Effectiveness Of Control Environment In Banking Sector In Bangladesh With Reference To The City Bank Limited

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Abstract: Senior Executives have long sought ways to better control the enterprises they run. Internal controls are put in place to keep the company on course toward profitability goals and achievement of its missions and to minimize surprises along the way. They enable management to deal with rapidly changing economic and competitive environments, shifting customer demands and priorities, and restructuring for future growth. Internal controls promote efficiency, reduce risk of asset loss, and help ensure the reliability of financial statements and compliance with laws and regulations. This article will be exclusively focused to internal control environment model developed by Committee of Sponsoring Organizations (COSO) and eventually will examine the internal control practiced in the City Bank Limited in compliance with COSO model. The City Bank Limited management tries to implement best possible options for maintaining a balanced control environment that ultimately pave the way for attaining internal control to the fullest let alone shaping the financial report card. Because internal control serves many important purposes, there are increasing calls for better internal control systems. Internal control is looked upon more and more as a solution to a variety of potential problems.

Key Words: Internal Control, Control Environment, Committee of Sponsoring Organizations (COSO), Control Environment Framework, The City Bank Limited

1. Introduction

Control is a mechanism that can ensure a tone of accountability in every aspect of the organization and will enable an organization to achieve good governance. Internal control is defined as a process comprised of an organization's structure, authority flows, work and people, designed to help the organization accomplish specific goals or objectives. It is a means by which an organization's resources are directed, monitored, and measured for achieving efficiency. It plays an important role in preventing and detecting fraud and protecting the organization's resources, both physical (e.g. machinery and property) and intangible (e.g. reputation or intellectual property such as trademarks). At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals and compliance with laws and regulations. At the specific transaction level, internal control refers to the actions taken to achieve a specific objective. Internal control enables management to deal with rapidly changing economic and competitive environments, shifting customer demands and priorities and restructuring for future growth. Internal controls promote efficiency, reduce risk of asset loss and help ensure the reliability of financial statements and compliance with laws and regulations. COSO describes Internal control consists of five interrelated components these are (1) Control Environment, (2) Risk Assessment, (3)

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Control Activities, (4) Information and Communication and (5) Monitoring. Every organization regardless of size should devise a strong internal control environment. A weak control environment often indicates weaknesses of the other components of ICS (Wilkinson, Cerullo, Ravel, Wing; page 237). As Control environment, an intangible factor and the first of the five components, is the foundation for all other components of internal control, providing discipline and structure and encompassing both technical competence and ethical commitment. So, here the main focus is on control environment.

2. Objective of the Study

The main objective of the study is to measure the internal control environment of the City Bank Ltd in comparison with COSO's control environment components. So, the overall objectives of the study are

♦ To identify the major tools and mechanisms used by City Bank for internal control
♦ To go through the policy matters relating to control environment
♦ To identify the factors affecting control environment
♦ To render suggestions in the light of the findings

3. Methodology of the Study

Appropriate sampling method is a key to finding facts and facets. Considerable effort was given to develop the suitable sample plan. The extent of the study was the bank itself and on top, mode of the study was qualitative; Purposeful Sampling technique (J. M. Morse, 1991) has been used in this study. Basically, in cases when description is expanded with more specific information, participants with that particular knowledge and atypical experiences are deliberately sought for. This description of _purposeful (or theoretical) sampling' seems to indicate that the sampling is directed by a desire to include a range of phenomenon in the study. Respondents for this study were selected applying convenience sampling technique. The survey was conducted during May 2014 through in-depth interview with sixty respondents of CBL. The period of the survey was two months. Secondary data were collected from company websites, reports, newspapers, electronic database, magazines and online publications produced by both academicians and banks.

4. Literature Review

Internal Control System aims at reaching organizational and its operational supremacy at different spheres of work environment. This qualitative model often provides the stakeholders with all related queries for effective decision making. When an entity adopts internal control system in their operational framework, the entire skeleton gets under scrutiny and eventually a good amount of resourceful outcome paves the way for appropriate insights about it. In the book ‖ *Sawyer's Guide for Internal Auditors"* published by The Institute of Internal Auditors Research Foundation, 2012, **Internal Control**, was defined as a process for assuring achievement of an organization's objectives in operational effectiveness and

efficiency, reliable financial reporting and compliance with laws, regulations and policies. A broad concept, internal control involves everything that controls risks to an organization.

Later this internal control was in-detailed by Anderson, Chris in his article ―Writing Accounting Procedures for Internal Control. He opined that **Internal Control** is a means by which an organization's resources are directed, monitored, and measured. It plays an important role in detecting and preventing fraud and protecting the organization's resources, both physical (e.g., machinery and property) and intangible (e.g., reputation or intellectual property such as trademarks). At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. At the specific transaction level, internal control refers to the actions taken to achieve a specific objective (e.g., how to ensure the organization's payments to third parties are for valid services rendered.) Internal control procedures reduce process variation, leading to more predictable outcomes. Michael Ramos (CPA & Internal Control specialist) in an article titled ―*Evaluate the Control Environment* nearly echoed the above citations in different connotations. He highlighted Control Environment what he deemed to be important catalyst for any organization who seeks for efficiency and supremacy. As he said, **Control Environment** has a **Pervasive** structure that affects many business process activities. It includes elements such as management's integrity and ethical values, operating philosophy and commitment to organizational competence. Alongside, he mentioned three sub-points as well.

♦ Adding to the difficulty of the task is the fact that the control environment is not transaction-oriented. Tests of controls that auditors are accustomed to performing, such as walk-through or the re-performance of the control for a sample of items, will not be possible. And focusing solely on activity-level controls is inappropriate.

♦ Tests of the control environment will consist of a combination of procedures, including a review of relevant documentation of the design, inquiries of management and employees and direct observation.

♦ Auditors will have to probe for understanding and awareness and try to understand the company's attitude toward internal control over financial reporting. They also should ask management for a self-assessment. On the other hand, Australian Auditing and Assurance Standards Board has defined the same Control Environment weaving a number of thoughts. The control environment includes the governance and management functions and the attitudes, awareness, and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity. The control environment sets the tone of an organization, influencing the control consciousness of its people. According to the article **Control Environment** includes an organization's:

♦ Internal control processes and requirements
♦ Organizational structure
♦ Reporting structure
♦ Delegations and approval processes
♦ Committee structure and framework
♦ Code of conduct and
♦ Human resource policies and practices

While an organization's internal controls and structures underpin a strong control framework, management should also have an understanding of the importance of the organization's culture in influencing the effectiveness of the controls. For example, an organization may have a well documented risk management process but without active management support, the process may not be adopted to the extent required to ensure best practice concerning risk identification and management. Elements that shape organization culture and influence the effectiveness of its internal controls include:

♦ Communication standards
♦ Enforcement of integrity and ethical values
♦ Appointment of staff with appropriate qualifications and competencies
♦ Commitment to professional work practices and standards
♦ Participation in organization governance activities and
♦ Management philosophy and operating style

Another academic thought in this regard was outlined by Joseph H. Callaghan, Arline Savage, and Steven Mintz. They wrote an article titled ―*Assessing the Control Environment Using a Balanced Scorecard Approach* ‖ where they described the total subject matter thoroughly. Section 404 of the Sarbanes-Oxley Act of 2002 (SOX) requires that companies subject to the Securities and Exchange Act of 1934 include in their annual reports a report of management on the company's internal control over financial reporting. This must contain management's assessment and a statement of the effectiveness of the controls. Almost no guidance, however, has been provided on how to evaluate the critical component of internal controls: the control environment. The control environment reflects top management's awareness and commitment to the importance of controls throughout the organization and encompasses management integrity, ethical values, and operating philosophy. The key to successful internal control is having a control environment that sets a tone of integrity which influences the ethical and control consciousness of employees. The external auditor reviews management's report and makes an independent evaluation as part of an integrated audit of internal controls and financial statements. The auditor issues separate reports that provide ―reasonable assurance ‖ : The auditor's internal control report provides reasonable assurance concerning whether the company maintained, in all material

respects, effective internal control over financial reporting. The audit report provides reasonable assurance concerning whether the financial statements fairly present financial position, results of operations and changes in cash flows. Management is required to base its assessment of the company's internal control over financial reporting on a suitable and recognized framework. The framework identified in IAS 2 is the Committee of Sponsoring Organizations' (COSO) framework described in its Internal Control—Integrated Framework (1992). COSO emphasizes changing the corporate culture to proactively establish the systems that would prevent fraudulent financial reporting. It starts with the ―tone at the top‖. Top management should set an ethical tone that filters throughout the organization.

The COSO framework defines internal control as a process, effected by an entity's board of directors, management, and other personnel, that is designed to provide reasonable assurance of the following objectives: 1) effectiveness and efficiency of operations; 2) reliability of financial reporting; and 3) compliance with applicable laws and regulations. In an effort to illustrate Control Environment, two other management specialists, Joseph F. Castellano and Susan S. Lightle point out in ―*Using Cultural Audits to Assess Tone at the Top*‖ (The CPA Journal, February 2005) that tone affects corporate culture by influencing how top management might react to situational pressures, such as meeting internal budget amounts or financial analysts' earnings expectations. A strong control environment supported by an ethical tone at the top is the cornerstone of a system of internal controls that supports financial reporting oversight role of the audit committee. Castellano and Lightle suggest that a ―*cultural audit*‖ would provide means for assessing the tone at the top and the attitude toward internal controls and ethical decision-making. They believe that such an audit can play an important role in helping management shape an ethical climate within the organization and in helping directors and auditors assess the effectiveness of internal controls. The external auditors would include in their internal control assessments and risk management profiles a process designed to assess the tone at the top and its impact on a company's culture. The authors do not identify issues to be raised or specific questions to address in the cultural audit but do point out that an assessment of the situational pressures should be an important part of the process. Basically, reaching to a unanimous consensus regarding internal control requires clear and thorough understanding. The generic subject matter has been analyzed in different time frame from different focal points. Apart, be it a manufacturing entity or be it a service organization, each of them aspires for entity effectiveness and supremacy. Eventually research and discussion on internal control has been operative in bountiful. In this study, both internal control and control environment would be discussed from couple available viewpoints mostly analyzed by sages across the globe.

5. Internal Control
Internal control is the process, which is effected by an entity's board of directors, management and other personnel designed to provide reasonable assurance regarding

the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations and compliance with laws and regulations. (The COSO report, 1992) The division of internal control into five components (the control environment, the entity's risk assessment process, monitoring of controls, the information system relevant to financial reporting, and communication, control activities) provides a useful framework for the same. Among these five, most effectively deciding factor is control environment. The control environment includes the governance and management functions and the attitudes, awareness and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity. The control environment is the foundation for effective internal control, providing discipline and structure. The primary responsibility for the prevention and detection of fraud and error rests with those charged with governance and the management of an entity. Internal control is designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

♦ Effectiveness and efficiency of operations
♦ Reliability of financial reporting
♦ Compliance with applicable laws and regulations

The **first** category addresses an entity's basic business objectives, including performance and profitability goals and safeguarding of resources. The **second** relates to the preparation of reliable published financial statements, including interim and condensed financial statements and selected financial data derived from such statements, such as earnings releases, reported publicly. The **third** deals with complying with those laws and regulations to which the entity is subject. These distinct but overlapping categories address different needs and allow a directed focus to meet the separate needs. Internal control systems operate at different levels of effectiveness. Internal control can be judged effective in each of the three categories, respectively, if the board of directors and management have reasonable assurance that:

♦ They understand the extent to which the entity's operations objectives are being achieved.
♦ Published financial statements are being prepared reliably.
♦ Applicable laws and regulations are being complied with.

While internal control is a process, its effectiveness is a state or condition of the process at one or more points in time. (COSO, Integrated Framework, 2004)

6. Internal Control-Integrated Framework

The original *Internal Control-Integrated Framework* (original framework), published in 1992, remains fundamentally sound and broadly accepted in the marketplace for

designing, implementing, and conducting systems of internal control and assessing their effectiveness. The COSO Board decided to update the original framework recognizing there have been many changes in business and operating environments. Considering all those spectrums, five components were tuned to reach into successful output. Internal control consists of five interrelated components. These are derived from the way management runs a business, and are integrated with the management process. Although the components apply to all entities, small and mid-size companies may implement them differently than large ones. Its controls may be less formal and less structured, yet, a small company can still have effective internal control. The components are:
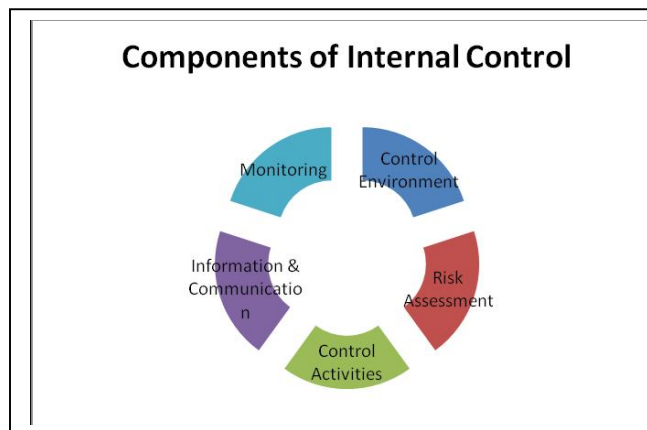
Risk assessment involves a dynamic and iterative process for identifying and analyzing risks to achieving the entity's objectives, forming a basis for determining how risks should be managed. Management considers possible changes in the external environment and within its own business model that may impede its ability to achieve its objectives. **Control activities** are the actions established by policies and procedures to help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity and at various stages within business processes, and over the technology environment. **Information** is necessary for the entity to carry out internal control responsibilities in support of achievement of its objectives. **Communication** occurs both internally and externally and provides the organization with the information needed to carry out day-to-day internal control activities. Communication enables all personnel to understand internal control responsibilities and their importance to the achievement of objectives. Ongoing evaluations, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, are present and functioning. Findings are evaluated and deficiencies are communicated in a timely manner, with serious matters reported to senior management and to the board and eventually how **monitoring activities** took place. The **control environment** is the foundation for all other components of internal control. The board and senior management establish the tone from the top regarding

the importance of internal control and expected standards of conduct. The control environment provides discipline, process, and structure. This article would only concentrate on ―Control Environment‖ and its effectiveness in reference to The City Bank Limited.

Every organization of its own should maintain a strong internal control environment. Managers must evaluate the internal control environment in their own unit and departments as the first step in the process of analyzing internal controls. Many factors determine the control environment and are listed below for consideration. This list is not all-inclusive, nor will every item apply to a particular unit. (COSO, Integrated framework, 1994)

a) **Management's Philosophy and Operating Style**
   - Nature of business risks accepted, e.g., whether management often enters into particularly high-risk ventures, or is extremely conservative in accepting risks
   - Frequency of interaction between senior management and operating management, particularly when operating from geographically removed locations
   - Attitudes and actions toward financial reporting, including disputes over application of accounting treatments (e.g., selection of conservative versus liberal accounting policies; whether accounting principles have been misapplied, important financial information not disclosed, or records manipulated or falsified)

b) **Integrity and Ethical Values**
   - Existence and implementation of codes of conduct and other policies regarding acceptable business practice, conflicts of interest or expected standards of ethical and moral behavior
   - Dealings with employees, suppliers, customers, investors, creditors, insurers, competitors and auditors, etc. (e.g. whether management conducts business on a high ethical plain and insist that others do so or pay little attention to ethical issues)
   - Pressure to meet unrealistic performance targets-particularly for short term results and extent to which compensation is based on achieving those performance targets

c) **Commitment to Competence**
   - Formal or informal job descriptions or other means of defining tasks that comprise particular jobs
   - Analyses of the knowledge and skills needed to perform jobs adequately

d) **Board of Directors or Audit Committee**
   - Independence from management, such that necessary, even if difficult and probing, questions are raised

- Frequency and timeliness with which meetings are held with chief financial and/or accounting officers, internal auditors and external auditors
- Sufficiency and timeliness with which information is provided to board or committee members, to allow monitoring of management's objectives and strategies, the entity's financial position and operating results and terms of significant agreements
- Sufficiency and timeliness with which the board or audit committee is apprised of sensitive information, investigations and improper acts (e.g. travel expenses of senior officers, significant litigation, investigations of regulatory agencies, defalcations, embezzlement or misuse of corporate assets, violations of insider trading rules, political payments, illegal payments)

e) Organization Structure
- Appropriateness of the entity's organizational structure and its ability to provide the necessary information flow to manage its activities
- Adequacy of definition of key manager's responsibilities and their understanding of these responsibilities
- Adequacy of knowledge and experience of key managers in light of responsibilities

f) Assignment of Authority and Responsibility
- Assignment of responsibility and delegation of authority to deal with organizational goals and objectives, operating functions and regulatory requirements, including responsibility for information systems and authorizations for changes
- Appropriateness of control-related standards and procedures, including employee job descriptions
- Appropriate numbers of people, particularly with respect to data processing and accounting functions, with requisite skill levels relative to the size of the entity and nature and complexity of activities and systems

g) Human Resource Policies and Practices
- Extent to which policies and procedures for hiring, training, promoting and compensating employees are in place
- Appropriateness of remedial action taken in response to departures from approved policies and procedures
- Adequacy of employee background checks, particularly with regard to prior actions or activities considered to be unacceptable by the entity
- Adequacy of employee retention and promotion criteria and information gathering techniques (e.g. performance evaluations) and relation to the code of conduct or other behavioral guidelines

Basically, there are three main focuses to evaluating the control environment with respect to COSO model. First, management's attitude, actions and values set the tone

of an organization, influencing the control consciousness of its people. Internal controls are likely to function well if management believes that those controls are important and communicates that view to employees at all levels. Conversely, if management believes that controls are unrelated to achieving objectives or are obstacles then this attitude will be communicated. Management can show a positive attitude toward internal control by such actions as including internal control in performance evaluations, discussing internal controls at management and staff meetings and by rewarding employees for good internal control practices. Second, commitment to competence includes a commitment to hire, train, and retain qualified staff. It encompasses both technical competence and ethical commitment. Management's commitment to competence includes both hiring staff with the necessary skills and knowledge and ensuring that current staff receives adequate on-going training and supervision. Third, the involvement of the Audit Committee of the Board of Directors in a review of internal controls and audit activities can be a positive influence on the organization's control environment.

Internal control provides many benefits to an entity. It provides management and the board of directors with added confidence regarding the achievement of objectives, it provides feedback on how a business is functioning, and it helps to reduce surprises. Among the most significant benefits of effective internal control for many entities is the ability to meet certain criteria required to access the capital markets, providing capital-driven innovation and economic growth. Such access of course comes with responsibilities to effect timely and reliable reporting for shareholders, creditors, capital providers, regulators, and other third parties with which an entity has direct contractual relationships. For instance, effective internal control supports reliable external financial reporting, which in turn enhances investor confidence in providing the requisite capital. Other benefits of effective internal control include:

♦ Reliable and relevant information supporting management's decision making on matters such as product pricing, capital investment, and resource deployment.
♦ Consistent mechanisms for processing transactions, supporting quality of information and communications across an organization, enhancing speed and reliability at which transactions are initiated and settled, and providing reliable recordkeeping and ongoing integrity of data.
♦ Increased efficiency within functions and processes
♦ Retention of the facts, reasoning, and basis for decisions where highly subjective and substantial judgment is needed.
♦ Ability and confidence to accurately communicate business performance with business partners and customers, which supports continuity of the business relationship.

7. Parties responsible for internal control environment

Internal control is a stratum while its practice & effectiveness would be outcome of a number of roles and personnel involved in an organization.

Management The Chief Executive Officer is ultimately responsible and should assume "ownership" of the system. More than any other individual, the chief executive sets the "tone at the top" that affects integrity and ethics and other factors of a positive control environment. In a large company, the chief executive fulfills this duty by providing leadership and direction to senior managers and reviewing the way they're controlling the business. Senior managers, in turn, assign responsibility for establishment of more specific internal control policies and procedures to personnel responsible for the unit's functions. In a smaller entity, the influence of the chief executive, often an owner-manager is usually more direct. In any event, in a cascading responsibility, a manager is effectively a chief executive of his or her sphere of responsibility. Of particular significance are financial officers and their staffs, whose control activities cut across, as well as up and down, the operating and other units of an enterprise.

Board of Directors Management is accountable to the board of directors, which provides governance, guidance and oversight. Effective board members are objective, capable and inquisitive. They also have knowledge of the entity's activities and environment and commit the time necessary to fulfill their board responsibilities. Management may be in a position to override controls and ignore or stifle communications from subordinates, enabling a dishonest management which intentionally misrepresents results to cover its tracks. A strong, active board, particularly when coupled with effective upward communications channels and capable financial, legal and internal audit functions, is often best able to identify and correct such a problem.

Internal Auditors Internal auditors play an important role in evaluating the effectiveness of control systems, and contribute to ongoing effectiveness. Because of organizational position and authority in an entity, an internal audit function often plays a significant monitoring role.

Other Personnel

Internal control is, to some degree, the responsibility of everyone in an organization and therefore should be an explicit or implicit part of everyone's job description. Virtually all employees produce information used in the internal control system or take other actions needed to effect control. Also, all personnel should be responsible for communicating upward problems in operations, noncompliance with the code of conduct or other policy violations or illegal actions. A number of external parties often contribute to achievement of an entity's objectives. External auditors, bringing an independent and objective view, contribute directly through the financial statement audit and indirectly by providing information useful to management and the board in carrying out their responsibilities. Others providing information to the entity useful in effecting internal control are legislators and regulators, customers and others transacting business with the enterprise, financial analysts, bond raters and the news media. External parties, however, are not responsible for, nor are they a part of, the entity's internal control system. (COSO, Internal Control Integrated Framework, 2004)

9. Data Analysis and Results

Going through the City Bank Limited's control environment aspects, it was found that the organization has been maintaining regular internal control reviews and assessments as the management believes such practices are extremely essential in today's rapidly changing business landscape. Employee fraud, misappropriation and stealing are becoming increasing common in today's business environment. Too often, frauds are committed not out of financial necessity or desperation, but simply because the opportunity for misappropriation presented itself accompanied by lack of monitoring or controls. In regards to risk assessment, The City Bank Limited follows strong monitoring that paves the way for zero-tolerance level in every facets of risk areas be it core or supplementary. Moreover, the City Bank Limited's expert IT team is always vigilant to take due and appropriate care to transactional flowchart so that no one may even take a chance to misappropriate. In fact, the expertise accompanied by farsightedness of their management and board has been a boon to the organization for setting up an error-free control environment under the shade of which employees are committed to serve with utmost loyalty and reliability. The following parts describe the specific findings regarding the different components of control environment of the City Bank Limited in comparison with COSO's internal control components.

1) Management Philosophy and Operating Style: 83% of the respondents find City Bank's strong adherence towards long term profits and actually the bank doesn't emphasize short term operating profit. Rather, being a financial institution, City Bank always looks for long term profit. To materialize this objective, the bank has segregated its business functional area into Retail, Corporate, SME division so that the bank can focus in a planned way.

CBL Management group is not entirely dominated by a few personnel. Its Management Team comprised of 12 top notch banking professionals headed by Mr. Sohail R. K. Husain, Managing Director & CEO of the City Bank Limited. CBL Management team takes calculative business risk. In today's world, business arena has been functioning in multi-varied sectors. But due to this sudden recession progressed for the last couple of months investment has been proved to be a matter of thousand thoughts. But under the able guidance and supervision of top quality Management, CBL is cutting good figure through adopting calculative risk. Incase of selecting from alternative accounting principles Management is pretty objective that is aggressive towards adopting standard and best practiced accounting principles like IAS, FAS, GAAP, GAAS for the bank's accounting operations.

2) Organization Structure An up to date Organizational flowchart is maintained in the bank showing key personnel in order for clarity and objectivity. CBL believes it will help its employees know respective hierarchy and hence, they would act accordingly. More than 90% respondents voice this as well. In City Bank there is no Accounting department rather Finance department, which is organized and plays the key role in managing proper and standard entry to business transactions. CBL internal audit function is separate and distinct from that of Finance Division. CBL is enriched

with its ICC (Internal Control & Compliance) division who basically is responsible for internal audit related activities. In CBL, the subordinate manager does not report to more than one supervisor. In some departments where there is more than one sub-division (Units), separate Unit Heads are appointed to look for their respective issues.

3) Assignment of Authority and responsibility

Among the participants, 75% opt for assignment & responsibility of authority in a way that if opaque & ambiguity does not remain present in authority activities, internal control environment would get its platform to march ahead. Basically, for each position, City Bank HR departments have specific and detailed Job Description inscribed focusing roles and responsibilities. For any decision-related change needed to incorporate to the core system, it requires written approval from the top management. The bank clearly delineates to the employees and managers the boundaries of authority responsibility relationships. It provides both in-house and external training to get the employees known of their scope and extent of respective jobs. While the annual performance is analyzed, this extent is also matched with respective activities. The bank properly delegate authority to its employees and departments as well. However, in order to obtain quick result, CBL adopts division of jobs and assigns responsibility likewise.

4) Human resource policies & practices
In the City Bank Limited new personnel usually is not individually indoctrinated with internal controls, ethics, policies and corporate code of conduct. Usually when a batch of people (like Management Trainee) joins in the City Bank Limited, HR arranges a behavioral and institutional training comprising code of conducts, company image and the like apart from core banking techniques. In the City Bank Limited there are no grievance procedures to manage conflict in force. CBL maintains sound employee relationship. Its HR team has been bestowed with quality resources where it actually seeks for employees' continuing benefits. Any employee gets his respective HR related issues solved within shortest possible of time. CBL employees work in safe and healthy environment. All the premises are aptly designed keeping all updated safety equipments in proper place so that people remain safe and sound.

In the City Bank Limited frequent counseling programs aren't available for employees. Usually when PMP (Performance Management Policy) comes into action, all this counseling program starts to roll. Alongside the HR team has initiated dialogues in exit phases as well. In the survey, 85% of the respondents opined that regular counseling program would assist them in respective roles that eventually would impact positively in their performance.

5) Integrity & Ethical Value:
Herein, 65% survey population was supportive and stated adoption & implementation of this virtue would bring success for decent internal control environment. In this context, City Bank properly maintains its ethical code of conduct. The bank has a codebook titled _CRP (Customer Relationship Program)' that clearly outlines both behavioral and ethical sets of practices. City HR regularly conducts interactive programs with the employees over this CRP. Abiding CRP is a must for all CBL employees. Hence, whenever people go beyond their

boundary, they get penalized for that as suggested by CRP as well. Usually managers act fairly to their respective subordinates. Exceptions occur fairly distantly. Hence, it's proclaimed that CBL management is fair to its employees.

6) The Board of Directors and Audit Committee Most of the respondents' votes (90%) went for Board of Directors (BOD) & Audit Committee who factually are the core determinants for a stout internal control environment. CBL BOD is comprised of several renowned business persons who have gathered sufficient experience before anchoring this financial institution. Apart, they have a pool of independent audit committee. In case of City Bank, their BOD appoints audit committee consisting of external auditors. CBL audit committee plays their role actively and independently.

7) Commitment to competence

A section of respondents also suggests that committed to competence among the personnel can be driving force for internal control environment. 45 of them fall this category. CBL is committed for competence. Its activities clearly reflect this philosophy. In City Bank, recruitment department consists of proper knowledgeable person from relevant fields. As per recruitment is concerned, the City Bank Limited has a sweet affiliation with one established third party HR consultant that helps the bank find its requirement-oriented employees who would excel its enthusiasm and knowledge for the betterment and progress of the entity itself. It is further noted that to ensure better internal control and eventually to confirm an error free control environment in the MIS (Management Information systems), City Bank has made contract with KPMG (one of the five top audit firm in the world) where the bank wants to have a flawless system network and eventually no manual intervention can be possible. Thus it conforms to its principle to maintain a healthy control environment.

10. Recommendation

It would be worth noting for CBL that the organization opts for improvement from time to time on case-to-case basis so that they can maintain their forward movement to the pinnacle. In order to address internal control environment issues, CBL management should liaise with all concerned divisions and accordingly arranges to prepare a lay out to be executed in time. As in for suggesting recommendations, following points are worth mentioning.

♦ CBL management should conduct formal, in-depth employment interviews to describe the entity's history, culture, and operating style, run background/reference checks, and conduct procedures to determine whether a particular candidate fits with the organizational needs and has the competence for the proposed role.

♦ CBL management should enable individuals to develop competencies appropriate for assigned roles and responsibilities, reinforce standards of conduct and expected levels of competence for particular assignments, tailor training based on roles and needs, and consider a mix of delivery techniques, including classroom instruction, self-study, and on-the-job training.

♦ CBL management should provide guidance on the individual's performance toward expected standards of conduct and competence, align the individual's skills and expertise with the entity's objectives, and help personnel adapt to an evolving environment.

♦ CBL management should measure the performance of individuals in relation to the achievement of objectives and demonstration of expected conduct, and against service-level agreements or other agreed-upon standards for recruiting and compensating outsourced service providers.

♦ CBL management should provide incentives to motivate and reinforce expected levels of performance and desired conduct, including training and credentialing as appropriate.

♦ CBL Management would continually identify and assess those performing functions that are deemed essential to achieving the entity's objectives. The importance of each role is determined by assessing what the impact would be if that role was temporarily or permanently unfilled.

♦ CBL management would develop contingency plans for assigning responsibilities important to internal control. In particular, succession plans for key executives would be defined and succession candidates would be trained and coached for assuming the target role as well.

♦ CBL management at all levels of the entity would demonstrate through their directives, actions, and behavior the importance of integrity and ethical values to support the functioning of the system of internal control.

♦ CBL management would consider the multiple structures used (including operating units, legal entities, and outsourced service providers) to support the achievement of objectives.

♦ CBL management would design and evaluate lines of reporting for each entity structure to enable execution of authorities and responsibilities and flow of information to manage the activities of the entity.

11. Conclusion Control environment techniques can help the City Bank Limited to achieve its performance and profitability targets, and prevent loss of resources. It certainly helps the organization ensure reliable financial reporting. Also it can help ensure that the enterprise complies with laws and regulations, avoiding damage to its reputation and other consequences. In sum, it can help an entity to get where it wants to go and avoid pitfalls and surprises along the way. Thus, internal control environment encompasses the policies, processes and skills to ensure only valid financial transactions are recorded, that such transactions are recorded accurately and that rules and regulations are complied with. Internal controls can be thought of as proactive measures to prevent inappropriate charges and to ensure compliance as well.

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Annexure -1

Questionnaire about control environment of the City Bank Limited Name: …………………. Designation: ………………. Email ID: …………………… **1) Management Philosophy and Operating Style**

♦ Does management emphasize short term profits as operating goals to the detriment of long term goal?
♦ Is the management group dominated by a few individuals?
♦ What type of business risk does management take and how are these risks managed?
♦ Is the management conservative or aggressive toward selecting from alternative accounting principles?

2) Organization Structure

♦ Is an up-to-date organization chart prepared showing the names of the key personnel?
♦ How the accounting department is organized?
♦ Is the internal audit function is separate & distinct from accounting?
♦ Do subordinate manager report to more than one supervisor?

3) Assignment of Authority and responsibility

♦ Does the company prepare written employee job description defining the specific duties and reporting relationship?
♦ Is written approval required for changes made to information systems?
♦ Does the company clearly delineate to the employees and mangers the boundaries of authority-responsibility relationships?
♦ Does the company properly delegate authority to employees and departments?

4) Human resource policies & practices

♦ Are new personnel indoctrinated with respect to the internal controls, ethics, policies and corporate code of conduct?
♦ Are grievance procedures to manage conflicting in force?
♦ Does the company maintain a sound employee's relationship?
♦ Do employees work in safe & healthy environment?
♦ Are counseling programs available to employees?

5) Integrity & Ethical Value:

♦ Is there any ethical code of conduct?
♦ Whether management is fair to all employees?
♦ Does everybody know about the ethical value?
♦ Whether employees abide by the ethical value?

6) The Board of Directors and Audit Committee
- Is there any board of directors or audit committee?
- Does BOD appoint audit committee consisting of outside auditors?
- Does Audit committee play role actively or not?
- Does the internal audit committee review compliance with laws and regulation with corporate code of conduct?

7) Commitment to competence
- Are you committed to competence?
- Does your activity reflect it?
- Does the Recruitment department consist of knowledgeable person?