

**THE EFFECTS OF INTERNAL CONTROL SYSTEMS
ON COOPERATIVE'S PROFITABILITY: A CASE OF
KOPERASI PEKAN RABU ALOR SETAR BERHAD**

By

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ABSTRACT

This study investigates the effect of internal control systems on cooperative profitability. Internal control is described by Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework, which is limited to Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. This study was conducted using a qualitative approach, where a case study method was applied. Data were collected through interview sessions and documentary evidences. From the findings of study, it was concluded that the internal control systems applied in *Koperasi Pekan Rabu Alor Setar Berhad* can be considered effective and satisfactory. This was based on the implementation of all components of internal control systems, as described by the COSO Framework within the cooperative. However, financial losses occurred in the cooperative, caused by inefficient cost control and not due to weak internal controls. Profitability can be improved with a new development plan as well as implementation of effective internal control systems within the cooperative. Good or strong internal control systems would have an effect on the cooperative's profitability as well as help the stability and growth of the cooperative movement in Malaysia.

Keywords: Internal Control Systems, Cooperatives, Profitability.

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LIST OF ABBREVIATIONS

AICPA	American Institute of Certified Accountants
ASB	Auditing Standards Board
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisor
CEO	Chief Executive Officer
COSO	Committee of Sponsoring Organizations
GDP	Gross Domestic Product
IFAC	International Federation of Accountants
IIA	Institute of Internal Auditors
NCP	National Cooperative Policy
SKM	Suruhanjaya Koperasi Malaysia
SSB	Shariah Supervisory Board
USDA	United States Department of Agriculture

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Profitability is the main goal of all business organizations. It is important to measure current and past profitability or projecting future profitability for business to survive in the long run. The shareholder who owned shares in businesses that give high profit will be rewarded with a large return on their investment (Hofstrand, 2009). Moreover, profitability is an indicator that business is successful financially and also reflects a positive sign to shareholders before investing into a business that is currently operating (Dye, 2013).

Cooperatives can be defined as a business organization owned and controlled by people known as the members who use its service and whose benefits are shared by the members. The benefits are in terms of the services they receive from the cooperative and the earnings that are allocated to members based on the amount of business they do with the cooperatives (United States Department of Agriculture, 1997). Cooperatives movement in Malaysia was introduced by the British colonial government in response to rural problem relating to credit and indebtedness among farmers, peasants and civil servants. Due to the usury elements practiced with the loan system introduced, the establishment did not receive good response among community especially the Malays (Fredericks, 1973). Currently, the cooperatives

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