# CHAPTER TWO

# Literature Review

# Review of Theoretical literature

**2.1.1 Definition and concept of Accounting system**

In managing an organization and implementing an internal control system the role of accounting system (accounting system) was crucial. An important question in the field of accounting and management decision-making concerns the fit of accounting system with organizational requirements for information communication and control. Although the information generated from an accounting system can be effective in decision-making process, purchase, installation and usage of such a system were beneficial when the benefits exceed its costs. Huber, (2015), agrees that automated accounting system aids decision making for management of organizations. Benefits of accounting system can be evaluated by its impacts on improvement of decision-making process, quality of accounting information, performance evaluation, internal controls and facilitating company’s transactions.

The relationship between reporting quality and organizational performance has been studied by several researchers, for example: (Biddle .: 2009, pp. 112-131). Muda et al. state that accounting plays an important role in encouraging accountability, efficiency, and effectiveness of public services. The quality of information will improve the quality of management in seeing changes around the organization so that it can quickly and accurately respond to these changes. The same thing is known from the IPSASB statement (2013), which states that the allocation of resources by the government is inadequate if it is supported by poor quality financial information. The same view is conveyed by several researchers who concluded that the quality of financial reporting is closely related to company performance (Pneman & Zhang: 2010, pp. 22-37; Richardson .: 2009). Furthermore, Bell et al. document that the audit opinion and the timeliness of the submission of local government financial reports have a significant positive effect on the financial performance of local governments (Muda et al.: 2018; Bell .: 2018).

The accounting system (accounting system) describe the accounting information, which are intended to collect financial data to reach the information needed for internal or external decision-makers (Bodnar and Hopwood, 2010). The use of accounting information is vital in the management activities of a company, given its quantitative information on various activities. Accounting information is primarily intended to be useful in economic decision-making. Accounting information is needed not only by management in the direction of cooperation but also by shareholders, who need periodic financial data in order to assess the performance of the institution's management (Nnenna, 2012).

## 2.2 Accounting System Quality

Accounting system play crucial and important role, providing information that could help the organization’s management perform its duties to the fullest. Many researchers have pointed out that the success or failure of an organization in achieving its objectives depends on the quality of the accounting system. The development of accounting system has a significant impact on the performance and effectiveness of operations in the organization, as the management of organization needs information that is characterized by consistency and confidence in decision –making. Further, the success of decisions and increasing their effectiveness depends heavily on the success accounting system presented to the decision makers at the right time (Al-Ali, 2014). In this regard, Al-Samaerraie, and Al-Zoubi (2012) stated that good and successful systems must be characterized by integrity, simplicity, flow of information, multiplicity of elements, in addition to excellence, correlation and correct outputs. In the same context, in order for the accounting system to be of high quality, and should be distinguished from other systems, identified by Al-Sibaei (2010) as follow:

Information by Romney and Steinbart (2015) is the data has been organized and processed to give meaning to the user. Users need the information to the make decisions or improve the decision making process. Gelinas and Dull (2013) describe the notion of information as follows: Information is the data is presented in a form that is useful in decision making activates. In line with various previous opinions (Laudon and Laudon, 2014) states the information is the data that has been shaped into something that has meaning and useful for users. Likewise with the views expressed by Susanto (2013). The information is the result the data processing that gives meaning and benefits for the user. Based on various definitions that have been presented, it can

be concluded that has meaning and useful for variety of users. Valuable information/Quality and can be used in decision making should have the characteristic/traits of certain (Stair and Reynolds, 2011). A high quality product information own characteristics, attributes or quality that makes information through the information timely, easily understood and can be verified Valuable information /quality accounting to Stair and Reynolds (2016) must have the characteristics: easily accessible, accurate/precise, complete, economical, flexible, relevant, reliable, safe, sample, available timely and verifiable.

One indicator of a skill importance was the ability of that skill to leverage other areas of knowledge and create the ability to solve semi-structured and unstructured questions. In the U.S. those accounting functions that were highly structured and require the least amount of individual decision-making have been outsourced (Ramakrwashnan and Frangulescu, 2017). Skills that were unique provide competitive advantage and require company specific knowledge should be retained in house (Alvwerez , 2017). For this reason it was imperative that accounting educators shift the focus away from structured skills to ones that cannot be highly automated and were enabled by technologies such as spread sheets, databases and computer assisted audit tools and techniques.

Many researchers have highlighted the role of accounting information can play in companies to achieve their goals, for example Patel (2015) emphasizes on the important of accounting information in making decisions. He added that the accounting information always plays an essential role in decision making of the managers related to the financial and economic issues and affects to the survival of an organization. In addition, accounting tools such as cost accounting system, management accounting system, price and profitability provide the useful information to the manager to make the financial and economic decisions also. Similarly, Hafij, Ahmed, and Tamanna (2014) evaluated the usage of accounting information by the decision makers in practices in five strategic decisions were as such as basic strategic decision, manufacturing decision; human resource decision, long term investment decision and marketing decision were considered for his study.

Government Financial Reports can be said to be of quality if they contain predetermined characteristics so that the information generated can become the basis for decision-making for its users. The internal control system is an integral process that is carried out continuously. This is supported by previous research, namely Kewo & Afiah, which states that understanding of the financial accounting system affects the quality of financial report information (Kewo & Afiah: 2017, pp. 568-572). This means that employees of the accounting/finance section of the Government Work Unit have understood the accounting process to become financial reports so that the goal of making quality financial reports can be achieved. The research results of McDonald explain that the financial accounting system has a positive and significant effect on the quality of financial reports (McDonald: 2019, pp. 11-22; Bordeleau 2020, pp. 173- 185). This means that the higher the level of application of the regional financial accounting system will improve the quality of financial reports. The ministry's performance will increase if the quality of government financial reporting increases, as well as this, can be seen from the objective of measuring financial performance according to Chohan, namely as a report on the operation of government activities aimed at assessing the organization's financial performance in terms of efficiency and effectiveness as well as monitoring actual costs and costs, which is budgeted (Chohan: 2019; Bordeleau 2020, pp. 173-185). The efficiency ratio is a ratio that describes the comparison between output and input or realized expenditure and realized regional revenue.

Other qualitative characteristics of accounting information can also be maintained if there was a sound internal control system in an organization (Toposh, 2014). Internal controls procedures were set up to protect assets, ensure reliable accounting reports, promote efficiency and encourage adherence to company policies as essential to achieve objective such as the efficient and orderly conduct of accounting transactions, safeguarding the assets in adherence to management policy, prevention and detection of error, prevention of fraud and detection of fraud and ensuring accuracy, completeness, reliability and timely preparation of accounting data.

Azhar Susanto (2010: 6) states that for a company, accounting system built with the main purpose to process accounting data coming from various sources into accounting information required by various users to reduce risk when making decisions. This is confirmed by Romney & Steinbart (2012: 238) that the basic function of accounting system is to provide useful information for decision making. Further Romney & Steinbart (2013: 238), in

order to be useful, accounting information generated by accounting system, such as financial statements and various types of reports should present an accurate, complete, and timely description of company activity. Meanwhile, according to Pompandejwittaja and Pairat (2012) that the effectiveness of information systems related to the collection, entry (entering), processing, data storage, management, control reporting accounting information so that organizations can obtain quality financial reports.

accounting system can overcome the weaknesses in financial reporting. Research conducted by Zulkanian (2014), concluded that the accounting system can accelerate the process of financial reporting and address the weaknesses of human resources in the process of financial statements into the financial statements. Another case rose by Ricchiute (334: 2015), states that the weak internal controls will cause an error misstatements in the financial statements cannot be prevented. Al-Qudah and Ahmed (2011) suggested a significant impact on the institution's internal control accounting system in creating accuracy, updated, comprehensive and comparative data.

The study of Patel (2015) examined the impact of accounting system on companies’ profitability. The study was based on the theoretical analytical approach to reach the results by reviewing the previous studies and concept of accounting system, the quality of accounting system, and the nature of the relationship between accounting system and profitability of companies and decision making. The result showed that there is an impact of accounting system on the profitability of companies and decision –making , also it was found that the accounting system contribute to provide the necessary information to take financial and economic decision

Confidentiality was about internal auditors respecting the information they receive while competence means they should be able to apply their knowledge, skills, and experience in performing their role. Further, accounting system were vital for internal auditors because they process the transactions that was, they maintain financial records. Such systems identify, assemble, analyze, classify record, summarize, and report transactions and other events Journal on the impact of accounting system on internal auditors in Turkey.

As an organization, information systems can also help organizations achieve organizational goals, control internally and improve accountability and corporate governance in public

institutions. This shows that an information system has a positive impact on various fields, such as financial management, public governance, and fiduciary risk management (ACCA, 2010).

In the government sector, the use of Information Technology (IT) has helped the government in Modernizing administration in the areas of accounting, finance, project management, inventory control, and counter service operations. Service quality in the public sector is still low; therefore, the widespread use of IT is expected to improve service quality. And the productivity of the government sector. The implementation of the government accounting system provides benefits and benefits to the government in realizing transparency and accountability in financial management so that the implementation of program activities is well recorded and has clear dimensions in the presentation of financial reports.

Karthikeyan. (2010), argued that those users were expecting the information was a high quality and useful. In addition, the accounting information quality was expected to play a crucial role in enhancing the objectives of cost accounting through planning, controlling, performance evaluation and decision making. Horngren (2014) explains how accounting aids decision making, planning and controlling through the five-steps decision, namely: making process: planning which consist of four steps, identify the problem & uncertainties, obtain information, make predictions about the future, and make decisions by choosing among alternatives. And the last step was controlling, implement the decision, evaluate performance and learn. Jawabreh and Alrabei (2012) stated that information should be collected in high quality of data to make it more successfully that will be lead to high quality of information about this enterprise, this information will be the way to planning, controlling and making right decisions.

Dellon & McLean (2013) use the term "success" of information systems to measure the technically successful system of information systems. Similarly, Pornpandejwittaya and Pairat (2012) use the term "success" to explain the successful application of accounting system in the areas of the organization's attention, widely used by one or more satisfied users and improve the quality of their performance. The term "quality" of the accounting system is used by Sacer et al (2016: 62) to show the integration of various components of accounting system-quality hardware, software, brain ware, telecommunication network and data base, and quality of work and satisfaction of users. Thus, in this study the quality of accounting system means the functioning of information systems as a provider of quality accounting information

Scott (2011) states that the accounting system aims to present financial statements designed for external users and internal users. Similarly, Hall (2011: 14) states that fundamentally, the purpose of the Accounting system is: (1) to provide information on the organizational resources used, (2) to present information related to management decision making, and (3) to provide information for personnel- Operating personnel to assist the personnel perform their duties efficiently and effectively.

Computer integrated operational information system that fully integrates manufacturing with marketing and accounting data increasing both the quantity and timeliness of the information (Hansen & Mowen, 2017). Technological tools work to promote efficiency in the transferring of data between corporations and their different decisions, offices, customers, and even their accounting firms. Communications technology utilizes a combination of technologies to transmit data in a variety of forms to each of these recipients. This particular form of technology was of considerable importance for large accounting firms, because its enhanced communications capabilities allow for easier expansion into the worldwide market. This speeds up the transfer of information between an entity and its accounting firm. For accountants, this means getting the most current information to work with.

Servicing involves collecting payments due from issuers and paying the collected funds to claimants. In addition, a servicer maintains payment records, monitors contracts, and pursues action in defaults. In less developed economies, this aspect of financial service provision was relatively invisible. Most assets were originated and held by the same institution, particularly in the fixed income area. Intermediating involves the simultaneous issuance and purchase of different financial claims by a single financial entity. It occurs when an institution purchases one type of financial instrument for its own account and finances the transaction by issuing a claim against its own balance sheet.

Three types of such financial intermediation activity were common. These were:-

1. Insurance underwriting whereby the issuer assumes the policy's contingent liability,
2. Loan underwriting, whereby the intermediary uses its own resources in extending credit to a borrower, through buying insurance for the assert obtained by loan and
3. Security underwriting which involves buying securities as principal to distribute to investors.

Accounting system (accounting system) was acknowledged as an effective tool to deal with the exterior and interior changes (Shagari, Abdullah, & Saat, 2017) through processing data and transaction to generating useful information for planning, controlling, and operating the organizational activities (Romney, Steinbart, & Cushing, 2016) as well as facilitating and gaining organizational performance (Saganuwan, Wasmail, & Ahmad, 2013). This issue has directed the scholars’ attention on accounting system effectiveness since such useful accounting information will contribute to the organizational efficiency improvement and accountability accomplishment (Mellemvik, Monsen, & Olson, 2014).

Company accounting system can be classified in 2 (two) subsystem, that is financial accounting system and management accounting system (Wilkinson, 2007: 15; Azhar Susanto, 2013: 84; Meiryani, 2016), while the management accounting system is intended for internal corporate users, such as managers, executives and employees in decision making Hansen & Mowen, 2017: 7). Information system is a tool (tools) used by management to perform analysis in decision-making related to corporate transactions (Mc Leod & Schell, 2013; Romli and Ismail, 2014; Ekpung, 2014; Sarwar and Mubarik, 2014 ; Okon and Monday, 2017; Kimengsi and Gwan, 2017; Bollazzi and Risalvato, 2018; Meiryani, 2018).

Accounting system (accounting system) was a tool that can help organizational management to improve its control on the firm’s operations and to develop its performance. accounting system involve Identifying, collecting, processing and delivering the accounting information to employees and decision makers throughout all organizational levels. accounting system were also seen as a system that was used to record the financial transactions of a business or organization. This system combines the methodologies, controls and accounting techniques to track financial transactions and to provide

internal and external reporting data as well as helping the preparation of financial statements with capabilities to improve organizational performance (Pérez, 2010).

Borthick and Clark (2015) believe that accounting exists because it satisfies a need - primarily a need for information. In order to be relevant, accounting data must among others, be quick to respond to users’ (particularly the investors) needs. Generally, investors are not in a situation to directly access the performance of companies in which they intend to invest. They usually depend on financial reports prepared by the management of such organizations. Financial report is one of the best sources of accounting information about a company. Financial reporting is an essential part of disclosure and helps investor to discover investment opportunities. The primary purpose of financial statements is to provide information concerning the financial situation of the institution, its operational results, any changes of control in the institution and cash flow.

Accounting system (accounting system) just like any other information system was perceived to play a great role in the management of day to day operations in corporate organizations. Accounting system were regarded as one of the supporting information systems used in carrying out managerial functions such as planning, organizing, controlling and decision- making, for the better exploitation of the available resources (Samer, 2016). According to Borhan and Bader (2018) accounting system (accounting system) was a formal system for identifying, measuring, accumulating, analyzing, preparing, interpreting and communicating accounting information about a particular entity to a particular group. Accounting system represents a range of sources (persons and equipment), which were designed to collect financial data to reach the information needed for different decision-makers at a particular period of time (Bodnar and Hopwood, 2010).

Donelson. revealed that companies would only achieve high performance when they are able to carry out technology development (Donelson: 2017, pp. 45-69). Trofimova aimplement the implementation of the government accounting system, and regional management affects the internal control function (Trofimova .: 2019, pp. 416-424).

Good quality financial reporting can reduce the risk of imperfect information among users of financial statements or information asymmetry (Copeland & Galai: 2016, pp. 1457-1469). In the context of government, the government, which acts as an agent, certainly has more information than the general public, who acts as a principal. So, to reduce information asymmetry and

increase agency accountability, government agencies are required to submit accountability reports that contain performance achievement of activities.

Financial institutions provide more efficient discovery, evaluation, and dissemination of information about legitimate investment opportunities, which presumably reduces monopoly positions and inefficient risk taking. At the same time, such institutions may bring some production efficiency to the market. The institutions reduce transactions cost through efficient processing cost structures or information cost sharing. This was a kind of economy of scale that was part and parcel of the financial sector, and an important service that it performs. Managers have limited ability to diversify their investment in their own firm, due to limited wealth and the concentration of human capital returns in the firm they manage. This fosters risk aversion and a preference for stability. Internal control was process that guides an organization towards achieving its objectives. These objectives include operational efficiency and effectiveness, reliability of financial reporting, and compliance with relevant laws and regulations (Committee of Sponsoring Organization, 2017). Absence of these variables often results in organizational failure.

According to the International Organization of the Supreme Audit Institutions (INTOSA is, 2015), internal control was an integral process that was affected by an entity’s management and personnel and was designed to address risks and to provide reasonable assurance in pursuit of the entity’s mission. In addition, services were generally internally produced and frequently bundled with the investment management activities of the firm. Reasons will be offered for the emergence of such institutions and for the development of management techniques that limit the risk contained in their portfolios. Relevant information was particularly useful to investors, creditors and others for investment, credit and similar decisions. Such information must have the ability to impact on a decision by facilitating the formulation or prediction about the results of events occurring in the past, present and future. Noteworthy was the fact relevant information must help the decision maker to confirm or reject expectations. Usually, information facilitates both functions simultaneously because the knowledge of the results of the past actions will normally improve the outcome of similar future actions. It was not easy to make a forecast without a sound historical background.

The study conducted any Sajadi (2018) also shows the result that the implementation of accounting system in the institution, can lead to the improvement of the quality of financial statements and to speed up the transaction process of the institution. Xu & john (2013) study in Australia related to the key issues of accounting information quality management concluded also that issues related to accounting system are seen as the most critical issue of high information quality. The studies related to the influence of the quality of SIA on the quality of accounting information empirically show the following results: Sajadi et al. (2016) on the assessment of the effectiveness of accounting system also shows the result that the implementation of accounting system in the institution, can lead to improvements in the quality of financial statements and speed up the process of corporate transactions (Jermsittiparsert, Trimek & Vivatthanaporn, 2015)

The results of this study answer the various problems of the quality of accounting system in Indonesia, which can occur in business and non-business institutions resulting in information that is not qualified. As happened in the Director General of Mining, that there was no integration of accounting system resulting in inaccurate and aggregate information (dimensions of quality of accounting information), this was revealed.

Other problems regarding the low quality of the accounting system led to the emergence of potential loss of tax revenue from the mining sector in 2012, where data on coal production differed between Dirjen Minerba and the Central Statistics Agency. The essence of the problem of the low quality of accounting system is the lack of integration of accounting system. Integration is a key dimension in improving the quality of accounting system. The dimension of integration is the main dimension of the basic concept of accounting system, the quality of accounting system has the first dimension, namely the extent to which the system is able to facilitate information from various different sources, in other words integration it integrates all functions and components to help management make decisions. Based on the phenomenon, the formulation of the problem, the hypothesis and the results of the study, then the conclusions of the study are as follows: the quality of accounting information is influenced by the quality of accounting system. Accounting information is not fully qualified because it is caused by the system used by the organization not yet fully efficient. The integration between components and between subsystems has not been fully harmonized. Accounting system has not been able to adjust to changes in both internal and external environment and Accounting system has not been easily accessed.

Accounting system was very vital to all organizations. It was designed to help in the management and collection of information, raw data or ordinary data and transform them into financial data for the purpose of reporting them to decision makers (Dandago and Rufai, 2014; Harash, Al-Timimi and Alsaadi, 2014). accounting system were a system that assists in the collection and recording of data and information regarding events that have an economic impact on organizations. It also helps in the maintenance, processing and communication of such information to both internal and external stakeholders (Olusola, Olugbenga, Zacchaeus and Oluwag bemiga, 2013). accounting system greatly help to provide internal and external reporting data, financial statements and trend analysis capabilities to affect an organizational performance. IOSR Journal of Business and Management (IOSR-JBM) Technology was progressively working to eliminate paper work almost entirely. Paper work slows down transaction time and burdens entities with maintenance needs. Image processing was voted by the Journal of Accountancy as the top technology affecting accountants in 2016. This process uses scanning to convert important paper images into electronic documents. These electronic documents were easier to transfer both internally and externally, resulting in more efficient, timely information.

Ponemon and Nagida (2018) also assert that the main reason for which accounting information is generated is to facilitate decision making. However, for financial reporting to be effective, among other requirements, it is relevant, complete and reliable. These qualitative characteristics require that the information must not be unfair nor has predisposition of favoring one party over the others. Accounting information should give a decision maker the capacity to predict future actions. It should also increase the knowledge of the users to identify similarities and differences in two type of information (Bolon, (2019). Therefore, reliable accounting information can be described as an essential pre-requisite for stock market growth. Based on the “engine of economic growth” potential of the stock market, developed nations do not toy with their Stock Markets and relevance of financial reporting.

The main function of Accounting system (accounting system) is to assign quantitative value of the past, present and future economics events. accounting system through its computerized accounting system (Contract Plus) produce the financial statements namely income statements, balance sheets and cash flow statement. The system will process the data and transform them into accounting information during input, processing and output stages that will be used by a wide variety of users such as internal and external users (Wilkinson, 2014). Wilkinson noted that an effective Accounting system (accounting system) performs several key functions throughout these three stages such as data collection, data maintenance, data Accounting system (accounting system) and Knowledge Management; data control (including security) and information generation.

That notwithstanding, financial information will only be useful, or relevant to business decision- makers or others if it was available when required, thus at the time a decision was to be made, and it has that capacity to influence decisions. Information that comes too long after the reported events have taken place was superseded by events and has no value for a decision and it's therefore irrelevant. However, under ideal conditions, financial accounting information should be available soon after the end of the period to which it relates. The significance or timeliness depends a great deal on the nature of the information to be communicated to influence decision making.

## 2.3 Components of Accounting system (accounting system)

**Stakeholders** The starting and ending of every accounting aspects. There was a stakeholder, who feeds information into the system, collects, analyses, reports, etc., and there was another person (stakeholder) who needs information

**Data** It was all about various [accounting transactions](https://www.wallstreetmojo.com/accounting-transaction/), events, and other monetary items. Accounting system will not record any information which does not have a monetary base. Data can be anything like [sales](https://www.wallstreetmojo.com/sales-ledger/) [ledger,](https://www.wallstreetmojo.com/sales-ledger/) customer account, vendor’s ledgers, [financial reports](https://www.wallstreetmojo.com/financial-reporting/) like P&L and statement of financial position, [cash](https://www.wallstreetmojo.com/statement-of-cash-flow/) [flow statement,](https://www.wallstreetmojo.com/statement-of-cash-flow/) etc.

**Established Procedures** To perform various functions, as stated in the definition, accounting system follows predefined steps, procedures. To ensure consistency, this was one of the most basic needs of accounting system. accounting system may perform an action either with manual intervention or automatically. This action needs to be instructed to the person processing data or coded in the system in case of automatic systems.

**Software** A software or, in broader terms, software was a computer-based program that performs the stated functions. Software can be described as a database software package system that supports business processes and operations, including manufacturing, marketing, and financial, human resources, etc. It forms one of the main components of the Accounting system (accounting system).

**Information System Infrastructure** In simple terms, IT Infrastructure can be said a consortium of various IT & WAS hardware, tools, accessories.

Currently, the world and human life has been transformed from information age to a knowledge age (Curtwas, 2016), and knowledge has been recognized as the most valuable asset. In fact, knowledge was not impersonal like money and does not reside in a book, a data bank or a software program (Choe, 2017). Choe believed that knowledge was always embodied in a person, taught and learned by a person, used or misused by a person. Accounting information was an unbiased tool for an effective administration. Poor accounting information jeopardizes administrative effectiveness, which makes managers malnourished administratively especially in Nigerian construction industry. The consequence of this has been the current distressed syndrome that Nigerian construction industries were facing. Huber 2015) stressed that companies must learn to manage their intellectual assets (i.e. knowledge) in order to survive and compete in the ‘knowledge society’. Indeed, knowledge management was concerned with the exploitation and development of the knowledge assets

## Concepts of insurance services

Insurance was the pooling of fortuitous losses by transfer of such risks to insurers, who agree to indemnify insured’s for such losses, to provide other pecuniary benefits on their occurrence, or to render services connected with the risk. Insurance contracts were technical, legal documents that contain complex clauses and provisions. Without regulation, an unscrupulous insurer could draft a contract so restrictive and legalistic that it would be insignificant. Also, most consumers do not have sufficient information for comparing and determining the monetary value of different insurance contracts. It was difficult to compare dissimilar policies with different premiums because the necessary price and policy information was not readily available.

Accounting system have an impact on internal control as a combined plan, method and procedures used to safeguard asset, promote efficiency of operation and adherence to prescribed policies and directives. Insurance Underwriting refers to the process of selecting, classifying, and pricing applicants for insurance. The underwriter was the person who decides to

accept or reject an application. Underwriting starts with a clear statement of underwriting policy. An insurer must establish an underwriting policy that was consistent with company objectives. The objective may be a large volume of business with a low profit margin or a smaller volume with a larger margin of profit. Classes of business that were acceptable, borderline, or prohibited must be clearly stated. The amounts of insurance that can be written on acceptable and borderline business must also be determined. The insurer’s underwriting policy was determinedly top-level management in charge of underwriting. The underwriting policy was stated in detail in an underwriting guide that specifies the lines of insurance to be written; territories to be developed; forms and rating plans to be used; acceptable, borderline, and Prohibited business; amounts of insurance to be written; business that requires approval by a senior underwriter; and other underwriting details.

The United Kingdom Auditing practice Committee (UKAPC,2014) defined internal control as the whole system of control, financial and operational in order to carry on business of any enterprise to safe guard asset, ensure the completeness, accuracy of records , detect errors and fraud and ensure timely report of financial information. A sound internal control system helps an organization to prevent fraud, errors and minimize wastage. Custody of asset was strengthened; it provides assurance to the management on dependability of accounting data eliminates unnecessary suspicion and helps in maintenance of adequate and reliability data.

Claim Settlement was the payment transaction performed by claim directorate and the system was deducted the claim amount paid to customer from the premium collected and show the exact net amount exist after a claim payment was compensated on each policy. The first objective in settling claims was to verify that a covered loss has occurred. This step involves determining whether a specific person or property was covered under the policy, and the extent of the coverage.

The second objective was the fair and prompts payment of claims. If a valid claim was denied, the fundamental social and contractual purpose of protecting the insured was defeated. Also, the insurer’s reputation may be harmed, and the sales of new policies may be adversely affected. Fair payment means that the insurer should avoid excessive claim settlements and should resist the payment of fraudulent claims, because they will ultimately result in higher premiums.

The states have passed laws that prohibit unfair claims practices. These laws were patterned after the National Association of Insurance Commissioners a third objective was to provide personal assistance to the insured after a covered loss occurs. Aside from any contractual obligations, the insurer should also provide personal assistance after a loss occurs.

According to Siayor (2010),Internal control systems refers to all the policies and procedures internal controls adopted by the directors and management of an entity to assist them in achieving their objectives of ensuring, as far as practicable, the orderly and efficient conduct of a business, including adherence to internal policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

Financial statements contain information about the performance and prospects of an enterprise or organization. Generally, users of financial statements include stakeholders, investors, auditors, employees, customers, governments and general public etc. Among the uses of this information provided were facilitation of investment decision-making, assessment of the quantity, timing and risk on returns on investment; and the evaluation of economic resources of enterprises and results of operations of the enterprise (David, 2013).

According to Wilkinson (2017:7) states that accounting system is a structure that integrated in an entity, which consists of a collection of human resources and equipment, used to transform data into information useful for users in making decisions. Romney & Steinbart (2016) Accounting system is a system that collects, records, stores, and processes data to produce information used in decision making. Accounting system is basically an integration of various subsystems processing or accounting sub accounting system because each transaction processing system has a transaction processing cycle so that accounting system can also be said as the integration of various transaction processing cycles then each transaction processing done by the system of processing transactions Or sub- accounting system have various components such as hardware, software, brain ware, procedures, databases and communication networks (Azhar Susanto, 2018). Integration is a critical factor for determining success in the application of Brown & Ross (2017) information systems.

Interim reports also provide information for periods less than one year. These provide users with timely information about enterprises to avoid the time lag between the annual reports. This has important implications for monitoring and control. If accounting information was not made available early enough, it was not possible to monitor the performance of management and to detect other financial misconduct by employees of the enterprise. Indeed information can be delayed deliberately for that very purpose (Luo, 2016).It was thus imperative that delayed information should be analyzed more carefully.

# 2.4 Conceptual Framework

Inadequate financial resources have also accelerated to their inefficiency, reflected by irregular audit activities as well as absence of regular reports. The objective of this study was to establish the relationship between internal control activities and financial performance in institutions. The data for the study was collected using questioner and interview. The study revealed that all activities of the College were initiated by the top management, there was clear separation of role in the institutions’ finance and account department and that superior officer in the College supervised regularly work done by their subordinate, the institution financial statements were audited annually by external. However, there was a possibility for a single staff to have access to all valuable financial information without the consent of other staff. On the budgetary control, the study revealed that the institution adheres strictly to the provisions of annual departmental budget and that controls were in place to exclude incurring expenditure in excess of allocated fund. Also, there was poor security network in the College. The result further shows that, there was no significant relationship between internal control activities and financial performance. Internal controls were looked at from the perspective of Control Environment, Control Activities, Rask Assessment, Information and Communication system, and Monitoring .Thus this study focused on assessment of the effectiveness of the internal control system in Adamawa state University Mubi to identify the possible areas of deficiencies in the system. Based on the data analyzed the result indicates that internal control in Adamawa state University Mubi was not effective. Particularly the risk assessment component of internal control was not practiced in the universities. Though monitoring was better in the universities, there was in adequate control environment, control activities and inadequate flow of information and communication in Adamawa state University Mubi. Hence, it needs commitment from both universities management and responsible government authorities to improve those specific areas of deficiencies’ in internal control indicated.

The objectives that internal controls must meet to prevent errors and to be efficient so as to provide reasonable assurance were that:

1. Recorded transactions were valid. The system should not permit the inclusion of fictitious or non
2. existent transactions in accounting records.
3. The transactions were properly authorized. The system should ensure that transactions were properly authorized.
4. Transactions were recorded. The procedures must provide controls to prevent omissions of transactions from the records.
5. Transactions were properly valued. An adequate system must include procedures to avoid errors in calculating and recording transactions at various stages in the recording process.
6. Transactions were properly classified. Proper account classification accounting to appropriate categories or divisions must be ensured by the system.
7. Transactions were recorded at the proper time. The recording of transactions either before or after the time they took place increases the likelihood of failing to record transactions or recording them at the wrong amount. Therefore, effective control system should ensure timely recording of transactions.

Adamawa state University Mubi was using the GIIS (General Insurance Information System) that organized and designed by foreigners and managed by Management Information system therefore, this makes there was a knowledge gap on every conception and linkage of the ledger of the system by the department such as finance, Audit and branches of the institution. Even though they were doing their daily activity they have some limitation on the system to distinguish financial report practice prepared by the system, this makes there was I gap between the finance and each directorate and branches because all transaction was summarized under Finance directorate as a financial statement report, therefore the knowledge gap on each transaction passed by other comes to finance as a report wrongly. Financial statements still remain the most important source of externally feasible information on companies. In spite of their widespread use and continuing advance, there was some concern that accounting practice has not kept pace with rapid economic and high technology changes which invariably affects the value relevance of accounting information. The importance of Chang’s assertion was reinforced by massive accounting fraud in developed countries especially United States of America (USA), rapidly changing business environment and reports by some researchers that value relevance of accounting information has declined. However, a number of researchers claim that accounting information has not lost its value relevance.