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St. Mary's University, Ethiopia

**EVALUATION OF INTERNAL CONTROL SYSTEM IN  
OIL AND GAS COMPANIES:  
A CASE STUDY IN TOTAL ETHIOPIA S.C**

**BY  
SELAM TSEHAYE  
ID (SGS/0088/2007A)**

**JUNE, 2016  
ADDIS ABABA, ETHIOPIA**

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

**JUNE, 2016  
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**APPROVED BY BOARD OF EXAMINERS**

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## DECLARATION

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

\_\_\_\_\_

Name

**St. Mary's University, Addis Ababa**

\_\_\_\_\_

Signature

**June, 2016**

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## LIST OF ACRONYMS

AICPA	American Institute of Certified Public Accountants
COSO	Committee of Sponsoring Organizations of the Tread way Commission
OFAG	Office of Federal Audit General
M&S	Marketing and support
G.C	Gregorian calendar
S.C	Share company
CEO	Chief executive officer
CFO	Chief Finance officer
SOX	Sarebian- oxely
SPSS	Stastical package for the social science
IT	Information technology

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## ABSTRACT

*Oil and gas are considered among the world's most important resources. As oil and gas companies engaged in extended process are complex in nature, it requires strong internal control system. In addition current business trends have made it imperative for almost all large organizations to maintain an internal control system. The basic objective of the research paper is to evaluate the effectiveness of internal control in Total Ethiopia S.C. due to allegation in the company related to loss of huge value of company's inventory item and fraud exercised by some of employees. The study used purposive sampling techniques, questioners and interviews as a primary data collection tool and different document of the company, literature & research documents were used as a secondary data. The data gathered was analyzed and interpreted by the help of percentages, frequency tables mean and standard deviation using SPSS software. Relevant literatures to the study were also considered. The finding of the study revealed that the overall effectiveness of internal control in the organization could not be described as very strong but rather satisfactory and need improvement. Particularly the monitoring component of internal control is poor in the organization. Though Risk Assessment is better in the organization, there is inadequate control environment, control activities and inadequate flow of information and communication in the organization. The recommendations drawn from the study was that, the company should select, develop, and perform ongoing and/or separate evaluations on business process to ascertain whether the components of internal control are present and functioning and those internal control deficiencies should be communicated to parties responsible for taking corrective action. But in order to do so, the organization should increase the number of auditors, as the number of auditor is currently only one which is the audit manager.*

*Key words: internal control, internal control system, Evaluation, effectiveness*

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

Oil and gas are considered among the world's most important resources. The oil and gas industry plays a critical role in driving the global economy. Petroleum itself is used for numerous products, in addition to serving as the world's primary fuel source. The processes and systems involved in producing and distributing oil and gas are highly complex, capital-intensive and require state-of-the-art technology (Softech Middle East, n.d.).

As oil companies engaged in extended process are complex in nature, it requires strong internal control system. In addition, today's world is always in progress, The fast movement of firms, transaction increase, constant technological advancement, resource scarcity pressure and intensive competition, pressures and variety of risks in all fields, fraud and embezzlement threaten objectives and policies of the organization from outside and inside. All these factors led the management to consider countless issues, and practically it is almost impossible to control a firm directly and individually. Indirect control of organizational operations and distance of the top management from all of the entity's activities has caused to management for doing their responsibility stewardship inclined to establishment of an effective system of internal control as an integral component of management system (Poretminan et al., 2014).

The fact that effective internal controls are in the best interests of the management, shareholders and other stakeholders, it is sometimes obscured when new rules and costly compliance programs are imposed on companies as a result of high-profile organizational failures. Implementing the right kind of internal controls enable an organization to capitalize on opportunities while mitigating the risks, and can actually save time and money as well as promote the creation and preservation of value (Petteri, 2014).

Poretminan et al., (2014) also stated that the importance of implementing internal controls in economic units are undeniable. An effective internal control system can assist management in

achieving organizational goals. Today, integrated system of internal controls provided by the COSO is considered and performed by most organizations in different countries. Lembi (2006) showed that a company can benefit of effective internal control in several ways. Through enhanced structure of internal control, the possibility of error and fraudulent and illegal conduct can be diminished to a minimum. In highly competitive market, a well-managed internal control system helps to improve the competitiveness and improve employees' understanding of companies' objectives.

In addition a study conducted by Sultana and Haque (2011) on the Evaluation of Internal Control Structure: found that internal control procedures reduce process variation, leading to more predictable outcomes and recommend that internal control system is important for all types of organization to achieve its objectives. Because, if a proper internal control system is implemented, all of the operations, physical resources, and data will be monitored and under control, objectives will be achieved, risks will be minimized, and information output will be trustworthy. On the other hand, if the internal control system is weak and unsound, the firm's resources may be vulnerable to loss through theft, negligence, carelessness, and other risks. As a result, the accounting information system will likely generate information that is vulnerable, untimely, and perhaps unrelated to the firm's objectives. Douglas (2011) also revealed in his study that even though internal control system exists in the organization, the effectiveness of the internal controls could not be described very effective since monitoring and evaluation is less effective.

Aramide and Bashir (2015) as well discovered that, effective internal control system pave way for achieving organizational goal, Therefore, the control mechanism, such as adequate verification of vouchers and other financial documents, approval and confirmation of financial transaction, adequate control over cash and operations and severe punishment for erring officers to enhance good internal control accountability must always be in place. He also discovered from the findings of his study that the major available mechanism tools to achieve effective internal control in the organization are staff commitment towards rules and procedures set by the organization.

From the above, it is therefore very important to say that, Internal Controls play a significant role in helping managers to achieve their goals, Hence the need for this study to evaluate the effectiveness of internal controls in Total Ethiopia is a paramount importance.

## **1.2 Background of the Case Study**

Total is the world's fourth-largest oil and gas company and second-largest solar energy operator with Sun Power. With operations in more than 110 countries and have more than 30,000 employees who are fully committed to better energy. Leveraging its integrated business model, it operates across the oil and gas value chain, from exploration to marketing. Total is a top-tier chemical producer and are poised to become a leader in new energies. Total is organized into three interrelated business segments: Upstream, Marketing & Services and Refining & Chemicals.

Total Ethiopia S.C. is an affiliate of the international TOTAL Group. Total Ethiopia S.C. was established in Ethiopia in 1950 G.C under the name of TOTAL Mer Rouge and engaged in Marketing & Services (M&S) and since then it has been proudly serving the country. Total Ethiopia S.C. merged with Ex - MOBIL Oil East Africa Ltd in 2006 and has successfully consolidated its activities.

Total Ethiopia S.C. is an experienced supplier of petroleum products in Ethiopia to various economic sectors and the general public for the past sixty years. And it contributed in tailoring its activities to easily adapt to changing conditions and helped to develop the current effective working system and procedures. On the commercial sector Total Ethiopia S.C. has been extensively supplying all kinds of petroleum products to the governmental, private and International companies.

Total Ethiopia S.C. currently has more than 500 contracted fuel trucks transporting over 700 million liters of fuel per year, 150 internal permanent employees who are working at head office, Akaki Depot and three aviation depot; Bole international airport, Bahir Dar & Mekelle, and more than 4000 job opportunities created among its partners.

Total Ethiopia S.C. is the major supplier of petroleum products in the country such as Gas oil, Gasoline, Jet A1, Furnace fuels (Heavy Fuel Oil and Light Fuel Oils) etc... as per the Ethiopian Petroleum Supply Enterprise specification through 173 operational retail stations, 800 general trade and specialties customers. It is a well known fact that the government's body, Ethiopian Petroleum Supply Enterprise, is the sole importer of these fuel items to this country and all oil companies including Total Ethiopia S.C. serve as distributors of the products to consumers.

Total Ethiopia S.C. also distribute its lubricants and are the market leader in the supply of Automotive and Industrial Lubricants in the country with the top of the range performance TOTAL oils and greases fulfilling the international performance grades like API, ACEA,BS, ISO, MIL etc... having the approval of the original equipment manufacturers. Under normal circumstances TOTAL carry a lubricant stock quantity equivalent to at least three months of the market requirement ensuring a reliable supply to fulfill the demands of customers at all times.Total considers safety in regard to operation, human health, respect for the environment and customer satisfaction as paramount priorities and this has been and will continue to be pillar for a sustainable business relationship.

Total group's internal control framework is that of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In this framework, internal control is a process intended to provide reasonable assurance that the following will be achieved: effective and efficient operational control, accurate reporting of financial information, and compliance with applicable laws and regulations (Total, n.d.).

As for any system for internal control, there can be no guarantee that all risks are completely eliminated. As a result, the Total Group's internal control procedures are based on the COSO framework: design and implementation of internal controls, risk evaluation process, internal control operations, documentation and communication of internal control rules, and supervision of the internal control system (Total, n.d.). This study is thus aimed to assess how effective the internal control systems are in Total Ethiopia S.C.

### **1.3 Statement of the Problem/Rationale**

Internal control has become a highly pertinent and topical business issue at the 21st century due to the regular occurrence of fraud, theft and misappropriation of funds has lead uncertainty and fear in the minds of the general stakeholders and customer of the organization. A poor internal control in an organization also leads to the increase in loss for organizations e.g. loss of fixed asset and other kind of assets due to weak physical control in the control system of that organization. An organization cannot have a going concern or continuity without having a well-established internal control. So there is a need for a solid and functioning internal control system for the organization to perform (Petteri, 2014).

Internal control is a process implemented by a company which includes a set of means, behaviors, procedures and actions adapted to the specific characteristics of each company and: contributes to the control of its activities, the effectiveness of its operations and the efficient use of its resources, and must enable it to appropriately take into account significant risks, whether operational, financial or compliance. More specifically, it aims to ensure: compliance with laws and regulations, implementation of the instructions and guidelines set by the Executive Management, proper operation of the company's internal processes, including in particular those designed to protect its assets, the reliability of financial reporting (Total, n.d.).

COSO, (2013) sets five components of internal control; Control environment, Risk assessment, Control activities, information & communication and Monitoring activities and seventeen principles. The five components should operate together in an integrated manner in order to reduce, to an acceptable level, the risk of not achieving an objective. When a major deficiency exists with respect to the presence and functioning of a component or relevant principle, or with respect to the components operating together in an integrated manner, the organization cannot conclude that it has met the requirements for an effective system of internal control.

Ongoing evaluation of internal controls can provide significant benefits to all departmental elements. Controls are designed to help mitigate risks. Thus, a controls assessment can show how well risk mitigation strategies are working and which strategies may need to be modified and improved. Ultimately, controls assessments serve as a tool that management can use to gauge the performance of a mission-based area. They can be tailored to show a macro



perspective of an entire departmental element as a whole, or to drill down into specific functions and processes. Performing controls assessments can allow managers to gain insight into the effectiveness of their programs and can lead to substantive improvements and best practices in meeting mission objectives (U.S. Department of Energy, 2014).

Furthermore, Section 404 of Sarbanes-Oxley Act of 2002 (SOX) goes as far as demanding that the company's independent auditors attest to and report on the effectiveness of the internal control to the board of directors. In addition, section 302 requires management - specifically, the CEO and CFO - to sign off on financial statement fairness and internal control effectiveness (Yahya et al., 2005).

The basic rationale to conduct this study is that the allegation in the company related to loss of huge value of company's inventory item and fraud exercised by some of employees. The loss of the inventory items were not detected by the company's lower and higher management structure timely. Moreover, it is observed in the general meeting, long outstanding receivable is more than the profit of last year (2015), which lead the company to operate in overdraft. And as evidenced by annual external auditors' report of the company the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. As the company is a business firm, data confidentiality is very high and evidence based information is difficult to present and substantiate the allegation. But as an employee of the organization, the researcher is close to know the alligations Therefore, it is found to be very important to critically evaluate the overall internal control of the organization with the aim of strengthening the internal control system of the organization.

## **1.4 Basic Research Questions**

In addition to addressing the problems mentioned above, the research paper provides a greater focus on the following questions:

- How far internal control system is relevant to the company's interest?
- Are employees of Total Ethiopia s.c conscious of internal control systems in the work place and how transparent is the system to all employees?

- How effective are the internal control systems in Total Ethiopia s.c in attaining company objectives?
- How far internal audit helped Total Ethiopia S.C management to identify and take appropriate measure to internal control deficiencies?

## **1.5 Objective of the Study**

### **1.5.1 General Objective**

The general objective of the study is to evaluate the effectiveness, of Total Ethiopia S.C internal control system at different operational activities and determine the adequacy of the content to restrain the associated risks and to positively use missed opportunities (if any).

### **1.5.2 Specific Objectives**

- To examine and analyze the internal control systems put in place by Total Ethiopia s.c per the internationally known standards (COSO)
- To examine the awareness of employees of Total Ethiopia S.C. on internal control activity.
- To examine the measures adopted to enhance the effectiveness of internal Controls.
- To identify and examine internal control deficiencies for improved management support system.

## **1.6 Definition of Terms**

### ***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 (COSO, 2013)

### ***Evaluation***

Checking current operational internal control of the company against COSO set standards.

### ***Effectiveness***

Adequacy of internal control to accomplish company's objective

## **1.7 Significance of the Problem/Study**

The study provides a basis or a conceptual framework and standard against which companies could evaluate their internal control system and judge their effectiveness. In other words, the study is to provide common language, understanding and a practical way for companies to evaluate and improve their internal control systems, helps to understand theoretical aspect of internal control in Total Ethiopia s.c, It is also helps to compare the theoretical aspect with actual practices of the organization and Identify problem areas

Though this research is to partially fulfill an academic requirement for the award of a master's degree, it is expected that the recommendations helps to further improve current company's policies and standards by the implementers. Moreover, it is believed that the regulatory bodies and employees will be benefited in their endeavor to revolutionize the company's management using it as a basic reference ensuring effective internal controls system.

## **1.8 Scope of the Study**

The study evaluates the internal control systems of Total Ethiopia s.c. The emphasis were on the practices and COSO set standards of internal controls. The study was limited to Total Ethiopia s.c. The reason for choosing Total Ethiopia s.c among nine oil and Gas companies in Ethiopia is that the researcher have access to information and reaching those who matter the most in formulating internal control procedures and it's also a leading oil and gas company in market share among the competitors.

## **1.9 Limitation of the study**

Total Ethiopia s.c has operations in different regions of the country. Due to time constraint, the researcher was not be able to travel to different regions of the country where Total Ethiopia s.c depot offices are located to collect a primary data and depends solely on information collected from staff of the head office and different depots in Addis Ababa.

# CHAPTER TWO

## LITERATURE REVIEW

### 2.1 Introduction

In this chapter internal control and its components are discussed. First, a general look will be taken into the evolution and expanding scope of internal control and why it has become such an important issue in today's business environment. After that, a description of COSO internal control framework is provided and its different components are discussed along with relevant literature.

### 2.2 Definition of Internal Control

Many groups and organizations have published standards and guidelines on internal control and defined it in various ways. Each of those definitions has captured the basic concept of internal control using different words. The definitions are similar in recognizing internal control's extensive scope, its relationship to an organization's mission, and its dependence on people in the organization. Here definition given by different authors and organizations.

The American Institute of Accountants first defined the term internal control in 1949, followed by further clarifications in 1958 and 1972. In 1977 publicly held companies came under legislation to adequately implement controls to protect their financial information. A report by the Committee of Sponsoring Organizations in 2013 and the Sarbanes-Oxley Act of 2002 are more recent documents defining internal controls (Lauren, 2016).

State University (2009) define Internal control as follows: *“Internal control is the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives and mission.”*

This definition establishes that:

- Internal control impacts every aspect of an organization: all of its people, processes and physical structures;

- Internal control is a basic element that permeates an organization - not a feature that is added on;
- Internal control incorporates the qualities of good management;
- Internal control is dependent upon people and will succeed or fail depending on the attention people give to it;
- Internal control is effective when all of the people and the surrounding environment work together;
- Internal control provides a level of comfort to an organization; controls do not guarantee success; and
- Internal control helps an organization achieve its objectives and mission.

UPI & SU (as cited in Jones et al., 2007) define internal control as method and procedure used to safeguard asset and other resources and to assure that those asset and resource are used as directed by management. A more formal definition is that internal control comprises the plan of the organization and all of the coordinated method and measures adopted within an organization to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies and applicable laws.

According to A. H. Millichamp (2002), Internal Control System is defined as *“The whole system of controls, financial and otherwise, established by the management in order to carry on the business of safeguard the assets and secure as far as possible the completeness and accuracy of the records”*.

He further analyzed the redefine it as follows;

- The whole system: internal control can be seen as a whole or single system. The whole is more than the sum of parts.
- Financial and otherwise: the distinction is not important. Perhaps the financial would include the use of control accounts and otherwise may include physical access restrictions to computer terminals.

- Established by Management: internal controls are established by management, either through consultant (external) or internal through internal audit.
- Ensure Adherence to Management Policies: management has express policies such as budget and the adherence of budget can be achieved through the procedures such as variance analysis.
- Safeguard Assets: allowing assets to be stolen or broken is unacceptable and procedures are always put in place to safeguard assets.
- Secure Completeness: to check that transactions are duly recorded, checking that all goods leaving the factory must have a delivery not attached to it.

The term internal control encompasses all the methods, procedures and arrangements adopted within an organization to ensure as far as possible the safeguarding of assets, the completeness, accuracy and liability of the accounting records and the promotion of operational efficiency and adherence to management policies (Okai, 1996).

All the above definitions of internal control systems have identified the main objectives of internal controls to be the assurance that organizational resources will be put to economic, efficient and effective use in order to achieve the objectives for which the organization was set up. However, in the context of this project work internal control shall be defined as recommended by COSO (2013) that is:

*“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”.*

This definition reflects certain fundamental concepts. Internal control is:

*Geared to the achievement of objectives* in one or more categories operations, reporting, and compliance

*A process* consisting of ongoing tasks and activities a means to an end, not an end in itself

*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

Able 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

This definition is intentionally broad. It captures important concepts that are fundamental to how organizations design, implement, and conduct internal control, providing a basis for application across organizations that operate in different entity structures, industries, and geographic regions.

### **2.3 Internal Control Objectives**

The objectives of an internal control system vary from company to company. Due to the fact that organizations use different frameworks for internal control systems, the process and objectives linked to them differ as well.

Alan (1999) stated the basic objectives of internal control are as follows:

- To control operations by establishing various level of authority to provide approval for transaction and an adequate reporting system to enable those carrying out the approvals to be advised of the results from those approvals;
- To safeguard the business's asset from loss or damage as a result of waste, inefficiency, error, theft or fraud; and
- To provide adequate information that is timely and reliable and supports the control structures so that individual management responsibilities can be identified.

Internal Control objectives are desired goals or conditions for a specific event cycle which, if achieved, minimize the potential that waste, loss, unauthorized use or misappropriation will occur. They are conditions which the system of internal control to satisfy. For a control objective

to be effective, compliance with it must be measurable and observable. To achieve these basic objectives, there are seven supplementary objectives that are also required to be met (Mercer University, n.d.).

**Authorization** - The objective is to ensure that all transactions are approved by responsible personnel in accordance with specific or general authority before the transaction is recorded.

**Completeness** - The objective is to ensure that no valid transactions have been omitted from the accounting records.

**Accuracy** - The objective is to ensure that all valid transactions are accurate, consistent with the originating transaction data and information is recorded in a timely manner.

**Validity** - The objective is to ensure that all recorded transactions fairly represent the economic events that actually occurred, are lawful in nature, and have been executed in accordance with management's general authorization.

**Physical Safeguards & Security** - The objective is to ensure that access to physical assets and information systems are controlled and properly restricted to authorized personnel.

**Error handling** - The objective is to ensure that errors detected at any stage of processing receive prompt corrective action and are reported to the appropriate level of management.

**Segregation of Duties** - The objective is to ensure that duties are assigned to individuals in a manner that ensures that no one individual can control both the recording function and the procedures relative to processing the transaction. A well designed process with appropriate internal controls should meet most, if not all of these control objectives.

But according to COSO (2013) Framework, the objectives are categorized in three categories, which allow organizations to focus on differing aspects of internal control:

- **Operations Objectives**—these pertain to effectiveness and efficiency of the entity's operations, including operational and financial performance goals, and safeguarding assets against loss.
- **Reporting Objectives**—These pertain to internal and external financial and non-financial reporting and may encompass reliability, timeliness, transparency, or other terms as set forth by regulators, recognized standard setters, or the entity's policies.
- **Compliance Objectives**—these pertain to adherence to laws and regulations to which the entity is subject.



## 2.4 Types of Internal Control

Various literatures and institutions have come with different types of internal control systems. Basu (2006) states different types of internal controls as; Organization, Segregation of duties, Physical, Authorization and approval, Arithmetical and accounting, Personnel, Supervision and Management. Vanderbilt University also states internal control as two types which are; preventive and detective controls. Both types of controls are essential to an effective internal control system. From a quality standpoint, preventive controls are essential because they are proactive and emphasize quality. However, detective controls play a critical role by providing evidence that the preventive controls are functioning as intended. However, many other authors such as Dr Charles (2012) and Richard (2012) have agreed that the types of internal controls includes directive controls, preventive controls, compensating controls, detective controls, and corrective control. These types of internal controls are explained below.

### 2.4.1 Directive Controls

Are designed to produce positive results and encourage acceptable behavior. They do not themselves prevent undesirable behavior and are normally used where is human discretion in a situation. They are broad in nature and apply to all situations.

- Organization structure
- Policies
- Procedures
- Management directives
- Guidance statements
- Circulars
- Job\position descriptions

### 2.4.2 Preventive Control

Which occur before the fact but can never be 100 percent effective and therefore cannot be wholly relied upon. These could include controls such as

- Segregation of duties
- Timely reconciliation of accounts
- Restricted areas, money safes, controls over night collections
- Plans, goals, budgets, and comparison of the actual with budgets
- Procedure manuals
- An adequate check on prior employment background for all new employees

### 2.4.3 Compensating Controls

Can be seen to exist where a weakness in one control may be compensated by a control elsewhere. They are used to limit risk exposure and may trap the unwary evaluator. This is particularly true where the auditors are faced with complex integrated systems and the control structures involve a mixture of system-driven and human controls scattered over a variety of operational areas.

### 2.4.4 Detective Controls

Which detect undesirable events so corrective actions can be taken after occurrence and may be cheaper than checking every transaction with a preventive control. Such controls could include

- Effective use of audit trails and the use of exception reports.
- Perform an aging analysis of account receivable accounts
- Establish inspection procedures for incoming materials
- Have the personnel department authorize the hiring of all employees, set pay levels and pay rate changes;
- Ensure that there exist management approvals; dual controls; system access controls; supervisory review
- Implement an work order system to track maintenance costs
- Use pre-numbered checks
- Require all employees to take annual vacation
- Conduct periodic audits

### **2.4.5 Corrective control**

Ensures the correction of problems identified by detective controls and normally require human intervention within the IT. Controls in this area may include such processes as disaster recovery plans and transaction reversal capabilities, Corrective controls are themselves highly error-prone because they occur in unusual circumstances and typically require a human decision to be made, and an action decided upon and implemented. At each stage in the process a subsequent error will have a multiplier effect and may compound the original mistake.

## **2.5 Components and Principles of Internal Control**

Internal control consists of five integrated components and seventeen principles representing the fundamental concepts associated with each component. These principles are drawn directly from the components; an entity can achieve effective internal control by applying all principles. All principles apply to operations, reporting, and compliance objectives. Briefly discussed below on the perspective of COSO integrated frame work , different empirical reviews and different organizations.

### **2.5.1 ControlEnvironment**

According to Beneish et al (2008), defines the control environment as the tone of an organization and the way it operates. He further says that it concerns the establishment of an atmosphere in which people can conduct their activities and carry out their control responsibilities effectively. Hevesi (2005) however considers the Control environment to be the attitude toward internal control and control consciousness established and maintained by the management and employees of an organization. It is a product of management's governance that is its philosophy, Style and supportive attitude, as well as the competence, ethical values, integrity and morale of the people of the organization. The control environment encompasses the attitudes and actions regarding control.

Likewise COSO (2013) define the control environment as 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.

**Table 2.5.1 Control environment principles**

Control Environment			
Principles		Points of Focus	
1	The organization demonstrates a commitment to integrity and ethical values	1	Sets the tone at the top
		2	Establishes standards of conduct
		3	Evaluates adherence to standards of conduct
		4	Addresses deviations in a timely manner
	The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control	5	Establishes oversight responsibilities
		6	Applies relevant expertise
		7	Operates independently
		8	Provides oversight on Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities
3	Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives	9	Considers all structures of the entity
		10	Establishes reporting lines
		11	Defines, assigns, and limits authorities and responsibilities
4	The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives	12	Establishes policies and practices
		13	Evaluates competence and addresses shortcomings
		14	Attracts, develops and retains individuals
		15	Plans and prepares for succession
5	The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives	16	Enforces accountability through structures, authorities and responsibilities
		17	Establishes performance measures, incentives and rewards
		18	Evaluates performance measures, incentives and rewards for ongoing relevance
		19	Considers excessive pressures
		20	Evaluates performance and rewards or disciplines individuals

Source: COSO Internal Control — Integrated Framework (2013)

## 2.5.2 Risk Assessment

Risk assessment entails to identification and prioritization of objectives, the identification of risks and assessment of their likelihood and impact, Jones (2008). Consequently Jones looks at risk assessment as the identification, evaluation and management of risks. He further notes that risks can relate, to financial statement fraud or to the misappropriation of assets.

Furthermore COSO (2013) define Risk assessment 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.

**Table 2.5.2 Risk assessment principles**

Risk Assessment			
Principles		Points of Focus	
6	The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives:		
	– Operations Objectives	21a	Reflects management’s choices
		22a	Considers tolerances for risk
		23	Includes operations and financial performance goals
		24	Forms a basis for committing of resources

	– External Financial Reporting Objectives	21b	Complies with applicable accounting standards
		22b	Considers materiality
		25	Reflects entity activities
	– External Non-Financial Reporting Objectives	21c	Complies with externally established standards and frameworks
		22c	Considers the required level of precision
		25	Reflects entity activities
	– Internal Reporting Objectives	21a	Reflects management’s choices
		22c	Considers the required level of precision
		25	Reflects entity activities
– Compliance Objectives	21d	Reflects external laws and regulations	
	22a	Considers tolerances for risk	
7	The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed	26	Includes entity, subsidiary, division, operating unit, and functional levels
		27	Analyzes internal and external factors
		28	Involves appropriate levels of management
		29	Estimates significance of risks identified
		30	Determines how to respond to risks
		31	Considers various types of fraud
		32	Assesses incentives and pressures
33	Assesses opportunities		
	34	Assesses attitudes and rationalizations	
9	The organization identifies and assesses changes that could significantly impact the system of internal control	35	Assesses changes in the external environment
		36	Assesses changes in the business model
		37	Assesses changes in leadership

Source: COSO Internal Control — Integrated Framework (2013)

### 2.5.3 Control Activities

Under Act of Sarbanes Oxley act (SOX, 2002) Control activities are the policies and procedures that assist in ensuring that management directives are successfully implemented. They provide the means to address the various risks that may hinder the achievement of the organization’s objectives. In essence, control activities are established in response to perceived risks. In addition, control activities occur throughout the organization, at all levels and in all functions and include at least the followings: approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties (Protiviti Independent Risk Consulting, 2004).

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 (COSO, 2013).

**Table 2.5.3 Control activity principle**

Control Activities			
Principles		Points of Focus	
10	The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels	38	Integrates with risk assessment
		39	Considers entity-specific factors
		40	Determines relevant business processes
		41	Evaluates a mix of control activity types
		42	Considers at what level activities are applied
		43	Addresses segregation of duties
11	The organization selects and develops general control activities over technology to support the achievement of objectives	44	Determines dependency between the use of technology in business processes and technology
		45	Establishes relevant technology infrastructure control activities
		46	Establishes relevant security management process control activities
		47	Establishes relevant technology acquisition, development, and maintenance process control activities
12	The organization deploys control activities through policies that establish what is expected and procedures that put policies into action	48	Establishes policies and procedures to support deployment of management’s directives
		49	Establishes responsibility and accountability for executing policies and procedures
		50	Performs in a timely manner
		51	Takes corrective action
		52	Performs using competent personnel
		53	Reassesses policies and procedures

Source: COSO Internal Control — Integrated Framework (2013)

## 2.5.4 Information and Communication

Information and communication: refers to the process of identifying, capturing, and communicating of relevant information in an appropriate manner and within timeframe in order to accomplish the financial reporting objectives (Aldridre & Colbert, 1994). However, effective communications should occur in a wider sense with information within the various sections of the organization (Theofanis et al, 2011). Most of the recent literature on internal control system frameworks gave concerned on information and communication as one of the internal control system components, because of their importance in influencing the working relationship within the organization at all levels (Amudo & Inanga, 2009). Hence, such information must be communicated throughout the entire organization in order to permit personnel to carry out their responsibilities with regard to objective achievement.

COSO (2013) states that 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 .

**Table 2.5.4 Information and communication principle**

Information and Communication			
Principles		Points of Focus	
13	The organization obtains or generates and uses relevant, quality information to support the functioning of other components of internal control	54	Identifies information requirements
		55	Captures internal and external sources of data
		56	Processes relevant data into information
		57	Maintains quality throughout processing



		58	Considers costs and benefits
		59	Communicates with the board of directors
		60	Provides separate communication lines
		61	Selects relevant method of communication
		62	Communicates internal control information
15	The organization communicates with external parties regarding matters affecting the functioning of other components of internal control	63	Communicates to external parties
		64	Enables inbound communications
		65	Communicates with the board of directors
		66	Provides separate communication lines
		67	Selects relevant method of communication

Source: COSO Internal Control — Integrated Framework (2013)

### 2.5.5 Monitoring Activities

According to Spencer (2003) to ensure the reasonable assurance regarding achievement of the organizations objectives, the monitoring process should be performed to evaluate and assess the systems of internal control to ensure that the procedures are consistently applied over an extended period of time. Spencer believes internal audit is part of monitoring internal control system. Managers should promptly evaluate findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors and others who evaluate agencies' operations, to determine proper actions in response to findings and recommendations from audits and reviews.

Jones (2008) refers monitoring as the process of assessing the quality of a system's performance over time. On an on-going basis, staff should evaluate the various systems of internal control and updates/modifies/enhances where needed. Any discovered deficiencies are addressed immediately and added to the overall systems of internal control.

Likewise COSO (2013) define monitoring component as an 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.

**Table 2.5.5 Monitoring activity principle**

Monitoring Activities			
Principles		Points of Focus	
16	The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning	68	Considers a mix of ongoing and separate
		69	Considers rate of change
		70	Establishes baseline understanding
		71	Uses knowledgeable personnel
		72	Integrates with business processes
		73	Adjusts scope and frequency
		74	Objectively evaluates
17	The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate	75	Assesses results
		76	Communicates deficiencies to parties responsible for corrective action and to senior
		77	Monitors corrective actions

Source: COSO Internal Control — Integrated Framework (2013)

**2.6 Effective Internal Control system**

COSO (2013) Framework sets forth the requirements for an effective system of internal control. An effective system provides reasonable assurance regarding achievement of an entity’s objectives. An effective system of internal control reduces, to an acceptable level, the risk of not

achieving an entity objective and may relate to one, two, or all three categories of objectives. It requires that:

- Each of the five components and relevant principles is present and functioning. “Present” refers to the determination that the components and relevant principles exist in the design and implementation of the system of internal control to achieve specified objectives. “Functioning” refers to the determination that the components and relevant principles continue to exist in the operations and conduct of the system of internal control to achieve specified objectives.
- The five components operate together in an integrated manner. “Operating together” refers to the determination that all five components collectively reduce, to an acceptable level, the risk of not achieving an objective. Components should not be considered discretely; instead, they operate together as an integrated system. Components are interdependent with a multitude of Interrelationships and linkages among them, particularly the manner in which principles interact within and across components.

When a major deficiency exists with respect to the presence and functioning of a component or relevant principle, or with respect to the components operating together in an integrated manner, the organization cannot conclude that it has met the requirements for an effective system of internal control.

When a system of internal control is determined to be effective, senior management and the board of directors have reasonable assurance, relative to the application within the entity structure, that the organization:

- Achieves effective and efficient operations when external events are considered unlikely to have a significant impact on the achievement of objectives or where the organization can reasonably predict the nature and timing of external events and mitigate the impact to an acceptable level
- Understands the extent to which operations are managed effectively and efficiently when external events may have a significant impact on the achievement of objectives or where the organization can reasonably predict the nature and timing of external events and mitigate the impact to an acceptable level
- Prepares reports in conformity with applicable rules, regulations, and standards or with the entity’s specified reporting objectives

- Complies with applicable laws, rules, regulations, and external standards

The Framework requires judgment in designing, implementing, and conducting internal control and assessing its effectiveness. The use of judgment, within the boundaries established by laws, rules, regulations, and standards, enhances management's ability to make better decisions about internal control, but cannot guarantee perfect outcomes.

Price (2005) also asserts that corporate governance and accountability processes are geared at seeking and protecting shareholders interest, which has become a number one priority of most organizations. He therefore argues that effective internal controls are essential to ensure that the stewardship responsibility placed on management is carried out effectively and efficiently by;

- protecting its resources against waste, fraud, and inefficiency;
- ensuring accuracy and reliability in accounting and operating data;
- securing compliance with the policies of the organization; and
- Evaluating the level of performance in all organizational units of the organization to ensure that objectives are achieved as planned.

The organizational checks and balances provide authority functions that minimize the potential waste, fraud, abuse and mismanagement. Thus, internal controls perform a watchdog's role on behalf of management. It implies that any organizations, profit and not for profit alike, without effective internal control system is more prone to irregularities and errors such as waste, fraud, inefficiency, as well as fines for non-compliance with the necessary regulations.

This calls for a continuous assessment and evaluation of the internal control structure to ensure that it is well designed and operating, appropriately updated to meet changing conditions, and providing reasonable assurance that the objectives of the firm are being achieved.

An internal control framework that places too much emphasis on detailed explanation of the different components of the system and methods for their design but ignore details on how each of the components can be measured to assess their effectiveness is a deficient control system in itself (Amudo & Inanga, 2009).

## 2.7 Evaluating the Internal Control System

DiNapoli (2016) state the evaluation is the process management uses to determine whether:

- The organization will likely achieve its goals and objectives;
- The elements of the organization's internal control system are functioning effectively; and
- Risks to the organization and opportunities for improvement are being identified.

Evaluation can be accomplished through self-assessment and independent review. Regular self-assessment helps management detect problems early, and thus minimizes the costs of these problems. Self-assessments should be scheduled regularly, and should be performed throughout the organization. Self-assessments can include surveys, questionnaires, interviews, observation and specific testing of transactions and key controls. Self-assessments should not only address specific processes, but also evaluate the unit's control environment, communication, monitoring and risk assessment processes.

The frequency of self-assessment should be based, in part, on the results of the organization's risk assessment process. Independent reviews can be performed by external auditors, consultants, and internal auditors who are independent of the operations to be reviewed. Such reviews should not be a substitute for routine self-assessments, but should serve to supplement them.

Management should assess accomplishment of the mission at all levels of the organization on a regular basis. At production or operational levels, management should compare the actual accomplishments of the specific subunits with their operational plans and objectives, as well as, comparing the actual accomplishments of the major organizational divisions with strategic plans and organizational objectives. In addition, any new risks or opportunities that are identified in the assessment process may result in changes to the organization's objectives or modification of its mission.

All aspects of the self-assessment process should be documented, including the evaluation methodologies, the sources and types of information used, reporting relationships, any deficiencies identified, and any corrective action recommended. The results of the assessment should be communicated throughout the organization, and management should have processes in

place to ensure that appropriate and prompt actions are taken to address any deficiencies identified. Management should include a review of these corrective actions in a subsequent evaluation process to determine if they have produced the desired outcomes.

Douglas (2011) as well states that internal control must be evaluated in order to provide management with some assurance regarding its effectiveness. As internal control evaluation involves everything management does to control the organization in the effort to achieve its objectives. Internal control would be judged as effective if its components are present and function effectively for operations, financial reporting, and compliance. The boards of directors and its audit committee have responsibility for making sure the internal control system within the organization is adequate. This responsibility includes determining the extent to which internal controls are evaluated. Two parties involved in the evaluation of internal control are the organization's internal auditors and their external auditors.

Internal auditors' responsibilities typically include ensuring the adequacy of the system of internal control, the reliability of data, and the efficient use of the organization's resources. Internal auditors identify control problems and develop solutions for improving and strengthening internal controls. Internal auditors are concerned with the entire range of an organization's internal controls, including operational, financial, and compliance controls.

Internal control will also be evaluated by the external auditors. External auditors assess the effectiveness of internal control within an organization to plan the financial statement audit. In contrast to internal auditors, external auditors focus primarily on controls that affect financial reporting. External auditors have a responsibility to internal control weaknesses (as well as reportable conditions about internal control) to the audit committee of the board of directors.

According to Louwers (2002) the five components of internal control are considered to be the criteria for evaluating a financial reporting control and the bases for the auditors' assessment a control risks in term of; Understanding a client's financial reporting controls and documenting that understanding, Preliminarily assessing the control risk, and Testing the controls, reassessing control risk, and using that assessment to plan the remainder of the audit work.

## 2.8 Limitations of Internal Controls

No matter how well the internal controls are designed, they can only provide a reasonable assurance that objectives will be achieved. Some limitations are inherent in all internal control systems met (Mercer University, n.d.).

These limitations include:

- **Judgment** - the effectiveness of controls will be limited by decisions made with human judgment under pressures to conduct business based on the information available at hand.
- **Breakdowns** - even well designed internal controls can break down. Employees sometimes misunderstand instructions or simply make mistakes. Errors may also result from new technology and the complexity of computerized information systems.
- **Management Override** - high level personnel may be able to override prescribed policies or procedures for personal gains or advantages. This should not be confused with management intervention, which represents management actions to depart from prescribed policies and procedures for legitimate purposes.
- **Collusion** - control system can be circumvented by employee collusion. Individuals acting collectively can alter financial data or other management information in a manner that cannot be identified by control systems.

Kansas state university (1997) also states that there is no such thing as a perfect control system. Staff size limitations may obstruct efforts to properly segregate duties, which requires the implementation of compensating controls to ensure that objectives are achieved. A limited inherent in any system is the element of human error, misunderstandings, fatigue and stress. Employees are to be encouraged to take earned vacation time in order to improve operations through cross training while enabling employees to overcome or avoid stress and fatigue.

# **CHAPTER THREE**

## **RESEARCH DESIGN AND METHODOLOGY**

### **3.1 Introduction**

This Chapter focuses on the methods that were used to collect data and analyze it. It gives full details of how data are collected and processed for this research work. The discussion was focused on the following: Research design & approach, Population under the study, sampling frame, sample size & sampling techniques, data collection method and method of data analysis. This chapter presents the activities and processes that were undertaken to gather data for the research work.

### **3.2 Research Design and Approach**

The survey is a method for collecting information or data as reported by individuals. Surveys are questionnaires (or a series of questions) that are administered to research participants who answer the questions themselves. Since the participants are providing the information, it is referred to as self-report data. The study utilized the descriptive survey method employing questionnaire and interviews in order to achieve the purpose of the study and mixed research approach of both quantitative and qualitative for data collection and descriptive statistics was used.

### **3.3 Population under the study**

According to Mason et al. (2007), the population of a study is the collection of all possible individuals, objects or measurements of interest. The target population of the study was the staffs at the head office of Total Ethiopia s.c, Depots & Warehouses located in Addis Ababa.

### **3.4 Sampling Frame**

In selecting the respondents, purposive sampling techniques were used to select from the different categories of personnel. In the case of the purposive sampling also known as judgmental sampling, the researcher picks the sample that will deliver the best information in order to satisfy the research objectives in question or with a purpose in mind.



For instance staff at the internal audit, Finance, Marketing, Transport & supply and Depot warehouse were selected, which probably have more information in the areas of internal control that can be useful for the study.

### **3.5 Sample size and Sampling Techniques**

The sample size is an important feature of any empirical study in which the goal is to make inferences about a population from a sample. In practice, the sample size used in a study is determined based on the expense of data collection, and the need to have sufficient statistical power. To address the challenge of access to the complete population, representative samples are thus prescribed and accepted in any scientific study.

For the study a sample size of 60 respondents was drawn from a target population of 150. This sample size has been arrived at by taking 40% of the target population and Six Management Committee will be interviewed. The researcher therefore will use purposive sampling techniques in selecting respondents with an option of replacing those who didn't wish to respond.

### **3.6 Data Collection Method**

Data was collected using both primary and secondary data collection techniques. Primary data was gathered basically through structured close ended questionnaires and interview. The questionnaire for the study was adapted from combination of instruments developed by COSO (2013) and Bureau of Financial Monitoring and Accountability Florida Department of Economic Opportunity (2015). The secondary data was collected from textbooks, particularly COSO Internal Control-Integrated Framework, journals, other publications on internal controls and company internal control manuals and procedures.

Questionnaire is a series of questions asked to individuals to obtain statistically useful information about a given topic. When properly constructed and responsibly administered, questionnaires become a vital instrument by which statements can be made about specific groups or people or entire populations and Interviews are a very common research tool in the social sciences, and as such, attract a great deal of commentary (University of Wisconsin-Madison,

2010). The interview discussion was with Management committee and the topics to be discussed were sent to the interviewees beforehand in order to obtain more coherent responses during the interview.

### **3.7 Methodology for Data Analysis**

In order to evaluate effectiveness of internal control respondents were asked to indicate their degree of agreement or disagreement with each of the thirty two questions on a five-point Likert response scale (Likert, 1932) that ranged from “strongly agree (scored as 5), agree (scored as 4), neutral (scored as 3), disagree (scored as 2) and “strongly disagree” (scored as 1). The expected mean for an effective internal control component is 5 or close to 5. However the analysis is based on how the mean response of the respondents is close to this expected value. For all questions a positive mean response more than 3 statistically suggests agreement with the statement/question, a positive mean response less than 3 implies disagreement and a mean response close to 3 indicates indifferent or offsetting differences. All of the questions are coded in such a way that a positive mean response of 4 and greater display that this component of internal control system adequately contributed to the effectiveness of internal control in the company, while a positive mean response less than 4 reveals that this component of Internal Control System not adequately contributed to effectiveness of the internal control (Joseph, as cited in Tsedal, 2015). Even though the mean response between 3 and 4 indicates the agreement with the statement, the interpretation implies, these areas are the room for improvement of the internal control system.

Data obtained from respondents was analyzed using the Statistical Package for the Social Sciences (SPSS) software programme. The result was presented using statistical tools such as frequency tables, mean and standard deviation. Descriptive statistics were used to analyse the data.

With the application of the stated techniques and methodologies the data has been organized in such a way that meaningful presentation is possible. Based on the answers obtained from respondents, the data has been grouped with the categories as summarized on the questionnaire.

# **CHAPTER FOUR**

## **DATA ANALYSIS AND INTERPRETATION**

This chapter analyzed the responses received from the respondents. The data was analyzed using tables, percentages, Mean and standard deviation. The chapter is organized into two broad sections. Section 4.1 presents Survey result, section 4.2 presents Interview result.

### **4.1 Survey result**

This section presents the result and analyzes the data collected using structured questionnaire from sample of 60 employees of Total Ethiopia S.C. The section will be categorized as 4.1.1 Respondents profile; 4.1.2 Survey result on internal control system.

#### **4.1.1 Respondents profile**

The main research tool to gather data from the respondents was a questionnaire and the first section was intended to gather data on the profile of the respondents. Frequency tables were used in analyzing the data gathered from the respondents.

From the under mentioned table, out of 60 respondents 60% were male and 40% female. The gender distribution showed that both male and female were represented in the study. And the age groups 30-39 years were the most represented in the study with 48.3% and 40-49 years group had 33.3%. In addition from the table below both age groups 20-29 and 50 or more years of the respondents were not most represented in the study their percentage is 8.3% and 10% respectively.

The analysis of educational attainment of respondents revealed that the majority of respondents 73.3% have first degree, 18.3% had Master's degree only 8.3% had a Diploma as Professional.

The broader category of internal control is operational and accounting control. Obviously the respondents with knowledge of management and accounting understand the concept of internal control system than others. In terms of type of study field, majority of the respondents 36.7% are studied Management, 35% studied accounting and 28.3% of the respondents studied another field of studies. In general the respondents profile indicates that the respondents were good enough to respond to the questionnaire and they had the knowledge and experiences to understand internal control system in the organization.

**Table 4.1.1 Respondents profile**

		Frequency	Valid Percent	Cumulative Percent
<b>Gender distribution of respondents</b>	Male	36	60	60
	Female	24	40	100
<b>Age distribution of respondents</b>				
	20-29	5	8.3	8.3
	30-39	29	48.3	56.7
	40-49	20	33.3	90
	50 or more	6	10	100
<b>Educational attainment of respondents</b>				
	Master	11	18.3	18.3
	BA Degree	44	73.3	91.7
	Diploma	5	8.3	100
<b>Field of study of respondents</b>				
	Accounting	21	35	35
	Management	22	36.7	71.7
	Others	17	28.3	100
<b>Department of respondents</b>				
	Sales & Marketing	17	28.3	28.3
	Finance & Admin	19	31.7	60
	Transport & Supply	12	20	80
	Audit	1	1.7	81.7
	Depot & Warehouse	11	18.3	100
<b>Year of service of respondents</b>				
	1-3	7	11.7	11.7
	4-10	31	51.7	63.3
	More than 10 years	22	36.7	100

Source: Survey data & own computation

As summarized in the table above in terms of department the majority of the respondents 31.7% belong to Finance & Admin, 28.3% belong to Sales & Marketing, 20% Transport and supply and Depot & Warehouse and Audit contribute only 18.3% and 1.7% respectively.

As experience is one of the competences to understand internal control in a company. The more experienced employees are the more they understand about the internal control they execute. Out of the survey majority of the respondents have 4-10 years of service in the company, 36.7% have more than 10years of service and only 11.7% have 1-3 years of service in the company. This indicates that the employees working in the key areas of internal control system are well experienced both to respond to the questionnaire, and to understand or implement the control system.

#### **4.1.2 Present Internal Control Practice and Its Components**

This section describes the important findings on the present practice of internal control in Total Ethiopia S.C by determining the link between the components such as control environment, risk assessment, control activities, information and communication and monitoring of internal control system. The findings are discussed component wise in the following section.

Based on the survey instrument through structured questionnaire the respondents were asked to scale their degree of agreement whether each items under components of internal control practiced in their respective organization. The table and chart presented by computing the mean value of the response computed based on Likert scale, which indicated the average agreement of respondents on existence and practice of each component and sub component of internal control.

##### **4.1.2.1 Control Environment of Internal Control Systems**

This variable was to test the respondent's knowledge of the control environment in Total Ethiopia; the control environment sets the tone of an organization, influencing the control consciousness of its people. It is a foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the

way management assigns authority and responsibility and organizes and develops its people; and the attention and direction provided by the board of directors.

**Table 4.1.2.1 Analysis of Control Environment**

<b>CONTROL ENVIRONMENT</b>	<b>No. of resp.</b>		<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly Disagree</b>	<b>Mean</b>	<b>Std. Deviation</b>
Total has a code of conduct and/or ethics policy that has been communicated to all staff and outsourced service providers	60	No.	37	23	0	0	0	4.62	.490
		%	62	38	0	0	0		
Audit or other control systems exist to periodically test for compliance with policies	60	No.	26	29	5	0	0	4.35	.633
		%	43	48	8	0	0		
Policies regarding the importance of internal controls and appropriate conduct are communicated to all staff	60	No.	18	37	2	3	0	4.17	.717
		%	30	62	3	5	0		
Management establishes structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives	60	No.	22	31	3	4	0	4.18	.812
		%	37	52	5	7	0		
Management decisions are made collectively and not controlled by one dominant individual	60	No.	11	14	19	15	1	3.32	1.096
		%	18	23	32	25	2		

<b>Continued....</b>									
The contractual terms with outsourced service providers are clear and concise with regard to the organization's objectives and expectations of conduct and performance.	60	No.	15	35	10	0	0	4.08	.645
		%	25	58	17	0	0		
Management periodically reviews policies and procedures and communicated to employees of Total Ethiopia S.C. to ensure that proper controls are in place	60	No.	0	4	6	39	11	2.05	.746
		%	0	7	10	65	18		
The organization continuously provides mentoring and training opportunities needed to attract, develop, and retain sufficient and competent personnel.	60	No.	0	3	14	27	16	2.12	.841
		%	0	5	23	45	27		
organizational structure in Total Ethiopia S.C. is clearly defined	60	No.	14	31	4	10	1	3.78	1.043
		%	23	52	7	17	2		
The organization holds periodic training to ensure employees are aware of their duties pertaining to internal control (e.g. segregation of duties, safeguarding assets). Training needs are continuously reevaluated.	60	No.	2	3	13	31	11	2.23	.927
		%	3	5	22	52	18		
Valid N (list wise)	60							34.85	
<b>Overall mean</b>							<b>3.48</b>		

Source: Survey data & own computation

Under control environment there were ten questions to test the effectiveness of the component, as shown from table 4.1.2.1 above respondents with a highest mean of (4.62) or 62% strongly agree and 38% agree that the existence of code of conduct and/or ethics policy and that has been communicated to all staff and outsourced service providers. This means that information about the code of conduct has been well disseminated by the management.

The second question was about existence of audit or internal control systems to periodically test for compliance with the policies is also understood by majority of the respondents with a highest mean of (4.35), but some are found to be neutral about the issue. The need for internal auditors is to evaluate the effectiveness of internal control system and contribute to the ongoing effectiveness of those systems by reporting on systems and recommending improvement when necessary.

Majority of the respondent's with a mean (4.17) acknowledged that the company Policies regarding the importance of internal controls and appropriate conduct are communicated to all staff. In addition with mean (4.18) respondents know that management establishes structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives, although there are few number of respondents who disagree on the existence of policies and reporting lines.

Regarding Management decisions some respondents found to be neutral and disagree, which may think the decisions in Total might be controlled by one dominant individual. This indicates information communication is not effective regarding on decisions made in the organization. In contrary respondents with a mean (3.32) believe that Management decisions are made collectively and not controlled by one dominant individual.

Majority of the respondents with mean (4.08) indicated that the contractual terms with outsourced service providers are clear and concise with regard to the organization's objectives and expectations of conduct and performance. Since Total has many stake holders like transporters, different kind of customers and government, the presence of clear contractual agreements are needed.

Even though particular respondents found to be neutral, disagree and strongly disagree on clarity of organizational structure in Total Ethiopia S.C. majority of the respondents with a mean of



(3.78) or 23% strongly agree and 52% agree that the organization structure in Total Ethiopia is clearly defined. As designing a clear organization structure helps top management identify talent that needs to be added to the company. Planning the structure ensures there are enough human resources within the company to accomplish the goals set forth in the company's annual plan. It is also important that responsibilities are clearly defined. Each person has a job description that outlines duties, and each job occupies its own position on the company organization chart. The company has established clear line of organizational structure.

The above table also indicated three areas; where the control environment of the organization is not effective. The least mean (2.12) indicates that the organization is not continuously providing mentoring and training opportunities needed to attract, develop, and retain sufficient and competent personnel. Another lower means (2.23) and (2.05) indicated that the organization doesn't holds periodic training to ensure employees are aware of their duties pertaining to internal control (e.g. segregation of duties, safeguarding assets) and Management doesn't periodically reviews policies and procedures and communicates to employees of Total Ethiopia S.C. to ensure that proper controls are in place respectively.

#### **4.1.2.2 Risk Assessment of Internal Control Systems**

Risk assessment follows event identification and precedes risk response. Its purpose is to assess how big the risks are, both individually and collectively, in order to focus management's attention on the most important threats and opportunities, and to lay the groundwork for risk response. Risk assessment is all about measuring and prioritizing risks so that risk levels are managed within defined tolerance thresholds without being over controlled or forgoing desirable opportunities (Curtis & Carey, 2012). The survey result and analysis on this issue therefore; is presented as follows.

**Table 4.1.2.2 Analysis of Risk Assessment**

<b>RISK ASSESMENT</b>	<b>No. of respo.</b>		<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly Disagree</b>	<b>Mean</b>	<b>Std. Deviat ion</b>
The company has clear objectives and these have been communicated so as to provide effective direction to employees on risk assessment and control issues	60	No.	20	32	7	1	0	4.18	.700
		%	33	53	12	2	0		
Management ensures that risk identification considers both internal and external factors and their impact on the achievement of objectives	60	No.	17	31	10	1	1	4.03	.822
		%	28	52	17	2	2		
The organization risk identification/assessment is broad and includes all significant interactions, both internal to Total and its business partners and outsourced service providers	60	No.	17	31	8	4	0	4.02	.833
		%	28	52	13	7	0		
Management appropriately evaluates risk when planning for new product or activity	60	No.	21	32	6	1	0	4.22	.691
		%	35	53	10	2	0		
Technology issues are considered and appropriately addressed	60	No.	14	33	8	5	0	3.93	.841
		%	23	55	13	8	0		
The organization considers the potential for fraud in assessing risks to the achievement of objectives	60	No.	18	33	2	7	0	4.03	.901
		%	30	55	3	12	0		

Continued.....									
The organization has mechanisms in place to identify and react to risks presented by changes in government, regulatory, economic, operating, or other conditions that could affect the achievement of the goals and objectives	60	No.	0	12	9	23	16	2.28	1.075
		%	0	20	15	38	27		
Valid N (list wise)	60							26.69	
<b>Overall mean</b>							<b>3.81</b>		

Source: Survey data & own computation

As per the above table, 33% strongly agree and 53% agree that the company has clear objectives and these have been communicated so as to provide effective direction to employees on risk assessment and control issues. And 28% strongly agree and 52% agree that management ensures that risk identification considers both internal and external factors and their impact on the achievement of objectives.

The other result from the above table also indicate that 28% of the respondents strongly agree and 52% agree that the organization risk identification/assessment are also broad and includes all significant interactions, both internal to Total and its business partners and outsourced service providers.

The assessment also reveals that 35% of respondents strongly agree and 53% agree that management appropriately evaluates risk when planning for new product or activity. The company conducts road risk assessment when new customers are introduced to the company if the road is suitable for the truck to deliver the product or not, and the customer credit risk assessment also will be evaluated.

Even though there are some numbers of respondents to be neutral on the issue, (23% strongly agree & 55% agree) and (30% strongly agree & 55% agree) that technology issues are

considered and appropriately addressed and the organization considers the potential for fraud in assessing risks to the achievement of objectives respectively.

The lowest mean (2.28) or 27% strongly disagree and 38% disagree from the above table indicate that the organization doesn't have mechanisms in place to identify and react to risks presented by changes in government, regulatory, economic, operating, or other conditions that could affect the achievement of the goals and objectives. Which is due to the nature of the industry for instance when there is fuel price downward revision all the in transit products and stocks at hand will be affected and the company will be forced to sell it with the lowest price (revised) while paying to the government with the highest price and as Ethiopian petroleum supply enterprise supply fuel at Djibouti to different oil and gas companies based on their market share it is not possible to refuse loading of products while there is rumor that oil price will be down.

#### 4.1.2.3 Control Activity of Internal Control Systems

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 (Uwadiae, 2014). The survey result and analysis on this issue therefore; is presented as follows.

**Table 4.1.2.3 Analysis of control activity**

CONTROL ACTIVITY	No. of respo.		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Std. Deviation
Controls employed by the organization include authorizations, approvals, comparisons, physical counts, reconciliations and supervisory controls	No.		22	33	4	1	0	4.27	.660
	%		37	55	7	2	0		

Continued....									
The organization periodically (e.g., quarterly, semiannually) reviews system privileges and access controls to the different applications and databases within the IT infrastructure to determine whether system privileges and access controls are appropriate?	60	No.	2	14	9	27	8	2.58	1.093
		%	3	23	15	45	13		
There is a system in place to ensure that duties are rotated periodically	60	No.	0	4	12	32	12	2.13	.812
		%	0	7	20	53	20		
The organization has policies and procedures addressing proper segregation of duties between the authorization, custody, and recordkeeping	60	No.	15	29	8	6	2	3.82	1.033
		%	25	48	13	10	3		
Management performs periodic review of policies and procedures to determine their continued relevance, and refreshes them when necessary.	60	No.	1	9	11	26	13	2.32	1.033
		%	2	15	18	43	22		
Management selects and develops control activities that are designed and implemented to restrict technology access rights to authorized users proportionate with their job responsibilities and to protect the entity's assets from external threats	60	No.	14	34	9	3	0	3.98	.770
		%	23	57	15	5	0		
Valid N (list wise)	60							19.1	
<b>Overall mean</b>							<b>3.18</b>		

Source: Survey data & own computation

As per the above table 4.1.2.3 the highest rank with a mean of (4.27) indicate that the Controls employed by the organization include authorizations, approvals, comparisons, physical counts, reconciliations and supervisory controls. Following this with a mean of (3.98) and (3.82) indicated that management selects and develops control activities that are designed and implemented to restrict technology access rights to authorized users proportionate with their job responsibilities and to protect the entity's assets from external threats and the organization has policies and procedures addressing proper segregation of duties between the authorization, custody, and recordkeeping respectively.

As segregation of duties reduce the likelihood of errors and irregularities. An individual is not to have responsibility for more than one of the three transaction components: authorization, custody, and record keeping. When the work of one employee is checked by another, and when the responsibility for custody for assets is separate from the responsibility for maintaining the records relating to those assets, there is appropriate segregation of duties. This helps detect errors in a timely manner and deter improper activities; and at the same time, it should be devised to prompt operational efficiency and allow for effective communications by considering this theory the company is implementing good segregation of duties.

The lowest mean (2.13) from the table above indicate that there are no system in place to ensure that duties are rotated periodically although rotation of duties is an additional deterrent to fraud. This indicate that even though job assignments should be changed periodically so that it is more difficult for users to collaborate to exercise complete control of a transaction, subvert it for fraudulent purposes and rotation of duties among staff is also critical in that it facilitates cross-training and improves depth of personnel skill and succession the company doesn't rotate the employees within the organization.

Other lowest mean of (2.58) and (2.32) also evidenced that the organization doesn't review system privileges and access controls to the different applications and databases within the IT infrastructure to determine whether system privileges and access controls are appropriate and management doesn't performs periodic review of policies and procedures to determine their continued relevance, and refreshes them when necessary respectively.

#### 4.1.2.4 Information and communication of Internal Control Systems

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 internal control. Communication is the continual, iterative process of providing, sharing, and obtaining necessary information. The survey result and analysis on this issue therefore; is presented as follows.

**Table 4.1.2.4 Analysis of information and communication**

<b>INFORMATION AND COMMUNICATION</b>	<b>No. of resp.</b>		<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly Disagree</b>	<b>Mean</b>	<b>Std. Deviation</b>
The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control	60	No.	7	25	13	12	3	3.35	1.086
		%	12	42	22	20	5		
There are effective reporting procedures in communicating a balanced and understandable account of the company's position and procedures	60	No.	1	7	16	22	14	2.32	1.016
		%	2	12	27	37	23		
There are established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties	60	No.	14	31	9	4	2	3.85	.971
		%	23	52	15	7	3		
The organization has processes in place to communicate relevant and timely information to external parties.	60	No.	14	28	12	5	1	3.82	.947
		%	23	47	20	8	2		

<b>Continued...</b>									
The organization communicates with external parties regarding matters affecting the functioning of internal control	60	No.	6	25	18	11	0	3.43	.908
		%	10	42	30	18	0		
Valid N (list wise)	60							16.77	
<b>Overall mean</b>							<b>3.35</b>		

Source: Survey data & own computation

From the above table, even though there are 22% of respondents found to be neutral there are 42% of respondents agree and 12% strongly agree that the organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.

In addition 23% of the respondents strongly agree and 52% agree that there are established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties.

Even-though 20% of respondents found to be neutral on the issue there are 23% strongly agree and 47% agree that the organization has processes in place to communicate relevant and timely information to external parties. Regarding the organization communication with external parties concerning matters affecting the functioning of internal control, 30% of respondents found to be neutral, 42% agree and 10% strongly agree on the issue.

The lowest mean (2.32) or 23% of respondents strongly disagree and 37% disagree on the existence of effective reporting procedures in communicating a balanced and understandable account of the company's position and procedures.

Even though effective internal communication is the means by which information is disseminated throughout the organization, flowing up, down, and across the entity and it enables personnel to receive a clear message from senior management that control responsibilities must



be taken seriously. It is clear that information communication regarding objectives and responsibilities for internal control is weak.

#### 4.1.2.5 Monitoring of Internal Control Systems

Monitoring of internal control is performed through application of both ongoing evaluations and separate evaluations. These evaluations ascertain whether other components of internal control continue to function as designed and intended. In addition, these evaluations facilitate identification of internal control deficiencies and communicate them to appropriate officials responsible for taking corrective action. More serious deficiencies are communicated to higher levels of management and to the board of directors when appropriate. The survey result and analysis on this issue therefore; is presented as follows.

**Table 4.1.2.5 Analysis of Monitoring**

<b>MONITORING</b>	<b>No. of respo.</b>		<b>Strongly Agree</b>	<b>Agree</b>	<b>Neutral</b>	<b>Disagree</b>	<b>Strongly Disagree</b>	<b>Mean</b>	<b>Std. Deviation</b>
The organization selects, develops, and performs ongoing and/or separate evaluations on business process to ascertain whether the components of internal control are present and functioning	60	No.	2	1	7	31	19	1.93	.899
		%	3	2	12	52	32		
The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and governing body, as appropriate	60	No.	3	2	6	35	14	2.08	.961
		%	5	3	10	58	23		

Continued...									
Management responds in a timely manner to the internal audit department's findings and recommendations	60	No.	4	7	11	27	11	2.43	1.125
		%	7	12	18	45	18		
Valid N (list wise)	60							6.44	
<b>Overall mean</b>							<b>2.15</b>		

Source: Survey data & own computation

Majority of the respondents which is 32% strongly disagree and 52% disagree that the organization select, develops, and performs ongoing and/or separate evaluations on business process to ascertain whether the components of internal control are present and functioning. Even-though these evaluations ascertain whether other components of internal control continue to function as designed and intended. In addition, these evaluations facilitate identification of internal control deficiencies and communicate them to appropriate officials responsible for taking corrective action. We can say that the company is weak in this perspective.

From the above table 18% strongly disagree and 45 disagree that there are no processes to monitor the company's ability to re-evaluate risks and adjust controls in response to changes in its objectives, business, and external environment and the organization doesn't evaluate and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and governing body, as appropriate respectively.

#### 4.1.3 Overall component mean analysis

Recalling statement of COSO (2013); an effective internal control has five components; control environment, control activities, risk assessment, information and communication and monitoring. The effective functioning of components of internal control provides a reasonable assurance regarding achievement of stated objectives to ensure high levels of organizational performance. The design and implementation of each component of internal control affect the overall effectiveness of internal control The survey result and analysis on this issue therefore; is presented as follows.

**Table 4.1.3.1 Mean analysis of overall component**

<b>Component of internal control</b>	<b>Mean</b>
Control Environment	3.48
Risk Assessment	3.74
Control Activity	3.18
Information And Communication	3.35
Monitoring	2.15

Source: Survey data & own computation

The expected mean value for an effective internal control component is 5 or close to 5. However the under mentioned analysis revealed that all of the five components mean value is less than 4, which indicate there is a room for improvement in each internal control components. The overall component means are as follows; the highest mean value (3.74) indicate that risk assessment of internal control system is much more better than the rest of the components, then followed by mean (3.48) & (3.35) which is control environment and information & communication respectively. The lowest mean of the components are Monitoring and control activity of internal control with a mean value (2.15) and (3.18) respectively.

## **4.2 Interview Result**

The interview was made with six Management Committee members and the interview result was summarized as follows;

The first question was related with the relevancy of internal control in Total Ethiopia S.C. As Total is big and global oil and gas company the relevancy of implementing internal controls is certain as it play an integral role in a company's success, there is no such thing as a risk-free environment but implementing a framework where there is consistency in documented internal controls (with automated workflows, auditability, data security, integrity checks and procedures)

can help reduce the risk and create a more efficient working environment in addition it also help a department achieve their mission and accomplish certain goals and objectives. In addition it safeguards assets and manage resources it also serves to minimize errors in the accounting records and to deter fraud, embezzlement and theft by employees, customers and vendors. So the need of internal control is essential without a question.

The second question is on how far internal audit helped Total Ethiopia S.C management to identify and take appropriate measure to internal control deficiencies. As there is only one person in the audit department it is not possible to critically evaluate the functioning of internal control system in the company. But as per their previous experience there was a system to report internal control deficiency by the internal auditor to the higher management but some of the deficiency where not considered and amended because it was believed by management that it will affect some activities of the organization. Case in point, the internal control deficiency where on credit control but the management intention was to have large volume of sale of products during that time therefore the deficiency was neglected. Due to this kind of negligence by the management the long outstanding balance of receivable is more than the profit registered last year.

The third question was who is responsible to set internal control. The highest body to set internal control is at group level in the head office of the company and distributed to each subsidiaries. Then the subsidiary company will implement it based on local country legal context. Then setting of procedure is a joint responsibility done by the initiating division manager, Audit and control division, and other division managers who have interest on the internal control. The final approval is done by the managing director of the company.

Following the third question the participants asked do company auditors assess/evaluate internal control of the organization. The response was as there is only one person in audit department and the company is large enough, it is not possible to assess the overall effectiveness of internal control periodically. However, some areas of internal control are evaluated based on their severity of risk occasionally.

The participants also asked to give opinion on internal control component if it is well designed and operating in the company. The response revealed that internal control system is well designed at the corporate group level and goes down to the subsidiary level. But the implementation of some internal control component is poor as there is no adequate monitoring done whether the components are working well or not in the company. Finally participants give idea about the effectiveness of the internal control and areas of control needs improvement. The response reveals that the overall effectiveness of the internal control is somehow good but there are areas of internal control need improvement. Information and communication and monitoring component of internal control should be improved because the organization internal communication of information, including procedure and responsibilities for internal control, necessary to support the functioning of internal control is inadequate. All the company procedures are placed on the shared folder and it is the willingness of the employee to look at it or not, there should be a mechanism to check the awareness on each individual about the procedures. Regarding the Monitoring component of internal control the organization doesn't select, develops, and perform ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning for instance procedures of the company was not monitored for a long time.

# **CHAPTER FIVE**

## **SUMMARY OF FINDINGS, CONCLUSION, RECOMMENDATIONS & FURTHER RESEARCH**

This chapter presents summary of findings, conclusion, and forwards recommendations derived from the previous data presentation and analysis.

### **5.1 Summary of Findings**

As it has been clearly indicated in the introduction part, the main objective of this project paper was to evaluate the effectiveness of the overall internal control of the organization with the aim of strengthening the internal control system of the organization. Therefore, the following major findings were obtained on the basis of the analysis.

- From the control environment; Total has a clear code of conduct and/or ethics policy and that has been communicated to all staff and outsourced service providers and audit or internal control systems exist to periodically test for compliance with the policies. Moreover majority of the respondents agree that policies regarding the importance of internal controls and appropriate conduct are communicated in addition management establishes structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
- Organizational structure in Total Ethiopia S.C. is clearly defined and the contractual terms with outsourced service providers are clear and concise with regard to the organization's objectives and expectations of conduct and performance.
- The control environment of the internal control system is inadequate to be judged as effective, particularly; management does not periodically reviews policies and procedures and communicated to employees of Total Ethiopia S.C. to ensure that proper controls are

in place. In addition the organization lacks to mentoring and training opportunities needed to attract, develop, and retain sufficient and competent personnel.

- The control environment of the organization has also lack to give periodic training to ensure employees are aware of their duties pertaining to internal control (e.g. segregation of duties, safeguarding assets).
- The risk assessment with regard to having clear objectives and communication to provide effective direction to employees on risk assessment and control issues are good in the company in addition management ensures that risk identification to be broad and considers both internal and external factors and their impact on the achievement of objectives. But the risk assessment of the internal control system is inadequate since the organization does not have mechanisms in place to identify and react to risks presented by changes in government, regulatory, economic, operating, or other conditions that could affect the achievement of the goals and objectives.
- Controls employed by the organization include authorizations, approvals, comparisons, physical counts, reconciliations, segregation of duties and supervisory controls but there is no system in place to ensure that duties are rotated periodically. As well the organization does not periodically reviews system privileges and access controls to the different applications and databases within the IT infrastructure to determine whether system privileges and access controls are appropriate.
- In addition to the above control activity deficiency the management also lacks to perform periodic review of policies and procedures to determine their continued relevance, and refreshes them when necessary.
- There are established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties and the organization has processes in place to communicate relevant and timely information to external parties but the company does not has effective reporting procedures in communicating a balanced and understandable account of the company's position and procedures.

- In respect of Monitoring of internal control system management does not respond in a timely manner to the internal audit department's findings and recommendations, lacks to select, develop, and perform ongoing and/or separate evaluations on business process to ascertain whether the components of internal control are present and functioning in addition the organization doesn't evaluate and communicate internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and governing body, as appropriate. As there is only one person in audit department which is the audit manager.

## **5.2 Conclusion**

As internal control has become a highly pertinent and topical business issue at the 21st century due to the regular occurrence of fraud, theft and misappropriation of funds and this leads to uncertainty and fear in the minds of the general stakeholders and customer of the organization. The study also confirmed that the relevancy of internal control in Total Ethiopia S.C. found to be crucial in which it keeps company's interest by providing effective and efficient operational control, accurate reporting of financial information, and compliance with applicable laws and regulations. And employees of Total Ethiopia S.C are conscious on the existence of internal control systems in the work place on account of the existence of code of conduct, procedures organizational structures etc.... COSO (2013) states that; internal control effectiveness is resulted from an effective functioning of the control environment, risk assessment, control activities, information and communication and monitoring of the system itself, and this five components should operate together in an integrated manner in order to reduce, to an acceptable level, the risk of not achieving an objective. But in case of Total Ethiopia S.C. the functioning of monitoring component is poor as there is only one individual in audit department to do all the monitoring and evaluation of internal control systems besides Total has different Depot and warehouses operating in different locations of Addis Ababa, Mekelle and Bahirdar. In addition the external auditor doesn't evaluate the overall effectiveness of internal controls put in the



organization. Based on the research result it is found that, the effectiveness of the internal control could not be described as very strong but rather satisfactory and need improvement.

### **5.3 Recommendations**

Based on the findings of the study, some principles under each components of internal control found to be strong based on the respondents response, but the overall effectiveness of internal control not adequately contributed to the effectiveness of the internal control system of the company and some areas should be improved. Therefore the following recommendations are offered to assist in improving on the effectiveness of internal control systems in Total Ethiopia S.C.

- Management should periodically review policies and procedures and communicated to employees of Total Ethiopia S.C. to ensure that proper controls are in place and to ensure they are in agreement with the organization's strategic mission. In addition it allows organizations to make adjustments to the policy to comply with changes to laws and regulations
- The organization should continuously provide mentoring and training opportunities needed to attract, develop, and retain sufficient and competent personnel. As employees are the major participant of internal control, it will increase employee productivity/performance and also increase consciousness of internal control system put in place. In addition the training should be conducted for employees to create awareness of their duties pertaining to internal control (e.g. segregation of duties, safeguarding assets).
- As rotation of duties is an additional prevention to fraud. Job assignments should be changed periodically so that it is more difficult for users to collaborate to exercise complete control of a transaction and subvert it for fraudulent purposes. Rotation of duties among staff is also critical in that it facilitates cross-training and improves depth of personnel skill and succession. In addition as Internal control is all of the policies and procedures management uses to safeguard company asset, ensure the reliability and

integrity of financial information, ensure compliance, promote efficient and effective operations and accomplishment of goals and objectives. Management should periodically review policies and procedures to determine their continued relevance, and refreshes them when necessary.

- As per the interview results there were some areas that seem to be less risky and these areas were overridden by management due to this there were material loss for the company. In order to avoid this kind of irregularity management should make a thorough identification of risks because it provides the opportunities, indicators, and information that allows an organization to raise major risks before they adversely affect operations and hence the business.
- From the interview it is found that some employees don't have access to the shared folder in order to access the procedures and just putting the procedures in the shared folder doesn't guarantee that all employees look in to the procedures. Due to this internal communication of information regarding matters including responsibilities for internal control and procedures necessary to support the functioning of internal control should be communicated to all, and all personnel must receive a clear message from top management that control responsibilities must be taken seriously. In addition each department managers should monitor that the procedures are followed.
- As monitoring ensures that internal control continues to operate effectively and provides the necessary support for management and others who are charged with governance to be confident that internal control is operating effectively. The company should select, develop, and perform ongoing and/or separate evaluations on business process to ascertain whether the components of internal control are present and functioning and those internal control deficiencies should be communicated to those parties responsible for taking corrective action, including senior management and governing body, as appropriate. But as the number of auditor is not sufficient to critically evaluate the overall functioning of internal control, the organization should use external auditors or increase the staff members at the audit department.

## **5.4 Suggestion for Further Research**

- It is suggested that there might be a test for hypothesis about the existence of internal control system and their degree of implementation. In addition to this, measuring the effectiveness of internal control should not focus only on the five component of COSO framework further research has to be done on the linkage between internal control system effectiveness on the financial profitability of the company if data confidentiality of the organization can be broken or if access to business data is open.

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# APPENDIXES

## APPENDIX I: QUESTIONNAIRE

### **St. Mary's University MASTER OF BUSINESS ADMINISTRATION (MBA Program) Questionnaire to Total Ethiopia S.C. Employee's**

#### **Introduction**

This questionnaire is on the research topic, Evaluation of Internal control in Total Ethiopia S.C., and primarily undertaken as requirement for the fulfillment of MBA Degree in Accounting & Finance. Improving the internal control will be used in building the strength and designing strategies to correct weakness in internal control at Total Ethiopia S.C.

The collected data will be used only for mentioned purpose. Therefore, I would be very grateful if you could provide appropriate response to the questions below. The information you provide will be treated with strict confidence as expected.

Thank you for your time and co-operation.

**Instructions:** Please kindly tick the box that clearly expresses your view about a question.

#### **PERSONAL DATA**

**1. Gender:**

Male [ ]      Female [ ]

**2. Age:**

19 or less [ ]    20–29 [ ]    30–39 [ ]    40–49 [ ]    50 or more [ ]

**3. Educational attainment:**

PhD [ ]                      Master [ ]      BA Degree [ ]                      Diploma [ ]  
certificate [ ]

**4. Field of Study:**

Accounting [ ]      Economics [ ]      Management [ ]      Other [ ]

**5. Which Department do you belong?**

Sales and Marketing [ ]      Finance and Admin. [ ]      Transport & Supply [ ]  
 Audit [ ]      Depot & warehouse [ ]

**6. Year of service in the company?**

1-3 [ ]      4-10 [ ]      More than 10 years [ ]

<b>A. CONTROL ENVIRONMENT</b>	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
<b>7.</b> Total has a code of conduct and/or ethics policy that has been communicated to all staff and outsourced service providers					
<b>8.</b> Audit or internal control systems exist to periodically test for compliance with the policies.					
<b>9.</b> Policies regarding the importance of internal controls and appropriate conduct are communicated to all staff					
<b>10.</b> Management establishes structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives					
<b>11.</b> Management decisions are made collectively and not controlled by one dominant individual					
<b>12.</b> The contractual terms with outsourced service providers are clear and concise with regard to the organization's objectives and expectations of conduct and performance.					
<b>13.</b> Management periodically reviews policies and procedures and communicated to employees of Total Ethiopia S.C. to ensure that proper controls are in place					
<b>14.</b> The organization continuously provides mentoring and training opportunities needed to attract, develop, and retain sufficient and competent personnel.					
<b>15.</b> organizational structure in Total Ethiopia S.C. is clearly defined					
<b>16.</b> The organization holds periodic training to ensure employees are aware of their duties pertaining to internal control (e.g. segregation of duties, safeguarding assets). Training needs are continuously reevaluated.					
<b>B. RISK ASSESSMENT</b>					
<b>17.</b> The company has clear objectives and these have been communicated so as to provide effective direction to employees on risk assessment and control issues					

<b>18.</b> Management ensures that risk identification considers both internal and external factors and their impact on the achievement of objectives.					
<b>19.</b> The organization risk identification/assessment is broad and includes all significant interactions, both internal to Total and its business partners and outsourced service providers.					
<b>20.</b> Management appropriately evaluates risk when planning for new product or activity					
<b>21.</b> Technology issues are considered and appropriately addressed					
<b>22.</b> The organization considers the potential for fraud in assessing risks to the achievement of objectives					
<b>23.</b> The organization has mechanisms in place to identify and react to risks presented by changes in government, regulatory, economic, operating, or other conditions that could affect the achievement of the goals and objectives.					
<b>C. CONTROL ACTIVITY</b>					
<b>24.</b> Controls employed by the organization include authorizations, approvals, comparisons, physical counts, reconciliations and supervisory controls					
<b>25.</b> The organization periodically (e.g., quarterly, semiannually) reviews system privileges and access controls to the different applications and databases within the IT infrastructure to determine whether system privileges and access controls are appropriate?					
<b>26.</b> There is a system in place to ensure that duties are rotated periodically					
<b>27.</b> The organization has policies and procedures addressing proper segregation of duties between the authorization, custody, and recordkeeping					
<b>28.</b> Management performs periodic review of policies and procedures to determine their continued relevance, and refreshes them when necessary.					
<b>29.</b> Management selects and develops control activities that are designed and implemented to restrict technology access rights to authorized users proportionate with their job responsibilities and to protect the entity's assets from external threats.					

<b>D. INFORMATION AND COMMUNICATION SYSTEMS</b>					
<b>30</b> The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control					
<b>31.</b> There are effective reporting procedures in communicating a balanced and understandable account of the company’s position and procedures					
<b>32.</b> There are established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties					
<b>33.</b> The organization has processes in place to communicate relevant and timely information to external parties.					
<b>34.</b> The organization communicates with external parties regarding matters affecting the functioning of internal control					
<b>E. MONITORING</b>					
<b>35.</b> The organization selects, develops, and performs ongoing and/or separate evaluations on business process to ascertain whether the components of internal control are present and functioning					
<b>36.</b> There are processes to monitor the company’s ability to re-evaluate risks and adjust controls in response to changes in its objectives, business, and external environment					
<b>37.</b> The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and governing body, as appropriate					

## APPENDIX II: NTERVIEW QUESTIONS

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1. How far internal control system is relevant to the company's interest?
2. How far internal audit helped Total Ethiopia S.C management to identify and take appropriate measure to internal control deficiencies?
3. Who is responsible to set internal control?
4. Do the company auditors assess/evaluate internal control of the organization?
5. Do you think all areas of internal control system (the control environment, control activities, risk assessment, information and communication, and monitoring) well designed and operating in the company?
6. What is your idea about the effectiveness of the internal control and where is/are areas of the control you suggest an improvement?

## DECLARATION

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

\_\_\_\_\_

Name

**St. Mary's University, Addis Ababa**

\_\_\_\_\_

Signature

**June, 2016**

## ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

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Advisor

**St. Mary's University, Addis Ababa**

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Signature

**June, 2016**