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Do Organisations Invest in Internal Control Systems, Regardless of their Financial Results? The Greek Case

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Corporate governance is the cornerstone of effective internal control systems by modern organizations. In the last 15 years, several business giants have collapsed under the weight of illegalities and scandals as Enron, WorldCom, Guinness, Blue Arrow, Polly Peck, BCCI, Maxwell Group, Barings Bank, etc. The failure of these organizations has largely been attributed to the inadequacy of their Boards of Directors and the lack of organized and efficient control mechanisms by their administrations.

Keywords: corporate governance, internal control systems, risks, controls

Introduction

With the term "Corporate Governance system" it is meant the framework of rules with which the governance of an organization is exercised. More simply, it is the system or the way with which organizations are controlled and managed.

The most important reason for the implementation of effective practices of Corporate Governance is the need to balance the special interests of stakeholders with the ones of the organization and of its shareholders. Corporate governance is mainly exercised by the Boards of Directors, but their actions are limited by those who have a direct or indirect interest in them.

The paper is divided into three parts: Firstly, a quick review on the effectiveness of internal control systems, secondly the results of the research, and thirdly the appendix with the questionnaire.

Internal Control Systems and Effectiveness

It falls under the duties of the Audit Committees, the monitoring of the internal control systems, and the reliability of the financial information (Braiotta, 2004).

The Audit Committee's main mission is to assist the Board of Directors in the performance of its duties, overseeing the organization's financial reporting procedures, policies, and internal control (Tatum & Burke, 2008). The Audit Committee:

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- monitors the effectiveness of the organization's internal control, quality assurance, and risk management systems (Pickett, 2006),
- examines and evaluates the adequacy and effectiveness of the organization's overall policies, procedures, and safeguards with regards to the internal control system, risk assessment and management in relation to the financial information (Eriotis, Balios, Menexiadis, & Vasileiou, 2017),
- monitors the effectiveness of internal control systems, notably through the work of the internal audit department (IIA, 2005),
- reviews the management of the organization's main risks and uncertainties, evaluates the methods used by the organization for identifying and monitoring risks, addressing the main ones through the internal control system (Verschoor, 2008).

Research

The main business cycles on which the research was based, are Human Resources, Sales and Accounts Receivable, Fixed Assets management, Purchases and Accounts Payable.

The research method used was the positive one (Ryan, Scapens, & Theibald, 1993). The information was collected through questionnaires. The questionnaires were sent to all the Athens Stock Exchange PLCs, however, a total of seventy-one (71) organizations replied. The questions are related to preventive controls that provide effective risk management. Weight was given to systems—based controls with the logic that the system is by default a preventive control. This requires a high investment and maintenance of the systems. The questions are closed ones with answers "YES" or "NO", in order to analyze whether the control exists or not.

The data collection was followed by their statistical processing and analysis with the SPSS statistical program. The averages, standard deviations, and histograms were mainly used, in order to draw relevant conclusions. The questions are presented in Annex 1, while the figures are presented in Annex 2.

Sales and Accounts Receivables

At the questions "Is there a new customer appraisal system?", "Are electronic files kept with the evaluations per customer and the credit evaluation of each customer?" and "Is there a credit control system?", questions (1), (2), (3) of the questionnaire, 38 organizations (53.52%) replied positively while 33 organizations (46.48%) replied negatively. This is clearly shown in Figures 1, 2, 3, where the mean is 0.46, most answers tend to the value 1 (= "YES") and the standard deviation is 0.502, which means that over 50% of the observations are close to the value 1.

To the question "Is there a business continuity plan in case of damage or total destruction of the system" the 6 organizations (8.45%) replied positively, and 65 (91.55%) negatively. This is shown in Figure 4, with the mean is at 0.15, most of the answers are closer to the value 0 "NO" compared to the value 1 "YES". This is reflected in the standard deviation which in this case is equal to 0.364, most observations, over 50% are close to the value 0 "NO"..

Fixed Assets Management

At the question "Is there preventive maintenance of all fixed assets and equipment?", 11 out of 71 organizations (15.49%) replied positively and the rest 60 (84.51%) negatively. The answers given are reflected in Figure 5, where the mean is 0.15, closer to the value 0 "NO" than to the value 1 "YES". The standard deviation is 0.364, more than 50% of the answers are negative since 0.364 is closer to the value 0 “NO” than to the value 1 “YES”.

Human Resources

As revealed by the frequency analysis, all organizations (100%), invest in payroll systems. A total of 6 questions (9-14) were asked out of which, all the organizations replied positively.

Purchases and Accounts Payable

At the question “Is there an evaluation of the reliability of suppliers and an assessment of their cooperation with electronic means?”, 38 organizations (52.1%) replied positively, and 33 (46.5%) negatively. This can be seen in Figure 6, where the mean is 0.53, which proves that most answers tend to the value 1 “YES”, while the standard deviation is 0.503 (most answers, over 50%, tend to be positive as they approach the value 1 “YES”.

Conclusions

The results of the research lead to the conclusion that most organizations consider the operation of effective control systems to be of high importance. Organizations have invested in effective internal control systems. It is also quite positive that all organizations use as a control, systems regardless the business cycles i.e. purchases, sales, fixed assets.

Finally, the replies lead to the conclusion that the Board of Directors—given that they are the ones responsible for corporate governance—have a developed culture following sound practices of corporate governance, regardless of financial results.

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Annex 1: Questionnaire

Sales & Accounts Receivables

(1) Is there an electronic customer appraisal system?

(2) Are electronic files kept with the evaluations per customer and the credit rates of each one of them?

(3) Is there a credit control system?

(4) Is there a sales contract for each approved sales case?

(5) Is there an electronic ordering system?

(6) Is there a business continuity plan in case of damage or total destruction of the system?

Fixed Assets Management

(7) Are the provisions in their actual dimension estimated and accounted for?

(8) Is there a preventive maintenance system for all fixed assets and equipment?

Human Resources

(9) Is the payroll of employees, properly reflected at the accounts?

(10) Is the registration of payroll statements made by authorized personnel?

(11) Are recruitments, dismissals, promotions and remuneration properly monitored?

(12) Are payroll statements properly monitored for any changes in staff payroll?

(13) Are the accounting registrations based on the principles and the accounting standards?

(14) Are duties properly segregated?

Purchases & Accounts Payables

(15) Is there an electronic purchasing system?

(16) Is the evaluation of the suppliers' reliability performed by electronic means?

(17) Are the systems (sales, purchasing) connected to the corporate budget?

(18) Have all the contracts been registered in the system?

Annex 2: Figures

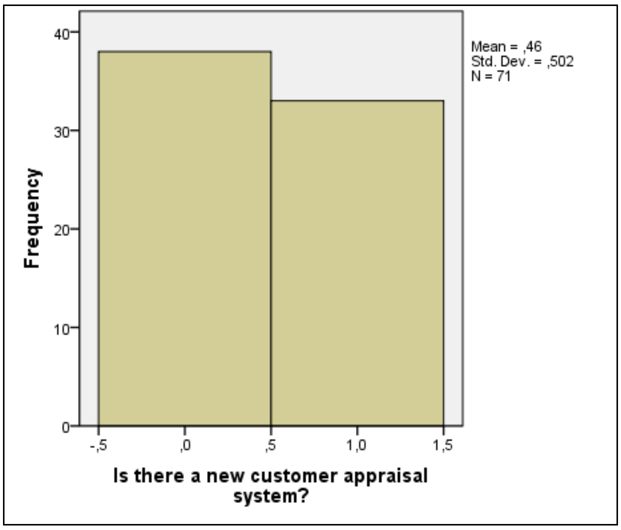

Figure 1. Sales and accounts receivable.

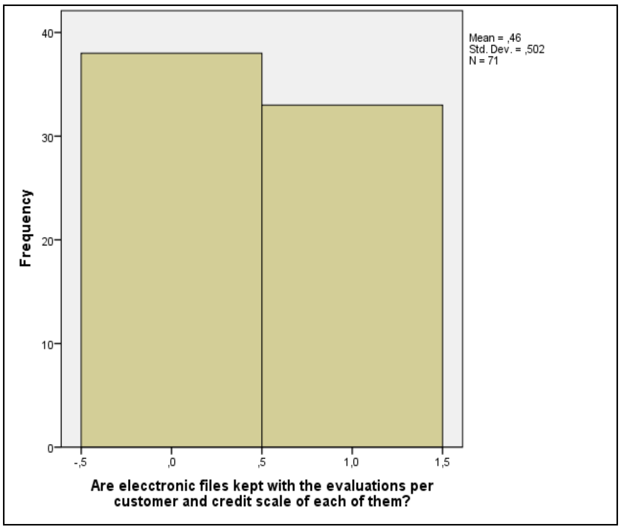

Figure 2. Sales and accounts receivable.

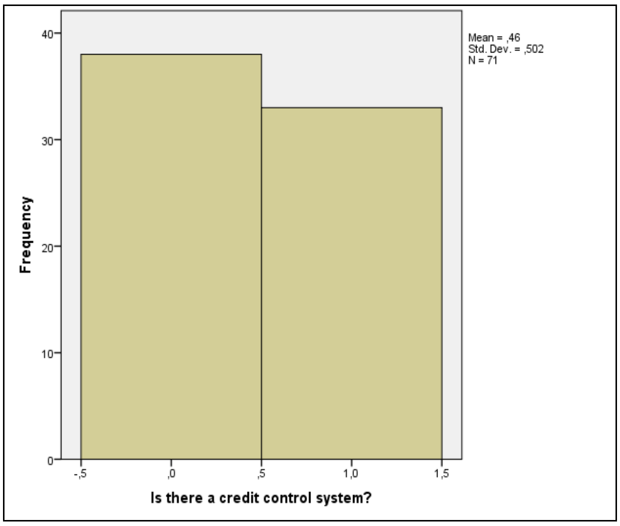

Figure 3. Sales and accounts receivable.

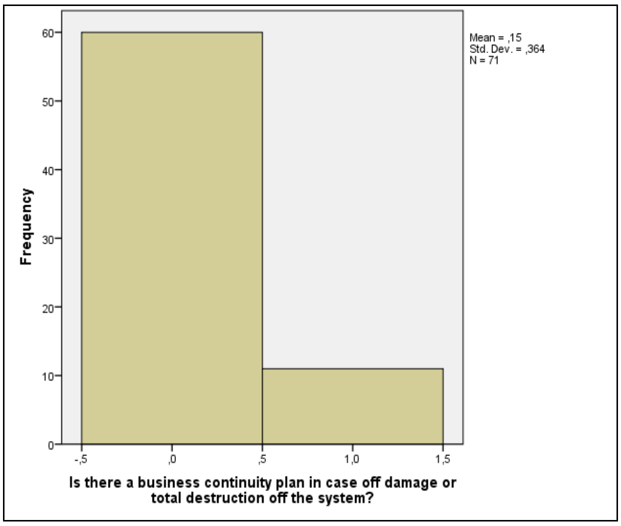

Figure 4. Sales and accounts receivable.

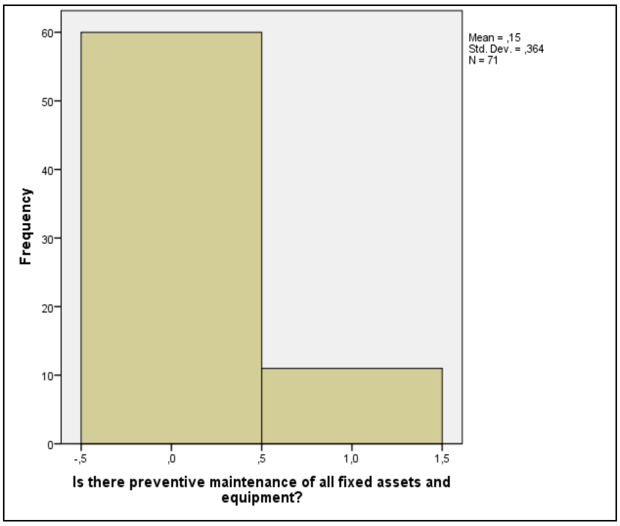

Figure 5. Fixed asset management.

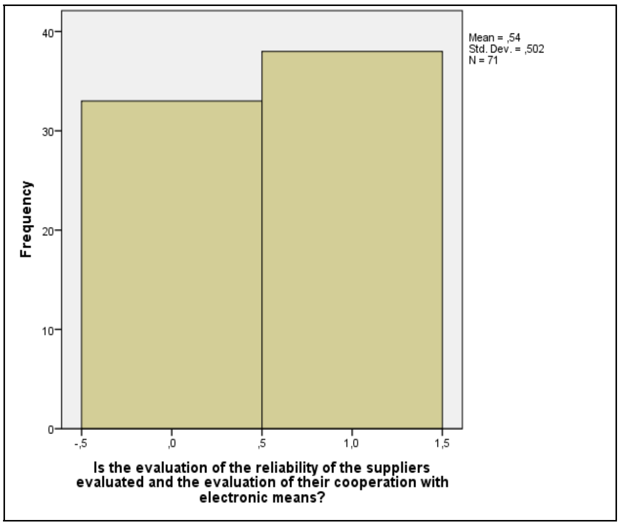

Figure 6. Purchases and accounts payable.