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DEPARTMENT OF ACCOUNTING AND FINANCE

ASSESSMENT OF INTERNAL CONTROL IN COMMERCIAL BANK OF ETHIOPIA

(CBE)

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Assessment of Internal Control in Commercial Bank of Ethiopia (CBE)

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A thesis submitted to the School of Graduate Studies of St Mary's University in partial fulfillment of the requirements for the Degree of

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Declaration

I hereby declare that this thesis is the result of my own original work and has not been presented for a degree in any other university, and that all source of materials used for the thesis have been appropriately acknowledged by references/citations.

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Abstract

This paper was conducted to make an assessment of internal control in Commercial Bank of Ethiopia (CBE) in ensuring effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and in reducing risks. Banks have been expanding their operations and activities beyond the domestic borders as a result of globalization and improved technology. The study has taken 81 branches as a sample by using purposive sampling to contain all clustered branch groups which are Grade I, II, III and IV branches. Primary sources of data were employed using questionnaire and structured interview; and frequency tables were used as the analytical techniques in analyzing the collected data through descriptive research design. After analyzing the collected data, the study has concluded that the bank's internal control has a few gaps in communicating control information to stakeholders regarding effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and in reducing risks. As a result, the researcher has given some recommendations so as to provide input for areas of control which needs more attention and due to ongoing process nature of the internal control like; creating awareness for employees about the guidelines and procedures of the bank, strengthening the strategy to identify and response to risks and documented policies and procedures should strictly followed by the bank society in order to attain the bank's objectives. There is also need to ensure that there are corrective or appropriate actions taken after control findings and recommendations.

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LIST OF ABBREVIATIONS

AICPA – American Institute of Certified Public Accountants

CATS – Customer Accounts and Transaction Service

CBE – Commercial Bank of Ethiopia

COSO – Committee of Sponsoring Organization

CPO – Cash Payment Order

GAO – General Accounting Office

HFT – High Frequency Trade

HR – Human Resource

IFB – Interest Free Banking

IS – Information Systems

NBE – National Bank of Ethiopia

NSF – None Sufficient Fund

TS – Trade Service

CHAPTER ONE

1.1 INTRODUCTION

For most organizations Internal control has been recognized as one of the fundamental features essential for the success of the enterprise as well as for related government agencies. By establishing internal control system, organizations strive to avoid or minimize their problems of scarce resource, miss appropriation of funds, high risk of fraud, errors and inefficient and ineffective operations of the business. (Adewale, 2014)

Every organization faces various risks that prohibit from achieving organizational goals and objectives. In order to prevent such risks organizations aimed at identifying and correcting these risks are considered as internal control. Though the functions of internal control makes it wider American Institute of Certified Public Accountants(AICPA), General Accounting Office(GAO) and other sources, broadly define internal accounting control as a series of procedures and practices designed to promote and protect sound management practices, both general and financial. Thus an effective internal control procedures will significantly increase the likelihood that: financial information is reliable, so that managers and the board can depend on accurate information, assets and records of the organization are not stolen, misused, or accidentally destroyed, the organizations policies and government regulations are met, overall organization objective is achieved. (Tsedal Lemi, 2015)

Internal control can also be defined as the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization objectives. It is a steps taken by management that attempt to increase the likelihood that the objectives set down at the planning stage are attained and to ensure that all parts of the organization function in a manner consistent with organizational policies. (Adewale, 2014)

Internal control is a process effected by the board of directors, senior management and all levels of personnel. It is not solely a procedure or policy that is performed at a certain point in time, but rather it is continually operating at all levels within the bank. The board of directors and senior management are responsible for establishing the appropriate culture to facilitate an effective internal control process and for monitoring its effectiveness on an ongoing basis; however, each individual within an organization

must participate in the process. The main objectives of the internal control process can be categorized as efficiency and effectiveness of activities (performance objectives); reliability, completeness and timeliness of financial and management information (information objectives); and compliance with applicable laws and regulations (compliance objectives) (Basle, 1998).

Thus, the study has discussed, assessed and explained various components, principles, and attributes of internal controls from different theoretical and empirical sources of data. And also assessed commercial bank of Ethiopia (CBE's) internal controls systems practical experiences.

1.2 BACKGROUND OF THE ORGANIZATION

The agreement that was reached in 1905 between Emperor Menelik II and Mr. Ma Gillivray, a representative of the British owned National Bank of Egypt marked the introduction of modern banking in Ethiopia. Following the agreement, the first bank called Bank of Abyssinia was inaugurated in Feb 16, 1906 by the Emperor. The bank was totally managed by the Egyptian National Bank. Based on the agreed rights and concessions the government promised not to allow any bank to be established in the country within the 50 year concession period. Within the first fifteen years of its operation, Bank of Abyssinia opened branches in different areas of the country. Mac Gillivray, the representative and negotiator of Bank of Egypt, was appointed to be the governor of the new bank and he was succeeded by H Goldie, Miles Backhouse, and CS Collier were in charge from 1919 until the Bank's liquidation in 1931. (Prospects & Challenges of Private Commercial Banking in Ethiopia by Simeneh Terefe, 2013)

Bank of Abyssinia had faced difficulty of familiarizing the public with it due to the society at that time being new for the banking services. As a result, despite its monopolistic position, the bank earned no profit until 1914. Moreover, the bank faced enormous pressure for being inefficient and purely profit motivated and reached an agreement to abandon its operation and be liquidated in order to disengage banking from foreign control and to make the institution responsible to Ethiopia's credit needs. Thus by 1931 Bank of Abyssinia was legally replaced by Bank of Ethiopia after Emperor Haile Selassie came to power.

Bank of Ethiopia was a purely Ethiopian institution and was the first indigenous bank in Africa and established by an official decree on August 29, 1931 with capital of £750,000. Bank of Ethiopia took

over the commercial activities of the Bank of Abyssinia and was authorized to issue notes and coins. And the bank was operating successfully until the Italian Invasion in 1935.

On 15th April 1943, the state bank of Ethiopia commenced full operation and acted as the central Bank of Ethiopia and had a power to issue bank notes and coins as the agent of the Ministry of Finance. Though, the Ethiopian Monetary and Banking law that came into force in 1963 separated the function of commercial and central banking creating National Bank of Ethiopia and Commercial Bank of Ethiopia (CBE). Thus, CBE was legally established as a share company in 1963. (<http://www.nbe.gov.et>)

The National Bank of Ethiopia with more power and duties started its operation in January 1964. Following the incorporation as a share company on December 16, 1963 as per proclamation No. 207/1955 of October 1963, Commercial Bank of Ethiopia took over the commercial banking activities of the former State Bank of Ethiopia. It started operation on January 1, 1964 with a capital of birr 20 million. In 1974, CBE merged with the privately owned Addis Ababa Bank. Since then, it has been playing significant roles in the development of the country. It was established to perform major banking functions, including:

- Accepting saving, demand and time deposits;
- Providing short, medium and long term loans;
- Buying and selling foreign exchanges;
- Buying and selling negotiable instruments and securities issued by the government, private organizations or any other person; and
- Engaging in other banking activities customarily carried out by commercial banks.

Monetary and Banking Proclamation No.83/1994, Licensing and Supervision of Banking Business Proclamation No. 84/1994, Banking Business Proclamation No 592/2008, and the various directives of the National Bank of Ethiopia (NBE) are the basis for the Bank's business operation. The CBE is supervised by Board of Directors and the day today functions of the bank are managed by the President. The Bank has a process -oriented corporate structure each process headed by a process owner and performs its operations through its core and support processes.

1.2.1 BANK ACCESSIBILITY

1.2.1.1 Developments in the E-Banking Services

Various kinds of cards customized to meet customers' demands. Number of E-Card holders reached 2.7 million and number of Mobile Banking subscribers reached above 588 thousand (as of March, 2016). In addition, 740 ATMs and 4458 POS terminals deployed (as of March, 2016). More than 90 percent of the Bank's branches went on line through T-24 Core Banking Solutions.

1.2.2 PRODUCTS AND SERVICES OF THE BANK

- Deposit Products: Saving Accounts, Women Saving Account, Minor Savings Account, etc.
- Commodity Exchange Account: ECX Settlement account, Member Pay-in, Member pay-out, etc.
- Credit Products and Services: Overdraft Facility, Merchandise Loan Facility, Warehouse receipt financing, etc.
- Short-Term Loan: Dump truck loan, Infrastructure construction term loan, Partial financing against vehicles, etc.
- Medium and Long Term Loans: Motor Vehicle loan, urban utilities financing, etc.
- Trade Service Products and Services: Import, Export, Guarantee, Foreign Currency Accounts, Diaspora Account, Incoming Money Transfer, Outgoing Money Transfer and Interest Free Banking (IFB) Products. (SOURCE: <http://www.combanketh.et.aspx>)

1.3 STATEMENT OF THE PROBLEM

Each company needs to have in place an appropriate and effective internal control environment to ensure that the company is managed and controlled in a sound and prudent manner. (Rokeya Sultana and Muhammad Enamul Haque, 2011)

Banks have been expanding their operations and activities beyond the domestic borders as a result of globalization and improved technology. The expansion of business, globalization and the advanced technology also exposes business to increased risk, fraud, altercations and other irregularities. This has made internal controls an imperative system to maintain by every business and for that matter the banking sector. (ECOBANK Ghana limited, July 2011)

According to Abdulmena Hamza, 2013; the traditional way of doing business forces banks to rely hugely on the trustworthiness and integrity of their employees. And dishonest employees have every opportunity to defraud banks. That is why banks need fundamentally different way of tackling fraud: increased automation and proactive management. The automation of areas that do not require human judgments would save banks from being defrauded by their own employees. The manual approach to issuing CPOs allowed this to happen, as it is possible to bypass the accounting function. Shocking news arrived when a series of CPOs were presented for payments. Only through investigation could the number and the total amount be determined. In some cases, the total amount could be devastating.

Admassu & Asayehgn (2014) discussed that banking industry in Ethiopia is in a rudimentary and fragile state. It is small, relatively undeveloped, closed and characterized by a large share of state ownership. Among the state owned bank, commercial bank of Ethiopia has the highest share in the banking industry of the country. Its vast transactions and operational activities are exposed to fraud, misappropriation and other irregularities which can be witnessed by recent publications on the banks intranet portal as well as reporter magazine. And in these process the banks internal control system would take significant part. Therefore, this paper has assessed the role of internal controls and its effectiveness in the commercial bank of Ethiopia.

More specifically, the following research questions need to be addressed:

1. Is there suitable control environment to achieve the banks objectives?
2. Is there designed strategy to identify the incidences of frauds and mistakes caused by personal distraction, carelessness, fatigue, errors in judgment, or unclear instructions?
3. Does policies and procedures strictly followed to produce reliable financial reports?
4. Does the internal control information's are properly communicated to all stakeholders?
5. What are the monitoring activities of the internal control system?
6. What are the internal controls activities consistently applied based on findings and recommendations?

1.4 OBJECTIVES OF THE STUDY

The general objectives of this research were to make an assessment of internal control in Ethiopian banking industry in the case of commercial bank of Ethiopia.

Particularly, the study had the following specific objectives:

1. To examine the nature of the control environment in order to attain the bank's objectives.
2. To examine the bank's designed strategy of identifying risks.
3. To assess whether the bank's policies and procedures can lead to producing reliable financial reports.
4. To find whether the control information's are communicated to all stakeholders.
5. To review the bank's monitoring activities of internal control systems.
6. To find that the appropriate actions are applied based on control findings and recommendations.

1.5 SCOPE OF THE STUDY

Even if internal control assessment is essential for every organization, the study is limited only to Commercial Bank of Ethiopia. As the organization under consideration is a banking industry its vast activities are exposed to high risks and miss interpretations'. The bank executes its functions under the supervision of 15 district offices and total numbers of branches that operate in Addis Ababa region are 231 branches. Out of which the researcher selects 81 branches as a sample that found in Addis Ababa

region by using random sampling techniques from all clustered branches groups which are Grade I, II, III and IV branches.

1.6 SIGNIFICANCE OF THE STUDY

Assessing the banks internal control systems will help the policy/decision makers of the organization to come up with new ideas, and also for the organization members as a whole to achieve better performance through minimizing its risks. The study will also be useful as a reference for further investigation or research for any researchers on how to assess an organizations internal control system.

1.7 LIMITATIONS OF THE STUDY

Even though this research is to assess the internal control of Commercial Bank of Ethiopia, the range of the research does not give findings that can be generalized. There are also resource constraints, as well as the difficulties in accessing data especially in related to fraud activity records.

1.8 ORGANIZATION OF THE STUDY

The research paper has five chapters; the first chapter has included background of the study, statement of the problem, research questions, objectives, significance and scope of the study. The second chapter is about literature review which is related to the study area and it gives a detail description of the study phenomenon by relating other scholar papers on the area. The third chapter is all about methodology of the study in which research approach and method, sources of data, sampling techniques and procedure, method of data collection and analysis and the like has been included. In the fourth chapter the collected data analyzed, discussed and interpreted. And the last chapter contained conclusion, recommendation, references and annex (if any).

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2. Introduction

This chapter contained discussion of theoretical and empirical review of related literatures to provide detail information about internal control systems. Various researchers' findings on related issues also have been discussed as follows:

2.1 Definition of Internal Control

Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. (COSO, 2013) This definition reflects certain fundamental concepts. Internal control is: Geared to the achievement of objectives in one or more categories; operations, reporting, and compliance. It is also a process consisting of ongoing tasks and activities; a means to an end, not an end in itself. In addition it can be effected by people not merely about policy and procedure manuals, systems, and forms, but about people and the actions they take at every level of an organization to affect internal control. Internal control used to provide reasonable assurance but not absolute assurance, to an entity's senior management and board of directors. Adaptable to the entity structure; flexible in application for the entire entity or for a particular subsidiary, division, operating unit, or business process.

According to United States Government Accountability Office, Standards for Internal Control in the Federal Government September 2014, internal control is defined as a process effected by an entity's oversight body, management, and other personnel that provide reasonable assurance that the objectives of an entity will be achieved.

2.2 The Objectives and Role of the Internal Control

Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. Internal control serves as the first line of defense in safeguarding assets. In short, internal control helps managers achieve desired results through effective

stewardship of public resources. These objectives and related risks can be broadly classified into one or more of the following three categories:

- Operations - Effectiveness and efficiency of operations (Performance objectives)
- Reporting - Reliability of reporting for internal and external use (Information objectives)
- Compliance - Compliance with applicable laws and regulations (Compliance objectives)

2.2.1 Performance objectives: for internal controls pertain to the effectiveness and efficiency of the bank in using its assets and other resources and protecting the bank from loss. The internal control process seeks to ensure that personnel throughout the organization are working to achieve its goals with efficiency and integrity, without unintended or excessive cost or placing other interests (such as an employee's, vendor's or customer's interest) before those of the bank. (Basle, 1998)

2.2.2 Information objectives: Basle committee on banking supervision states that information objectives of internal control address the preparation of timely, reliable, relevant reports needed for decision-making within the banking organization. They also address the need for reliable annual accounts, other financial statements and other financial-related disclosures and reports to shareholders, supervisors, and other external parties. The information received by management, the board of directors, shareholders and supervisors should be of sufficient quality and integrity that recipients can rely on the information in making decisions. The term reliable, as it relates to financial statements, refers to the preparation of statements that are presented fairly and based on comprehensive and well-defined accounting principles and rules. (GAO, 2014)

2.2.3 Compliance objectives: ensure that all banking business complies with applicable laws and regulations, supervisory requirements, and the organization's policies and procedures. This objective must be met in order to protect the bank's franchise and reputation.

Basle Committee on Banking Supervision September 1998 states that a system of effective internal controls is a critical component of bank management and a foundation for the safe and sound operation of banking organizations. A system of strong internal controls can help to ensure that the goals and objectives of a banking organization will be met, that the bank will achieve long-term profitability

targets, and maintain reliable financial and managerial reporting. Such a system can also help to ensure that the bank will comply with laws and regulations as well as policies, plans, internal rules and procedures, and decrease the risk of unexpected losses or damage to the bank's reputation.

(GAO, 2014) An internal control system is a continuous built-in component of operations, effected by people, that provides reasonable assurance, not absolute assurance, that an entity's objectives will be achieved.

Internal control is not one event, but a series of actions that occur throughout an entity's operations. Internal control is recognized as an integral part of the operational processes management uses to guide its operations rather than as a separate system within an entity. In this sense, internal control is built into the entity as a part of the organizational structure to help managers achieve the entity's objectives on an ongoing basis.

People are what make internal control work. Management is responsible for an effective internal control system. As part of this responsibility, management sets the entity's objectives, implements controls, and evaluates the internal control system. However, personnel throughout an entity play important roles in implementing and operating an effective internal control system.

An effective internal control system increases the likelihood that an entity will achieve its objectives. However, no matter how well designed, implemented, or operated, an internal control system cannot provide absolute assurance that all of an organization's objectives will be met. Factors outside the control or influence of management can affect the entity's ability to achieve all of its objectives. For example, a natural disaster can affect an organization's ability to achieve its objectives. Therefore, once in place, effective internal control provides reasonable, not absolute, assurance that an organization will achieve its objectives. (Mwakimasinde, 2014)

2.3 Components of Internal control

COSO integrated framework provides five integrated components of internal control. The five components of internal control must be effectively designed, implemented, and operating together in an integrated manner, for an internal control system to be effective. The five components of internal control are as follows:

2.3.1 Control Environment

The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. The board of directors and senior management establish the tone at the top regarding the importance of internal control including expected standards of conduct. Management reinforces expectations at the various levels of the organization. The control environment comprises the integrity and ethical values of the organization; the parameters enabling the board of directors to carry out its governance oversight responsibilities; the organizational structure and assignment of authority and responsibility; the process for attracting, developing, and retaining competent individuals; and the rigor around performance measures, incentives, and rewards to drive accountability for performance. The resulting control environment has a pervasive impact on the overall system of internal control. (COSO, 2009)

It is the foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives. The control environment is the foundation for an internal control system. It provides the discipline and structure, which affect the overall quality of internal control. It influences how objectives are defined and how control activities are structured. The oversight body and management establish and maintain an environment throughout the entity that sets a positive attitude toward internal control. (SOX Guidance, 2007)

It establishes integrity and ethical values, establish oversight structure, develop expectations of competence, and maintain accountability to all members of the oversight body and key stakeholders.

2.3.2 Risk Assessment

Every entity faces a variety of risks from external and internal sources. Risk is defined as the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives. Risks to the achievement of these objectives from across the entity are considered relative to established risk tolerances. Thus, risk assessment forms the basis for determining how risks will be managed. A precondition to risk assessment is the establishment of objectives, linked at different levels of the entity. Management specifies objectives within categories relating to operations, reporting, and compliance with sufficient clarity to be able to identify and analyze risks to those objectives. Management also

considers the suitability of the objectives for the entity. Risk assessment also requires management to consider the impact of possible changes in the external environment and within its own business model that may render internal control ineffective. (Rokeya Sultana and Muhammad Enamul Haque, 2011)

It also assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses. Oversee management's assessment of risks to the achievement of objectives, including the potential impact of significant changes, fraud, and management override of internal control. (COSO, 2009)

2.3.3 Control Activities

Control activities are the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews. Segregation of duties is typically built into the selection and development of control activities. Where segregation of duties is not practical, management selects and develops alternative control activities.

The actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system. Provide oversight to management in the development and performance of control activities. (Basle, 1998)

2.3.4 Information and Communication

Information is necessary for the entity to carry out internal control responsibilities to support the achievement of its objectives. Management obtains or generates and uses relevant and quality information from both internal and external sources to support the functioning of other components of internal control. Communication is the continual, iterative process of providing, sharing, and obtaining necessary information. Internal communication is the means by which information is disseminated throughout the organization, flowing up, down, and across the entity. It enables personnel to receive a clear message from senior management that control responsibilities must be taken seriously. External

communication is twofold: it enables inbound communication of relevant external information, and it provides information to external parties in response to requirements and expectations. (COSO, 2009)

The quality information management and personnel communicate and use to support the internal control system. Analyze and discuss information relating to the entity's achievement of objectives.

2.3.5 Monitoring Activities

Ongoing evaluations, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, is present and functioning. Ongoing evaluations, built into business processes at different levels of the entity, provide timely information. Separate evaluations, conducted periodically, will vary in scope and frequency depending on assessment of risks, effectiveness of ongoing evaluations, and other management considerations. Findings are evaluated against criteria established by regulators, recognized standard-setting bodies or management and the board of directors, and deficiencies are communicated to management and the board of directors as appropriate.

Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews. Scrutinize the nature and scope of management's monitoring activities as well as management's evaluation and remediation of identified deficiencies. (Dr. Theofanis, Karagiorgos and George Drogalas, Alexandra Dimou, 2001)

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. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board.

There is synergy and linkage among these components, forming an integrated system that reacts dynamically to changing conditions. The internal control system is intertwined with the entity's operating activities and exists for fundamental business reasons. Internal control is most effective when controls are built into the entity's infrastructure and are a part of the essence of the enterprise. "Built in"

controls support quality and empowerment initiatives, avoid unnecessary costs and enable quick response to changing conditions.

There is a direct relationship between the three categories of objectives, which are what an entity strives to achieve, and components, which represent what is needed to achieve the objectives. All components are relevant to each objectives category. When looking at any one category the effectiveness and efficiency of operations, for instance all five components must be present and functioning effectively to conclude that internal control over operations is effective. (SOX Guidance, 2007)

2.4 Internal Control Activities and Practices

2.4.1 Internal control Activities

Internal control activities are the policies and procedures as well as the daily activities that occur within an internal control system. A good internal control system should include the control activities listed below. These activities generally fit into two types of activities. (University of Washington Financial Management guideline to Internal control, July 2008)

- Preventive: Preventive control activities aim to deter the instance of errors or fraud. Preventive activities include thorough documentation and authorization practices. Preventive control activities prevent undesirable "activities" from happening, thus require well thought out processes and risk identification.
- Detective: Detective control activities identify undesirable "occurrences" after the fact. The most obvious detective control activity is reconciliation.

2.4.2 Internal control Practices

University of Washington Financial Management Guideline to Internal control provides some considerations in addition to good internal control system in place include:

Regularly communicate updates and reminders of policies and procedures to staff through emails, staff meetings and other communication methods, periodically assess risks and the level of internal control required to protect organizational assets and records related to those risks. Document the process for review, including when it will take place. For example: Determine that all security activities, reconciliation processes and separation of duties can be reviewed periodically.

Management is responsible for making sure that all staffs are familiar with the banks policies and changes in those policies. (Rokeya Sultana and Muhammad Enamul Haque, 2011)

In addition, best practices include;

Authorization: is the basis by which the authority to complete the various stages of a transaction is delegated. These stages include the processes of Recording (initiate, submit, process), Approving (pre-approval, post entry review), and Reconciling. The main aspects of authorization are:

- **Privilege:** Typically, the application for which an individual is granted the ability to use or the duty in which they are granted the ability to perform.
- **Role:** Typically, a type of user, such as staff, principal investigator, administrator or other, more specific roles such as payroll coordinator. This often is dependent upon the privilege the role is associated with.
- **Action:** Typically, an action that the user can perform. Some examples are initiate, submit, approve, reconcile or view (inquiry).
- **Span-of-control:** This is a restriction upon the action granted to a user. This is often a restriction by organization code, budget number, or other organizational or financial entity defined restriction.

Documentation: In the context of internal controls, paper or electronic communication which supports the completion of the lifecycle of a transaction meets the criteria for documentation. Anything that provides evidence for a transaction, who has performed each action pertaining to a transaction, and the authority to perform such activities are all considered within the realm of documentation for these purposes.

Documents provide a financial record of each event or activity, and therefore ensure the accuracy and completeness of transactions. This includes expenses, revenues, inventories, personnel and other types of transactions. Proper documentation provides evidence of what has transpired as well as provides information for researching discrepancies. (Dr. Theofanis, Karagiorgos and George Drogalas, Alexandra Dimou, 2001)

Supporting documentation may come in paper or electronic form. In recent years, more often, official supporting documentation has moved from paper based to electronic forms. Keep in mind that in some instances electronic processing and approvals are the source documents for transactions.

Reconciliation: is the process of comparing transactions and activity to supporting documentation. Further, reconciliation involves resolving any discrepancies that may have been discovered.

The process of reconciliation ensures the accuracy and validity of financial information. Also, a proper reconciliation process ensures that unauthorized changes have not occurred to transactions during processing. (Basle, 1998)

Security: the security of assets and records includes three types of safeguards; Administrative, Physical and Technical. Administrative security: focuses on the departmental and organizations processes put in place to protect assets and records. This includes the above mentioned processes of authorization and reconciliation. Physical security: is the protection of physical records and assets from loss by theft or damage. And technical security: is the protection of electronic records from loss by theft, damage, or loss in transport. (Basle, 1998)

Assets and records should be kept secure at all times to prevent unauthorized access, loss or damage. The security of assets and records is essential for ongoing operations; accuracy of information, privacy of personal information included in some records and in many cases is a state or federal law.

Separation of Duties: is the means by which no one person has sole control over the lifespan of a transaction. Ideally, no one person should be able to initiate, record, authorize and reconcile a transaction.

All organizations should separate functional responsibilities. The separation of duties assures that mistakes, intentional or unintentional, cannot be made without being discovered by another person.

2.5 The Major Elements of an Internal Control Process

The internal control process, which historically has been a mechanism for reducing instances of fraud, misappropriation and errors, has become more extensive, addressing all the various risks faced by banking organizations. It is now recognized that a sound internal control process is critical to a bank's ability to meet its established goals, and to maintain its financial viability.

Internal control consists of five interrelated elements:

1. Management oversight and the control culture;
2. Risk recognition and assessment;
3. Control activities and segregation of duties;
4. Information and communication; and
5. Monitoring activities and correcting deficiencies.

The problems observed in recent large losses at banks can be aligned with these five elements. The effective functioning of these elements is essential to achieving a bank's performance, information, and compliance objectives.

2.6 Evaluation of an Effective Internal Control System

2.6.1 Factors of Effective Internal Control

An effective internal control system provides reasonable assurance that the organization will achieve its objectives. An effective internal control system has each of the five components of internal control effectively designed, implemented, and operating and the five components operating together in an integrated manner.

To determine if an internal control system is effective, management assesses the design, implementation, and operating effectiveness of the five components and its principles. If a principle or component is not effective, or the components are not operating together in an integrated manner, then an internal control system cannot be effective. (Basele, 1998)

2.6.2 Evaluation of Internal Control

If the systems do not comply, the head of the agency will prepare a report in which any material weaknesses in the agency's system of internal accounting and administrative control are identified and the plans and schedule for correcting any such weakness are described.

2.6.3 Design and Implementation: when evaluating design of internal control, management determines if controls individually and in combination with other controls are capable of achieving an objective and

addressing related risks. When evaluating implementation, management determines if the control exists and if the entity has placed the control into operation. A control cannot be effectively implemented if it was not effectively designed. A deficiency in design exists when (1) a control necessary to meet a control objective is missing or (2) an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met. A deficiency in implementation exists when a properly designed control is not implemented correctly in the internal control system. (Rokeya Sultana and Muhammad Enamul Haque, 2011)

2.6.4 Operating Effectiveness: In evaluating operating effectiveness, management determines if controls were applied at relevant times during the period under evaluation, the consistency with which they were applied, and by whom or by what means they were applied. If substantially different controls were used at different times during the period under evaluation, management evaluates operating effectiveness separately for each unique control system. A control cannot be effectively operating if it was not effectively designed and implemented. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively. (COSO, 2009)

2.7 Empirical Literature Review

Internal control provides many benefits to an entity. It provides management with added confidence regarding the achievement of objectives, provides feedback on how effectively an entity is operating, and helps reduce risks affecting the achievement of the entity's objectives. Management considers a variety of cost factors in relation to expected benefits when designing and implementing internal controls. The complexity of cost-benefit determination is compounded by the interrelationship of controls with operational processes. Where controls are integrated with operational processes, it is difficult to isolate either their costs or benefits.

Management may decide how an entity evaluates the costs versus benefits of various approaches to implementing an effective internal control system. However, cost alone is not an acceptable reason to avoid implementing internal controls. Management is responsible for meeting internal control objectives. The costs versus benefits considerations support management's ability to effectively design,

implement, and operate an internal control system that balances the allocation of resources in relation to the areas of greatest risk, complexity, or other factors relevant to achieving the entity's objectives.

A case study of Nigerian Customs Service on Internal control systems, 2014 concluded that internal Control System are not a substitute for good management, they can assist management but do not replace management of provide an excuse for poor management. Based on the outcome of the five hypotheses which was empirically tested and the research finding the researcher concludes that there should be continuous internal check and audit on the part of management and low level of management to ensure adequate internal control system. Adequate internal control system also ensures proper accountability and the study stated that organizations should provide adequate motivation such as bones, incentives to the employees/officers to avoid financial fraud. In addition, effective use of information technology and competent team of experts to work out the logic of standard internal control to enhance the high level of security check would improve the effectiveness of the internal control systems in the organization. (Adewale, 2014)

On the contrary the study made by Tsedal Lemi, January, 2015 concluded that there is no absolute guarantee from internal control that organizations objectives will be achieved. It states that internal control is a responsibility of management, employees and other stakeholders. Hence there should be a clear line of responsibility and structure of reporting to discharge any risk of collusion and fraud. Separation of accounting duty from authorization and custody of an asset is a key in detecting control risk. Thus due emphasis should be given to maintain segregation of duties. The control system effectiveness should be evaluated against clearly established criteria's and should be monitored continuously. This is the responsibility of management and internal auditors. (Tsedal Lemi, 2015)

Therefore effective internal controls contribute to better performance by financial institutions. The success of the system depends on positive internal control culture. Banks should have in place a comprehensive internal control management process to identify; measure, monitor and control internal control system effectiveness and compliance. There is also need for financial institutions to cultivate a culture of ethically doing business from the top management which should see this culture cascading down to the most junior worker or employee in the organization so as to promote adherence to internal

controls of the organization which are essentially management tools on measuring compliance to an organizations way of doing business in a competitive environment. (Kosmas Njanike, 2011)

The study done by Douglas, 2011 considered the control environment, risk assessment, information and communication system, control and monitoring activities as independent variables, and internal control effectiveness as a dependent variable to evaluate the internal control effectiveness in Ecobank Ghana Limited Ashanti Region.

Increased sophistication in banking industries and in the financial system has exposed banks in developed economies to an array of risks, from credit default to liquidity; interest rate to foreign exchange rate; sovereign to trading and operational to reputational. Technological advances, such as high frequency trading (HFT), have brought additional risks, particularly during market volatility. Banks have been expanding their operations and activities beyond the domestic borders as a result of globalization and improved technology. In response to such changes, banks have installed state-of-the-art technologies, systems and methods, as well as employing sophisticated experts, in order to keep their risks to a minimum. Regulatory agencies also actively monitor new developments and initiate oversight frameworks to protect the healthy functioning of the financial system. (Abdulmena Hamza, 2013)

The overvaluation of security, issuing of Cash Payment Order (CPO) without securing sufficient funds from customers, releasing import documents before receiving full funds, transferring funds out of dormant accounts, putting counterfeit signatures on special clearance forms by bank messengers so that a customer account is credited, outright theft by tellers and approving None-Sufficient Fund (NSF) cheques are common risks known to anyone close to banking operations. A study of anecdotal evidence reveals that the major culprits behind the defrauding of banks are their own employees, in complicit with customers. This should make it clear that risk management should also extend to the risks arising from the dishonesty of people who are supposed to manage and protect the banks. (Abdulmena Hamza, 2013)

Also studies made by Karagiogos, Drogalas, Dimou, to assess the link between internal control and internal audit and Fadzil, Haron & Jantan to evaluate the relationship between internal auditing practices and the quality of internal control system, have used internal control components; control environment, risk assessment, information and communication system, control activities and monitoring as independent variables and effectiveness of internal audit as dependent variable.

The study carried by Muraleetharan P. 2011 to find out the impact of internal control and performance of the private and public organizations in Jaffna District, Jaffna University was mainly tested by using Chi square test and regression analysis. From obtained from the study, it is apparent that the perceived internal control has a significant impact on financial performance. Control environment and information and communication negatively influence the financial performance. However, the risk assessment, control activities, accounting and communication and monitoring positively influences the financial performance. Since the work performed by the organizations have been implemented in the past and the work schedules take into consideration the goals of internal control, therefore, this will lead to lower control environment of the financial performance. This is because; the necessary proper procedures are already applied in managing the internal control. However, better performance of risk assessment, control activities and monitoring of the internal control lead to better financial performance.

In addition, the study made by Sultana and Haque (2011) have used authority and working relationship as moderating variables in addition to the five components of internal control. Therefore, the researcher believed that when evaluating the effectiveness of internal control system of the organization the five components of internal control must be considered as essential tools for the study. Thus, the researcher selects the effectiveness of internal control system as a dependent variable and; the five components which are control environment, risk assessment, information and communication system, control activities and monitoring as independent variables.

2.8 Research Gap

There are many research papers in relation to internal control and audit of commercial bank of Ethiopia. However, they were presented independence of corporate governance, financial performance, service quality, organizational culture and the like. Therefore, this study was conducted to assess the internal control practice and experiences during its application.

Thus increasing risk of business failures, technological advancements/Globalization, fraud and altercations that appeared in the financial sector increased the role for effective internal control systems. Therefore, this paper has given emphasis on the internal control process of CBE in order to assess its practical experience of the internal control systems.

CHAPTER THREE

METHODOLOGY OF THE STUDY

3. Introduction

In this chapter; research approach and design, population of the study, sampling techniques and procedures, sample size determination, sources of data and collection method, and methods of data analysis has discussed in details as follows:

3.1 RESEARCH APPROACH AND DESIGN

The study focuses on internal control assessment of Commercial Bank of Ethiopia in ensuring the three internal control objectives which are effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and in reducing risks.

Descriptive research design using quantitative and qualitative approach will be used to analyze for data collected from the samples. The reason behind using descriptive design is because the researcher is interested in describing or assessing the existing situation that found in internal control system of the banks and its level of effectiveness throughout its operations under the study.

3.2 POPULATION OF THE STUDY

The population of the study has consisted 231 branches of Commercial bank of Ethiopia that currently operates in the capital city of the country Addis Ababa. Out of which 22 branches are classified as Grade IV, 13 branches as Grade III, 157 branches as Grade II and the rest 39 branches are classified as Grade I by the bank based on their deposit amount/performance, number of transactions, number of customers and types of services they provide.

3.3 SAMPLING TECHNIQUES AND PROCEDURES

From the above graded branches the researcher randomly selects 7 branches from Grade IV, 5 branches from Grade III, 55 branches from Grade II and 14 branches from Grade I. The researcher uses random sampling from the clustered groups because of their similar functions and size, branches within the same

clustered group can represent the rest. Therefore, the total number of branches under the study is 81 which is around 35% of the total population; which are listed in the annex III.

While gathering all information the researcher was under the rules and the regulations of the bank. The data collection process was conducted on the schedule and permit of the organization.

3.4 SAMPLE SIZE DETERMINATION

The sample of this research has selected from Grade IV, III and I branches 5 staffs (branch manager, controller/auditor, accountant, customer service manager (CSM) and officer); and from grade II branches 4 staffs which are branch manager, controller/auditor, customer service manager (CSM) and officer are purposively included. Then the total sample size of the study is 350 (Grade IV: $7*5=35$, Grade III: $5*5=25$, Grade II: $55*4=220$, and Grade I: $14*5=70$).

In addition, the researcher has used the internal audit manager for interview who found in internal control department at Head Office level.

3.5. SOURCES OF DATA AND COLLECTION METHOD

For the ultimate goal of the study; the researcher has used primary source of data which has collected using structured interviews for internal control manager; questionnaires for the selected respondents of the bank officials/managers who work in the selected branches of the organization, and also observations has been used. The variables have measured using Likert scale with five response categories (strongly agree, agree, neutral, disagree and strongly disagree).

The instruments that were used for this study were internal control system measured through questionnaire of the internal control systems assessment and structured interviews which are developed and modified by the researcher. The questionnaire has six sections; Section 1 dealt with demographic information such as sex, marital status, educational background, age distribution and working experience. Section 2 sought information on control environment of internal control system in the organization. Section 3 assessed risk assessment of internal control systems in the organizations. Section 4 and Section 5 have information on control activities of internal control systems and information and communication of internal control systems respectively. The last section; Section 6 dealt with monitoring activities of internal control systems.

The five components of internal control must be effectively designed, implemented, and operating together in an integrated manner, for an internal control system to be effective. (COSO integrated framework, 1992) Therefore, the objectives of the five sections of the questionnaire starting from section 2 aimed at evaluating and assessing the five components of internal control systems in the organizations.

3.6 METHOD OF DATA ANALYSIS

Frequency tables were used as the analytical techniques in analyzing the data. Qualitative explanations were in place of quantitative data to give meaning to them as well as explain their implications. From these findings of the research, appropriate recommendations have drawn.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

4. INTRODUCTION

This chapter is intended to provide analysis and discussion of results on the collected data by using frequency tables. The responses from the respondents are described and analyzed in six sections such as; the respondents' background/demographic information, control environment of internal control, risk assessment of internal control, control activities of internal control, information & communication systems of internal control and monitoring activities of internal control.

4.1 DEMOGRAPHIC INFORMATION

The researcher has used questionnaire as the main research tool to gather the required data from the respondents. Out of 350 distributed questionnaires the researcher has collected 343 questionnaires and the first section was intended to collect data on the background of the respondents.

4.1.1 Sex Distribution of Respondents

Out of 343 respondents questioned 36% were female and 64% male as indicated on table 4.1. The sex distribution showed that both male and female were represented in the study as shown below.

GENDER	FREQUENCY	PERCENTAGE (%)	CUM PERCENT (%)
FEMALE	125	36%	36%
MALE	218	64%	100%
GRAND TOTAL	343	100%	100%

Table 4.1 Sex Distribution of Respondents

4.1.2 Marital status of respondents

The marital status of the respondents also has taken for the study. Out of the respondents interviewed 34% were married and 66% of them are single. This result has shown both married and single respondents have participated in the study. This is indicated in table 4.2 below.

STATUS	FREQUENCY	PERCENTAGE (%)	CUM PERCENT (%)
MARRIED	115	34%	34%
SINGLE	228	66%	100%
GRAND TOTAL	343	100%	100%

Table 4.2 Marital Status of respondents

4.1.3 Educational Level of respondents

The analysis of this variable revealed that the majority of respondents have degree which is 86%, 13% had masters, and 1% had highest National Diploma. This result indicates that the bank has skilled man power and it also increases the response rate for the study.

EDU. LEVEL	FREQUENCY	PERCENTAGE (%)	CUM PERCENT (%)
DEGREE	294	86%	86%
MASTERS	46	13%	99%
DIPLOMA	3	1%	100%
GRAND TOTAL	343	100%	100%

Table 4.3 Educational Level of respondents

4.1.4 Field of Profession

This variable was intended to identify the types of professions/fields that the respondents have. The majority of respondents which is 44% have accounting professions, 31% have management profession, and 12% of them have profession in economics. The rest 13% have fields other than the specified. As a result, most of the respondents have business related professions which enable the respondents to understand the raised questions more easily. This is shown below in table 4.4

PROFESSION	FREQUENCY	PERCENTAGE (%)	CUM PERCENT (%)
ACCOUNTING	152	44%	44%
ECONOMICS	40	12%	56%
MANAGEMENT	105	31%	87%
OTHER	46	13%	100%
GRAND TOTAL	343	100%	100%

Table 4.4 Field of Professions

4.1.5 Year of Service in the Bank

Year of service/experience of the respondents in the bank has been assessed and indicated in the following table, Table 4.5. Majority of the respondents 51% have less than 5 year experience in the bank, 38% of the respondent has 6 to 11 years in the bank, 8% of them has 12 to 16 year experience and the rest respondents 3% have the higher experience in the bank which is above 22 years. This indicates that majority of the respondents have few years' experience with in the bank.

YEAR OF SERVICE	FREQUENCY	PERCENTAGE (%)	CUM PERCENT (%)
≤5 YRS	176	51%	51%
6-11 YRS	129	38%	89%
12-16 YRS	29	8%	97%
ABOVE 22 YRS	9	3%	100%
GRAND TOTAL	343	100%	100%

Table 4.5 Year of Service in the Bank

4.2 CONTROL ENVIRONMENT OF INTERNAL CONTROL SYSTEMS

The second section of the questionnaire was intended to test the existence and the environment of the internal control system found in the organization. The control environment questions have included six interrelated points as discussed below;

4.2.1 Separation of Roles and Responsibilities

15% of the respondents were strongly agree on the existence of clear separation of roles and responsibilities in the bank, 52% of the respondents have agreed, 16% of the respondents are neutral, and; 15% and 1% of the respondents are against the existence of separation of roles and responsibilities which are disagree and strongly disagree respectively. This result indicates that the bank has clear systems of separation of roles and responsibilities.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	178	52%	52%
STRONGLY AGREE	53	15%	99%
NEUTRAL	56	16%	84%
DISAGREE	53	15%	67%
STRONGLY DISAGREE	3	1%	100%
GRAND TOTAL	343	100%	100%

Table 4.6 Separation of Roles and Responsibilities

4.2.2 Documented Policies/Procedures to follow

For the question's asked there are documented policies, procedures and guidelines in the bank; 20% of the respondents were strongly agree, 65% of them were agreed, 10% of them were neutral, and the rest 5% of the respondents were responded against as shown in the following table;

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	224	65%	65%
STRONGLY AGREE	69	20%	99%
NEUTRAL	34	10%	79%
DISAGREE	13	4%	69%
STRONGLY DISAGREE	3	1%	100%
GRAND TOTAL	343	100%	100%

Table 4.7 Documented Policies/Procedures to follow

This result has shown that the bank has its own documented policies, procedures and guidelines by which the banks society expected to be directed.

4.2.3 Clear Structure of Reporting System

Out of all 343 respondents; only 8% has strongly agreed on the existence of clearly specified reporting structure in the bank, 47% of the respondents have agreed, 33% of them were neutral and the rest 12% were against the existence of clearly specified structure. This result has indicated, the banks reporting structures have some inefficiencies/gaps as can be shown in the following table;

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	162	47%	47%
STRONGLY AGREE	29	8%	100%
NEUTRAL	112	33%	92%
DISAGREE	40	12%	59%
STRONGLY DISAGREE	-	-	100%
GRAND TOTAL	343	100%	100%

Table 4.8 Clear Structure of Reporting System

4.2.4 Employees Awareness

7% of the respondents were strongly agreed on that all employees in charge of the banks operations are aware of the guidelines of the operation, 34% were neutral to respond to this question and there were equal percentage of responses 28% for agree and disagree to the awareness of employees about the guidelines. The rest 3% of the respondents were strongly disagree for the specified questions'. This indicates, there is lack of information/awareness of employees about the well documented policies, procedures and guidelines of their operations.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	96	28%	28%
STRONGLY AGREE	23	7%	97%
NEUTRAL	118	34%	90%
DISAGREE	96	28%	56%
STRONGLY DISAGREE	10	3%	100%
GRAND TOTAL	343	100%	100%

Table 4.9 Employees Awareness

4.2.5 Procedural Performance

For the performance of employees or for discharging responsibilities as per the bank's regulations and guidelines, 7% of the respondents were strongly agreed that the staffs are perform their operations based on the organizations procedures, 41% were also agreed and 27% of the respondents were neutral. And the rest 26% of the respondents are against as indicated in the following table. It shows that majority of employees have good performance on their operations

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	139	41%	41%
STRONGLY AGREE	23	7%	99%
NEUTRAL	92	27%	92%
DISAGREE	86	25%	66%
STRONGLY DISAGREE	3	1%	100%
GRAND TOTAL	343	100%	100%

Table 4.10 Procedural Performance

4.2.6 The Control Environment of the Bank

For attaining organizational objectives the control environment has significant roles. As a result 7% of the respondents were strongly agreed that the bank's control environment is enough to attain its objectives, 42% were also agreed that it is enough to attain, 24% of the respondents were neutral and the

rest respondents were responded that it is not enough to attain the bank’s objectives. It shows that the banks control environment is good but not sufficient as can be seen from the responses as follows.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	145	42%	42%
STRONGLY AGREE	23	7%	96%
NEUTRAL	83	24%	90%
DISAGREE	79	23%	65%
STRONGLY DISAGREE	13	4%	100%
GRAND TOTAL	343	100%	100%

Table 4.11 The Control Environment of the Bank

4.3 RISK ASSESSMENT OF INTERNAL CONTROL SYSTEMS

The third section of the questionnaire was intended to assess the strategy of identifying risks, appropriate response to risks, management’s role to identify, evaluate and respond to risk, and the occurrence of risks. The responses of the respondents has discussed below;

4.3.1 Strategy of Identifying Risks

This variable was intended to test that whether the bank has designed an appropriate strategy of identifying risks. Out of which 8% and 49% of the respondents were strongly agreed and agree respectively on that the strategy is designed appropriately, 3% of the respondents were neutral and the rest 13% of respondents were responded adversely which is disagree and strongly disagree. This shows, the bank has strategy which enables to identify risks but not sufficient as expected, because risk identification is very essential in risk assessment process. The respondents details has shown in the following table;

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	168	49%	49%
STRONGLY AGREE	26	8%	99%
NEUTRAL	106	31%	92%
DISAGREE	40	12%	61%
STRONGLY DISAGREE	3	1%	100%
GRAND TOTAL	343	100%	100%

Table 4.12 Strategy of Identifying Risks

4.3.2 Appropriate Response to Risks

Majority of respondents have agreed on that the bank has designed a system to offer appropriate response to risks which is 9% and 42% of respondents were strongly agree and agree respectively. 38% of the interviewed respondents are neutral to the raised questions. The rest 10% of the respondents were disagree to the idea of appropriate response to risks. Besides risk identification, appropriate responses for the identified risk are also essential tools in risk assessment process. The banks appropriate response rates for risks are not as efficient as its vast operational activities as can be shown in the following table.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	145	42%	42%
STRONGLY AGREE	30	9%	100%
NEUTRAL	132	38%	91%
DISAGREE	36	11%	53%
STRONGLY DISAGREE	0	0%	100%
GRAND TOTAL	343	100%	100%

Table 4.13 Appropriate Response to Risks

4.3.3 The Role of Managements

Majority of the respondents 50% have agreed and 22% of the respondents also strongly agreed on the management's role to identify, evaluate and respond to risk is significant. Out of all respondents, 11% of

them were neutral and the rest 17% of respondents were against the specified variable as indicated in the following table. The result indicates that managements role in identifying, evaluating and respond to risk is high within the bank environment.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	172	50%	50%
STRONGLY AGREE	76	22%	98%
NEUTRAL	39	11%	76%
DISAGREE	50	15%	65%
STRONGLY DISAGREE	6	2%	100%
GRAND TOTAL	343	100%	100%

Table 4.14 The Role of Managements

4.3.4 Reduction of Risk

54% of the respondents agreed on the occurrence of risks that could be reduced by involvement of the internal control staffs during implementation; 19% of the respondents were also strongly agreed on it. Out of the respondents 17% of them were neutral to respond for this variables and the rest were totally disagree as shown in table 4.15; therefore, based on the response rates involvement of internal control enable to reduce the occurrence of risks in the bank.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	185	54%	54%
STRONGLY AGREE	66	19%	100%
NEUTRAL	59	17%	81%
DISAGREE	33	10%	64%
STRONGLY DISAGREE	0	0%	100%
GRAND TOTAL	343	100%	100%

Table 4.15 Reduction of Risk

4.4 CONTROL ACTIVITIES OF INTERNAL CONTROL SYSTEMS

The fourth section of the questionnaire was intended to assess the control activities and practices of internal control systems in the organization. It has assessed its performance in order to reduce and detect fraud, misappropriations and other illegal activities. The control policies and procedures have significant role in producing reliable financial reports. So as to assess the bank's performance in relation to the control activities has discussed below as per the interviewed responses.

4.4.1 Detection of Fraud, Misappropriation and Other illegal Activities

On the bank's performance of internal control system of the bank, 10% of the respondents were strongly agreed and 54% of the respondents are agreed on that the internal control system of the bank can reduce and detect fraud, misappropriations & other illegal activities. However, 8% of the respondents were neutral and 29% of the respondents were responded against to this variable. Since the banking sector is very sensitive to risks, the control environment should be strong enough. However, the banks performance in relation to detection of fraud, misappropriation and other illegal activities has shown some inefficiencies/gaps.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	185	54%	54%
STRONGLY AGREE	33	10%	86%
NEUTRAL	26	8%	76%
DISAGREE	50	15%	69%
STRONGLY DISAGREE	49	14%	100%
GRAND TOTAL	343	100%	100%

Table 4.16 Detection of Fraud, Misappropriation and Other illegal Activities

4.4.2 Policies and Procedures to Produce Reliable Financial Reports

Out of all respondents 22% were strongly agreed and 59% were agreed on the bank's policies and procedures which enable to produce reliable financial reports. For this variable, only 4% of the respondents were unconfident on the bank's policies and procedures. But the rest 15% were neutral as

specified in the following table; As shown in the result, the bank has policies and procedures which enables to produce reliable financial reports as needed.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	201	59%	59%
STRONGLY AGREE	76	22%	100%
NEUTRAL	53	15%	78%
DISAGREE	13	4%	62%
STRONGLY DISAGREE	0	0%	100%
GRAND TOTAL	343	100%	100%

Table 4.17 Policies and Procedures to Produce Reliable Financial Reports

4.4.3 Segregated Accounting Procedures

The existence of clearly segregated accounting procedures in the bank has been strongly agreed and agreed by the respondents which is 8% and 57% respectively, 26% of the respondents were neutral and the rest 9% were disagree of this variables as shown in the following table. The result indicates that the bank has adopted accounting procedures that are clearly segregated.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	195	57%	57%
STRONGLY AGREE	29	8%	100%
NEUTRAL	89	26%	92%
DISAGREE	30	9%	66%
STRONGLY DISAGREE	0	0%	100%
GRAND TOTAL	343	100%	100%

Table 4.18 Segregated Accounting Procedures

4.4.4 Clearly Segregated Operational Activities

Accounting functions or operational activities like authorization, processing, cheque signing and accounting functions are clearly segregated in the bank's environment has assessed through the questionnaires. For this variable, 14% of the respondents were strongly agreed on its segregated functions, 53% were agreed on it while 21% of the respondents were neutral. However, the rest 10% were disagree of this variable as stated in table 4.21; this indicates the banks functional areas are segregated as per its procedures.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	181	53%	53%
STRONGLY AGREE	49	14%	98%
NEUTRAL	73	21%	84%
DISAGREE	33	10%	62%
STRONGLY DISAGREE	7	2%	100%
GRAND TOTAL	343	100%	100%

Table 4.19 Clearly Segregated Operational Activities

4.4.5 Appropriate Supporting Documents

Providing essential supporting documents for disbursement of invoices has significant acceptance by the majority of the respondents which are 11% strongly agreed and 59 % of the respondents have agreed. Though there are respondents who were neutral to this variable which are 18% and the rest were against the stated variable as can be shown in the following table below. The result indicates that the bank functional areas or making transactions are backed by appropriate supporting documents.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	201	59%	59%
STRONGLY AGREE	39	11%	98%
NEUTRAL	63	18%	87%
DISAGREE	33	10%	68%
STRONGLY DISAGREE	7	2%	100%
GRAND TOTAL	343	100%	100%

Table 4.20 Appropriate Supporting Documents

4.4.6 Asset Registration Systems

Out of 343 questioned respondents 152 were agreed on that the bank has an up-to-date asset registration system. From which 33 (10%) of respondents were strongly agreed on the existence of up to date asset registration of the banks while the other 36% were neutral. However, the rest were fall under the opposite directions for this variable as stated in table 4.21; as shown in the result the bank's asset registration systems has shown uncertainty or non-clarity based on the respondents' response percentage.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	119	35%	35%
STRONGLY AGREE	33	10%	99%
NEUTRAL	125	36%	90%
DISAGREE	63	18%	53%
STRONGLY DISAGREE	3	1%	100%
GRAND TOTAL	343	100%	100%

Table 4.21 Asset Registration Systems

4.4.7 Strictly Followed Procedures

Here, the procurement and disposal of assets procedure is strictly followed under the bank operation systems were the variable to assess the bank's asset procedures attainment. The high numbers of respondents were neutral to this variable which is around 45% of the respondents and only 7% were strongly agreed on the disposal of assets procedure and 25% were also agreed on it. The other 23% of the response were against the procurement and disposal of assets as provided in the following table. Strictly following the existing documented procedures and policies have shown uncertainty as shown in the response rates.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	86	25%	25%
STRONGLY AGREE	23	7%	99%
NEUTRAL	155	45%	92%
DISAGREE	76	22%	47%
STRONGLY DISAGREE	3	1%	100%
GRAND TOTAL	343	100%	100%

Table 4.22 Strictly Followed Procedures

4.4.8 Preparation of Bank Reconciliations

One of the control activities is bank reconciliations prepared by someone independent of the cash receiving, processing and recording activities. Thus, this variable is intended to test the banks system of preparation of reconciliation for which 62% of the respondents were in favor of the preparation systems while 10% were neutral. The rest 28% of the respondent were uncomfortable with the preparation system of the bank's reconciliation as discussed in the following table. As a result, the reconciliation preparation system of the bank has shown few uncertainties as can be seen in the response rate of 28% disagreement and 10% neutral responses.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	185	54%	54%
STRONGLY AGREE	26	8%	95%
NEUTRAL	36	10%	87%
DISAGREE	79	23%	77%
STRONGLY DISAGREE	17	5%	100%
GRAND TOTAL	343	100%	100%

Table 4.23 Preparation of Bank Reconciliations

4.4.9 Approval of Reconciliation

In order to cross check the preparation of the reconciliation process, it should be approved by independent parties to make sure that there are effective control systems. Therefore, the bank's approval system has been checked under this variable and the responses were 52% accepted by the respondents while 16% were neutral. On the other hand, the rest 32% of respondents were disagree to the approval system of the prepared reconciliations as indicated in the following table. Therefore, the result implies there are also doubt full activities in relation to the banks reconciliation approval systems.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	149	43%	43%
STRONGLY AGREE	30	9%	93%
NEUTRAL	55	16%	85%
DISAGREE	86	25%	69%
STRONGLY DISAGREE	23	7%	100%
GRAND TOTAL	343	100%	100%

Table 4.24 Approval of Reconciliation

4.5 INFORMATION & COMMUNICATION SYSTEMS OF INTERNAL CONTROL

The fifth section of the questionnaire was about the information and communication systems of the internal control of the bank. This was intended to test the banks communication flow, records of transactions, the right to access and consequences of illegal activities which should be communicated to all stakeholders of the organization. Based on the taken samples, the respondent's responses are discussed here under;

4.5.1 Control Information's to Stakeholders

Equal percentage of respondents were agree and neutral to the existence of control information's communication to all of the banks stakeholders which is 38%. On the other hand, 24% of the respondents were not agreeable to the awareness of all of the banks stakeholders out of which 2% were strongly disagree as shown in the following table. The result implies that the bank has inefficiencies in communicating control information's to all stakeholders.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	129	38%	38%
STRONGLY AGREE	6	2%	100%
NEUTRAL	132	38%	98%
DISAGREE	76	22%	60%
STRONGLY DISAGREE	0	0%	100%
GRAND TOTAL	343	100%	100%

Table 4.25 Control Information's to Stakeholders

4.5.2 Timely Recorded Transactions

Timely and clearly recorded transactions would help to produce reliable information's which will be communicated to all stakeholders of the organization. The responses from the respondents revealed that 8% strongly agreed and 56% of the respondents were agreed on the existence of timely and promptly recorded transactions in the bank which enables to provide reliable information. Among the respondents 13% of them were neutral and the rest were against the existence of timely records for transactions as

indicated below. And the result shows that there is timely recording system of transactions in the bank even if it is not at a perfect level.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	191	56%	56%
STRONGLY AGREE	26	8%	100%
NEUTRAL	43	13%	92%
DISAGREE	83	24%	80%
STRONGLY DISAGREE	0	0%	100%
GRAND TOTAL	343	100%	100%

Table 4.26 Timely Recorded Transactions

4.5.3 The Right to Access

In order to aware of the staffs/the officers the responsibility and the right to access should clearly be communicated. Through this variable the researcher was intended to check the bank's communication systems to its subordinates. As a result, 53% of the respondents were agreed on the banks clearly communicated system while 26% were disagreed. There were also about 14% respondents who were neutral to this variable. But the rest 7% were strongly agreed on its existence as shown below; the result implies that the right to access and the staffs/the officer's responsibility is clearly communicated though it needs ongoing improvements.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	182	53%	53%
STRONGLY AGREE	23	7%	100%
NEUTRAL	49	14%	93%
DISAGREE	89	26%	79%
STRONGLY DISAGREE	0	0%	100%
GRAND TOTAL	343	100%	100%

Table 4.27 The Right to Access

4.5.4 Consequences of Illegal Activities

This variable is intended to find out that illegal activities in the organization have appropriate punishments and these consequences are clearly communicated and understood by the stakeholders. Out of all respondents 7% of them were strongly agreed and 46% were agreed on the banks communication to create awareness on consequences of illegal activities. On the contrary, 36% of the respondents were disagreed on this variable while the rest 12% of respondents were neutral as shown in table 4.28; As indicated in the result, the information and communication systems of internal control of the banks have shown some weaknesses or gaps.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	158	46%	46%
STRONGLY AGREE	23	7%	100%
NEUTRAL	40	12%	93%
DISAGREE	122	36%	82%
STRONGLY DISAGREE	0	0%	100%
GRAND TOTAL	343	100%	100%

Table 4.28 Consequences of Illegal Activities

4.6 MONITORING ACTIVITIES OF INTERNAL CONTROL SYSTEMS

The last section of the questionnaire was tried to assess the monitoring activities of internal control systems of the bank. It has contained the role of monitoring activities to achieve the bank's objectives, continuous monitoring systems, evaluating the internal control systems and also its roles to reduce the occurrence of risks in the bank. Each of the following interrelated variables have discussed below;

4.6.1 The role of Monitoring in the bank to achieve Objectives

Strictly monitored internal control system would help achieving organizational objectives. Based on this, 33% and 59% of the respondents were strongly agreed and agreed respectively to the significant roles of monitoring the internal control system of the bank is important to achieve the bank objectives. 5% of them were neutral while the rest 4% of the respondents were disagree to this variable and the responses

revealed that in achieving the organizations objectives, monitoring activities play a significant role in the banks environment. The following table shows the respondents detail;

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	201	59%	59%
STRONGLY AGREE	112	33%	100%
NEUTRAL	17	5%	67%
DISAGREE	13	4%	62%
STRONGLY DISAGREE	0	0%	100%
GRAND TOTAL	343	100%	100%

Table 4.29 The role of Monitoring in the bank to achieve Objectives

4.6.2 Monitoring to Operational Activities

The existence of monitoring activities in relation to various operations agreed by high number of respondents which is around 61% and also strongly agreed by 12% of the respondents. On the contrary, 20% of the respondents were against the stated variable while the rest respondents are neutral as indicated in the following table. This indicates, the bank has better monitoring activities in relation to its operational activities/performances.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	208	61%	61%
STRONGLY AGREE	40	12%	98%
NEUTRAL	25	7%	86%
DISAGREE	63	18%	79%
STRONGLY DISAGREE	7	2%	100%
GRAND TOTAL	343	100%	100%

Table 4.30 Monitoring to Operational Activities

4.6.3 Availability of Continuous Monitoring System

The existence of continuous monitoring system ensures by majority of the respondents by strongly agreed 10% of the respondent and 56% of agreed respondents. The banks insufficient monitoring system in order to achieve internal control effectiveness has backed by 21% of respondents through their disagreement. This indicates, consistency of the banks monitoring systems is not as needed/expected as can be seen from the responses. The following table has shown the total response percentages;

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	191	56%	56%
STRONGLY AGREE	36	10%	98%
NEUTRAL	43	13%	87%
DISAGREE	66	19%	75%
STRONGLY DISAGREE	7	2%	100%
GRAND TOTAL	343	100%	100%

Table 4.31 Availability of Continuous Monitoring System

4.6.4 Determining Control Effectiveness

The variable used to assess that the control effectiveness can be determined by continuous monitoring systems in the organization. Among all respondents 55% of them were agreed and 24% were strongly agreed while 8% were neutral. But the other 14% of respondents were against the specified variable as indicated in the following table. It implies that existence of continuous monitoring system in the bank ensures the control effectiveness of the bank. Therefore, adopting strong and continuous monitoring system would help to achieve control effectiveness.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	188	55%	55%
STRONGLY AGREE	83	24%	99%
NEUTRAL	26	8%	75%
DISAGREE	43	13%	67%
STRONGLY DISAGREE	3	1%	100%
GRAND TOTAL	343	100%	100%

Table 4.32 Determining Control Effectiveness

4.6.5 Minimization of Risks

This variable was intended to assess whether internal control monitoring activities of the bank could reduce the occurrence of illegal activities. Up on this, 61% of the respondents were agreed and 8% of them were strongly agreed on the bank's internal control monitoring activities in order to reduce risks. On the other hand, 20% of the respondents were disagreed on the monitoring system of the banks while the remaining respondents 12% stayed neutral as shown in the following table. And the responses from respondents have shown the monitoring activities of the bank can reduce the occurrence of illegal activities and risks.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	208	61%	61%
STRONGLY AGREE	26	8%	100%
NEUTRAL	40	12%	92%
DISAGREE	69	20%	81%
STRONGLY DISAGREE	0	0%	100%
GRAND TOTAL	343	100%	100%

Table 4.33 Minimization of Risks

4.6.6 Appropriate Actions based on Control Findings

For the variable that test the existence of appropriate actions application based on control findings and recommendations, 50% of the respondents were agreed while 13% were strongly agreed and remained neutral. The rest 24% of the respondents were unsatisfied or disagreed to the applied actions based on the banks control findings as can be shown in the following table. The result implies that, the bank has a system of taking appropriate actions. However, as per the organizations significant role to the whole economy of the country as well as to the public sectors, the percentage of taking corrective/appropriate actions is not sufficient.

CATEGORY	FREQUENCY	PERCENTAGE (%)	CUM PERCENTAGE (%)
AGREE	172	50%	50%
STRONGLY AGREE	43	13%	100%
NEUTRAL	45	13%	87%
DISAGREE	83	24%	74%
STRONGLY DISAGREE	0	0%	100%
GRAND TOTAL	343	100%	100%

Table 4.34 Appropriate Actions based on Control Findings

4.7 DISCUSSION OF INTERVIEW QUESTIONS

With a structured interview questions the bank's general manager of internal audit were asked the following questions as discussed below;

Do you believe the internal control of the bank could achieve the bank's objectives? How?

The manager believed that the bank has strong internal control with strong board of governance that support the bank's essential functions like gives priority for national sector financing and public interests. Since it is government owned bank and has a great share in the country's economy, unless it has strong internal control system the achievement of its general objectives would be doubtful. However, as can be seen in the banks record the banks objectives were achieved in a high level and its profit also has shown significant increment from time to time; as an example he has mentioned

construction of Abay dam and the recent Addis Ababa electric rail service. Therefore, for this output the internal control of the bank plays a significant role by forming its own risk management section and also by providing clear procedures for each core processes as discussed by the banks manager.

Do you think all areas of internal control system (the control environment, control activities, risk assessment, information and communication, and monitoring) are well designed and operating in the bank?

Even if it is not proficient at a perfect level, the internal control of the bank has its own procedures which enable to create appropriate control environment, continuous assessment, control activities and control communications that helps the workers to know and understand their own/the process as well as the general procedures of the organization. And the bank's internal control is working as a very essential tool for the achievement of the bank objectives as well as for smoothening of its complex environment. Therefore, the interviewer ensures that the banks internal control systems and structures are properly designed and operating though there always be in improvements and changes due to its ongoing process natures.

What are the criteria's of evaluating internal control of the bank?

Computed by international control standards as well as the organizations given roles, goals and targets, the performance of the internal control of the banks would be evaluated. In every evaluation of the process, attaining its objectives and interrelations and supports for the general operations of the bank has significant measures.

Do you believe that there are illegal activities within the bank environment?

The manager were call it operational risks and replied yes there are a lot of operational risks within the bank which comes from human made errors, system errors and process/procedural errors or gaps. He ensures that the banks operational risks or other illegal practices cannot be eliminate/avoided but the internal control of the banks always works to reduce the number and maintain at minimum levels.

Do you think that the information security management system of the bank can support the bank's internal control system? How?

As discussed by the internal audit manager of the bank, the information security management system of the bank has a great support for the internal control system of the bank's through securing the systems used in the organization like Temenos/T24 system of application software, by separating maker checker access to the officers as well as by providing/adopting latest technological advancements in order to ensure better control mechanisms in the organization.

What are the possible factors that affect internal control system of the bank?

There might be various possible factors that could affect the internal control system of the bank. But the main factors that mentioned by the internal auditor manager were, structure of the internal control, human resource, process/flow of the control and external parties of the control environment. When he discussed the structure of the internal control, due to increments in branch expansions and day today expansions of transactions, the control environment should be aligned with its growth. Therefore, the structure of the control environment may need timely updates. In addition both the scarcity and excess man power is also would be a factor to the internal control systems.

What is your idea about the effectiveness of the internal control of the bank and where is/are areas of the control you suggest an improvement?

It is difficult to mention specific areas of control activities said the general manager of the banks internal audit, but as the control system is a process there always should be revisions and improvements in every possible corner.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5. INTRODUCTION

This chapter contains findings which have drawn from the analysis, conclusions and recommendations as discussed below;

5.1 SUMMARY OF FINDINGS

A major findings of this study revealed that the bank has clear separation of roles and responsibilities backed by documented policies, procedures and guidelines. The reporting structure of the bank is also clearly specified while there is limited awareness of the employees in charge of the banks operations regarding the guidelines for their activities. Though, the employees performance for discharging their responsibilities as per the organizations procedures have shown moderate acceptance. Even if there is no perfect control environment, in achieving the organizational objectives the banks control environment still has significant roles. Therefore, the control environment of the banks in general has its own ongoing changes and improvements from time to time as discussed by the audit manager of the bank's internal audit.

The banks designed strategy to identify risks and appropriate response to risks are the areas that 49% and 42% respondents respectively were agreed on. However, as per the responses rate this risk assessment areas have shown some inefficiencies or gaps. Above half of the respondents were agreed on the banks managements role in identifying, evaluating and responding to risks. Therefore the banks managements have significant role in risk assessment process of the bank in line with the internal control staffs involvement during operational activities and implementations in order to control and reduce the occurrence of risks.

The banks internal control activities and practices of internal control systems performance in detection of fraud, misappropriation and other illegal activities has shown better level of acceptance. Though, the control activities are still insufficient in order to reduce risks, fraud, misappropriation and other illegal activities to achieve its vast organizational objectives as mentioned by the internal audit general manager

of the bank. Policies and procedures of the bank have the capacity to produce reliable financial reports on which above 65% of the respondents were agreed on and the accounting procedures of the banks are also clearly segregated. In addition, accounting functions or operational activities like authorization, processing, cheque signing and accounting functions are clearly separated in the banks environment. Transactions are also supported by appropriate documents for disbursement of invoices within the bank environment. However, the bank's asset registration systems and strictly following the existing documented procedures and policies have shown uncertainty or non-clarity based on the respondents' response percentage which is 36% and 45% respectively were neutral on this variable. Preparation and approval of the bank's reconciliation systems is one of the control activities of the bank prepared and approved by someone independent of the cash receiving, processing and recording activities. But there is still a gap on the process and approval of the reconciliation which has significant role in control activities of the bank which can be shown on the respondent percentage of 26% and 36% response of disagreement respectively.

The information and communication systems of internal control are difficult to say control information's are well communicated to stakeholders. There were equal percentage of neutrality and agreements among the respondents which is 38% and also 22% disagreements. On the contrary, there is timely recording system of transactions in the bank and the right to access and the staffs/the officer's responsibility is clearly communicated even if it is not at a perfect level. In order to reduce illegal activities, punishments and consequences of such activities should clearly communicate to all stakeholders. However, among the selected respondents 36% of them were unaware or disagree to the existing appropriate communication systems for consequences of illegal practices. Therefore, the information and communication systems of internal control of the banks have shown some weaknesses or gaps.

There is a strong believe that properly monitored internal control system would help achieving organizational objectives. The banks have also monitoring activities in relation to its operational areas. But the existence of continuous monitoring systems in the bank may have a few gaps as shown by the respondent's disagreement rate of 21%. This is because continuous monitoring systems in the organization can determine the effectiveness of its control systems. Which is most of the respondents were agreed on the control effectiveness can be determined by continuous monitoring systems in the

organization. Since risk cannot be avoided, the role of the internal control monitoring activities of the bank is to reduce or minimize risks of the bank to the acceptable level. On which the bank's performance on reduction of risk has shown progressive improvements as discussed by the general manager of the bank's internal audit. And also the responses from respondents have shown the monitoring activities of the bank can reduce the occurrence of illegal activities. The control activities main target is to take corrective and appropriate actions based on findings. Upon this, the bank's appropriate action applications based on control findings and recommendations have 63% of acceptance among respondents. However, as per the organizations significant role to the whole economy of the country as well as to the public sectors, the percentage of taking corrective/appropriate actions is not sufficient.

5.2 CONCLUSION

From all collected theoretical and empirical data's, the researcher has concluded that the control environment of the bank is found in a better position to achieve the bank's objectives. In addition, the bank operational activities are guided by its policies and procedures in order to produce reliable financial reports. The control environment has the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. The banks management has significant roles regarding the importance of internal control including expected standards of conduct.

The banks risk assessment process works to the achievement of objectives, including the potential impact of significant changes, fraud, and management override of internal control. However, the banks designed strategy to identify the incidences of frauds and mistakes caused by personal distraction, carelessness, fatigue, errors in judgment, or unclear instructions have shown some inefficiencies or gaps which should be improved and given due attention. Unless corrective and appropriate actions are taken, identifying and detecting illegal activities would have limited value for the organization.

Control activities are performed at all levels of the entity, at various stages within business processes. They encompass both preventive and detective nature and a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, using maker checker during operations, access/separating access to the system, etc. Segregation of duties is typically built into the

selection and development of control activities. However, the banks controlling activities like reconciliation and approvals need some revisions so as to generate valuable results.

Information is necessary for the entity to carry out internal control responsibilities to support the achievement of its objectives. Communication is the continual, iterative process of providing, sharing, and obtaining necessary information. Internal communication is the means by which information is disseminated throughout the organization, flowing up, down, and across the entity. It enables personnel to receive a clear message from senior management that control responsibilities must be taken seriously. Though, there are communication gaps between employees that the internal control information's are not communicated to all stakeholders as needed.

Internal control systems need to be monitored as 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. However, the bank monitoring systems have lack some consistency in taking proper actions based on control findings and recommendations.

In general, the banks overall activities of the internal control has shown better performance in order to attain the objectives of the organizations by achieving the three (ensure effective and efficiency of operations, reliability of reporting for internal and external uses, and compliance with applicable laws and regulations) control objectives. Though there should always be changes and revisions in order to align with various technological advancements and updates. Therefore, based on the study findings, the researcher has given some recommendations which may help the banks to see its inefficiencies and gaps as discussed in the following section.

5.3 RECOMMENDATIONS

Based on the major findings drawn from the study the researcher has given the following recommendations;

The internal control environment of the bank shall have great performance if it improves the awareness of the employees in charge of the banks operations regarding the guidelines for their every activity's within the bank. The employees' performance in discharging their responsibilities would also be better through creating better awareness among the employees. Therefore, the control environment would be in a better position in achieving the organizations objectives.

Since the banking sector is highly sensitive to risks and also because of the CBE' highly expansions, appropriate designed strategy to identify risks and appropriate responses should be strong enough to protect the organizations image as well as its operational activities. Besides the bank's managements should play its role as much as possible in order to reduce the occurrence of risks.

Due to complexity of the banks operation in relation to technological advancements as well as mass level of transactions, the banks internal control activities and practices in detection of fraud, misappropriations and other illegal activities should be strong enough to minimize the occurrence of various operational risks. Immediate detection of illegal activities and proper responses will have a great importance for the attainment of control as well as organizational objectives.

Unless documented rules and procedures are strictly followed it cannot produce absolute out puts by itself. Therefore, documented policies and procedures of the bank should be applicable in order to create clarity and certainty on the banks operation.

One of the tools that the internal control uses is bank reconciliations between various internal and external accounts. Therefore, the preparation and the approval of the reconciliations should always be reliable and separated from the persons involves in operations in order to attain its objectives.

Communicating control information's to all stakeholders should be ensured by the organizations in order to protect the employees from unnecessary activities as well as to maintain smooth banking environments. The officer/supervisors right to access and their expected responsibilities should be clearly communicated to the expected level.

In order to reduce illegal activities, punishments and consequences of such activities should clearly communicate to all stakeholders by which the employees able to protect themselves as well as their organizations at list from human made errors.

Continuous monitoring systems should be ensured in the organizations at a better level. This is because continuous monitoring systems in the organization can determine the effectiveness of its control systems. And the internal control monitoring activities of the bank should ensure to reduce or minimize risks of the bank to the acceptable level.

As per the organizations significant role to the whole economy of the country as well as to the public sectors, taking corrective/appropriate actions should be absolute within the bank environment. This would ensure in minimizing and protecting the banks operations from future uncertainties.

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ANNEX

I. QUESTIONNAIRE

QUESTIONNAIRE FOR INTERNAL CONTROL EFFECTIVENESS ASSESSMENT IN CASE OF ETHIOPIAN BANKING INDUSTRY IN THE CASE OF; COMMERCIAL BANK OF ETHIOPIA

The objective of this study is to assess the effectiveness of internal control systems existing in Ethiopian banking industry. To supplement the data obtained from different sources, the researcher look to gather relevant information from a sample of your banks using self-developed questions.

Participation in this study is completely voluntary, the questionnaire results will be recorded anonymously and strict confidentiality will be maintained; and individual responses will not be identified in the paper.

A. DEMOGRAPHIC INFORMATION

I. Personal information of the respondent (Please, tick in the appropriate circle)

- 1. Gender Female [] Male []
- 2. Marital status Single [] Married [] Other []
- 3. Educational level Diploma [] Degree [] Masters [] Above []
- 4. Field of profession Management [] Accounting [] Economics [] Other []
- 5. Year of service in this bank <5 years [] 6 – 11 years [] 12- 16 years []
 17 – 22 years [] Above []

B. COMPONENTS OF INTERNAL CONTROL

Please, tick in the appropriate box;

Control Environment	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. There is clear separation of roles and responsibilities in the bank					
2. There are documented policies, procedures and guidelines in the bank.					
3. The reporting structure is clearly specified					
4. All employees in charge of the banks operations are aware of the guidelines of the operation					
5. All staff in charge perform their responsibilities as per the regulations and guidelines					
6. The control environment in your bank is enough to attain the bank's objectives					
Risk assessment of internal control systems					
7. The bank has designed an appropriate strategy of identifying risks.					
8. The bank designed a system to offer appropriate response to risks					
9. It is management's role to identify, evaluate and respond to risk					
10. Involvement of the internal control staff during implementation reduces the occurrence of risk.					
Control activities of internal control systems					
11. The internal control system of the bank can reduce and detect fraud, misappropriations & other illegal activities.					
12. Policies and procedures can lead to producing reliable financial reports.					

13. Accounting procedures of in the bank are Clearly Segregated					
14. Authorization, processing, cheque signing and accounting functions are clearly segregated.					
15. The bank invoices or requests for disbursements are backed by appropriate supporting documents.					
16. There is an up-to-date asset register					
17. The procurement and disposal of assets procedure is strictly followed under the bank operation systems					
18. Bank reconciliations are prepared by someone independent of the cash receiving, processing and recording activities.					
19. Prepared reconciliations are approved by independent officers/supervisors.					
Information and communication of internal control systems					
20. Control information's are communicated to all stakeholders.					
21. Transactions are promptly recorded and classified to provide reliable information.					
22. The officer's responsibility and the right to access are clearly communicated.					
23. The consequences of illegal activities are clearly understood by the stakeholders.					
Monitoring activities of internal control systems					
24. Monitoring the internal control system of the bank is important to achieve the bank objectives					
25. The bank has monitoring activities in relation to operational activities					

26. The bank has continuous monitoring systems					
27. Monitoring helps to determine whether controls under the bank are effective					
28. Internal control monitoring activities of the bank could reduce the occurrence of illegal activities.					
29. Appropriate actions are applied based on control findings and recommendations.					

If there is additional information's you want to add, please specify here;

“Thank You for your Cooperation”

II. INTERVIEW QUESTIONS

1. Do you believe the internal control of the bank could achieve the bank's objectives? How?
2. Do you think all areas of internal control system (the control environment, control activities, risk assessment, information and communication, and monitoring) are well designed and operating in the bank?
3. What are the criteria's of evaluating internal control of the bank?
4. Do you believe that there are illegal activities within the bank environment?
5. Do you think that the information security management system of the bank can support the bank's internal control system? How?
6. What are the possible factors that affect internal control system of the bank?
7. What is your idea about the effectiveness of the internal control of the bank and where is/are areas of the control you suggest an improvement?

III. LIST OF SELECTED BRANCHES AND THEIR GRADE

No.	Branch Name	Grade	No.	Branch Name	Grade
1	Meskel Square	IV	42	Sebara Babur	II
2	Africa Avenue	IV	43	Abware	II
3	Addis Ababa	IV	44	Sidest Killo Campas	II
4	Arat Kilo	IV	45	Berhanena Selam	II
5	Finfine	IV	46	Winget	II
6	Sengatera	IV	47	Yohannes	II
7	Gofa Sefer	IV	48	Fleweha	II
8	Airport	III	49	Tikur Anbessa	II
9	ECA	III	50	Bela	II
10	Thewodros square	III	51	Kebena	II
11	Mehal ketema	III	52	Abune petros	II
12	Ayer Tena	III	53	Ras Desta	II
13	Cargo Terminal	II	54	Semen Mazegaja	II
14	China Africa Sq	II	55	Pushkin Adebabay	II
15	Gurd Sholla	II	56	Lideta	II
16	Urael	II	57	Gotera	II
17	B/Medhanialem	II	58	Mekanisa	II
18	CMC	II	59	Gofa Mebrat	II
19	Meskel Flower	II	60	Sar Bet	II
20	Wuha Limat	II	61	Mexico	II
21	Wollosefer	II	62	Gofa Gebreal	II
22	Shola Gebeya	II	63	Sebategna	II
23	Kazanchis	II	64	Sumale Tera	II
24	Jakros Square	II	65	Gojam Berenda	II
25	Ayer Amba Michael	II	66	Goma Tera	II
26	24 Akababi	II	67	Atikilt Tera	II
27	22 Mazonia	II	68	Weyra	I
28	Bambis	II	69	Mesalemia	I
29	Lam Beret	II	70	Piassa	I
30	Ayat Adebabay	II	71	Tayitu Bitul	I
31	Balderas	II	72	Ras Mekonen	I
32	Shala Akababi	II	73	Minelik	I
33	Beshale	II	74	Olympia	I
34	Edna Mall	II	75	Misrak-Dil Akababi	I
35	Emprial Akababi	II	76	Awuraris Akababi	I
36	Adwa Park	II	77	Agoza Gebeya	I
37	CMC Michael	II	78	Peacock Menafesha	I
38	Karamara	II	79	Stadium	I
39	Bole Menged	II	80	Karl Adebabay	I
40	Kideste Mariam	II	81	Lideta Mariam	I
41	Sheger	II			