

Student's Name

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Assignment

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Course Title

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SAMPLE

# **CHALLENGES OF AUDITING A COMPUTERISED ACCOUNTING SYSTEM IN ANGOLA COMMERCIAL BANKS.**

## **A CASE STUDY OF NATIONAL BANK OF ANGOLA**

### **Background of The Study**

The accounting profession is one of the oldest profession. However, it has experienced some setbacks that has substantially eroded the trust and reduced respect for the profession. The public image of the profession has been damaged by too many scandals of the 21st century such as Enron, WorldCom, and Parmalat. Those scandals have generated some suspicion of accountants among the public on the competence of auditors and the accountancy profession as a whole. Of great concern in the face of all these high-profile scandals is the failure of auditors to detect and prevent fraud and errors of such magnitude. Due to the introduction of information and computer technology (ICT) into the accountancy profession, many have seen this as a brighter day saying that finally, they have gotten the solution to its traditional problems specifically in the internal control systems which have been abused and frustrated by authorities that are in charge.

ICT has been sophisticated in the modern accounting information systems and management of information systems. This has affected the traditional procedure that is employed by auditors in an engagement of their procedures. The auditing procedures are identifying risks, frauds, and errors by making some inquiries and testing internal control that has changed the internal control within the entity which has changed the competence and skills of the auditor.

In Angola, many institutions have adopted the computerized accounting systems, in particular, the banking systems. ICT has become an integral part of modern accounting systems in the

banking sector. The most rapid growing sectors include the internet banking, mobile banking, and automated teller machines(ATM) which allow customers to do some transactions without necessarily going to the bank.

For companies to perform well, they need to implement information technology (Neeelgham, 1990). They have to embrace and install an efficient communication system in their operations. However, this is a high risk due to vulnerability and threats. The primary emphasis of an auditor is to identify risks fraud and errors their responsibilities have been designated by the regulatory standards and the law.

Auditors should be acutely aware of the impact of the ICT issue on the bank's financial statements, therefore, it is recommended that accountancy training institutions should be up to date with the relevant training and skills in their fields so that they can improve the quality of the professions. Regrettably, this has not been adopted, and they are facing enormous challenges in auditing. This has, in turn, resulted to questioning the credibility and integrity of the financial statements of the institutions.

#### Historical Background of National Bank of Angola

National Bank of Angola (Banco de Angola) is based in Luanda and was established in 1926. It is state owned by the government of Angola and the central bank of Angola. The has licensed twenty-three (23) other banks to the Angola market\*. The bank dates to its history where it was established in Lisbon, Portugal in 1864 where a branch was opened in Angola. The bank is also engaged in commercial banking. On October 20, 1991, the bank took the bank took the role of monetary policing and acting as issuing bank, the bank to the government of Angola and the commercial banks. In 1999, the bank engaged in implementing reforms in upgrading their

systems to computerized accounting systems so that it can meet the international standards like other international banks. Since then BNA has been facing some fraud allegations. In 2009, it was alleged that BNA was a victim of \$160 million dollars that were transferred to overseas banks. In 2011, some individuals were suspected to have caused some fraud through the finance ministry, and they were sentenced to eight years' imprisonment.

### Statement of The Problem

Since 2011 there has been a high profile of scandal that has put the profession in the limelight and negatively affecting the public perception of the auditor. Professional Auditors must make judgments based on the knowledge, skills, and experience that they have acquired or developed while training, or while working as a qualified professional. Those judgments must also be based on certain ethical values as well as a duty to serve the public interest. Identifying and assessing audit risk is a key part of the audit process. These risks must then be considered when designing the audit plan. A critical emphasis on the procedures of identifying audit risks is making inquiries of management and Internal Auditors among others within the entity to place some reliance on internal controls (Jones, 2009). The objective of these auditing procedures recognizes risks, fraud, and errors by testing Internal controls within the object to place some reliance on management assertions. Auditing has become quite challenging which makes auditors to show some competence in ICT. The level of skills in information technology has become a great concern to audit service providers. This scenario has made the researcher to carry an investigation to determine the challenges encountered when reviewing computerized accounting system and creates concerns on how to integrate the gaps between ICT skills expectations and status quo.

### Purpose of The Study

To find out the problems auditors face when auditing computerized accounting systems and how to minimize such problems.

### Objective of The Study

The determination of this study is to identify the impact of computerized accounting systems has exerted to the banking sector. It is geared toward establishing how the use of computerized accounting has reduced fraud activities which make banks realize their set goals.

However, the case shall pay attention to the National Bank of Angola(NBA) trying to establish the effect and importance of computerized auditing systems. This study is aimed at identifying the accounting systems being used in NAB and the benefits of computerized accounting system in the bank. The study is also aimed at identifying the challenges and some audit risks associated with the system that the auditor may face during such system. Nevertheless, the study will establish some ways on how to minimize such problems.

### Hypothesis of Research Questions

1. Ho - The computerized accounting system of the National Bank of Angola is independent the risks of fraud in the banking systems.

Ha - The computerized accounting system of the National Bank of Angola is associated with the risks of fraud in the banking systems.

2. Ho - The computerized accounting system of the National Bank of Angola is independent the risks of fraud in the banking systems.

Ha - The computerized accounting system of the National Bank of Angola is associated with the risks of fraud in the banking systems.

### **Significance of the study**

The research is significant to the following people;

- a) Auditors; This study was conducted help auditors to know the relevant skills that they must possess before taking any engagement and particularly in the computerized accounting system
- b) Training institutions; The institutions that train accountants and auditors will immensely benefit from this study as it will help them realize that ICT in the accounting profession is demanding new skills and techniques that must be inculcated in the current generation of accountants and auditors
- c) Entities; This study will help the entities to know the kind of accounting system they use and the kind of employees they should have like accountants and internal auditors.

### **Scope of the study**

The study will be undertaken in Angola and carried out in Central Bank of Angola. In the period of May to August 2017.

### **Limitation of the study**

- a) The information needed for this study is mostly confidential from the institution's view and might be reluctant to give full details as required
- b) Financial constraints will also hinder the study to some extent

c) Limited resources will also be a hindrance to the researcher because of transport, printing and miscellaneous costs involved

d)Some people may dodge the questionnaires and thus hinder collection of data required

### **Literature Review**

This part will focus on the concept of computerized accounting system and the challenges it presents to the auditors.

### **Computerized Accounting Systems**

This is defined as the system that uses computer inputs, process and store output accounting information inform of financials reports (Meigs et al., 1998). He adds that the accounting system records all transactions that deal with the effect of financial position and performance. The principle of accounting remains the limitations of many accounting to produce a quality and reliable work. McRae (1998) adds that accounting systems are advantageous in consolidating information channels that were initially duplicated and combined into one file. The following are components of a computerized accounting software;

1. Preparation of accounting documents. The computer helps in preparing accounting documents like cash memo, bills and much more.
2. Recording of transactions, it records all the transactions that take place within the organization. Marvic (2009) argued that a computer package will minimize human errors in the recording of transactions.

3. Finally, after recoding, it prepares the final balance ad financial statements. Trial balance helps in checking the accuracy of records.

### **Computerized accounting**

This is the use of computer in keeping information regarding finance. The Electronic Data Processing (EDP) usually remains the same in the whole company using some special techniques in the system. EDP has two main functions; they include; the internal control of the EDP system and the auditing technology of the computer base system.

### **INTERNAL CONTROL SYTEMS**

Is defines as the internal control systems as internal check and the internal audit in an organization. It has been conventional by the management so as it safeguards the asset and promote the efficiency of the company (Adebisi 2009).The internal control system has the following components; the internal audit and the checking and balance (Internal checks)

Internal audit refers to the internal audit carried by the staff to guarantee smoothness of operations in the company so that it can control fraud and ensure compliance (Laurence, 1990).

It is involved;

- i. Taking a routine check
- ii. Checking of bank statements in cash books.
- iii. Taking a special investigation whenever need arises.
- iv. Check on payments made by the company.

### **Limitations of internal control systems**

The following are hindrances for the internal control system not functioning well.

- i. There is collusion among workers in committing fraud within the company; this helps the frauded to escape without being noted.

Fatigue, this is the situation where individuals get tired of being overloaded and he or her losses concentration and fails to accomplish what is expected of him or her (Wood, 2013)

- ii. Lack of supervision. An internal system requires well down procedures in an organization (Michael E.P, 2002). A good example is the role of cashiers who have an obligation to balance their cashbooks.

### **Auditing**

Auditing is an independent organization that examines the financial accounts; they include the trading profit and loss accounts and the balance sheet. The objectives of auditing includes;

- a. To provide an accurate or the view of the company statements
- b. Identify errors and fraud undertaken within the company.
- c. They can also prevent errors and fraud from occurring within the company.
- d. Helping the client (Banks) in improving their accounting systems.

### **Research Methodology**

Research methodology explains how data was collected and analyzed, the design that was used, the population, sample size.

### **Area of study**

This study was carried in National Bank of Angola. The central bank of Angola.

## **Populations**

The research targets the managers and the employees of National Bank of Angola.

### **Sample Size and Selection Method**

Due to resource constraints, a small sample was utilized, and a simple random sampling was used to select the sample. From more than a hundred a sample of 40 management and staffs was agreed upon. The numbers should include gender, level of education (diploma, degree, masters and Ph.D.)

### **Data Collection Tools/ Methods**

The methods that were used was interviews, questioners, and observation due to their convenience. Secondary data was also used through searching of literature and comparisons by different authors effects on auditing.

#### **Strength of collection methods**

- i. Questioners are cheap, easy to analyze.
- ii. Interviews are much responsive

#### **the weakness of collection methods**

- i. Questionnaires are not collected using sound sample procedure which can be non-responsive of the population.
- ii. Information may be in accurate thus bringing wrong results.
- iii. Errors in selecting and determining the statistical significance.

### Interpretation of data

This comes out with the finding of carrying out research. The respondents were considered regarding age distribution, their level of education and the period they have worked for the company.

Age distribution

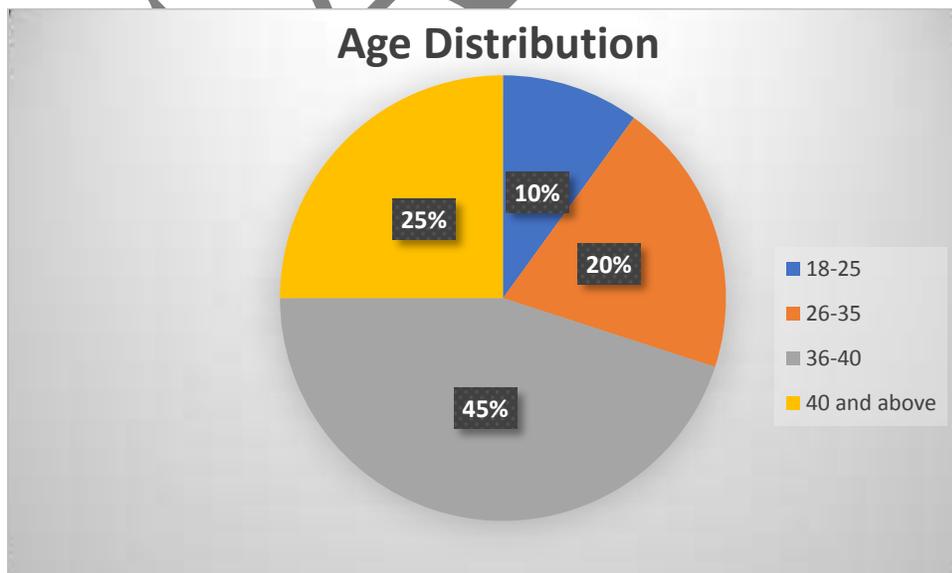
Table I shows age distribution

Age	Frequency	Percentage (%)	Remarks
18-25	4	10	Low
26-35	8	20	Low
36-40	18	45	Average
40 and above	10	25	Low
Total	40	100	

Source: primary data

From table one it shows that the age bracket of 36-40 has more respondents

Graphical representation of the data



From the above graphical representation, it shows that the age bracket of 36-40 was the majority having a 45% which is a good show since it will help it gave the required information. This is because of the employment policies made by National Bank of Angola.

Level of education

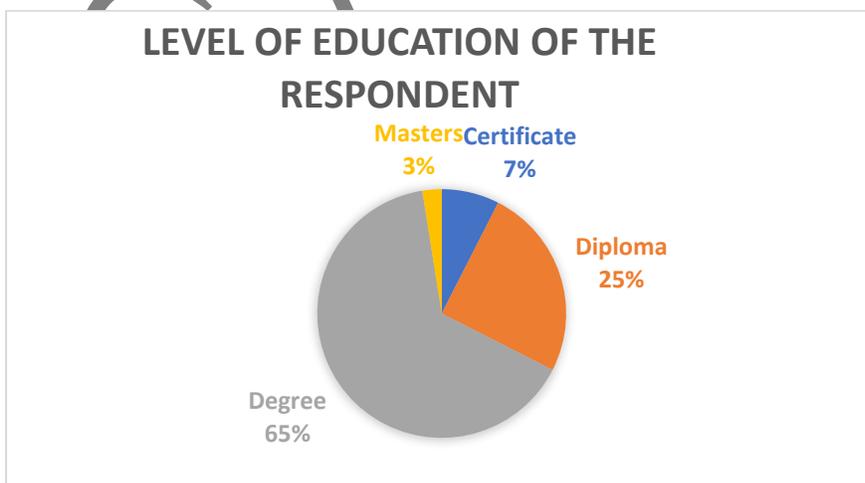
Table 2 shows the level of education of the respondents

Education	Frequency	Percentage (%)
Certificate	3	7.5
Diploma	10	25
Degree	26	65
Masters	1	2.5
Total	40	100

Source: primary data

This would help in identifying the level of education in an individual since it has some influence in the use of computerized systems because auditors should possess that skill in operating the computerized systems.

**GRAPHICAL REPRESENTATION OF LEVEL OF EDUCATION**



From Table 2 it clearly shows that majority of the employees are holders of degree taking a 65%. It shows that the data was obtained from responded that were learned hence the data could be reliable in performing of computerized accounting systems (Carol, 2002).

Duration of Employment

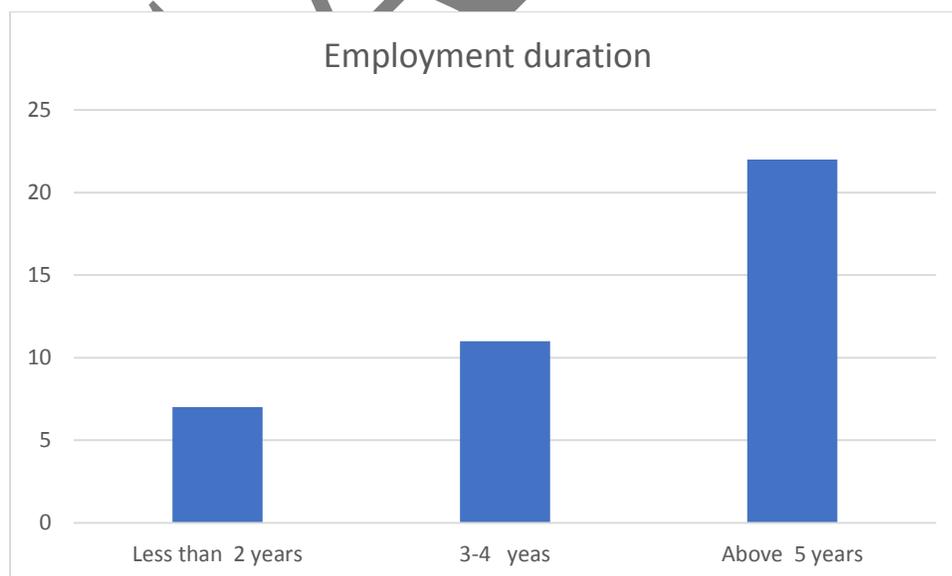
Table 3 Duration of employment

Duration	Frequency	Percentage (%)
Less than two years	7	17.5
3-4 yeas	11	27.5
Above five years	22	55
Total	40	100

Source: primary data

Employment duration is appropriate to determine the number of respondents that have worked for the National Bank for the year 2011-2017 which in- turn will influence the experience of the respondents in financial reporting.

**GRAPHICAL REPRESENTATION OF EMPLOYMENT DURATION**



From the above graphical representation, respondents above five years are the majority due to the policy made by the company so that they can reduce the training cost. The above shows that the respondents have some experience in computerized accounting meaning they can handle the systems singlehandedly, showing that the data is much reliable.

#### Accounting System in National Bank of Angola

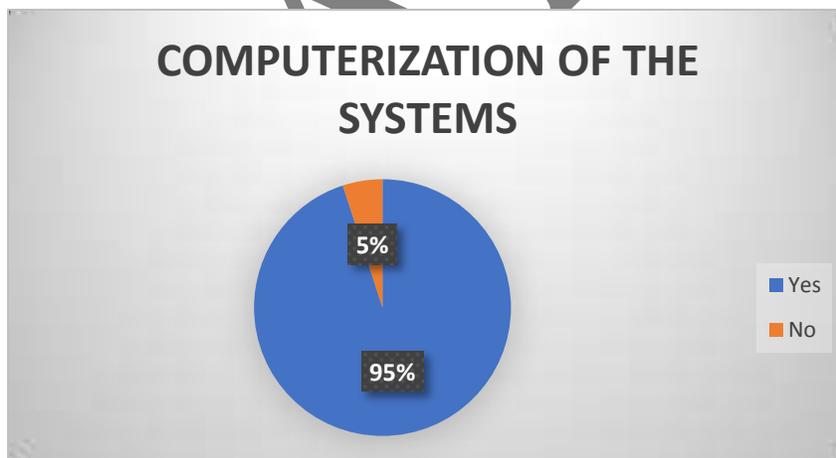
To achieve this, the respondents were required to give their views on the computerized system.

Table 4 shows whether the systems are computerized

Response	Frequency	Percentage
Yes	38	95
No	2	5
Total	40	100

Source: primary data.

#### GRAPHICAL REPRESENTATION SHOWING WHETHER THE SYSTEMS ARE COMPUTERIZED



From the above majority of the respondents (95%) indicated that the company runs on a computerized system. This indicates that there is accuracy and timely reporting (Marivic, 2009).

But the negative. However, there is a negative response showing that the systems are not used

#### Accounting Packages Used by The Company

Having got the idea that the company uses the computerized system, to determine which packages were used the respondents were asked about the accounting packages used.

Table 5 shows the account packages used by the company

Response	Frequency	Percentage (%)
Sage	5	12.5
Quick books	10	25
Tally	4	10
Navision	21	52.5
Total	40	100

Source: primary data

From table 5 more than a half (50%) uses Navision package hence the company prefers Navision more than the other software. According to Inindra (2008), application package suits the demands of the company.



From the above graphical representation, it shows clearly that the most preferred accounting package is the Navision. The other preferred accounting package includes 12% for sage, 25% for quick boobs and 10% for the tally.

#### Effects of Computerized System To Fraud

Table 6 shows the effects computerized system to fraud

Response	Frequency	Percentage
Yes	31	77.5
No	9	22.5
Total	40	100

Source: primary data

From Table 6 it is seen that the computerized systems in the National Bank of Angola have reduced the level of fraud since 77.5% of the respondents said yes while those who said no was at 22.5 %.

#### Hypothesis Testing

Testing of hypothesis 1

Data that is represented in Table 6 is grouped into two branches that is used in testing. The chi-square [ $\chi^2$ ] distribution can be used to test the hypothesis. Ho can be rejected depending on the finding test.

Statement of hypothesis 1

3. Ho - The computerized accounting system of the National Bank of Angola is independent the risks of fraud in the banking systems.

Ha - The computerized accounting system of the National Bank of Angola is associated with the risks of fraud in the banking systems.

Response	Computerized systems	Non-computerized systems	TOTAL
Reduced risk frauds	31	29	60
Not reduced risk frauds	9	11	20
Total	40	40	80

Group A and B represents different employees who responded to the question are.

Response	Computerized systems	Noncomputerized systems	TOTAL
Reduced risk frauds	30	30	60
Not reduced risk frauds	10	10	20
Total	40	40	80

Expected frequency = Row total x Column total

$$\text{Expected frequency} = \frac{\text{Row total} \times \text{column total}}{\text{grand total}}$$

$$\text{Expected frequency} = \frac{40 \times 60}{80} = 30 \text{ for the yes option}$$

$$\text{Expected frequency} = \frac{40 \times 20}{80} = 10 \text{ for the no option}$$

The degree of freedom = ( Row one -1)(column - 1)

$$= (2-1)(2-1)$$

$$=1$$

Level of significance is 5% = 0.05

The test statistic used  $\chi^2 = \sum_{j=1}^2 \sum_{i=1}^2 \frac{(O_i - E_i)^2}{E_i}$

$$= \frac{(31 - 30)^2}{30} + \frac{(9 - 10)^2}{10} + \frac{(29 - 30)^2}{30} + \frac{(11 - 10)^2}{10}$$

$$= 0.0333 + 0.1 + 0.0333 + 0.1$$

$$= 0.2666$$

The tabulated statistic is  $\chi^2 = 3.84$

Since the test statistic is less than the tabulated statistic, then we fail to reject the null hypothesis and hence the computerized accounting system of the National Bank of Angola is independent the risks of fraud in the banking systems.

Testing of hypothesis 2

1. Ho – The level of education of employees is independent of the risks of fraud in the National Bank of Angola.

Ha - The level of education of employees is associated with the risks of fraud in the National Bank of Angola.

Education	Frequency	Percentage (%)
Certificate	3	7.5
Diploma	10	25
Degree	26	65
Masters	1	2.5
Total	40	100

Education	Risk of frauds in	Risk of frauds in non-	Total
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	computerized systems	computerized systems	
Certificate	3	5	8
Diploma	10	6	16
Degree	26	25	51
Masters	1	4	5
Total	40	40	80

Expected frequencies.

Education	Risk of frauds in computerized systems	Risk of frauds in non-computerized systems	Total
Certificate	4	4	8
Diploma	8	8	16
Degree	25.5	25.5	51
Masters	2.5	2.5	5
Total	40	40	80

The test statistic used  $\chi^2 = \sum_{j=1}^2 \sum_{i=1}^4 \frac{(O_i - E_i)^2}{E_i}$

$$= \frac{(3 - 4)^2}{4} + \frac{(10 - 8)^2}{8} + \frac{(26 - 25.5)^2}{25.5} + \frac{(1 - 2.5)^2}{2.5} + \frac{(5 - 4)^2}{4} + \frac{(6 - 8)^2}{8} + \frac{(25 - 25.5)^2}{25.5}$$

$$+ \frac{(4 - 2.5)^2}{2.5}$$

$$= 0.25 + 0.5 + 0.0098 + 0.9 + 0.25 + 0.5 + 0.0098 + 0.9$$

$$= 3.3196$$

The tabulated statistic is  $\chi^2 = 7.81$

Since the test statistics is less than the tabulated statistic, then we fail to reject the null hypothesis and hence the level of education of employees is independent of the risks of fraud in the National Bank of Angola. No matter how one is educated fraud can still take place.

### **Findings**

Findings are based on the analysis of the questioners that were administered, the analysis of the hypothesis and testimonials by the respondents.

The result of hypothesis indicates that the introduction of the computerized systems has reduced the amount of fraud within the company. This is its ability to detect errors and fraud quickly.

The level of education in the train personnel does not affect the fraud within the system, rather having some experience in the company is the key in determining fraud in the enterprise.

Employees that have some expertise in the business are likely not to detect some fraud quickly compared to employees that were employed just recently.

### **Implications of the research**

This report has some connections to the Bank. First, the use of computerized systems will ensure that there is no more fraud taking place within the organization no more since individuals can be detected. Secondly, the "bad image" of the auditors will be restored and back to normal since the computerized will ensure timely response to any attempt to fraud cases. Lastly, the Bank will increase its revenue for earning trust from its shareholders and return the confidence to its people (public).