also obtained bank loans.

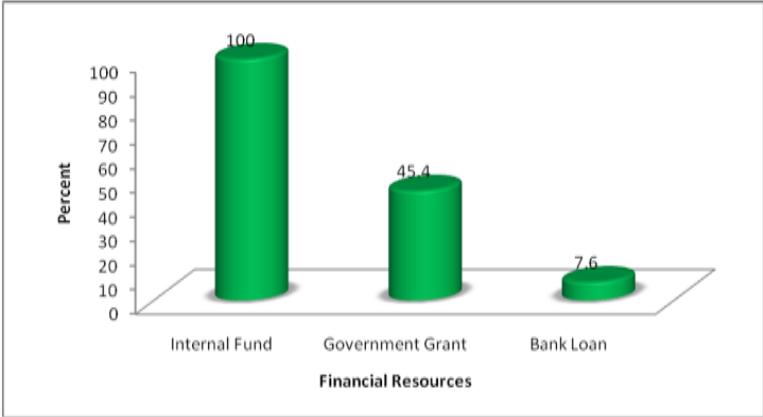


Figure 3: Sources of Credit Financing

Background of BOARD /Management Respondents

The demographic characteristics of the BOARD /Management respondents are mostly men (77.0%) and Malays (90.6%). The majority was above 50 years old (58.7%), particularly between 50 and 59 years old (34.20%), while less than ten percent (9.7%) was below 30 years old.

Overall, the BOARD /Management team members had reasonably good education background (Figure 4). In particular, more than half (52.8%) had at least STPM education, and in particular almost a quarter (22.0%) had at least a first degree. The rest (47.2%) among them completed Sijil Pelajaran Malaysia (SPM).

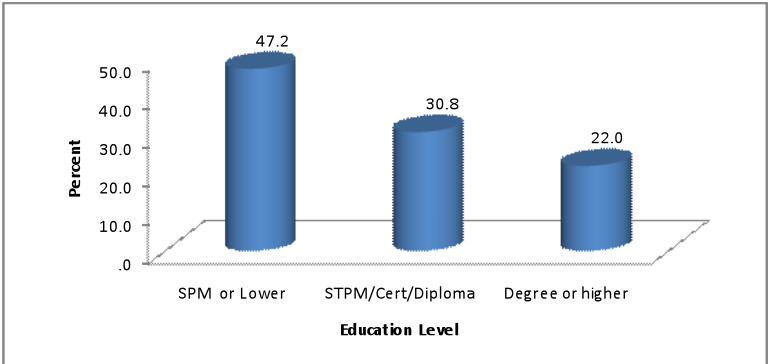


Figure 4: Education Level of BOARD Respondents

In terms of working experience, most (46.3%) had served in co-operatives for less than five years, followed by those with 5 to 9 years of experience (22.5%) (Figure 5). Moreover, quite a large proportion (18.1%) had at least 15 years experience in managing credit co-operatives.

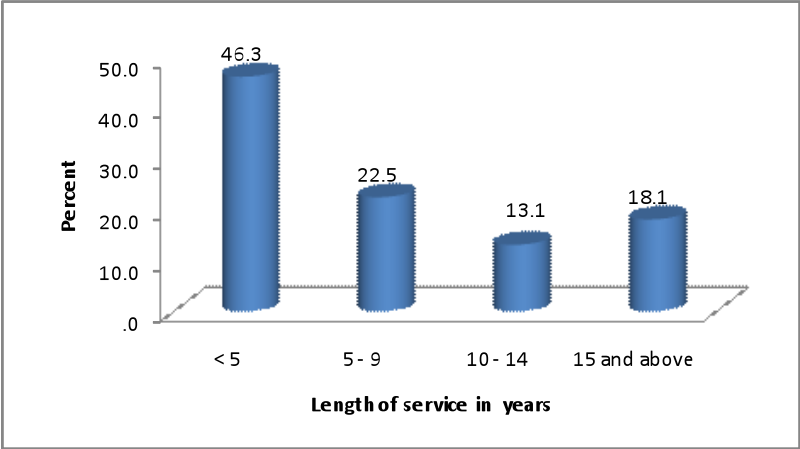


Figure 5: Length of Service for BOARD /Management Respondents

Background IAC Sample

Similar to the BOARD /Management sample, the majority among the IAC sample were also males (75.0%) and Malays (84.0%). However, in terms of age, this group is much older compared to the BOARD /Management group. In particular, almost two-thirds were at least 50 years old (64.0%) compared to less than sixty percent among the other group. Also, a much smaller proportion (5.3%) were below 30 years old.

Most (44.6%) of the IAC respondents have secondary education (Figure 6), while there were almost an equal proportion of STPM/Certificate/Diploma (28.4%) or at least a first degree qualification (27.0%). Meanwhile, in terms of experience shows that a very high proportion (78.7%) among the IAC respondents less than 5 years experience (78.7%). Very few have a vast experience serving credit co-operatives, with only 6.6 per cent have at most ten years experience. The above statistics imply that the BOARD /Management respondents are more educated and more experienced than their IAC counterparts.

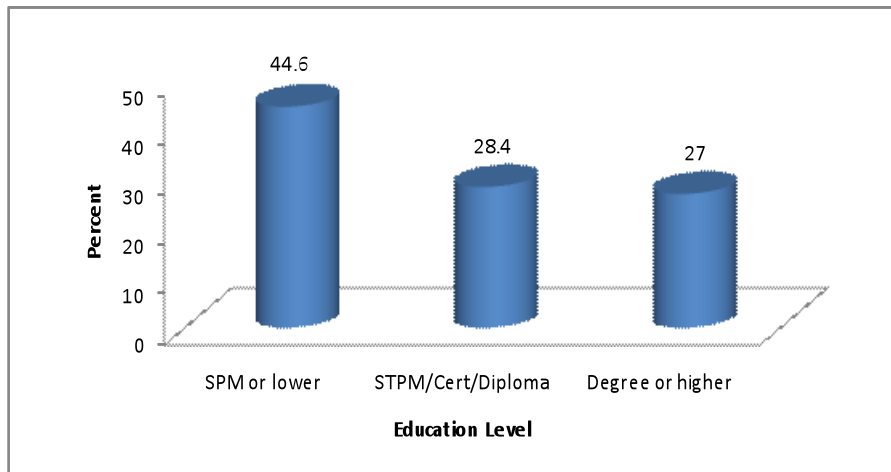


Figure 6: Distribution of IAC Respondents by Education Level

Awareness of Internal Control System

On the average, the respondents are fully aware on the importance of internal control system in managing co-operatives as shown by the average score of 4.35 of the 20 components (Table 4). Individually, the average score ranges from a moderate 4.16 (*Risk evaluation and co-operative internal control activities are performed based on written mission and objectives*) to a high 4.50 (*Periodic monitoring on loan instalments is important to ensure prompt payment*), while the median is either 5.0 (very aware) for two items (*Periodic monitoring on loan instalments is important to ensure prompt payment; Co-operatives board members (BOARD) should ensure internal control systems are functioning at all levels of the organization*) or 4.0 (aware) for the other 18 items.

Based on the summary scores, in general, the respondents associate internal control with monitoring activities instituted by the co-operatives through their IAC and/or BOARD /management teams, proper guidelines and procedures. However, their awareness on risk assessment is slightly lower. One plausible reason could be due to lack of knowledge on risk assessment tools among them.

Table 4: Awareness of Internal Control System among Co-operatives

Awareness	Average	Median
1. Periodic monitoring on loan instalments is important to ensure prompt payment	4.50	5.00
2. Co-operatives board members (BOARD) should ensure internal control systems are functioning at all levels of the organization	4.45	5.00
3. Organization chart should clearly show BOARD /IAC's power and responsibilities	4.44	4.00

4. Co-operatives loan procedure is used as guideline for approval of loan application	4.44	4.00
5. IAC who understands their job scope is able to identify suitable audit plan to enhance monitoring of overall co-operative operation	4.44	4.00
6. Budget preparation based on co-operative main objective would enhance the overall co-operative's achievement	4.43	4.00
7. Accurate information is necessary in making effective decision in co-operative	4.43	4.00
8. Feedback on co-operative services by members are essential in improving co-operative operation	4.42	4.00
9. Segregation of duties on every transaction process should be implemented to reduce the risk of fraud	4.38	4.00
10. Regulation on every co-operative activity is important to help identify relevant risks	4.37	4.00
11. It is important to regularly disclose significant information on co-operative activities to all members	4.34	4.00
12. Periodic reports submitted to MCSC are important to ensure co-operatives understand and conform to the relevant provision of law	4.33	4.00
13. Risk assessment done for each activity should be considered in co-operative's short and long term planning.	4.32	4.00
14. Co-operative Key Performance Index (KPI) is important to indicate co-operative achievement in detail.	4.32	4.00
15. The results from continuous monitoring on relevant activities are important to identify follow up actions.	4.30	4.00
16. Risk analysis on relevant activities from time to time enhances co-operative's understanding on risk implications.	4.29	4.00
17. All activities must comply with regulation to ensure a control system exist and implemented.	4.25	4.00
18. Periodic assessment on possibility of fraud could result in significant effect on co-operative operation.	4.24	4.00
19. Formations of subcommittees (e.g. Nomination Committee, Loan Committee) are essential in monitoring co-operative activities.	4.20	4.00
20. Risk evaluation and co-operative internal control activities are performed based on written mission and objectives	4.16	4.00
Overall	4.35	4.10

Readiness for Internal Control System

A total of 12 items were used to measure the level of readiness of co-operatives. The results ((Table 5) show that the majority of the respondents felt their co-operatives were ready to implement internal control system based on eleven of the twelve components (average scores exceed 4.00 and median = 4.0). In particular they are most positive in their IAC/ BOARD /management team members' capability for implementing internal control activities acquired through training as well as experience. Necessary knowledge include accounting, auditing and finance and these are acquired through appropriate trainings identified by the co-operatives.

However, on the average they were less confident on the financial aspect of internal control system implementation. In particular, they were not very confident on the Co-operatives' willingness to allocate enough money to get the services of skilled and competent people for internal control (average = 3.94) as they doubted that they would be willing to approve the financial allocation for that purpose (average = 4.06) due to insufficient funds (average = 4.10).

Table 5: Level of Readiness for Implementing Internal Control System in Co-operatives

Readiness	Mean	Median
1. IAC will be more efficient and effective when at least one person appointed is knowledgeable in the field of accounts and audit.	4.45	4.00
2. The training attended by BOARD /IAC will increase their efficiency in performing their duties.	4.41	4.00
3. Co-operatives BOARD /IAC consists of those who have basic knowledge of finance and accounting.	4.33	4.00
4. Co-operative sent BOARD /IAC for training to acquire knowledge on internal control system.	4.33	4.00
5. An internal audit unit should be set up to perform the internal audit function .	4.28	4.00
6. Co-operatives provide adequate training opportunities to BOARD /IAC to enhance their knowledge in performing their tasks.	4.22	4.00
7. Co-operatives allocate sufficient fund in the annual budget to implement or improve ICS activities.	4.19	4.00
8. Co-operatives have adequate and well trained staff to perform their tasks.	4.10	4.00
9. BOARD /IAC have a thorough knowledge of the underlying business related to co-operatives.	4.10	4.00
10. Co-operatives have sufficient funds for internal control purposes.	4.10	4.00

11. The majority of co-operatives are willing to approve the financial allocation for the purpose of internal control.	4.06	4.00
12. Co-operative is willing to allocate sufficient fund to obtain services from skilled and competent people.	3.94	4.00
Overall	4.21	4.00

Perceived Level of Practice of Internal Control System

The perceived level of practice based on 17 components of internal control system is determined by the proportion of respondents who perceived that these components are already practiced by their respective co-operatives (Table 6). More than 80 percent claimed that their co-operatives already practiced ten out of the 17 components listed. The highest proportions among them (94.1%) said their co-operatives had written mission and objectives while three small co-operatives did not have them. A large proportion also claimed that loan approval is in accordance to the co-operative Loan Procedure (91.5%).

The perceived level of practice for the next eight components is considered moderate with rate of implementation between 89.8 percent (*Decisions made by BOARD for the co-operative is based on accurate information*) to 80.5 percent (*Risk analysis and internal control activities are carried out based on co-operative's vision, mission and objectives*). A large proportion also claimed that the *Decisions made by BOARD for the co-operative is based on accurate information* (89.8%), *Budgets are prepared based on co-operative's main objectives*, *Internal control is implemented to identify, avoid and stop fraudulent activities* and *Internal control system in the co-operative is functioning well* (each 88.1%).

However, less than 56 percent claimed that periodic reports are submitted to MCSC as required by law (55.9%). This is quite unexpected as it implies that quite a large proportion of co-operatives (44.1%) does not comply with the requirement as dictated by law.

Table 6: Co-operatives Implementation of the Respondent's View

Implementation	Yes (%)
1. Co-operative has written mission and objective in performing activities.	94.1
2. Approval of loan application is done according to the co-operative loan procedure.	91.5
3. Decisions made by BOARD for the co-operative is based on accurate information.	89.8
4. Budgets are prepared based on co-operative's main objectives.	88.1
5. Internal control is implemented to identify, avoid and stop fraudulent activities.	88.1
6. Internal control system in the co-operative is functioning well.	88.1

7. Monitoring of loan instalment is carried out continuously to ensure payments are received as scheduled.	89.0
8. BOARD updates co-operative's policy and guidelines regularly to help identify risks and appropriate course of actions.	86.4
9. Management of co-operative is informed regularly on activities and monitoring results for follow-up actions.	83.1
10. Risk analysis and internal control activities are carried out based on co-operative's vision, mission and objectives.	80.5
11. The co-operative has an organization chart that shows the authority and responsibility of the BOARD /IAC clearly.	78.0
12. Significant information related to co-operative activities is disseminated to all members regularly.	77.1
13. Segregation of duties on every transaction process is implemented to reduce the risk of fraud.	76.3
14. Comprehensive monitoring by IAC for both financial and non-financial management is carried out based on its prepared audit plan.	76.3
15. Formations of subcommittees (e.g. Investment Committee, Loan Committee) are essential in monitoring co-operative activities.	75.4
16. Co-operative provides communication channels for members to give suggestions and complaints related to co-operative's operation.	72.0
17. IAC submit periodic reports as required by MCSC.	55.9

CONCLUSIONS AND RECOMMENDATIONS

The study examines the level of awareness, readiness and also perception on the level of ICS practices among Malaysian credit co-operatives. The results from this study provide evidence that the level of awareness and readiness of the ICS component is very high. Based on the findings gathered in the study, it can be concluded that the respondents are fully aware associate internal control with monitoring activities. However, their awareness on risk assessment is slightly lower. It is further concluded that the respondents agreed their co-operative are ready to implement ICS. Among the factors identified are human resource, knowledge and training. However, they are less ready to allocate sufficient fund to obtain services from skilled and competent people. This study clearly implies that the practice of ICS in credit co-operatives is not fully implemented.

The finding of this research provides significant feedback for the Co-operative College of Malaysia (CCM), the Malaysian Co-operative Societies Commission (MCSC) as well as the Ministry of Trade, Co-operative and Consumerism (MDTCC) to act upon to make the ICS an effective mechanism to enhance governance in co-operatives. The following actions are recommended:

Co-operative College of Malaysia (CCM)

- a) To increase the level of awareness on ICS, CCM should increase the number of convention, seminar and other academic – based program for co-operative BOARD and IAC.
- b) CCM should increase the number of generic courses related to audit, risk assessment and ICS to increase from time to time.
- c) CCM should publish more reading materials such as books, journals, articles and research on of co-operative for references.
- d) CCM should revise the syllabus for courses related to ICS regularly to meet the current needs of co-operatives and to improve internal expertise on ICS.

Malaysian Co-operative Societies Commission (MCSC)

- a) To motivate co-operative to implement ICS, MCSC should revise and update the guideline related to ICS “Pekeliling KP 16/2005: Garis Panduan Kawalan Dalaman bagi Koperasi” to suit current needs.
- b) MCSC in collaboration with related bodies develop a rating system to evaluate the implementation of ICS among co-operatives especially for credit co-operatives.
- c) The appointment period for IAC be extended from one year to at least two years to enable them understand the nature of co-operative operations and ICS in depth, thus increasing their management skill.

Credit Co-operative

- a) Co-operative should disseminate internal information to their members through various media such as website, facebook, twitter and monthly buletin.
- b) Co-operative should allocate funds to get consultation to develop their own customized ICS.
- c) Board members should increase the frequency of monitoring activities on ICS by ensuring the IAC submit related reports as scheduled.

Recommendation for Future Research

The study proposed that future research use focus group interview method to enhance the research findings. Besides, future research can use a large scale of sampling that represents all co-operative in Malaysia. Future research could also need support from all relevant is necessary to ensure participation from all co-operatives selected.

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