

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

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EXECUTIVE SUMMARY

The main objective of this study is to examine perception on level of implementation of internal control system (ICS) among Malaysian credit co-operatives. More specifically, this study aims to examine the awareness of BOARD/Internal Audit Committee on the importance of ICS; to determine their level of readiness on implementing ICS in their own co-operatives; to determine the perception of credit co-operatives BOARD/IAC on the level of ICS practice in their respective co-operatives and to identify factors associated with the awareness and readiness of ICS among credit co-operatives in Malaysia.

In this study, the perception of BOARD and IAC of Malaysian credit co-operatives were sought after to provide evidence on awareness, readiness and practices of ICS. These respondents groups are important for good governance as specified in Co-operative Act (CSA) 1993. A population of 536 credit co-operatives that covers both the Peninsular and East Malaysia was selected after data trimming procedures due to incomplete data. Two sets of questionnaire were mailed to BOARD/Management and IAC in each co-operative. To confirm research findings from questionnaire analysis, a case study on four co-operatives using unstructured interview questions was performed.

It was found that the majority of the respondents are fully aware on the importance of internal control system in managing their co-operatives. The respondents associate internal

control with monitoring activities, proper guidelines and procedures instituted by the co-operatives through their IAC /BOARD and management teams,. The majority of the respondents felt that their co-operatives were ready to implement internal control system. Most of the respondents are positive on the capability of BOARD/IAC and management team members' in implementing internal control activities acquired through training as well as experience. However, they were less confident on the financial aspect in implementing internal control system. 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 to help assist in implementing ICS due to insufficient funds.

Finally, more than 80 percent of the respondents claimed that their co-operatives practiced ten out of the 17 ICS components listed in the questionnaire. Ninety four percent (94 %) pointed out that their Co-operatives had a written mission and objectives. A large proportion of the respondents claimed that loan approval is in accordance to the Co-operative Loan Procedure (91.5%). However, less than 56 percent of the respondent claimed that they submitted periodic reports to MCSC as required by law (55.9%). In conclusion, the level of awareness and readiness are high on ICS component. However, the practice of ICS in credit co-operatives is not fully implemented.