ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF INTERNAL CONTROL SYSTEM: A CASE OF DEVELOPMENT BANK OF ETHIOPIA

BY
ALEMAYEHU GETANEH

JUNE, 2016
ADDIS ABABA

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A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES, IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF ACCOUNTING AND FINANCE

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APPROVED BY BOARD OF EXAMINERS

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ACKNOWLEDGEMENTS

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of <u>Abebaw Kassie (PhD)</u>. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Alemayehu Getaneh   _____

Name   Signature

St. Mary`s University college, Addis Ababa   June, 2016

ENDORSEMENT

This thesis has been submitted to St. Mary`s University, school of Graduate studies for examination with my approval as a university advisor.

 Abebaw Kassie (PhD)   _____

        Advisor   Signature

St. Mary`s University college, Addis Ababa   January, 2016

ABBREVATIONS & ACRONYMS

COSO	Committee of Sponsoring Organizations
DBE	Development Bank of Ethiopia
IA	Internal audit
IC	Internal Controls

LIST OF TABLE

ABSTRACT

This study assesses the internal control system: a case of development bank of Ethiopia. The study used explanatory design and quantitative research approach. Primary data was used. The collected data were taken the dispatched questioner from the bank staff. Hence the total population was seventy four (74), of which 59 (80%) were male respondents, whereas the rest 15 (20%) were female respondents. The study covers the components of internal control such as Control activities, Control environment, risk assessment, information & communication, and monitoring. In the study, descriptive method was used to assess the components of internal control. The paper reveals that the mean value of the components is less than three which is lower in the standard out of the total respondents 80%, 82%, 82%, 83% and 86 % of them were disagree on strengthen of the Bank`s internal control system in terms of control environment, monitoring activity, control activity, information system and risk assessments respectively. The policy implications of the study suggest that Development Bank of Ethiopia should properly segregate the duties, safeguarded computer systems, proper review and approval process of credit, purchases & procedures. The bank should make periodic assessment and discussion by identifying, the bank`s risk tolerances, highest risk arising areas of both internal and external sources, and processes are should in place to minimize the identified risks. The bank management should install well structure computer processing procedures and it essential continuously communicate the data effectively to designated employees, , communicate effectively with a goal of influencing the control consciousness of its employees, finally evaluating the ongoing process and assessing the systems.

Key Words: Internal Control, Control Environment, Monitoring Activity, Control Activity, Information System and Risk Assessments

CHAPTER ONE

INTRODUCTION

1.1.   Background of the Study

Due to the dynamic and volatile nature of the current global business environment, organizations get in to stiffer and complex working conditions where the importance of internal control is unquestionable. To this point, internal controls are put in place to keep organizations on course towards profitability goals and achievement of its mission and to minimize surprise along the way. They also enable management to deal with rapidly changing economic and competitive environment, shifting customer demands and priorities and restructuring for future growth. According to Committee of Sponsoring Organizations (COSO) (1992), internal controls promote efficiency, reduce risks of asset loss and help to ensure the reliability of financial statements and compliance with laws and regulations.

Coso (1992) also states that due to internal control importance there has been increasing call for better internal control systems; internal control is looked upon more and more as a solution to a variety of potential problems. According to Chambers (1995), Cosserat (1999), Ridley and Chambers (1998) internal controls are systems comprising of the control environment and control procedures. They further state that the internal control systems include all the policies and procedures adopted by the directors and management of an entity to assist in achieving their objective of efficiently conducting their businesses including adherence to internal policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completion of the accounting records and timely preparation of reliable financial information. Successful organizations ensure that they attain and consolidate continued survival in a competitive environment Ducker (1999).

Thus successful organizations set performance measures that focus attention that identifies and communicates the success, support organization learning and provide a basis for assessment and reward (Brown, 1996).

Organizational performance is measured in terms of customer satisfaction, through reduced customer complaints. In order to be able to perform organizations should critically look at customers and all stakeholders in business and know how best they are satisfying their needs. Kloot adds that organizations should continuously improve their services through assets accumulation, create value, improved quality services and flexibility internal control system is intervened with organizations operating activities and it is most effective when controls are built into the organizations infrastructure becoming part of the very essence of the organizations success in terms of continued improvement on performance standards as part of the competitive advantage of the organization (Kloot, 1999).

The objective of this research work is, therefore, to assess the internal control system of the Development Bank of Ethiopia.

1.2.   Statement of the Problems

There are many researches which emphasize the necessity and importance of internal control system in the banking system. An insufficient internal control system often causes an inability to detect fraudulent activities and decreasing the performance of the bank (Adeyemi et al.,2011).

Internal control system asserts that the system should be always kept under control and supervision since people tend to think about their interests more rather than the interests of the corporation. If there is a failure in the financial accounting system of a corporation, a decrease in assets and an increase in abuses will inevitably takes place in the absence of an effective internal control system (Yayla, 2006)

The main objective of internal control system for banks is to continuously track the compatibility of all banking practices and operations with international auditing standards, banking laws, regulations and rules to solve problems that may arise where necessary. In addition to this, with an effective internal control system, erroneous, fraudulent transactions and irregularities are less likely to happen in banking (Ozten et al., 2012).

The growth and development of the financial institutions are depending on the effective and efficient management of its credits. Under the Committee of Sponsoring Organizations of the Tread way Commission (COSO) Framework, objective setting is considered a

precondition to internal control. By setting objectives, management can then identify risks to the achievement of those objectives. To address these risks, management of organizations may implement specific internal controls. The effectiveness of internal control can then be measured by how well the objectives are achieved and how effectively the risks are addressed. These days, the need for effectively and efficiently utilizing organizational resources made internal control a crucial part of an organizational set up. Weaker internal control, thus, may lead to threats for survival (COSO, 1998).

The research works largely focus on the specific components of internal control which is control environment, risk assessment, information and communication, control activities and its contributions to organizational efficiency and effectiveness, the importance of internal control system in banking sector. Despite such specific significance the researcher was motivated on the assessment of different components of internal control system existence and degree of implementation in Development bank of Ethiopia.

1.3. Basic Research Question
✓ Do internal control system is effective based on COSO framework?

1.4. Objective of the study
1.4.1. General Objectives
The main objective of the study is to assess internal control system of the Development Bank of Ethiopia.

1.4.2. Specific Objectives
The specific objective of this study is:

To assess the five components of internal control system, such as control environment, control activity, monitoring activity, information and communication and risk assessments in the development bank of Ethiopia.

1.5. Significance of the Study

The importance of having internal control for the financial institutions is to devise a means of enhancing financial and non- financial transactions of the Bank. This can be achieved if the Bank identifies the components of internal controls system. Thus this study is for:

- ✓ Policy makers to formulate successful internal control system policy and procedure that would in turn help achieving the banks strategic objective in effectively and efficiently.
- ✓ Managers clearly understand the extent to which the importance of Control environment, Risk Assessment, Information and Communication-systems , Control Activities and Monitoring activities.
- ✓ Helps other researchers to identify behind internal control system and to make research on related issues.

1.6.   Scope of the Study

Thus the study has explored the assessments of the five components of internal control system of development bank of Ethiopia. These are Control environment, Risk Assessment, Information and Communication-systems, Control Activities and Monitoring activities. The scope of the study has been restricted only to Head office operating units staff of the bank , due to the total manpower of Head office employees takes a lion share which is 85% of the total manpower of the Bank.

Additionally, the total transaction volume of Head office has takes 85% of the total asset of the bank (DBE, 2015).

1.7.   Limitations of the study

The study mainly focused on Head office operating units of Bank. In spite of the fact that other operating unit, like branches and regional offices are situated in different regional states of the country far from head office here from Addis Ababa had not been incorporate in the study, as a result of time and resource constraints.

The researcher has been conducted the study within the limitations mentioned achieved the objectives.

1.8.   Organization of the study

The paper is organized in five chapters. The first chapter outlines Background of the organization, Statement of the problem, Objectives of the Study, Significance of the Study, Scope of the study and limitation of the study. Following this, the next Chapter is Review of Related Literature which discusses related literatures, theories and empirical studies. Chapter three outlines Research Design and Methodology; Chapter four is Results and Discussions. The Conclusions and Recommendation of the paper is provided in the last chapter.

CHAPTER TWO

REVIEW OF RELATED LITURATURE

This chapter provides a critical review of related literature on the study area. It also presents definition and understanding of internal controls, Internal Control Systems, internal control elements, common weaknesses of internal control systems, determinants of internal control strength and components of an internal control system, it also discusses a link between the variables of this study.

2.1. Definition and understanding of internal controls

Internal control is a process affected by an entity's board of director's management and other persons designed to provide reasonable assurance regarding the achievements of objectives in the following categories; efficiency and effectiveness of operations, reliability of financial reporting and compliance with applicable laws and regulations (Lower, 1998). The first category addresses an entity's basic objectives, including performance and progressing goals and safeguarding of resources. The second category relates to preparations of reliable published financial statements. The third deals with complying with the laws and regulations to which the entity is subject to.

Internal Controls (IC) are to be an integral part of any organization's financial and business policies and procedures. They are adopted by management to ensure that the organization conducts business in an orderly and efficient manner (KPMG Forensic, 2004). Consequently Knechel et al (2007) argues that they provide the framework through which management uses the resources at its disposal to achieve the organization's goals. According to Romanian banking literature, internal controls consists of couple of measures at management's disposal intended to ensure the organizations proper functioning, correct management of its assets and liabilities and true recording in accounting evidences.

A broader definition provided by Furrugia (2002) views IC as the plan of organization and the coordinated procedures used within an entity to; safeguard its assets from loss by fraud

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or errors, check the accuracy and reliability of accounting data which management uses in decision making, and promotion of operational efficiency and encourage adherence to adopted policies in those areas in which the accounting and financial departments have direct or indirect responsibilities.

Chamsers (1995), Cosserat (1999), Ridley and Chambers (1998) defined internal control systems as comprising of the internal control environment and control of procedures. They further state that the internal control systems includes all the policies and procedures (internal controls) adopted by the directors and management of an entity to assist in achieving their objective of ensuring as far as practicable, the orderly and efficient conduct of the business, including allowance to internal policies, the safe guarding of assets, the prevention and detecting of fraud and error, the accuracy and completeness of the accounting records and timely preparation of reliable financial information.

The control environment sets the tone of an organization influencing the control cautiousness of its people (Gauthoier, 1996). It is a foundation for all other components of internal control providing discipline and structure. Effectively controlled entities strike to have competent people, instill an enterprise wide attitude of integrity and control consciousness, and set a positive tone at the top (Tener, 1993). They establish appropriate policies and procedures often including a written code of conduct which foster shared values and teamwork in pursuit of the entity's objectives (Mautz and Wijan, 1981).

In evaluating the effectiveness of the internal control environments, Coopers and Lybraud (1993) argued that there was need to consider whether the following control objectives are met; management conveys the message that integrity and ethical cannot be compromised, the organization structure provides a moral framework for planning, directing, and controlling operations, management ensures that appropriate responsibility and delegation of authority is assigned to deal with goals and objectives and the Board of Directors and audit committee are sufficiently independent from management to construct a challenge to management decision and take an active role in ensuring that an appropriate "tone at the top exists".

Control activities are policies and procedures that help ensure that management directives are carried out. They help ensure that necessary activities are taken to address risks to

achievements of the entity's objectives. Control activities occur throughout the organization at all levels and all functions (Junner, 1993). They include arrange of activities; authorization, verifications, reconciliations, review of operating performance security of assets and segregation of duties (Ernst and Yong, 1995).

Information flow is essential to effecting control, information about an organization's plan, control environment, risks, control activities and performance must be communicated up, and access an organization (Ruttrman Working Group, 1994). Reliable and relevant information flow both internal and external sources must be identified, captured, processed and communicated to the people who need it in a form and time frame that is useful (Chambers 1995). Information systems produce reports, containing operational financial and compliance – related information that makes it possible to run and control an organization (Cosset, 1992).

2.2. Internal Control Systems

The traditional accounting professional definition of internal control hinged on financial reporting and compliance aspect of control, however COSO, (1994) describes internal control system as a process involving board of directors, management, and other personnel created as a means of ensuring that the organization's objectives can be achieved. The objectives are categorized as; effectiveness and efficiency of operations, reliability of financial reporting, compliance with the relevant laws and regulations. According to the Australian Auditing Standard AUS 402 (ISA 400), control environment is distinguished from control procedure in that the former represents the general management attitude, awareness and actions as far as it concerns internal control whereas the later refers to what management has put in place as guidelines to control information and transaction procedure so as to achieve the organization's objectives.

Since organizations differ in management philosophy, structure and size the wider outlook of control elements will always reflect the above differences, (COSO, 1994). Organizational culture determines control through self-discipline and internal monitoring (Ezzamel et al., 1997). According to COCO (1995), 'top down, command and controlled'

organizations emphasize formal controls while those that are down sized and empowered will adopt informal controls. According to (Kirsty, 2008) an internal control system is an organization's confidence in its ability to perform or undertake a particular behavior. He further asserts that a system of internal controls potentially prevents errors and fraud through monitoring and enhancing organizational and financial reporting processes as well as ensuring compliance with pertinent laws and regulations. The Basel Committee on Banking Supervision, as well as by the National Bank of Romania (Regulation no. 17/2003) claim that internal controls represent a continuous process which takes part of the board of directors, senior management and all levels of personnel, and whose aim is to ensure that all the established goals will be achieved.

Williams (2005) says that some things considered to be good are not always enough for information. Internal controls have to give the possibility to check quality. Shelton and Whittington (2008) concurs that sometimes even the quality of an information is not enough, if it is uncompleted; that is why internal control needs to ensure that all elements are taken into consideration during their processing and the information always need to be geared to the pursued aim. He concludes that its availability is not enough to take possession of the information because sometimes it might be too late and that is why internal control has to avoid such situations and ensure the procurement of information is availed in a suitable time. The International Organization of Supreme Audit Institutions (INTOSAI), focuses more on a series of actions that permeate an entity's activity rather than one event or circumstance where by these actions occur throughout an entity's operations on an ongoing basis.

2.3. Components of an Internal Control System

COSO defines internal control as having five components:
- Control Environment-sets the tone for the organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control.
- Risk Assessment-the identification and analysis of relevant risks to the achievement of Information and Communication-systems or processes that

support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.

- Control Activities-the policies and procedures that help ensure management directives are carried out.

- Monitoring-processes used to assess the quality of internal control performance over time.

- Communication is the exchange of useful information between and among people and organizations to support decisions and coordinate activities. These components are explained further in detail;

2.3.1. Control Environment

This sets the tone for the organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control. The control environment reflects the board of directors' and management's commitment to internal control. It provides discipline and structure to the control system. Elements of the control environment include the organization structure of the institution, management's philosophy and operating style, the integrity, ethics, and competence of personnel, the external influences that affect the organization's operations and risk management practices, the attention and direction provided by the board of directors and its committees and the effectiveness of human resources policies and procedures. (Administrator of National Banks, Comptroller's Hand Book 2001), Hevesi (2005) however considers the Control environment to be the attitude toward internal control and control consciousness established and maintained by the management and employees of an organization. It is a product of management's governance that is its philosophy, Style and supportive attitude, as well as the competence, ethical values, integrity and morale of the people of the organization. The control environment encompasses the attitudes and actions regarding control.

This environment sets the organizational tone, influences control consciousness, and provides and foundation for an effective system of internal control. The control environment also provides the discipline and structure for achieving the primary objectives of internal control. (Lannoye, 1999). Flowing from the above the board of directors should

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show concern for integrity and ethical values. There must be a code of conduct and/or ethics policy and this must be adequately communicated to all levels of organization. Also there must be a structure appropriate, which is not dominated by one or a few individuals and an effective oversight by the board of directors or audit committee. Management also needs to put a mechanism in place to regularly educate and communicate to management and employee the importance on internal controls, and to raise their level of understanding of controls.

2.3.2. Risk Assessment

This is the identification and analysis of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed. According to Lannoye (1999) this component of internal control highlights the importance of management carefully identifying and evaluating factors that can preclude it from achieving its mission. Risk assessment is a systematic process for integrating professional judgment about probable adverse conditions and events, and assessing the likelihood of possible losses (financial and non-financial) resulting from their occurrence. The second internal control standard addresses risk assessment. A precondition to risk assessment is the establishment of clear, consistent agency goals and objectives have been set, the agency needs to identify the risks that could impede the efficient and effective achievement of those objectives at the entity level and the activity level.

Internal control should provide for an assessment of the risks the agency faces from both internal and external sources. Once risks have been identified, they should be analyzed for their possible effect. Management then has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives of efficient and effective operations, reliable financial reporting, and compliance with laws and regulations.

2.3.3. Monitoring and Assurance

Internal control systems need to be monitored a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring

activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. According to NYSGAAIC Act of 2007 monitoring is the review of an organization's activities and transactions to assess the quality of performance over time and to determine whether controls are effective. Management should focus monitoring efforts on internal control and achievement of the organization's mission. For monitoring to be most effective, all employees need to understand the organization's mission, objectives, risk tolerance levels and their own responsibilities.

2.3.4. Control activities

Control activities are the policies and procedures implemented by an organization to ensure that management's directives are carried out. These activities are often grouped into the three categories of objectives to which they relate, namely, operations, financial reporting, and compliance (Shelton & Whittington, 2008). He further argues that these control activities include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties, segregation of duties and authority.

2.3.5. Information and communication

According to Britnell (2001), Information and communication refer to the systems put in place by an organization to identify, capture, process and report relevant and reliable information in a timely manner so that people can carry out their responsibilities effectively. In addition, these systems deal with both internally and externally generated/required data and flows both vertically and horizontally in the organization.

Gaskill (2000) looks at information and communication component as the identification, capture, and communication of pertinent information in an appropriate form and timeframe to accomplish the financial reporting objectives. Open channels of communication are necessary to allow information to flow throughout the entity and into the financial statements and therefore management should discuss the identification, capture, and flow

of financial information in its report (Richard & Janet, 1997).

2.4. Determinants of Internal Control Strength

While CPA Australia, (2003) emphasizes that internal control procedural quality depends upon the control strength on cash management, physical assets, purchasing and accounts payable, sales, payroll, bank account management and employee recruitment, Simon (1995), suggests that effectiveness of internal control system will be judged from the reliability of financial reports, efforts to comply with applicable laws and regulations, unfailing management reporting, protection of assets, guarding against fraud and errors and encouraging efficiency and effectiveness of operations.

2.5. Common Weaknesses of Internal Control Systems

Albrecht (1984), outlines twelve most common internal control weaknesses, in order of frequency as; Too much trust in employees, lack of proper procedure for authorization, lack of personal financial information disclosure (for bank frauds), lack of separation of transaction authority from custodian of assets, absence of independent checks on performance, lack of adequate attention to detail, failure to separate asset custody from accounting for assets, failure to separate accounting duties, absence of clear lines of authority, relaxed or absence of audit activities or reviews, no conflict of interest statement required and lack of adequate documents and records.

A view held by Buckoff (2002), and supported by literature by Mac Arthur, Waldrup and Fane (2004) is that lack of segregation of duties, lack of independent reconciliation on cash received and deposited and performing incompatible roles greatly facilitates internal fraud. The conditions for fraud to occur include an incentive to commit fraud (pressure), good reason for justifying fraudulent behavior (attitude) and an opportunity to commit fraud Albrecht et al (1984), it is pointed out that opportunity is easy to control by establishing strong internal system unlike pressure and attitude which are human factors that are usually beyond direct influence of management.

2.6. Earlier studies on internal control elements

On the internal control system some empirical evidences derived from experiment and observation rather than theory are made.

Previous research have focused on studying certain control elements such as communication which was handled by Hooks et al (1994), risk management Mills (1997) and human resource practices done by Carey and Stringer, (1995). The study on village banks in Uganda, Kenya and Tanzania by German Technical assistance (GTZ) and Africa Rural Agriculture and Credit Association (AFRICA) (2002) revealed that most of the MFIs were operating without documented policies and procedures and lacked operational manuals. It identified the necessity to provide support to the MFIs so that they can come up with operational manuals and to improve on the existing systems. Information system is a set of interrelated components all of which should be present and work together for a common purpose. Internal control mechanisms must have well documented processes that are understood by everyone involved.

There is immense need for MFIs to set aside resources such as time, money and personnel to develop or improve a MIS that can match its information requirement (The Center for Micro Enterprise Development Project, 1999). An organization which lacks information will be unable to attain its potential performance even if it may have capable and motivated staff (CGAP, 1998).

The study determinates of accounting frauds Riahi-Belkaoui and Picur (2000) stated that organizations today were more susceptible to fraud in the accounting environment than ever before. Fraud had caused massive losses to firms, individuals and society. They presented a general framework that was useful to identify conditions that were most conducive to fraud in the accounting environment. The framework was based on models and theories from criminology including conflict and consensus approaches, the ecological theory, cultural transmission theory and anomie theory. These theories offered alternative explanations for corporate fraud, white-collar crime, fraudulent financial reporting and audit failures. Tekalign Negash Kebede (2011).

As per Studies done on five deposit money bank of Nigeria by using self-designed questionnaires distributed for 56 workers (26 seniors and 30 junior members of the staff) have shown that strong internal control system should be constrained to control and prevent effect of fraud and mismanagement. For the work of an auditor to be effective in the organization, there is every need for the management to respect the views of the auditors, in their efforts towards monitoring the effectiveness of the established internal controls systems Siyanbola Trimisiu Tunji (2013).

According to the Basel committee on banking supervision, focus is increasingly on the importance of internal controls to ensure good corporate governance. This heightened interest in internal controls has in part a result of significant losses incurred by several banking organizations. An analysis of the problems related to these losses indicated there could probably have been avoided had the banks maintained effective internal control systems (Financial Stability Board, 1998).

A study carried out by Pauli and Muresan (2009) examined the importance of a well organized system of internal control in regard with the bank sector. The sample was based on 25 credit institutions of Romania. The analysis of the survey answers revealed that the continuous collaboration, based on periodical meetings, between all structures of bank, characterizes an effective internal audit department Mugo Jeremiha Munene (2013).

A study carried out by Abu Musa (2010) investigated the existence and adequacy of implemented security controls of computerized accounting information systems in the Saudi banking sector. The results of study revealed that the vast majority of Saudi banks have adequate security controls in place. The results also enable bank managers and practitioners to better secure their computerized accounting information systems and to champion the security of information technology for the success of their banks. Mugo Jeremiha Munene (2013).

The importance of internal control system is expressed and also its impacts to the banking system are analyzed. Moreover, the current structure of the internal control system in Turkish Banking sector is explained and evaluated through the annual reports. The method used in this research is evaluating and comparing of selected 15 Turkish banks and 3 main

international banks. The data is collected from the 2012 year-end annual report of each bank and analyzed with qualitative research methods. The research shows that the internal control activities of the banks are adapted to the international standards in Turkey and effective control procedures exist in the banking system. In addition, efficient internal control mechanisms have great impact on the strong and stable outlook of Turkish banking sector. (Ayşe Hayali et al., 2014).

Study has been conducted on Internal Control and Its Contributions to Organizational Efficiency and Effectiveness in Ecobank Ghana Limited**.** The study exploited information by the help of primary data from interview schedules. However, the purposive type of sampling was used in sampling. In all five respondents were sampled from the thirty (30) respondents under review. The data gathered was analyzed and interpreted by the help of percentages and frequency tables. The findings of the study revealed that there are measures put in place by the Ecobank Ghana to enhance compliance. The measurement put in place is management oversight responsibility for internal control whereby control policies and procedures are being adhered to. It came to light that, the internal audit unit was responsible for monitoring internal control policy compliance whiles management assesses risk but the internal audit unit is not part of branch operations, they only visit the branches on monthly bases (Ndamenenu, 2011).

The effectiveness of Internal Control Systems of banks study has been conducted in Ghanaian banks. This study evaluated the control environment and monitoring activities components of Internal Control Systems of Ghanaian Banks using COSO‟s principles and attributes of assessing the effectiveness of internal control systems. A five point Likert scale was used to measure respondent's knowledge and perception of internal controls and the banks internal control system effectiveness. Responses ranged from strongly disagree to strongly agree; where 1 represented strongly disagree (SD) and 5 represented strongly agree (SA). Statistical Package for Social Sciences (SPSS) was used to analyse data and presented in the form of means and standard deviations for each question and each section of the questionnaire. The study found out that, strong controls exist in the control environment and monitoring activities components of the internal control systems of banks

in Ghana. The two components were highly rated by respondents with average means of 4.72 and 4.66 respectively (Joseph, 2014).

Study has been conducted on internal controls in ensuring good corporate governance in financial institutions in Zimbabwe. The paper assessed factors that influence the internal controls in ensuring good corporate governance in financial institutions in developing economies with special reference to Zimbabwe. The research paper assessed how lack of internal controls affected good corporate governance and aimed to bring out elements of good corporate governance. It emerged that failure to effectively implement internal controls contributed significantly to poor corporate governance. The study discovered that internal control system overrides and the issue of "fact cat" directors also contributed to poor corporate governance (Kosmas et al., 2011).

Risk Control Systems in the Banking Sector: A Case of Intercontinental Bank Ghana Ltd study has been undertaken. They have used purposive sampling technique was used in choosing Intercontinental bank as a case study and also the availability of research information was considered. Employees of the bank were surveyed on various internal control mechanisms that must be in operation and their effectiveness. The management of the bank was also interviewed since they are the regulators, implementers and supervisors of those internal control systems. Some of the risk associated with providing banking services identified were: availability of organizational objectives, availability of competent staff, and provision of resources, risk management policies and technology. The findings showed that the bank was doing well in putting all the internal control mechanisms that must be in place and the supervision of the control mechanisms was quite strong. However, their weakest point was the allocations of resources to enable personnel perform certain risk sensitive duties like advancing credit to customers in SME (small and Medium Scale) business category. (Julliet et al., 2012)

As per the research done on the non-performing loans in commercial banks in the case of CBZ BANK LIMITED in Zimbabwe through Primary data obtained from interviews done with personal interviews with executives and senior management in CBZ Bank Limited revealed that the bank has a strict credit policy and has put in place structures that prevent the buildup of nonperforming loans. It was also noted that separation of duties on the entire

activities in processing of loans is also an effective way to reduce non performing loans. The bank has centralized approval of loans through the Central Credit Committee and the Executive Credit Committee (ibid).

2.7. Summary of the previous studies

Under the components of internal control system study shows that it has very much impact on the effective and efficient performing of the organization goal. The majority of the study result shows that not properly implementing the internal control components might brings massive losses to firms, individuals and society in general. Additionally, as can be seen from the study result, most of banking sectors are failed on appropriate allocations of resources ,customer screening and releasing of funds to the client`s as a result of proper internal control.

However, No study has been conducted on Development bank of Ethiopia in the components of internal control system. Thus the researcher is motivated to undertake the study to identify the existence and the degree of implementation in the bank.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This chapter deals with the research design and methodology. The chapter is organized in to five sections. The first section 3.1 explains the research design. Population and sampling technique is presented in section 3.2, in section 3.3 sources and tools/instrument of data collection, Procedures of data collection discussion in section 3.4, Operational definition of the variable have been discussed in section 3.5, pre testing of the reliability and validity of the research instrument is explained under the section of 3.6 and finally the methods of data analysis has been discusses in section 3.7.

3.1. Research Design

The research design refers to the overall strategy that you choose to integrate the different components of the study in a coherent and logical way, thereby, ensuring you will effectively address the research problem; it constitutes the blueprint for the collection, measurement, and analysis of data. According to Mark, Philip, and Adrian (2009), mixed methods research is an approach to enquiry that combines or associates both quantitative and qualitative forms. It involves philosophical assumptions, the use of quantitative and qualitative approaches and the mixing of both approaches in the study.

In order to attain the objective of the study and answer the research questions; the researcher adopted both qualitative and quantitative research approach and the type of research to be conducted is descriptive research. A descriptive study sets out to collect, organize and summarize information about the matter being studied. To describe is to draw a picture of what happened, or of how things are proceeding, or of what a situation or

person or event is (or was) like, or means, or of how things are related to each other. It is concerned with making complicated things understandable (Keith, 2006).

Research design according to Keith (2006) on a practical level, it means connecting the research questions to data. Design sits between the research questions and the data, showing how the research questions will be connected to the data, and what tools and procedures to use in answering them. Therefore, it needs to follow from the questions, and to fit in with the data.

3.2. Population and Sampling Techniques

Using a survey strategy should give you more control over the research process and, when sampling is used, it is possible to generate findings that are representative of the whole population at a lower cost than collecting the data for the whole population.

Non probability sampling (or non-random sampling) provides a range of alternative techniques to select samples based on your subjective judgment (Mark, et al., 2009). Therefore, the researcher uses non-probabilistic sampling technique to conduct purposeful sampling. Because of the time and resource constraint, it was difficult to collect data from all unit of the Bank. However, it is possible to reach by taking selected samples which represent the population and provide rich information. Purposive sampling enables to use judgment to select information-rich samples that was best enable to answer your research question(s) and to meet objectives.

Therefore, the researcher used purposeful sampling techniques to select appropriate persons who are believed to provide sufficient and appropriate information on internal control because of their experience and positions.

This study was incorporate employees who are currently working in different work units of the Development Bank of Ethiopia, those who have Senior and above position in their respective area. This is because the researcher believed to have sufficient knowledge and understanding of internal control due to their work exposure in different units of the bank. According to the central data base of the bank the total number of employees who have Senior and above position from Internal Audit Process, Risk Management Process, Finance and Accounts Management Process, International Banking Services Process, Bond & Fund Management, Property Administration Process and Credit Process of the bank including

two Vice Presidents are 80 (DBE 2015). Of which 22 are management and 58 of them are non-management staff members have incorporated in the study. Thus, the sample for the present study is 80 respondents purposively selected considering the position in the organization structure and the subject matter of the study.

3.3. Types of Data and Tools/Instruments of data collection

In order to carry out any research activity, information should be gathered from proper sources. To comply with the research objectives, the researcher has focused only primary data, which shall be collected from the questioner. The main data collection techniques used in this research study is questionnaires only so as to exploit its advantages.

3.3.1. Questionnaire

The questionnaires were the main primary source of data collection. The identified sample was served with the questionnaire directly by the researcher. To obtain quantitative data, one set of questionnaires was used for the respondents. The questionnaires were administered to the employees by researcher. The questions involved the feelings of respondent regarding the assessment of internal control system in governmental organization. The questionnaire also aimed at getting responses from the respondents about their views on internal control system and how it processed to compile with rules and regulation of organization as well as regulatory body requirements.

The open ended questionnaire enables the respondent to clarify issues further and provide in-depth findings for the study while close ended questions enabled the researcher to obtain background information (Kothari, 2004).The advantage of using questionnaires is the most feasible and allows the respondents moments of reflection on the subject. This is cost effective, free from bias and gives the respondent adequate time to respond to the question. The researcher was allowed the respondents sometime to fill in the questionnaire before returning. Likert scale questions were used since they were appropriate; abide by principles of validity and reliability. The source of questionnaire was literature review and was designed with reference to variables (i.e. control environment, monitoring activity, control activity, information system and risk assessments. The researcher used employees' questionnaires to draw information on the assessment of internal control system. Santyanarayana (1993) observes that questionnaire is used to obtain objective data hence was found to be relevant for this study.

3.3.2. Source of Data.

The source of data employed for this research paper was primary data collected from 58 and 22 selected seniors employee and managers of DBE through questionnaires.

3.3. Procedures of Data Collection

The data were collected from primary data source only. Before distributing the questioner to the selected respondent, pre-testing was conducted on the questioner to test the relevancy and accuracy of the designed question and to know how the respondents understand. The questioner is revised considering the comments obtained from senior practitioners from the bank. Based on the acquired comments the researcher has updated the questioner like changed the ambiguity words become understandable, eliminating of some conjunction words and questioner become both open and closed ended question. The respondent will be informed that, the collected data is confidential, be reported in aggregate and used for academic purpose only. The questioner have to be collected from the head office staff of Internal Audit Directorate, Risk Management Directorate, Finance and Accounts Management Directorate, International Banking Services Directorate, Corporate Bond & Fund Management Directorate, Property Administration Directorate and Credit Directorate of the bank including two Vice Presidents by the researcher.

3.4. Operational Definition of the Variables

Five internal control system components are measured. These included control environment, monitoring activity, control activity, information system and risk assessments. A 5-point Likert scale with respondents' answers ranging from "Strongly Agree" to "Strongly Disagree" was used to collect information which was used to measure the variables. The measurement of the variables was done. The measurement of each variable is explained below (Macrothink Institute, 2014).

3.4.1. Control environment
The measure was to determine whether the internal control component that is control environment found and implemented in DBE internal control system practice. For instance whether, management demonstrates commitment to integrity and ethical value, whether

DBE has codified standards of conduct to guide behavior, activity and decisions and the like. This variable was measured by the closed and open ended questionnaires distributed to the selected employee respondents of DBE(Macrothink Institute, 2014).

3.4.2. Monitoring control

This variable was measured by the questionnaires distributed to the selected employee of DBE perform their day to day activities in different directorate position that aimed to evaluate and to ascertain whether the components of internal control system are present and functioning and whether the internal control deficiencies are communicated and corrected in timely manner and the like(Macrothink Institute, 2014).

3.4.3. Control activity

This variable was measured by the questionnaires distributed to the selected employee of DBE perform their day to day activities in different directorate position that aimed to evaluate whether DBE has clear separation of roles for their employee, every employee's work checks on the others, whether there is appropriate supervision by senior staff on the work of their juniors in their respective and the like (Macrothink Institute, 2014).

3.4.4. Information system

This variable was measured by the questionnaires distributed to the selected employee of DBE perform their day to day activities in different directorate position that aimed to evaluate whether DBE has enough measures to measure to ensure the safety of the information system, whether internal audit recommendation are implemented, to check whether line of communication between internal audit and board of management is direct and the like (Macrothink Institute, 2014).

3.4.5. Risk assessments

This variable was measured by the questionnaires distributed to the selected employee of DBE perform their day to day activities in different directorate position that aimed to evaluate whether DBE managements identifies risks related to each of the established objectives, to check whether managements of the bank identifies fraud risk factors, including management override of controls and the likes (Macrothink Institute, 2014).

3.5. Pre-testing for Validity and Reliability of the Research instruments

Mugenda and Mugenda (2003) defined validity as the degree of accuracy and mindfulness of outcome, which are based on the research results. On the other hand, Saunders, Lewis and Thornhill, (2009) defined reliability as a measure of the degree to which a research instrument yields consistent results after repeated trials. To fit these definitions, the researcher developed a structured questionnaire, interview schedule then forward to supervisor who is an expert in the area covered by research. Before it was administered, the questionnaire was cross-examined for content and comprehensiveness by experienced supervisors.

Using a sample of 15% of the study population, a pre-test was conducted before the main study and corrections was made (Baker, 1999). This helped in refining the questionnaire, enhance its readability, and minimize the chances of misinterpretation of the questions. Reliability of the questionnaire was ensured by pre-testing the questionnaire with a selected sample of 15% of the target population (Mugenda and Mugenda, 2003). This however excluded from the main study to ensure possibility of bias in the study is avoided. On the other hand, the validity of the questionnaire was censured by having all the objective questions included in it so that the analysis of the data actually represents the phenomenon under study (Robinson, 2002)

3.6. Methods of Data Analysis

According to Mugenda (2003), data analyses were used to process of bringing order, structure and meaning to the mass of information collected. The collected data from questionnaires was adopted and coded for completeness and accuracy and the response on each item put into specific themes in scientific way for easy analysis. The collected data have been entered into SPSS version 20 and analyzed by using descriptive statistics. In this study descriptive analysis is chosen because of its simplicity and clarity In order to drawn meaningful conclusion, data was summarized and presented using appropriate table format with frequencies, percentages for classifications of responses for easier understand and also for visual impression. The findings of Likert scale measures were evaluated according to Best; the score from 1-1.80 is lowest, from 1.81- 2.61 is lower, from 2.62-3.41 is

average/moderate, from 3.42-4.21 is good/high, and 4.22-5 is considered very well. And, a value of SD of 1 and less shows less variability in a five point Likert scale (Best, 1977).

Both quantitative and qualitative data were analyzed using descriptive statistical method. Narrative analyses were used to explain the quantitative and qualitative results of the study. Moreover, mean, standard devotion, percentages were used to assist in comparison and give a clear indication of response frequencies (Mugenda & Mugenda, 2003).

CHAPTER FOUR

RESULTS AND DESCUTIONS

This chapter presents the results and discussions of quantitative data analysis of the study. It is divided into two major sections. The first section describes the Socio-demographic and economic characteristics of respondents of the empirical survey, in terms of their age, gender, level of education, job position and their work experience with DBE. The second section of the chapter provides results and discussions which were based on the five major research questions of the study. For the purposes of this preliminary analysis, descriptive statistics was frequently used to describe the general characteristics of the data collection.

4.1. Response Return Rate of demographic

Out of 80 questionnaires dispatched, 74 were dully filled and returned. The response rate is shown in the table 4.1.1

Table 4. 1.1. The Response Return Rate of the Questionnaires

Questionnaires category	No. Of questionnaires
Distributed questionnaires	80
Returned questionnaires	74
Response Rate (%)	93

Source: Primary data & SPSS

The high questionnaire response rate (93%) shown in Table 4.1.1 resulted from the method of administration of the instrument, which was in this case researcher administered. This was acceptable according to Mugenda and Mugenda (2003). This method also ensured that the respondents' queries concerning clarity were addressed at the point of data collection; however, care was exercised so as not to introduce bias in the process.

4.2. Socio-demographic and economic characteristics of respondents

The background information of respondents was deemed necessary because the ability of the respondents to give satisfactory information on the study variables greatly depends on their background. The background information of respondents solicited data on the samples and this has been presented below categorized into; gender, educational levels, position held, age, length of service in the organization.

4.2.1. Age of the respondents

The study did find it necessary to understand the age distribution of the respondents. This is important as to give the data for analysis based on age distribution .The respondents were asked to state their age and the results were presented in the bellow table 4.1.2.

Table 4. 1.2. Age of the respondents

Age	Frequency	Percentage
27 less or equal to 30 Years	48	65
31 less or equal to 40 Years	22	30
41 less or equal to 50 years	4	5
Total	74	100%

Source: Primary data & SPSS

4.2.2. Age of the respondents

As shown on Table 4.1.2 revealed that the largest numbers of respondents were inclusive of the age group of 27 - 30 years take a share 48 (65%), then followed by the range of 31–40 years and has 30% share who were far followed by those in the range of 41-50 years 4(5%). It can therefore be concluded that the majority of the respondents were in the most productive age .

4.2.3. Gender of the respondents

The study captured gender of the respondents in order to establish the most dominant working group of the employees with DBE. The respondents were asked to state their sex and the distributions shown in table 4.1.3.

Table 4.1.3. Gender of the respondents

Sex	Frequency	Percentage
Female	15	20
Male	59	80
Total	74	100

Source: Primary data & SPSS

As indicates on Table 4.1.3 above, the majority of the respondents ware male, the number of the respondents with their percentage is 59(80%), while the rest of the respondents are female 15 (20%). These findings represent the views of the two sex groups about assessment of internal control system in the DBE. This was necessary for the study to get proportional share of the respondents' views. This implies that the most dominant working group of employees of DBE is male.

4.2.4. Level of Education

The study sought to establish the background information of the respondents in terms of level of education. This was necessary to establish gender by educational qualifications of DBE employees.

Table 4.1.4 Educational Level of the Respondents

Level of Education	Frequency	Percentage
PHD		
Masters	29	39
Degree	45	61
Diploma		
Total	74	100

Source: Primary data & SPSS

As can be seen from Table 4.1.4, majority of the respondents was held first degree 45(61%) and second degree 29(39%). This implies that the respondents are adequately qualified and competent academically. Also they were equipped with the information concerning internal control systems practice of DBE and they were able to interpreted and responded accurately on the questionnaire given to them by the researcher.

4.2.5. Work experience of the respondents

The researcher asked the respondents background information in terms of work experience in the period they had spent on their jobs to find out their experience about the internal control on system of DBE and findings resulted to a high level of experience on the jobs by the respondents as captured in table 4.2.5 below:

Table 4.1. 5 Work experience of the Respondents

Work experience in years	Frequency	Percentage
5 less or equal to 10 years	66	89
11 less or equal to 15 years	4	5.5
16 less or equal to 20 years	4	5.5
Total	**74**	**100**

Source: Primary data & SPSS

The results in Table 4.2.5 reveal that majority of the respondents (89%) have working experience in the DBE 5 – 10 years followed by 11 to 15 and16 to 20 years (5%) each respectively. However, the findings also on average show that there were 5 to 10 years experience respondent in the organization. This could be that the DBE relatively has a good employee retention system and also implies that the organization is managed by highly youth and experienced staff.

4.2.6. Internal control system

The respondents were asked to indicate the level of extent to which the following internal control system aspects affect the effectiveness of the performance of organization. The statements have been ranked in terms of their means' and standard deviation so as to deduce meaning out of the results and the result was as given in table 4.1.6

Table 4.1.6 Control environment of DBE

Control environment	NO	mean	SD
Management demonstrates commitment to integrity and ethical values.	74	2.11	0.46
Top managements" support for integrity and ethical values	74	2.08	0.49
Codified standards of conduct to guide behavior, activities and decisions.	74	2.08	0.46
Board of directors demonstrates independence.	74	2.01	0.39
Roles and responsibilities are clearly stated for all employees	74	2.14	0.60
Management establishes, with board oversight, structures, reporting lines and appropriate authorities and responsibilities in the pursuit of objectives.	74	2.16	0.62
Your organization has an organizational chart with clear reporting lines and authority'	74	1.81	0.70
Demonstration of commitment to attract, develops, and retains competent individuals in alignment with objectives.	74	2.05	0.43
Human resource function has helped to define competence and staffing levels by jobs roles, facilitating training and development.	74	2.11	0.46
Overall mean	74	2.06	0.51

Source: primary data & SPSS

As can be seen from Table 4.3.6 assesses the functionality of the internal control systems in DBE using control environment as internal control component. The results were analyzed using mean and standard deviations so as to drawing conclusions from the study. The

results are discussed under the various headings of the statements assessed. The following were discussed;

The study as reflected in the above table found that the respondents seen to agree that the Bank has weak control of environment system in place with a mean value of 2.06 which appears to be lower. This also shows that the majority of the respondents agree that, as there is no strong and sufficient foundation of control environment in DBE. (Best, & Khan, 1995).

As per research done by (Joseph, 2014) done on the effectiveness of Internal Control Systems of banks study has been conducted in Ghanaian banks on the evaluation of control environment and monitoring by using a five point Likert scale was used to measure respondent's knowledge and perception of internal controls and the bank's internal control system effectiveness. Responses ranged from strongly disagree to strongly agree; where 1 represented strongly disagrees (SD) and 5 represented strongly agree (SA). Statistical Package for Social Sciences (SPSS) was used to analyses data and presented in the form of means and standard deviations for each question and each section of the questionnaire. The study found out that, strong controls exist in the control environment and monitoring activities components of the internal control systems of banks in Ghana. The two components were highly rated by respondents with average means of 4.72 and 4.66 respectively.

This disclose that, the existence of highly strong control environment and controlling activities were found in Ghanaian banks and on contrary the lack of control environment resulted in as per the result obtained from the respondents of DBE with an average mean of 2.06. The possible reasons for the occurrence of difference are, the lack of formulation and implementation of different measures and action by Ghanaians' banks necessary for the strength of internal control system control environments but not in case of DBE and resulted for the lower average mean value (ibid).

4.2.7. Monitoring activity practice in DBE

This section contains the findings in respect to objective in which sought to assess the internal control system on monitoring activities of DBE. This is the process of assessing the effectiveness of controls over time and taking necessary remedial action. The respondents were asked to indicate the extent to which key components of monitoring activity system practice to enhance the monitoring activity of DBE and response was as provided in Table 4.3.3

Table 4.1. 7. Monitoring activity of DBE

Monitoring activity	No	mean	SD
Regarding Internal control systems on monitoring activities			
Performance of ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.	74	2.09	0.55
Independent internal audit unit that objectively evaluates the entity's control system and feedback to management on the functioning of the control system.	74	2.11	0.59
Engagement of external evaluators to objectively evaluate the control system and report to management on the functioning of the other components of the control system.	74	1.88	0.81
Evaluation and communication of internal control deficiencies in a timely manner to those parties responsible for taking corrective action.	74	2.09	0.47
Evaluation and communication of internal control deficiencies in a timely manner to senior management and the board of directors as appropriate.	74	2.08	0.66
Management tracking of whether deficiencies are remediated on a timely manner.	74	2.18	0.51
Internal audit reports to management and the board on unresolved deficiencies	74	2.11	0.65
Overall mean	74	2.08	0.61

Source: primary data & SPSS

As indicates on Table 4.1.7 the implementation of the internal control systems in DBE using monitoring activities as internal control component. The results were analyzed using mean and standard deviations so as to drawing conclusions from the study. The results are

discussed under the various headings of the statements assessed. The following were discussed;

The study as reflected in the above table found that the respondents seen to agree that the Bank has weak monitoring activity system in place with a mean value of 2.08 which appears to be lower. This shows that they generally disagree about the existence of good monitoring activity system in DBE. This also shows that the majority of the respondents agree that, as there is no strong and sufficient foundation of control activity in DBE. (ibid)

As per Studies done on five deposit money bank of Nigeria by using self-designed questionnaires distributed for 56 workers (26 seniors and 30 junior members of the staff) have shown that strong internal control system should be constrained to control and prevent effect of fraud and mismanagement. For the work of an auditor to be effective in the organization, there is every need for the management to respect the views of the auditors, in their efforts towards monitoring the effectiveness of the established internal controls systems Siyanbola Trimisiu Tunji (2013).

This disclose that, the existence of highly strong control environment and monitoring activities were found in Ghanaian and Nigeria banks are so strong and on contrary the lack of monitoring activity as per SPSS table 4.3.11:, the researcher set out to assess the functionality of the internal control systems in DBE using monitoring activity as internal control component. The results were analyzed using mean and standard deviations so as to drawing conclusions from the study. The results are discussed under the various headings of the statements assessed. The following were discussed;

The study as reflected in the above table found that the respondents seen to agree that the Bank has weak monitoring system in place with a mean value of 2.08 which appears to be lower. This shows that they generally disagree about the existence of good monitoring activity system. This also shows that the majority of the respondents agree that, there is no strong and sufficient foundation of monitoring activity in DBE.

4.2.8. Control activity practice in DBE

The control activities include all policies and procedures designed to ensure that management directives are carried out throughout the organization. This section contains the findings in relation to which sought to assess the control activity system of DBE.

Table 4.1.8 control activity of DBE

Control activity	No	mean	SD
DBE has clear separation of roles for their employee	74	2.11	.563
Every employee's work checks on the others	74	2.16	.620
There is appropriate supervision by senior staff on the work of their juniors in their respective.	74	2.01	.536
There is a formal organizational chart defining the responsibilities of processing, recording, approval and distribution of payroll and of personnel activities?	74	2.12	.467
The bank personnel policies (those not established by the Office of State Personnel) in writing?	74	2.09	.501
Each supervisor or managers of the bank have a copy or access to a copy of the policies and procedures manual.	74	2.16	.524
supervisors and managers have at least a working knowledge of the bank`s personnel policies and procedures?	74	2.05	.571
Conflict of interest in employment is prohibited	74	2.00	.438
Terminated employees interviewed as a physical check on departures and as a final review of the termination settlement to ensure that all keys, equipment, credit cards, etc. are returned	74	1.74	.550
Overall mean	74	2.05	0.53

Source: primary data & SPSS

The study as reflected in the above Table 4.1.8 reveals that the control activity of the bank .As shown the table the respondents are agree that the Bank has weak monitoring activity system in place with a mean value of 2.05 which is lower. This shows that they generally disagree about the existence of good control activity system in DBE.This also shows that the majority of the respondents agree that, as there is lack of strong and sufficient foundation of control activity, like no clear separation of roles of each employee, segregation of duties, implementing of organizational chart defining the responsibility of processing, recording and updating of policy and procedure in DBE. This finding is disagreement with the research conducted Institute of interdisciplinary Business research, Best, J.W. & Khan, J.V. (1995)

4.2.9. Information system practice in DBE

The respondents were asked to indicate their level of agreement with the following statements that relate to the assessment of information system of organization. To this they responded as provided in Table 4.3.4. The information systems relevant to financial reporting objectives include all the procedures and records.

Table4.1. 9 Information and Communication of DBE

Information system	No	Mean	SD
The bank has an accounting and financial management system in place	74	1.86	.626
There are enough measures to ensure the safety of the information system	74	2.20	.523
Internal auditor's appropriate recommendations are implemented.	74	2.14	.344
There is training/orientation for new employees, or employees when starting a new position, to discuss the nature and scope of their duties and responsibilities.	74	2.03	.285
There is a discussion with the new employees of specific internal controls and are responsible.	74	2.15	.696
The bank has implemented policies and procedures that facilitate effective internal communication, including individual internal	74	1.92	.430

control authorities and responsibilities and standards of conduct across the organization?			
There are written job descriptions and reference manuals that describe the duties of personnel, including their internal control responsibilities.	74	2.09	.706
The bank has messaging reinforce to all employees their roles in ensuring that internal control responsibilities are taken seriously.	74	2.12	.548
The bank has an accounting and financial management system in place	74	2.14	.382
There are enough measures to ensure the safety of the information system	74	2.18	.558
Internal auditor's appropriate recommendations are implemented.	74	1.95	.617
There is training/orientation for new employees, or employees when starting a new position, to discuss the nature and scope of their duties and responsibilities.	74	2.16	.469
There is a discussion with the new employees of specific internal controls and are responsible.	74	2.14	.557
Overall mean	74	2.08	0.52

Source: primary data & SPSS

In the Table 4.3.4, the researcher set out to assess operation control system function (another component of the internal control system) as way of assessing the functionality of the internal control system. The assessment statements were equally ranked in terms of their mean and standard deviation as a way of interpreting the results. The details of the study in this regards are discussed as follows:

The study as reflected in the above table found that the respondents seen to agree that the Bank has weak monitoring activity system in place with a mean value of 2.08 which is lower. This shows that they generally disagree about the existence of good flow of information like, accounting and financial management system in place, existence of enough measures to ensure the safety of the information system, training or orientation to

new employee when starting a new position control activity system and disseminating of critical information throughout the bank.

The finding is different from a study carried out by Abu Musa (2010) investigated the existence and adequacy of implemented security controls of computerized accounting information systems in the Saudi banking sector. The results of study revealed that the vast majority of Saudi banks have adequate security controls in place. The results also enable bank managers and practitioners to better secure their computerized accounting information systems and to champion the security of information technology for the success of their banks Mugo Jeremiah Munene (2013)

4.2.10.   Risk assessment practice in DBE

This section contains the findings in relation to which sought to assess the assessments risk in DBE. The risk assessment process forms the basis for how management determines the risks to be managed. These processes will vary hugely depending upon the nature, size and complexity of the organization. The respondents were asked to indicate their level of agreement with the following statements that relate to the assessment of risk in DBE. To this they responded as provided in Table 4.3.5

Table 4.1.10 Risk Assessments

Risk assessments	No.	Mean	SD
Management identifies risks related to each of the established objectives.	74	2.23	.586
Management identifies financial reporting risks that result from operations or compliance with laws and regulations.	74	1.91	.666
There have not been financial reporting or disclosure related issues identified by internal or external auditors.	74	2.26	.684

Management identifies fraud risk factors, including management override of controls.	74	2.24	.615
Identifying risks includes estimating the significance of the risks identified, assessing the likelihood of the risks occurring, and determining the need for action.	74	2.03	.496
Risks are evaluated as part of the business planning process.	74	2.07	.448
Senior management develops plans to mitigate significant identified risks.	74	2.07	.382
The responsibilities and expectations for the entity's business activities and the entity's philosophy about identification and acceptance of business risk are clearly communicated to the executives in charge of separate functions.	74	2.07	.344
Risks are reviewed periodically with the appropriate corporate governance functions (e.g., executive management, disclosure committee, audit committee and legal).	74	2.07	.344
There are effective processes for sourcing, measuring and monitoring internal business risks. For example, process risk and information for decision-making risk.	74	2.15	.589
Overall mean	74	2.11	.52

Source: primary data & SPSS

Assessment of risk assessments is one of the main pillars of internal control systems. The risk assessments embrace many activities as shown in the above Table 4.1.10. Questions on these areas were put before the respondents and the results indicate regarding the assessments of risk identification related to each of the established objective, risks are identified and reviewed periodically, effective process for sourcing, measuring and monitoring internal business risks, risks are reviewed periodically with appropriate corporate governance function.

The study as reflected in the above table found that the respondents seen to agree that the Bank has weak monitoring activity system in place with a mean value of 2.11 which is

lower Best, J.W. & Khan, J.V. (1995). This finding disagreement with the study result of (Kosmas.et al, 2011). This also shows that the majority of the respondents agree that, there is lack of risk assessments trend in DBE.

4.2.11.   Internal control system

This section contains the findings in respect to which sought to examine the effect of internal control system components in DBE.

Table 4.1. 11 Internal Control System

Statements	Does DBE Implement	Frequency	Percentage (%)
Control environments	Strongly Agree	0	0
	Agree	24	4
	Neutral	41	6
	Disagree	554	83
	Strongly Disagree	47	7
	Total	666	100
Monitoring activities	Strongly Agree	0	0
	Agree	30	5
	Neutral	30	5
	Disagree	408	80
	Strongly Disagree	50	10
	Total	518	100
Control Activities	Strongly Agree	0	0
	Agree	27	5
	Neutral	35	5
	Disagree	549	82
	Strongly Disagree	55	10
	Total	666	100

Information System	Strongly Agree	0	0
	Agree	38	4
	Neutral	69	7
	Disagree	789	82
	Strongly Disagree	66	7
	Total	962	100
Risk Assessments	Strongly Agree	0	0
	Agree	39	5
	Neutral	34	5
	Disagree	635	86
	Strongly Disagree	32	4
	Total	740	100

Source: primary data & SPSS

As can be seen from Table 4.1.11 80%, 82%, 82%, 83% and 86 % of the respondents reveal that the respondents are disagree on strengthen of the Bank`s internal control system in respect of control environment, monitoring activity, control activity, information system and risk assessments respectively.

To strengthen the control aspect of the bank, effective policies and procedures should in place to assist stakeholders and management to ensure the internal controls and directives are successfully implemented. Activities like proper segregation of duties, safeguarded computer systems, proper review and approval process of credit, purchases, etc

To minimize risk of the bank, periodic assessment and discussion should undertaken by identifying, the bank`s risk tolerances, areas of highest risk arising from both internal and external sources, and processes are should in place to minimize the identified risks.

The bank computer processing procedures should capture critical data and communicate the data effectively to designated employees, ensure good password and other Computer security processes are in place, and promote ongoing communication with vendors and customers regarding billing policies, purchase order authorized procedures, etc.

The bank should install ongoing process of evaluating and assessing the systems of internal controls to ensure that the procedures are consistently applied over an extended period of time.

To have good internal controls the management of the bank should communicate with a goal of influencing the control consciousness of its employees. Communication about the organization's code of conduct, compliance with control activities, and a zero tolerance policy for abused or misused internal controls should be done regularly by management.

CHAPTER FIVE
SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMENDATIIONS

This chapter presents the summary of the findings, conclusions drawn from them and the recommendations. The overall objective of this study was to examine the practice of internal controls systems in the case of development bank of Ethiopia.

5.1. Summary of findings

The summary of the findings is based on the five components of internal control system: like, control environment, monitoring activity, control activity, information system and risk assessments implementation and existence in DBE.

5.1.1. Control environment

Findings revealed that most of the respondents were disagree with the proper existence of control environments. Control environment consists of management demonstrates commitment to integrity and ethical value, top management support for integrity and ethical value, existence of codified standards of conduct to guide behavior, activity and decision and also the finding obtained through questioners disclose and disagree with the study done by (Joseph, 2014) on Ghanaian banks.

5.1.2. Monitoring activity.

The study revealed that there are indicators that the monitoring activity commonly embrace points like, separate evaluation to ascertain whether the components of internal control system present and functioning, engagement of external evaluators to objectively evaluate the control system and report to management, evaluation and communication internal control deficiency in a timely manner and the like. But most of the respondents disagree with the existence of such points mentioned in DBE. And also the findings

obtained through questioners disclose and disagree with the study done by (Joseph, 2014) on Ghanaian banks.

5.1.3. Control activity.

The findings indicate that control activity embrace points like, DBE has clear separation of roles for their employee, authorization, appropriate supervision by senior staff on the work of their juniors in their respective, supervisors and managers have at least a working knowledge of the bank's personnel policy and the like. In this regard the findings obtained through questionnaires disclose that, respondents disagree with such raised points.

And also, this findings disagreement with the research done on CBZ BANK LIMITED in Zimbabwe non-performing loans (ibid).

5.1.4.   Information system

The study indicated that information system elements embrace that, presentation of enough measures to ensure the safety of the information system, appropriate implementation of internal auditor's recommendation, direct line of communication between internal audit and board of management and the like. But according to the result obtained from the respondents show that as there is no sufficient system application and implementation.

Findings in relation to application information system in DBE is different from the research result done on Saudi banking sector by a study carried out by Abu Musa (2010) investigated the existence and adequacy of implemented security controls of computerized accounting information systems in the Saudi banking sector.

5.1.5. Risk assessments

The study indicated that risk assessments elements embrace that, management risk identification related to established objective, management identifies fraud risk factors, including management override of control, reviewing of risks periodically with appropriate corporate governance functions (e.g, executive management, audit committee and legal and the like.

But according to the result obtained from the respondents show that as there is no well organized system of risk assessments trend and also disagree with the research result in financial institutions in Zimbabwe (Kosmas et al., 2011).

5.2.   Conclusions

Based on the study findings, it is concluded that DBE internal control system practice from the five perspective of internal control components, like control environment, monitoring activity, control activity information system and risk assessments. This also proved that as per the result obtained from the questionnaires distributed to the respondents of DBE seniors and management staff members and come up with the lower mean value of 2.05, 2.06, 2.08, 2.08 and 2.11 respectively. The assessments of internal control system have been done show and conclude that as all DBE internal control system components found lower.

The control aspect of the bank is weak, it is better to implement effective policies and procedures to assist stakeholders and management to ensure the internal controls and directives are successfully implemented. Activities like proper segregation of duties, safeguarded computer systems, proper review and approval process of credit, purchases, etc

The bank has not well structured computer processing procedures and it essential continuously communicate the data effectively to designated employees, ensure good password and other Computer security processes are in place, and promote ongoing communication with vendors and customers regarding billing policies, purchase order authorized procedures, etc.

The bank has not conduct ongoing process of evaluating and assessing the systems of internal controls to strengthen the procedures of the bank consistently applied over an extended period of time.

The bank does not communicate effectively with a goal of influencing the control consciousness of its employees. It is better to communicate about the organization's code of conduct, compliance with control activities, and a zero tolerance policy for abused or misused internal controls should be done regularly by management.

5.3. Recommendations

This study has a potential to support the policy makers of Development Bank of Ethiopia to take corrective measures on the components of internal control system. The possible policy implications, emerged from the study, are forwarded below.

- Regarding to the control environment: All DBE members aggressively motivate to bring for the existence of integrity and ethical value commitment, top management support for the integrity and ethical value, establish codified standards of conduct to guide behavior, activity and decisions, roles and responsibility are clearly stated for all employees and etc.

- Concerning to monitoring activities: DBE internal control system components presentation and functioning should be ascertained by independent internal audit unit and external evaluators to objectively evaluate the control system and report to management on the functioning of the other components of the internal control system, evaluation and communication of internal control deficiencies in a timely manner to senior management and the board of director as appropriate.

- To strengthen the control aspect of the bank in terms of control activities, the bank should prepare effective policies and procedures should in place to assist stakeholders and management to ensure the internal controls and directives are successfully implemented. Activities like proper segregation of duties, safeguarded computer systems, proper review and approval process of credit, purchases, etc

- To minimize risk of the bank, the bank should undertake periodic assessment and discussion should undertaken by identifying, the bank`s risk tolerances, areas of highest risk arising from both internal and external sources, and processes are should in place to minimize the identified risks.

- Finally the bank computer processing procedures should capture critical data and communicate the data effectively to designated employees, ensure good password and other Computer security processes are in place, and promote

ongoing communication with vendors and customers regarding billing policies, purchase order authorized procedures, etc.

This study tried to assess the five internal control system of DBE practice. for further researchers recommend that conducting the impact of internal control system.

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APPENDIX

<u>St. Mary's University</u>

<u>School of Graduate Studies</u>

<u>MBA Degree in Accounting and Finance</u>

<u>Questionnaire to Evaluate the assessments of Internal control system in Development Bank of Ethiopia</u>

Dear Respondents,

This questionnaire is prepared to collect data from Development Bank of Ethiopia (DBE) personnel to undertake evaluation of the assessments of internal control system. The information that you provide will be used only for the analysis of the study which I am conducting as partial fulfillment of the MBA degree in Accounting and Finance.

I kindly request you to respond freely and honestly as your response has great value in assessing the assessments of internal control system in development Bank of Ethiopia.

I assure you that all your responses will be kept strictly confidential and used only for academic purpose. Thank you for your cooperation and response.

General Direction:

➢ You are not required to write your name

➢ Please put (√) mark in the box that best describes your response

➢ Write your opinion on the blank space provided and for some items you can use

   Other sheets of paper if the space provided is not sufficient.

SECTION ONE: GENERAL INFORMATION OF RESPONDENTS

1.   Age: <20 □   27-30 □   31-40 □   41-50 □   >50 □

2.   Gender   Male □   Female □

3.   Educational level: Diploma□ 1st Degree □2nd Degree □ PhD □

4.   Years of service in the bank:

          1-5   □ 10   □ 11-15 □   16-20 □   >20 □

5.   Job position: Manager □ Sr. Officer   □   Directorate/process owner.   □
                  V/President   □

   ➢ Please specify your Job position if other: _____

➤   Working unit of the respondent_____

SECTION TWO: ASSESEMENTS OF INTERNAL CONTROLS SYSTEM.

In this section the researcher seeks to establish the assessments of internal controls in

Development bank of Ethiopia. Please Tick the appropriate alternative

Key; Where SA-strongly agree =5, A- agree =4, NS-not sure =3, D- disagree=2, S D-

Strongly disagree=1

STATEMENT	SA	A	NS	D	SD
Regarding Internal control systems on Control environment					
1. Management demonstrates commitment to integrity and ethical values.					
2. Top managements" support for integrity and ethical values					
3. Codified standards of conduct to guide behavior, activities and decisions.					
4. Board of directors demonstrates independence.					
5. Roles and responsibilities are clearly stated for all employees					
6. Management establishes, with board oversight, structures, reporting lines and appropriate authorities and responsibilities in the pursuit of objectives.					
7. Your organization has an organizational chart with clear reporting lines and					

authority'				
8. Demonstration of commitment to attract, develops, and retains competent individuals in alignment with objectives.				
9. Human resource function has helped to define competence and staffing levels by jobs roles, facilitating training and development.				
Regarding Internal control systems on monitoring activities				
10. Performance of ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.				
11. Independent internal audit unit that objectively evaluates the entity's control system and feedback to management on the functioning of the control system.				
12. Engagement of external evaluators to objectively evaluate the control system and report to management on the functioning of the other components of the control system.				
13. Evaluation and communication of internal control deficiencies in a timely manner to those parties responsible for taking corrective action.				
14. Evaluation and communication of internal control deficiencies in a timely manner to senior management and the board of directors as appropriate.				
15. Management tracking of whether deficiencies are remediated on a timely				

manner.				
16. Internal audit reports to management and the board on unresolved deficiencies				
Regarding Control Activities				
17. DBE has clear separation of roles for their employee				
18. every employee's work checks on the others				
19. There is appropriate supervision by senior staff on the work of their juniors in their respective.				
20. There is a formal organizational chart defining the responsibilities of processing, recording, approval and distribution of payroll and of personnel activities?				
21. The bank personnel policies (those not established by the Office of State Personnel) in writing?				
22. Each supervisor or managers of the bank have a copy or access to a copy of the policies and procedures manual.				
23. supervisors and managers have at least a working knowledge of the bank`s personnel policies and procedures?				
24. Conflict of interest in employment is prohibited				
25. Terminated employees interviewed as a physical check on departures and as a final review of the termination settlement to ensure that all keys, equipment, credit cards, etc. are returned				

Regarding Information Systems					
26. The bank has an accounting and financial management system in place					
27. There are enough measures to ensure the safety of the information system					
28. Internal auditor's appropriate recommendations are implemented.					
29. There is training/orientation for new employees, or employees when starting a new position, to discuss the nature and scope of their duties and responsibilities.					
30. There is a discussion with the new employees of specific internal controls and are responsible.					
31. The bank has implemented policies and procedures that facilitate effective internal communication, including individual internal control authorities and responsibilities and standards of conduct across the organization?					
32. There are written job descriptions and reference manuals that describe the duties of personnel, including their internal control responsibilities.					
33. The bank has messaging reinforce to all employees their roles in ensuring that internal control responsibilities are taken seriously.					
34. There is a process to quickly disseminate critical information throughout the bank when necessary.					
35. Communications between the board of directors and management facilitate their oversight of the bank internal control.					

36. Internal audit have a direct line of communication to the Board of director.				
37. Policies and procedures established for and communicated to personnel at decentralized locations.				
38. There is periodic evaluation of the effectiveness of communications to ensure the methods are working.				
Regarding Risk assessment				
39. Management identifies risks related to each of the established objectives.				
40. Management identifies financial reporting risks that result from operations or compliance with laws and regulations.				
41. There have not been financial reporting or disclosure related issues identified by internal or external auditors.				
42. Management identifies fraud risk factors, including management override of controls.				
43. Identifying risks includes estimating the significance of the risks identified, assessing the likelihood of the risks occurring, and determining the need for action.				
44. Risks are evaluated as part of the business planning process.				
45. Senior management develops plans to mitigate significant identified risks.				
46. The responsibilities and expectations for the entity's business activities and the entity's philosophy about identification and acceptance of business risk are clearly communicated to the executives				

in charge of separate functions.					
47. Risks are reviewed periodically with the appropriate corporate governance functions (e.g., executive management, disclosure committee, audit committee and legal).					
48. There are effective processes for sourcing, measuring and monitoring internal business risks. For example, process risk and information for decision-making risk.					

The questioner was prepared based on (Macrothink Institute, 2014).

SECTION THREE: GENERAL COMMENTS ON THE ASSESEMENTS OF

INTERNAL CONTEROL SYSTEM IN DEVELOPMENT BANK OF ETHIOPIA.

1. Is there strong control activities like, policy and procedure in development bank of Ethiopia to ensure management directive carried out?

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2. Do you think that, the monitoring process in development bank of Ethiopia strong enough to assess the quality of internal control performance over time?-----------------------------------
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3. Is there a formal organizational chart defining the responsibilities of processing, recording, approval and distribution of payroll and of personnel activities?-----------------------
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4.Does Independent internal audit unit that objectively evaluates the entity's control system and feedback to management on the functioning of the control system?--------------------------
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5. Is there the habit of   training/orientation for new employees, or employees when starting a new position, to discuss the nature and scope of their duties and responsibilities?-------------
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THANK YOU.