



GSJ: Volume 12, Issue 1, January 2024, Online: ISSN 2320-9186

www.globalscientificjournal.com

The Impact of the Application of Internal Control on the E-Financial System of Alizz Islamic Bank, Oman

Waad Mubarak Al- Siyabi¹, Dr. Maria Teresa Matriano²

Department of Management Studies

Middle East College, Oman

Email:¹ 20S20002@mec.edu.om, ² maria@mec.edu.om

Abstract

Purpose: This study focuses on the impact of implementing internal control on the electronic financial system of Alizz Islamic Bank. Internal control is important in identifying weaknesses and errors in the bank's operations. Internal control over the electronic financial system helps achieve the bank's objectives through the effectiveness and efficiency of operations and the reliability of financial reports. Internal control ensures the continuity of the bank, reduces risks, and maintains the organization's attention to laws and regulations. Internal control ensures the continuity of the bank, reduces risks, and maintains the organization's attention to laws and regulations. Internal control components help protect the bank's assets from misuse or theft and detect all errors in the books of accounts of the electronic financial system. Internal control may face some challenges, but there are recommendations that may help eliminate the challenges of the bank's electronic financial system.

Design/methodology/approach: The study population was Alizz Islamic Bank employees - employees and managers in the bank's financial department. The design of this research relies on exploratory and descriptive methods to describe the topic and demographics. The research contributes to data collection, analysis, and processing. In this descriptive research, the circumstances of the events and how they are related and occur in general will be clarified. In descriptive data, data was collected using quantitative and qualitative methods. Primary sources were used by distributing a questionnaire, as well as using secondary sources such as books, websites, and articles to obtain the necessary information. The study included 73 samples from the population. Bank employees were interviewed and surveyed through a questionnaire using Google, and samples were selected using a non-random sampling technique. The data was analyzed using different data processing methods to analyze the data.

Findings: The study revealed that the bank stresses the importance of using internal control over the electronic financial system to facilitate the accuracy of financial reports and protect the bank's assets. The bank uses internal control over the financial system because it is considered very important in financial systems as it protects company data from any theft. Internal control helps the bank identify weak points and correct them to achieve objectives. Internal control enables the bank to understand the electronic data system and protect all the bank's systems and data.

Research limitations/ implications: Based on the results, it was recommended that the bank focus on internal control over the electronic financial system and that employees use advanced applications in preparing financial reports because they may help the bank protect the bank's data and systems.

Social Implications: This research will add collective knowledge about the impact of implementing internal control on the electronic financial system. The study recommended the need for the bank to monitor financial data continuously to protect the entire electronic financial system.

Originality/ Value: This is the first time that a study has been conducted regarding the impact of application of internal control on the electronic financial system of Alizz Islamic Bank.

Keywords: Alizz Islamic Bank, E-Financial System, Electronic system, Internal control

Introduction

Internal control is the accounting and auditing processes followed by the organizations in financial management, which has a role in organizations compliance and maintaining financial reports in accordance with the plans established to achieve its goals. Internal control is the procedures and rules that help an organization maintain the integrity of accounting and financial information and promote accountability. Internal control is of great importance in organizations because it is one of the administrative functions that is mainly involved in planning in modern organizations. Internal control helps organizations follow legal regulations, prevent fraud, and improve operational efficiency by following policies, adhering to budget, and preparing accurate financial reports ([Feng, 2022](#)).

The main purpose of the research is the impact of implementing internal control on the electronic financial system at Alizz Islamic Bank. Alizz Islamic Bank in the Sultanate of Oman seek to focus on internal control because it helps bank adhere to laws and procedures to ensure the protection of

all financial data and prevent fraud. This topic was chosen for several reasons, including the lack of research on the impact of application of internal control on the financial system in Alizz Islamic Bank, in addition to the necessity of providing information to bank about internal control with proposals for improvement. Finally, this study will help future researchers in applying internal control of banks. The importance of internal control in the bank will be discussed, and solutions will be found to the challenges that this financial department may face and how to deal with them.

Statement of Research Problem

The bank is working to establish an internal control system to achieve goals and protect assets. Implementing internal control depends on technology, as systems may be exposed to fraud or falsification of some financial data, which may pose a risk to the bank. Applying internal control to the financial system requires keeping up with modern developments that play a role in protecting the bank from risks and providing management with the information necessary to make decisions. The bank needs to focus on developing internal control from a technical standpoint at a higher level than the development that occurs in the accounting environment. It requires designing an effective functional structure for the electronic financial system. In this research, the main aspects of implementing financial control in the bank will be identified, solving the problem, and finding all appropriate solutions.

Research Questions:

1. What are the importance of application of internal control to the E-Financial system of Alizz Islamic Bank?
2. What are the main components and aspects of internal control on E-Financial system of Alizz Islamic Bank?
3. What are the challenges facing Alizz Islamic Bank regarding the application of internal control to the E-Financial system?
4. What are the recommendations to solve the challenges facing Alizz Islamic Bank in application of internal control on its E-Financial system?

Research Objectives:

1. To identify the importance of application of internal control to the E-Financial system of Alizz Islamic Bank.

2. To identify the main components and aspects of internal control on E-Financial system of Alizz Islamic Bank.
3. To evaluate the challenges facing Alizz Islamic Bank regarding the application of internal control on the E-Financial system.
4. To propose recommendations to resolve the challenges facing Alizz Islamic Bank in the application of internal control on its E-financial system.

Review of Literature

The Importance of Internal Control on the E-Financial System

Banks follow the internal control system in management because it is a tool to ensure the proper implementation of electronic financial system policies that lead to achieving goals related to the accuracy of financial reports and the preparation of financial statements to protect the company's assets from misuse or theft. The importance of the internal control system enables organizations to identify all weak points and work to correct and treat them. Through financial control, it is possible to detect defects or weaknesses in administrative processes, which helps them correct deviations during the implementation of plans. Internal control aims to help management understand the electronic data system correctly so that the organization can ensure the implementation of its policy and achieve compliance with regulations and laws.

Internal control steps:

- 1) Study and understand the system: The organization must gather thorough data regarding the internal control system, which includes the risk assessment, oversight process, and control environment. It also needs to make sure that the data is open to review.
- 2) Initial evaluation: The information is analyzed in the first step. After that, all necessary information must be modified to reach expectations of the importance and weakness of internal control and the weakness of detecting errors and preventing errors.
- 3) Determining the events that necessitate reporting to management: In this stage, events that can have an impact on the compilation of financial statements are located, and a report is sent to management as soon as they happen.
- 4) Final evaluation: In this stage, we assess the system's effectiveness or the failure of any of its components by ensuring the presence of control elements and acknowledging the significance of internal control. If a security vulnerability is discovered in the system, a report must be issued to take the correct action.

The Main Components of Internal Control:

The organization adherence to the financial control components of the electronic financial system for accounting operations helps organization make effective decisions. Internal control is essential but can be a challenge in any organization. Internal control components help organization and provide a framework for the accounting system. Organization and audit teams must integrate internal control components into the design and review of the accounting system ([Hoang, 2020](#)).

The five components of internal controls are:

Control Environment: The control environment, which provides structure and discipline and may have an impact on how an organization develops goals and plans, establishes the tone for workers and managers within the business. The more seriously an organization focuses on internal monitoring, the stronger the system becomes. Organization and administrative teams must create an effective control environment that enables them to evaluate the risks that the organization may face while achieving goals and find appropriate solutions to them. There are many factors that shape the control environment in the organization, including the commitment to efficiency, the assignment of responsibility and authority, and the management philosophy and method of work. ([Lenghel, 2020](#)).

Risk Assessment: Risk assessment is the risks that occur when preparing financial reports related to achieving the organization objectives, analyzing them and how to manage them appropriately. The Organization must be prepared to identify potential risks in terms of managing these risks effectively by conducting internal monitoring to mitigate them. The finance team should always focus on internal control so that new risks do not arise at any time without warning. The team must submit all audit reports to the Board of Directors to identify any new risks. Risk assessment is essential and should be constant or continuous in organization because economic, legal, or governmental conditions are subject to change ([Navid, 2020](#)).

Control activities: Control activities are monitoring activities to ensure that controls are in place and that all accounting systems are operating in accordance with the controls correctly. The Organization should test and monitor regular audits or controls across all internal audit strategies ([Hoang, 2020](#)).

Information and communication: Information systems include financial reporting and accounting systems to ensure any potential controls that may occur and identify, analyze, record, and communicate transactions to preserve liabilities and assets. Monitoring activities are important because they prevent violations or errors from occurring and can be corrected while auditing data

in information systems. Because information technology is changing rapidly, monitoring activities must be developed to be effective ([Lenghel, 2020](#)).

Monitoring: Control activities are procedures or policies that implement all management directives. Audit teams should conduct internal monitoring on an ongoing basis to identify any potential gaps in the internal control system. Control activities have diverse objectives and are applied at functional or organizational levels. There are classifications of control activities through data review in different ways, including information processing controls, general controls, and physical controls ([Stephens, 2021](#)).

The Challenges of Applying Internal Control on the E-Financial System

([Sahib, 2023](#)) Internal control is important for the banks, as they are responsible for internal control, reporting, and testing. Internal control is related to internal auditing and reporting. The importance of internal control goes beyond the financial functional reality. Organizations must conduct internal control audits on an ongoing basis and consider securities market uncertainties. Internal control can protect assets and prepare reports efficiently, but there are some limitations to internal control in bank:

Technical Internal Control Weakness: Technological advancement can affect a bank's internal control because it relies on software and hardware. May face challenges in technical control through technological advances and maintenance failures. If a data breach occurs in hardware, software, or information, you may experience a technical vulnerability. Organizations utilize software for internal audits to confirm controls, but external inspections allow a third party to find flaws that internal control personnel might have overlooked. Technical weaknesses may pose a significant and ongoing cost to the bank but can be avoided through ongoing internal control ([Lin, 2018](#)).

Operational Internal Control Weakness: Operational security focuses on implementing risk management and operational internal controls in business processes, but some organizations may experience weaknesses in operational controls due to human factors. When responsible employees do not follow policies, processes and standards, operational controls become less effective. Organizations must respond to incidents with operational control and ongoing intervention to avoid risks and mitigate breaches. The greater the distance between the beginning of the incident and the intervention, the less effective the incident response is ([Lin, 2018](#)).

Research Methodology

Research methodology is the specific way to process and analyze data. The research methodology focuses on the researcher's approach to conducting the study to achieve the goals and objectives of the research. Research methodology is very important because it provides reliable scientific results. This methodology was used to collect data for this study and helps develop robust procedures. In this study, the collected data were analyzed to obtain specific and reliable results. This section explains how the research design works, how to obtain data, and how to collect samples. The research design analyze data related to the topic of the impact of implementing the electronic financial system of Alizz Islamic Bank.

Research Design

In this study, secondary and primary sources were used to obtain the data and information necessary for the study. The research design relies on exploratory and descriptive methods to describe the topic and demographics. This type of study takes non-random samples. Exploratory research will be conducted due to lack of knowledge about a topic that has not been clearly explained. This study extracts statistical and quantitative results, so the research is considered a descriptive design that responds to all aspects of the research, its questions, and the objectives of the study. The primary sources used in distributing the questionnaire as well as the use of secondary sources such as books, articles, websites and articles to obtain the necessary information.

This study focuses on qualitative research to understand all of the themes and many challenging ideas of the topic. Qualitative research is the process of conducting a survey and review of literature that facilitates understanding of these theories and topic. Qualitative research focuses on asking survey questions to obtain study results. The results of qualitative research are descriptive because they facilitate drawing and analyzing conclusions.

This study focuses on quantitative research, statistics, graphs, and numbers. In quantitative research, theories are evaluated by measuring variables. Quantitative research focuses on studying and analyzing data using numbers and graphs to examine data or information. In quantitative research, data is analyzed through statistics through electronic programs to reach research results. Quantitative research depends on developing measurement tools, theories, and hypotheses to collect data. Quantitative research analyzes demographic information of survey participants.

Population of the Study

The study population is the specific group from which specific data will be collected. The study population is essential for selection in order to conduct a successful research study. This study may be limited to the Sultanate of Oman, especially Alizz Islamic Bank, because this research relates to the bank only. This research focuses on Alizz Islamic Bank being the main target, as a questionnaire was distributed to the banking sectors in the bank to obtain the necessary data on the subject of the impact of implementing financial control on the electronic financial system. The number of employees working in the bank reached about 300 employees. The sample size will be 73 employees in the bank, meaning that the proportion of the population will be 10%.

Sample Size and Sampling Techniques

The main factor in this research is the sample size because it focuses on the nature of the study. The sample size in this research is the number of people included in this study. Sample size is one aspect of statistical analysis to provide accurate and appropriate results for a research study. This study focuses on the impact of implementing internal control in the bank's financial system. Accordingly, 300 employees working in the financial sector in a bank were selected. In this study, non-random distribution and non-probability sampling were used. Non-random samples were distributed to Alizz Islamic Bank employees to facilitate the distribution process and answer all employee questions without the intervention of any other party. It is considered one of the best ways to obtain information in a short time and in an easy way. Sampling techniques rely on statistical theories to obtain information related to the research.

Validity and Reliability Testing:

This study focuses on using reliability and validity to determine and evaluate the validity of this study, which is the standard for the numerical and statistical analysis techniques used in this research. Validity and reliability have a close relationship and the same goals, and their idea revolves around evaluating the quality of the research study. Validity is a measurement that accurately represents what is intended to be measured, and validity is the consistency used in research tools. This study focuses on measurement, which is the collection and interpretation of data. Validity and reliability have the same goals, as the focus is on the results of the research through proportionality to the actual results of the research.

Table 1: Reliability Analysis Result

Items	9
Sum of Variance	5.77778
Sum of Score Variance	4.96
Cronbach Alpha	0.81778

Cronbach's alpha was obtained with a score of 0.81778. When the Cronbach's alpha score falls between 0.5 and 0.6, reliability and validity are deemed satisfactory. The questionnaire, according to the researchers, offers a respectable degree of stability over time periods, making it a useful tool for gathering the data and information needed for this study.

**Table 2:
The importance of internal control over the electronic financial system**

Options	Responses	Percentage
Disagree	18	28.8%
Strongly disagree	7	9.6%
Neutral	9	15.1%
Strongly agree	21	37%
Agree	18	28.8%
Total	73	100%

According to the table above, it indicates that internal control is very important in the bank's electronic financial system (Will, 2023). The table shows that 18 of the participants did not agree with the topic, representing 28.8%, and 7 of the participants strongly disagreed with the importance of internal control in the banking system, equivalent to 9.6%. 9 of the participants answered

neutrally, equivalent to 15.1%, that internal control is very important in the bank, while 37% agreed that there is a strong emphasis on the fact that internal control helps the electronic financial system in managing work accurately, and 18 of the participants agreed with the topic, at a rate of 28.8%.

Table 3:
Internal control protect the bank’s financial accounting system

Option	Responses		Percentage
Yes	65	0.65	89%
No	8	0.8	11%
Total	73		100%

According to the table above, internal control protects the financial system of Bank, as the majority of 65 participants answered yes, equivalent to 89% of Bank. According to Bank, 11% out of 8 of the participants answered no, because they do not agree that internal control protects the bank’s financial system.

As mentioned earlier, the participants agree that internal control protects the bank in its electronic financial system. Internal control helps the bank carry out financial operations reliably to achieve its objectives.

Table 4:
Internal control has a role in eliminating challenges

Option	Responses	Percentage %
Disagree	14	8.2%
Strongly disagree	8	11%
Neutral	10	13.7%
Strongly agree	17	23.3%
Agree	32	43.8%
Total	73	100%

The above table indicates that internal control has a role in removing challenges in the bank. According to the table, 14 of the participants disagreed with the issue, equivalent to 8.2%, and 8 of the participants, equivalent to 11%, strongly disagreed that internal control eliminates challenges. 10 of the participants, equivalent to 13.7%, responded neutrally to the topic, while 17 of the participants, equivalent to 23.3%, agreed that internal control has a role in eliminating the bank’s challenges once and for all, and 32 of the participants strongly agreed with the topic, at a rate of 43.8%.

Table 5:
A problem is affecting the bank's internal control

Choice	Responses		Percentage
Yes	8	0.8	11%
No	65	0.65	89%
Total	73		100%

The above table shows that there is no problem affecting the bank’s internal control. 65 of the participants, equivalent to 89%, answered no, as the bank may not face any problems in internal control over the electronic financial system, while 8 of the participants answered yes, equivalent to 11%, agreeing that internal control has an impact on the electronic financial system.

Table 6:
The role of internal control in the electronic financial system

Choice	Responses		Percentage %
Yes	64	0.64	87.7%
No	9	0.9	12.3%
Total	73		100%

The table shows that internal control has a major role in the bank's financial system, as most of the participants, numbering 64, agree on the importance of internal control, which is equivalent to 87.7%. Participants in Bank agree on the importance of the electronic financial system, while some 9 participants, equivalent to 12.3%, do not answer, as they do not agree that internal control has no role in the electronic financial system.

Based on the percentages mentioned in the table, most participants agree on the importance of internal control because it shows the accuracy of the data and prevents errors to which the bank may be exposed. Internal control emphasizes ensuring legal, financial and accounting compliance (Kiril, 2023).

Conclusion

Internal control is important for banks because it helps the bank implement management policies to reach the goal. Internal control is considered one of the essential elements in the electronic financial system to protect accounts and financial data and detect many errors and fraudulent operations. The study indicates a positive relationship between internal control and the electronic financial system. Therefore, internal control helps banks increase the accuracy of banking information and financial statements. Internal control can identify all errors and weaknesses in operations. The research aims to shed light on the importance of implementing internal control in the bank. One of the most important sections of the study is the research methodology in terms of obtaining information through distributing the questionnaire to the bank's employees. This study

consists of several chapters, including research introduction, literature review, research methodology, data analysis, and conclusion. This study focused on the importance of internal control in banks, because it is considered one of the tools for addressing the problems that organizations and banks suffer from, and it also plays the role of supervising the internal workflow in organizations and reducing unethical practices. Internal control gives greater importance to organizations, which positively affects the workflow in organizations. Internal control helps organizations set red lines that are prohibited to be crossed and prevent employees or other companies from crossing them. It monitors the board of directors and employees through decision-making, budgeting, and staffing. Internal control establishes a list of laws that organizations must adhere to. Focus on the most important components of internal control, including the control environment. It is considered one of the main components of internal control, as it provides commitment to efficiency, ethical values, policies, human resources practices, and organizational structure. Organizations assess, analyze and manage electronic financial reporting risks through the preparation of financial statements. Risks that arise in changing circumstances such as laws, regulations, accounting standards, financial reporting functions and data processing are evaluated. Control activities depend on procedures and policies that have a role in implementing the directives of control activities that help take the necessary actions to achieve management objectives and address risks. Identify the challenges that may face the electronic financial system in organizations. Organizations may face administrative and accounting hurdles related to technology and professionalism. Internal control faces many obstacles in the electronic financial system that may affect the organization's operations. Organizations must focus on internal control, reduce financial corruption, and pay attention to internal control. Recommendations to reduce internal control challenges are to establish programs, establish continuous and periodic assessment of the level of knowledge and competence of employees, and evaluate performance to pay rewards, salaries and incentives.

Recommendations

-The bank must increase attention to internal control on the electronic financial system: The bank must enhance the quality of information, prepare financial reports, eliminate weak points, and protect all data and information related to the bank's systems. Internal control assists the bank in locating weak points and implementing the required fixes to meet goals ([Maijoor, 2023](#)).

- Following the main components of internal control: Internal control components help the bank identify and eliminate risks and provide control activities to discover weak points and eliminate any controls. The bank's accounting system has a structure thanks to its internal control components. The internal control components are capable of setting the bank's strategy and objectives, assessing risks and removing potential controls to which the bank may be exposed, and conducting internal control to identify and address any weak points ([Navid, 2020](#)).
- It is suggested that the bank be prepared for the challenges of internal control: It is important to prepare for the challenges facing the electronic financial system, increase technical oversight of the electronic financial system, and focus on the main controls. Hardware and software technology are essential to the electronic banking system ([Sahib, 2023](#)).
- It is suggested to the bank to improve controls: The bank must identify the main and important controls and remove unimportant controls so that they do not pose a challenge or restriction to internal control. Internal control requires recording all accounting and financial reports, finding weaknesses, dividing responsibilities, and evaluating operations ([Fakiyesi, 2023](#)).

References:

- Cheng, Q., Goh, B. W., & Kim, J. B. (2018). Internal control and operational efficiency. *Contemporary accounting research*, 35(2), 1102-1139.
<https://onlinelibrary.wiley.com/doi/abs/10.1111/1911-3846.12409>
- Kiril, K. (2023). The importance of a strong internal control system in financial management.
<https://payhawk.com/blog/internal-control-systems-of-financial-management>
- Lenghel, R. D. (2020). Internal Control Organization Procedure. *Knowledge Horizons / Orizonturi Ale Cunoasterii*, 5(3), 131–134. <https://eds-s-ebSCOhost-com.masader.idm.oclc.org/eds/detail/detail?vid=0&sid=36f6461c-aa2f-427a-9a50-c34550682925%40redis&bdata=JnNpdGU9ZWRzLWxpdmU%3d#AN=88400365&db=asn>
- Lin, Y.-H., Huang, H.-W. (2018). Internal Control Material Weaknesses and Foreign Corrupt Practices Act Violations. *Journal of Forensic Accounting Research*, 3(1), A80–A104.
<https://doi-org.masader.idm.oclc.org/10.2308/jfar-52296>
- Maijoor, S. (2023). The internal control explosion. *International Journal of Auditing*, 4(1), 101-109. <https://onlinelibrary.wiley.com/doi/abs/10.1111/1099-1123.00305>

Sahib, S. A., & Wahhab, A. M. A. (2023). The Experience of the Internal Auditor in Reducing the Penetration of Computerized Data and its Effect on the Bank Continuity: Evidence from the Emerging Markets. *Technium Social Sciences Journal*, 45, 106–126. <https://doi-org.masader.idm.oclc.org/10.47577/tssj.v45i1.9166>

Stephens, N. M. (2021). How effective are organizations' internal controls? Insights into specific internal control elements. *Current Issues in Auditing*, 6(1), A31-A50.
<https://publications.aaahq.org/cia/article/6/1/A31/7224/How-Effective-are-Organizations-Internal-Controls>

Will, K (2023). Internal Controls: Definition, Types, and Importance.
<https://www.investopedia.com/terms/i/internalcontrols.asp>

