



**INTERNAL CONTROL AND ITS CONTRIBUTION TO  
ORGANIZATIONAL EFFICIENCY: A CASE STUDY OF AWASH  
INTERNATIONAL BANK S.CO**

**BY  
ZERIHUN HAILU MESHESHA**

**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  
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ACCOUNTING AND FINANCE**

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## **DECLARATION**

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Asmamaw.G (Ass.Prof). All sources of materials used for the thesis have been duly acknowledged. I confirm that thesis prepared on the Awash International Bank Under the title of *Internal Control and its Contribution to Organizational Efficiency*. On the same topic earlier has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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Name

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

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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

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Signature

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**June, 2016**

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## **LIST OF ACRONYMS**

AIB	Awash International Bank
AICPA	American Institute of Certified Public Accountants
ASO	Act of Sarbanes Oxley
COSO	Committee of Sponsoring Organization
CPA	Certified Public Accountant
CEO	Chief Executive Officer
GAAP	Generally Accepted Accounting Principles
IC	Internal Control
IIA	Institute of Internal Auditors
ICS	Internal Control System
ISA	International Standards on Auditing
SPSS	Statistical Package for Social Sciences
GAO	General Accounting Office
OFAG	Office of Federal Audit General
PBZ	People's Bank of Zanzibar
GPCL	Ghana Postal Company limited
WTO	World Trade Organization

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## **ABSTRACT**

*The Researcher set out to establish the organizational efficiency from the perspective of internal controls. The study was guided by the following objectives to what extent does control environment, control activity, risk assessment, information and communication; monitoring and internal audit of the internal control system has a contribution to organizational efficiency. The study would be significant to the board of directors and management personnel as it would give insights to them on the importance of internal control and its contribution to organizational efficiency. The study adopted a descriptive research design. The nature of the study is qualitative research. The target population of the study was all the employees of control department. In the study the target population was 53. The study employed census sampling technique. Data was collected using questionnaires, interview as well as review of available documents. Data was analyzed using descriptive statistics presented by using frequency, percentage, mean, standard deviation and tables. The study found out that, the information and communication at AIB was effective as majority of the respondents agreed to that assertion. In reviewing the monitoring component at AIB, the study found that monitoring activity was the weakest and ineffective. Again, from the study indicated that control environment at AIB is also functioning. Control activity component, risk assessments as well as the internal audit of internal control were also assessed and findings proved their effectiveness. Some recommendations were made towards strengthening the internal control components of the AIB, in pursuance of their effectiveness. The study recommended that management must observe and physically count assets to check any misstatement. The management of the bank prepares training on internal control activity, prompt effective follow-up procedures and periodically review their policies and procedures.*

***Keywords: Internal Control, Organizational Efficiency; Internal Control and its Contribution to Organizational Efficiency***

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1. Background of the Study**

Banks servants of public trust and has a great responsibility to keep and use public money in most effective ways possible while adhering to laws, rules of the country and regulation of national bank of Ethiopia. A strong system of internal controls is paramount to properly managing public money within the related business processes. In the private sector, corporation directors are responsible for determining company policy, monitoring corporation performance and taking corrective action if either policy or its implementation is imperfect. Internal control provides a means of assurance that corporate goal and objectives are being achieved. For banks to be able to function effectively and contribute meaningfully to the development of a country the industry must be stable, safe and sound for these conditions to be obtained there must be a sound accounting system, which is occasioned by an internal control system. In view of the economic growth in companies' volume and complexities proper management of modern business undertakings are not possible unless they have an effective system of internal control. Organizational efficiency is an organization's degree of success by achieving its objective through effective internal control system.

A recent framework for internal control systems in Banking Organizations for the first time is issued by the Bank of International Settlement (Basle Committee) on Banking Supervision in (1998) stated that, the heightened interest in internal controls is in part, a result of significant losses incurred by several organizations. It explained that, an analysis of the problems related to these losses indicates that they could probably have been avoided had the organizations maintained strong internal control systems. Such systems would have prevented or enabled earlier detection of the problems that led to the losses, thereby limiting damage to the organization. Internal controls are put in place to keep organization on course towards profitability goals and achievement of its mission and to minimize surprise along the way. They enable management to deal with rapidly changing economic and competitive environment, shifting customer demands and priorities and restructuring for future growth. Internal controls

promote organizational efficiency, reduce risks of asset loss and help to ensure the reliability of financial statements and compliance with laws and regulations Organization of the Tread way Commission (COSO, 2011).

According to Kratz (2008) the most management of the financial institutions within the developed countries were strengthen the internal control system especially after the collapse of the leaded companies for instance Enron, General Motor, Waste management Inc, WorldCom and GE in USA and other. In America was introduced the law called the Sarbanes Oxley Act of (2002), among other thing require the corporation or organization to establish and maintain an adequate internal control. Structure and procedures for financial reported and maintain an assessment, of the effectiveness of the internal control system and procedures. The internal control system is among the important aspect in most financial institutions (banks) in both developed countries' and developing countries and corporations and overall operation of the entities.

Internal controls are systems comprising of the control environment and control procedures. This researchers further state that internal control systems include all the policies and procedures adopted by the directors and management of the corporation to assist in achieving their goal and objective of efficient conduct of its business, including adherence to internal policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completion of the accounting records and timely preparation of reliable financial information. This goes along that the objectives of internal control for every organization are depending on the goals set out by the management of the organization (Pungas, 2013) as such, the purpose of internal control in bank sector should also goes a long with the set up goals by the board of directors. Internal control is an important component of bank management and a foundation for the safe and sound operation of banking organizations (Millichamp, 2002; Amudo & Inanga, 2009; Ofori, 2011 and Khamis, 2013).

A system of strong internal controls can help to make sure that the goals and objectives of a banking organization will be met, that the bank will achieve long-term profitability targets, minimizing risks and maintain reliable financial and managerial reporting. The need for the

internal control systems in organizations especially banks cannot be destabilized, due to the fact that the banking sector, which has a crucial role to play in the economic development of a nation. Internal controls are policies, procedures, practices and organizational structures implemented to provide realistic assertion that an organization's business objectives will be achieved and undesired risk events will be prevented or detected and corrected, based on either compliance or management initiated concerns organizations establish systems of internal control to develop organizational efficiency, to achieve organizational goals, objectives and prevent loss of resources.

Such a system can also help to ensure that the bank will act in accordance with laws and regulations of National bank of Ethiopia. Under the licensing and supervision of National bank of Ethiopia banking business customer due diligence of banks directives no SBB/46/2010 whereas, sound know your customer policies and procedures constitute an essential part of internal control and risk management aspects of banks; whereas, there is a need to strengthen internal control and risk management systems of banks to prevent them from exposure to undue reputational, operational, legal and concentration risks that may result from abuse of money launderers and terrorist financiers; whereas, conducting customer due diligence is a key part of customer identification, internal control and risk management of banks; whereas, there is a need to ensure that banks have sound policies, procedures and controls in place that enable them to identify their new and existing customers ; Now, therefore, in accordance with article 53 of Banking Business Proclamation number 592/2008 and articles 3(2) and 3(3) of Prevention and Suppression of Money Laundering and Financing of Terrorism Proclamation number (657/2009).

In this study researcher want to contribute in the field of accounting and finance that it may allow financial professionals to have a clear reading of the situation of the organization under the study. Researcher believes that his modest contribution will enrich knowledge in finance and especially in internal control. The first interest of this thesis can be an economic one. In fact, if internal control can contribute to corporate objectives, it can also help all staffs keep their place in the organization, the shareholders or partners should ensure the success of their investment. It could help all the stakeholder of the company in every level to make the organization get better



and themselves in the same way. In a second way, there is a public interest the internal control is also an interest of public which is to ensure that banks use public money for running the business activity in an efficient and prudent way. As a result of this banks have high responsibility to control the public money.

## **1.2. Statement of the Problem**

Banking sector is unique area in the economy because it provides different kind of services to the customers and handles massive volume of funds daily. All activities in the economy depend on the strength and stability of the banking sector. Due to these facts the necessity of internal control system in the banks cannot undermine. The basis of safe and sound banking system the strong internal controls are so important. Internal control system may find out mistakes caused by personal distraction, carelessness, error in judgment or unclear instructions in addition to frauds or deliberate noncompliance with policies, procedure of the bank and National bank directives. As a result of this all bank employees must have proper knowledge on internal control and consistently applied too. Developing appropriate internal controls is critical for banks to manage risk and mitigate risks, but bankers often face the competing challenges of establishing controls needed to manage risk while also maintaining profitability.

There is a general agreement that internal control systems are used as management tools in financial management (Shah, 2003). Internal controls have been put in place to ensure safe custody of all bank assets, to avoid misuse or misappropriation of bank assets and to detect and safeguard against probable frauds. Control itself exists to keep organization efficiency within what is expected by the entity, control built within a process is internal in nature and takes place with a combination of interrelated components such as social environment affecting behavior of employees, information necessary in control and policies and procedures (COSO, 2001).

In view of the previous virtually all banks have established internal control measures in order to enhance their organizational efficiency as well as improve adherence to the prescribed rules and regulations. The most research works try to express the problem of internal control system at different angle. This are evidenced by the following research works (Douglas,2011), was emphasizing on the internal control and its contribution to organization efficiency and

effectiveness, the above research only to show failures caused by humans to the internal controls and effectiveness of internal controls in risk management in the financial institutions. This research fails to show the direct contribution of internal control to the organization efficiency and effectiveness. Khamis(2013) contribution of internal control system to the financial performance of financial institutions. The researcher only focused on internal control, control environment and their contribution of the financial performance of the financial institution (bank). This study fails to show the control the effect of cultural and behavioral factors on the performance of the financial performance and contribution of internal auditor to performance of the entity.

Amudo and Inanga (2009) they try to express the problem of internal control system, evaluation of internal control system both researches do not analysis the positive correlation between the internal control and organizational efficiency of the financial institution.

Internal control on organizational efficiency should be considered most important in every organization, because the task of internal control is to prevent and detect fraud, error, the accuracy and completion of the accounting records in the organization. For this purpose organizations give much attention to the internal audit which is generally a feature of large corporations. It is a function provided either by employees of the entity or sourced from an external organization to assist management in achieving corporate objectives. The code of corporate governance highlights the need for business to maintain good system of internal control, to manage the risk the organizations faces. Internal audit can play a key role in assessing and monitoring internal control policies and procedures. Therefore internal control is needed to promote efficiency.

According to Jones (2008) the internal control systems including internal audits are intended primarily to enhance the reliability of organizational efficiency, either directly or indirectly by increasing accountability among information providers in an organization. Even though the organizations operate its activities in order to enhance the organization efficiency it can be attained through the internal control. This study was focus on internal control and its contribution to organizational efficiency under internal audit aspect because the above research work and other literatures do not dig much on this aspect.

### **1.3. Basic Research Questions**

The following research questions are intended to was rise;

Q1.Is the control environment of the internal control system has a contribution to organizational efficiency?

Q2.Is the control activity of the internal control system has a contribution to organizational efficiency?

Q3.Is the risk assessment of the internal control system has a contribution to organizational efficiency?

Q4.Is the information and communication of the internal control system has a contribution to organizational efficiency?

Q5.Is the monitoring component of the internal control system has a contribution to organizational efficiency?

Q6.Is internal audit has a contribution to organizational efficiency?

### **1.4. Objectives of the Study**

#### **1.4.1. Main Objective**

The main objective of this study was to assess the extent to which internal control and its contributions to organizational efficiency: in the case of Awash international bank.

#### **1.4.2. Specific Objective**

Specifically, this study was standing to achieve the following objectives.

- ✚ To what extent dose control environment of the internal control system has a contribution to organizational efficiency.
- ✚ To what extent the control activity of the internal control system has a contribution to organizational efficiency.
- ✚ To examine the extent to which risk assessment of the internal control system has a contribution to organizational efficiency.
- ✚ To what extent dose information and communication of the internal control system has a contribution to organizational efficiency.

- ✚ To examine the extent to which the monitoring of the internal control system has a contribution to organizational efficiency.
- ✚ To examine the extent to which internal audit has a contribution to organizational efficiency.

### **1.5. Scope of the Study**

Internal control is a broad concept. In order to have a better understanding of it, a specific area of study is needed. Therefore, the researcher of this study mainly focused on of internal control and its contribution to organizational efficiency. The study was conduct in Awash international bank. The proper internal control is the easier way of attaining plans, goals and objectives, on understanding this researcher was concentrate with control department at headquarter. The target population for the study was entire employees from control department.

### **1.6. Significance of the Study**

The researcher hoped that the study were be significant to the board of directors and management personnel as it was give insights to them on the importance of internal control and its contribution to organizational efficiency and how it was help them in achieving their organizational objective. The other significance of this study also those interested researcher may take this study as a base for detailed and further studies.

### **1.7. Limitation of the Study**

The study was focused on only in one bank while there are more than sixteen banks available in Ethiopia, therefore these findings may not be used for generalizations of all financial institutions (banks). It is therefore important for a study to be conducted using wider scope and coverage. The other limitation of the study was those associated with time allowed for conducting this research work by the university. Attitude of respondent is also another limiting factor to this research work. Most respondent are often reluctant to part with information even after being assured confidentiality they still prefer to be secretive. Despite the limitations of this study the researcher still hopes to do better work.

### **1.8. Profile of Awash International Bank**

Awash International Bank S.co was established after the dawn fall of the Dergue regime and introduction of market economic policy in 1991. Initially, it was established by 486 founder shareholders with a paid-up capital of Birr 24.2 million. It was licensed on November 10, 1994, and started banking operations on February 13, 1995. The Bank was named after the popular river “Awash” which is the most utilized rivers in the country especially for irrigation and hydroelectric power development. Awash River sinks at a low land area of the county’s eastern parts without crossing an international boundary and plays a pivotal role in the economic development of the country. The number of shareholders and paid up capital have been increasing continuously and significantly and currently stand at over paid-up 3436 and its capital currently stood at Birr 1.5 billion. However, the 13<sup>th</sup> Extraordinary Annual General Meeting of the shareholders of AIB endorsed the increase of paid-up capital to Birr 3 billion and subscribed capital to 6 billion within the coming three years. Awash International Bank S.co is also the first private bank to build its own head quarter at the hub of what is growing in to the Ethiopia financial district. The twins building named “Awash Towers” built in collaboration with its sister company Awash Insurance Company S.co was inaugurated in 2010.

Currently, the Bank has total of 225 branches of which 119 branches are located in Addis Ababa while the reaming 106 branches are located in regional towns, (as of march/21/2016). The long awaited Core Banking project was completed since July 2014 and currently, all on- lined branches are being embraced by the new system replacing the old one referred as the “Bank Master”. This solution will provide AIB an edge over competition by helping meet market demands with greater agility and the automated services of the Core banking solution will ensure faster processing front and back office request and an improved turnaround time for customers.

Similarly, before launching the Core Banking System, the Bank had enabled its customers to embrace modern payment system and transaction services. The Bank initially started providing a card banking payment services, Automatic Teller Machine (ATM) in collaboration with other private banks under auspice of a share company named “Premier Switch Solutions (PSS) for the operation of joint and management of Automatic Teller Machine (ATM) and Point of Sale (POS) terminals.

Awash International Bank S.co provides full-fledged banking services. The major services of the bank, among others are mobilization of deposits such as demand deposit, saving deposit, and fixed time deposit. Provision of credit services like loans and advances, International banking services including facilitation of import and export transactions, handling inward and outward money transfer services, purchase and sell of foreign currencies, and providing deposit services in hard currencies. Money transfer services like incoming transfer and outgoing transfer and safe deposit services. This all information is taken from the bank website (<http://www.awashbank.com>).

### **1.9. Organization of the Study**

The study was structure in to five chapters. Chapter one, introduction contains background of the study, the problem statement, research question, objectives of the research, the significant of the study, scope, limitation of the study and profile of Awash international bank. Chapter two was literature review which includes definition of terms, components of internal , types of internal controls system, internal controls objectives, parties responsible for and affected by internal controls, limitation internal control, cost-benefit analysis, internal control evaluation, importance of internal control, organizational efficiency, factors contributing to organizational efficiency, relationship between organizational efficiency, empirical review knowledge gap and conceptual framework. Chapter three deal with the research design, target population, data collection method, data collection procedures, data analysis and presentation technique validity and reliability, ethical consideration and. Chapter four deal with data analysis, presentation and findings. Chapter five was about the summary of findings, conclusion, recommendations and areas of further research.

## **CAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0. Overview of Theoretical Review**

This chapter seeks to unfold the important terms that were used in this research in addition to a detailed review of related literature of researchers, other authors and authorities. It is the compilation of includes definitions of internal control, types of internal controls, components of internal control, internal controls objectives, limitation internal control, importance of internal control, organizational efficiency, factors contribute to organizational efficiency, relationship between internal control and organizational efficiency empirical review, knowledge gap. William (cited in Gupta, 2003).

#### **2.1. Definition Internal Control**

Internal control may be defined as the economic, efficient and effective achievement of the entities objective, the adherence to external rules and to management policies, the safeguarding of assets and information, the prevention and detection of fraud and errors, and the quality of accounting records and the timely production of reliable financial and management information.

According to Milichamp (2002), he defined internal control system as the whole system of control, financial and otherwise, established by the management in order to carry on the business of safeguarding the assets and secure as far as possible the completeness and accuracy of the records. Internal control is an integral process that is affected by an entity's management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of

the entity's mission, achieve objectives. Management must reconfirm and also provide reasonable assurance that adequate control exists over the organization assets and records. This can only be accomplished by developing strong internal controls that required employees to follow corporate policies and procedures such as proper authorization for transactions and periodically asking an independent person to check the internal control systems.

International standard of auditing also defined internal control system, as all the policies and procedures (internal control) implemented by the management of an organization to assist in achieving organizational objective of ensuring, as far as practicable, the orderly and efficient conduct its business, including of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information. The internal control system extends beyond those matters which relate directly to the functions of the accounting system and comprises; the control environment and control procedure.

The importance and components of internal control system try to explain by Whittington and Pany, (2004) while they try to borrow the definition of the COSO. Define internal control as “a process affected by the organization board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following areas: trustworthiness of financial reporting, effectiveness and efficiency of operation, and compliance with applicable laws and regulations.” They emphasize that internal control is a process and not an end itself and they note that internal control provides only reasonable assurance but not absolute assurance about the attainment of an entity's objective.

According to William F (2009), he defined internal controls as the process affected by an entity's board of directors, management and other personnel designed to provide reasonable assurance regarding to the operational, financial and compliance control to achieve entity. In his book auditing and assurance service, William emphasized the need for an internal control system so as to generate reliable information for decision-making. It further states that if the information



system does not generate reliable information, management may be unable to make informed decisions about issues such as product pricing, cost of production and profit information.

The Committee of Sponsoring Organizations of the Treadway Commission's (2011) define internal control system as a process, affected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objective in effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations. While internal controls provide reasonable assurance of achieving the organizations objectives. Internal controls can-not prevent poor judgment or decisions, or external events that could cause the organization to fail to achieve its operational objectives. Additionally, internal controls are limited by the capacity of management to override them and collusion by internal personnel and third parties. 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.

## **2.2. Component of Internal Control**

The formality of any control system will depend largely on a bank's dimension, the complexity of its operations, and its risk profile. Less formal and structured internal control systems at community banks can be as effective as more formal and structured internal control systems at larger and more complex banks. Some researches and sources refer them the elements or frameworks while some other studies and sources refer them standards of internal control. The Committee of Sponsoring Organizations (COSO), Act of Sarbanes Oxley, American Institute of Certified Public Accountants (AICPA) and General Accounting Office (GAO) claim effective internal control should primarily have five elements namely; control environment; information, and communication systems, control activities; risk assessment and monitoring.

### **2.2.1. Control Environment**

From internal control components control environment is one of the key components of an entity's; it sets the tone of an entity, influences the control consciousness of all people within the organization and is the foundation for all other components of internal control system (Ramos,

2004). Some of the components of control environment for this study are competence levels, quality of audit committees and Integrity and ethics (Ramos, 2004).

According to Rae & Subramaniam (2006), the core of any organization is its people and they are the engine that drives the organization. They further assert that individual attributes (integrity, ethical values and competence) and the environment in which they operate determine the success of the institution and that the control environment as established by the organizations administration sets the tone of an institution and influences the control consciousness of its people. Control environment factors as listed by Subramaniam et al., (2006), include: integrity and ethical values, competence and level, quality of audit committees.

#### **2.2.1.1. Competence Levels**

According to (Lawson, 2004; Kizirian, 2004) competence means an ability with skills and knowledge that has been acquired and is ready to put to action, while capacity as being more passive power of a structure to attract, contain or receive. Therefore, high competence levels will be in line with transparent disclosures in accountability and will involve minimum reconciliations, internal checks and audits in commercial banks. Competent management tone has a significant impact on the strength of the organization controls on employees.

#### **2.2.1.2. Quality of Audit Committees**

According to Dezoort and Salterio (2001), find that audit committee members with financial reporting and audit knowledge are more likely to understand auditor judgments and can fruitfully get involved in auditor-management dispute solving, than members without such knowledge. Krishnan (2005), presents evidence that audit committees with financial expertise are less likely to be associated with the incidence of internal control problems and conflict of interest.

#### **2.2.1.3. Management Integrity and Ethics**

According to Du Toit (2002), integrity comprises of value-based system in order to manage ethical behavior within an organization, and should play an important part in the day-to-day

operations within the organization. It is further maintained that management of commercial banks should be entrusted with people who are honest with integrity and ethical values.

According to Ho (2003) and Rijal (2006), management ethics involves managerial discipline, independence, protection of shareholders' rights, fairness, transparency, board responsibilities for assets and other accountability, social awareness and environmental issues. Ho (2003) and Rijal (2006), further assert that, part of any organization that has the most control over governance is the board of directors, and is said to be the „soul“ of a company, which holds the business decision for the whole entity. Management that displays integrity and ethical values in its actions promotes transparent disclosures in its accountabilities and will require minimum reconciliations, internal checks and audits in monitoring transactions and activities (Ho, 2003 and Rijal, 2006). In relation to Subramaniam et al, (2006) organizational values cannot rise above the integrity and ethics of the people who create, administer and monitor them.

### **2.2.2. Risk Assessment**

In business activity every entity faces a variety of risks from external and internal sources that must be assessed. Responding to these risks and lowering vulnerabilities enables an organization to sustain itself and thrive amidst the external change it faces (Martin, 2010). Risk assessment is the second component of internal control as described by COSO, and it provides the foundation for setting up actual control activities.

The risk assessment principles of internal control (updated COSO, 2013) are as follows:

- ✓ The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
- ✓ 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.
- ✓ The organization considers the potential for fraud in assessing risks to the achievement of objectives.
- ✓ The organization identifies and assesses changes that could significantly impact the system of internal control.

### **2.2.3. Control Activities**

Control activities happen at all levels and functions of the entity. Control activities are tools - both manual and automated that help prevent or reduce the risks that can impede accomplishment of the organization's objectives and mission. According to Jenkinson (2008) control policies and procedures must be established and executed to help ensure that actions necessary to achieve the institutions objectives are effectively carried out. It is further argued that control activities are the policies and procedures that help ensure that management directives are carried out and also controlled activities occur as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties. Similarly reviews should be made of actual performance versus budgets, forecasts and performance in prior periods and performance reviews should be made of specific functions or activities. Reviews in banks may focus on compliance, financial or operational issues.

Under the study of Ramos (2004) he suggests that a variety of control activities should be performed to check the accuracy and completeness of information as well as the authorization of transactions. Development of new systems and changes to existing ones should be controlled. Additionally, access to programs and data should be restricted. Physical controls include control of equipments, inventories, securities, cash and other assets which should be secured physically and periodically counted and compared with amounts shown on control records. Performance indicators may be through anticipating certain operating results by investigating unexpected results that jeopardize the achievement of the banks objectives. Duties are segregated among different people to reduce the risk of error or inappropriate actions. For example, responsibilities for authorizing transactions, recording them and handling the related assets should be separated.

### **2.2.4. Information and Communication**

Information communication is another internal control component that involves the procedure of identifying, capturing and exchanging information on a timely basis to enable the organization to accomplish its stated objectives. The information system, including accounting enables the organization to make appropriate decisions in managing and controlling the activities.

According to Lamoye (2005), for the control system to be effective and efficient, there should be relevant and reliable information which should be recorded and communicated to management and other personnel within the organization. To carry out the internal control and operational duties and responsibilities, the information should be timely and should go to those who need it and in the right form. All personnel must understand their roles in the control systems, how their roles relate to others and their accountability through the information and communication systems. Communication also takes place with outside parties such as customers, suppliers and regulators.

The updated COSO (2013), states some principles to bring about effective information and communication system:

- The organization obtains or generates and uses relevant, quality information to support the functioning of other components of internal control.
- The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
- The organization communicates with external parties regarding matters affecting the functioning of other components of internal control.

### **2.2.5. Monitoring**

According to Whittington & Pany (2001) monitoring is the review of an organization's activities and transactions to assess the quality of performance over time and to determine whether controls are effective. Management should focus monitoring efforts on internal control and achievement of organization objectives. For monitoring to be most effective, all employees need to understand the organization's mission, objectives, and responsibilities and risk tolerance levels.

According to Muhota (2005), monitoring is one of the most important aspects of internal controls in any banking institution, used internally, while externally central banks use regulatory and supervisory measures. Monitoring is an ongoing activity which involves performing procedures

periodically and reviewing banks documentation to confirm that all procedures have been performed as required.

### **2.3. Types of Internal Control Systems**

Internal controls are of different types and are grouped into preventive, detective and corrective control. However, different writers have come out with different types of internal control system. In the view of Milichamp (2002), the types of internal controls are safeguarding of assets, separation of duties, supervision, verification, approval and authorization, documentation and reporting. Other authors such as Lousteau (2006) and DiNapoli (2005) have agreed that the types of internal controls include directive controls, preventive controls, compensating controls, detective controls, and corrective actions. These types of internal controls are explained below.

#### **2.3.1. Preventive Controls**

In the view of Lacotelli (2003), she defined preventive controls as measures put in place by management to deter and prevent non-compliance with directives, policies and procedures. These preventive controls are intended to prevent risk of error, frauds and irregularities from occurring in transactions and prevention of loss. These preventive controls are in the form of segregation of duties, proper authorization and approval, establishment of organizational chart to allocate jobs to responsible officers, adequate documentation, physical control over assets and constant training of staff.

#### **2.3.2. Detective Controls**

These are controls which are aimed at detecting and uncovering problems such as fraud, irregularities and errors after they have been committed. Although, detection is necessary, prevention is more desirable. These controls are in the form of post-audits, exception reports and valuation. They provide evidence that a loss has occurred but do not prevent a loss from occurring. Examples of detective controls are reviews, analyses, variance analyses, reconciliation, physical inventories and audits. However, detective controls play critical role in providing evidence that the preventive controls are functioning and preventing losses (Wells, 2006).

### **2.3.3. Corrective Controls**

According to Simmons, (1997) the corrective controls are put in place to address anything which is foreign and every problem that has occurred in the system. Examples of corrective controls are system re-design, follow-ups, post audits and application of punishments by management for wrong doing.

### **2.3.4. Directive Controls**

Directive controls refers to policies and procedures put in place by top management to promote compliance with independence rules. The policies and procedures from management that are important must pervade the organization and must be clear and consistent in order to ensure compliance (Rittenberg et al., 2005).

### **2.3.5. Compensating Controls**

Compensating controls are controls implemented in order to mitigate the risks associated with failure of other controls.

## **2.4. Internal Control Objectives**

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 we want the system of internal control to satisfy. For a control objective to be effective, compliance with it must be measurable and observable (Mercers - university). Internal Audit evaluates Mercer's system of internal control by accessing the ability of individual process controls to achieve seven pre-defined control objectives. The control objectives include authorization, completeness, accuracy, validity, physical safeguards and security, error handling and segregation of duties.

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.

## **2.5. Parties Responsible for and Affected by Internal Controls**

According to Elizabth et al. (2013), as they say while all of an organization's people are an integral part of internal control, certain parties merit special mention. These include management, the board of directors (including the audit committee), internal auditors, and external auditors. The primary responsibility for the development and maintenance of internal control rests with an organization's management. With increased significance placed on the control environment, the focus of internal control has changed from policies and procedures to an overriding philosophy and operating style within the organization. Emphasis on these intangible aspects highlights the importance of top management's involvement in the internal control system.

If internal control is not a priority for management, then it will not be one for people within the organization either as an indication of management's responsibility, top management at a publicly owned organization will include in the organization's annual financial report to the shareholders a statement indicating that management has established a system of internal control that management believes is effective. The statement may also provide specific details about the organization's internal control system.



Internal control must be evaluated in order to provide management with some assurance regarding its effectiveness. 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.

## **2.6. Limitation of Internal Controls**

Internal control systems cannot guarantee that an organization will meet its objectives. Instead, internal control can only be expected to provide reasonable assurance that a company's objectives will be met (Hughes, 2007). The effectiveness of internal controls depends on the competency and dependability of the organization's people. Limitations of internal control include faulty human judgment, misunderstanding of instructions, errors, management override of controls, and collusion. (Loustea, 2006); because of cost-benefit considerations, not all

possible controls will be implemented. Because of these inherent limitations, internal controls guarantee that an organization will meet its objectives.

### **2.7. Cost- Benefit Analyses**

The design of the internal control system is a function of the resources available, meaning there must be a cost-benefit analysis in the design of the system. The cost of internal control must not exceed benefits to be obtained, (Lamoye, 1999). The precise measurement of cost is generally not possible. Even though, the relationship between cost and benefit is a basic criterion to be considered in designing internal control systems. The challenge is to find a balance between excessive control which is costly and counterproductive and too little control which exposes the organization to increased and unnecessary risk. Management is responsible for maintaining effective internal control and has the final decision regarding the cost versus benefits on internal control (Lannoye, 1999).

### **2.8. Internal Control Evaluation**

According to DiNapoli (2009), the meaning of evaluation is the process which management uses to assess whether an organization's operations are effective in achieving its mission. The purposes of evaluation are to provide management with a reasonable assurance that, the organization's system of internal control is functioning effectively, and they can identify both risks to the organization and opportunities for improvement.

### **2.9. Importance of Internal Control**

Effective and efficient internal controls reduce the risk of asset loss, and help ensure that information is complete and accurate, financial statements are reliable, and laws and regulations are complied with. When internal control is effective, organization have reasonable assurance that your plan is achieving its financial reporting objectives. When it is not effective, you have little or no such assurance.

Internal control protects organization in two ways:

- ✓ By minimizing opportunities for unintentional errors or intentional fraud that may harm the organization. Are designed to discourage errors or fraud, help accomplish organization objectives.
- ✓ By discovering small errors before they become big problems. Are designed to identify an error or fraud after it has occurred.

## **2.10. Organizational Efficiency**

Organizational efficiency is the organization's degree of success in using the least possible inputs in order to produce the highest possible outputs. It is important to understand that efficiency doesn't mean that the organization is achieving excellent performance in the market, although it reveals its operational excellence in the source of utilization process. According to Pinprayong and Siengthai (2012) there is a difference between business efficiency and organizational efficiency. Business efficiency reveals the performance of input and output ratio, while organizational efficiency reflects the improvement of internal processes of the organization, such as organizational structure, culture and community. Excellent organizational efficiency could improve entities performance in terms of management, productivity, quality and profitability. The word efficiency has been defined by a number of researchers.

According to Fr.vanstapel (2005) under his study efficiency is the relationship between the resources used and the outputs produced to achieve the objectives and goal. Arens, Ider & Beasley (2003) it means the minimum resource inputs to achieve a given quantity and quality of output, or a maximum output with a given quantity and quality of resource inputs. In this situation, internal controls contribute to organization efficiency means the ability of the internal control to achieve the established objective within organization. Efficiency is aspects that have held importance in most of the explanations of internal control. Efficiency means doing things well or smoothly, for instance with good systems which avoid wastage and rework. It is the ratio of actual inputs and actual outputs (Chambers and Rand, 2010). Elder et al. (2010) define efficiency as determining the resources that have been used in achieving specified objectives. Efficiency has been defined as the ratio between inputs and outputs that provides a relative rather than an absolute measure and that; it is directed towards the production of the greatest useful output from a given level of inputs.

### **2.11. Factors Contributing to Organizational Efficiency**

Resources include both concrete items such as cash and more abstract concepts such as human capital. Factors that influence the efficiency of the organization's use of its resources can be both internal and external to the organization. For example, the quality of an organization's labor is often dependent in part on the general education of the region in which that organization is based. Quality of management is perhaps the most influential factor on organizational efficiency since it is management that chooses how to implement strategic plans including selecting what methods and resources to use, and leading employees in order to make the most of their labor.

### **2.12. Relationship between Internal Controls and Organizational Efficiency**

Both large firms and financial corporation are confronted with scarce and limited resources in general and that of finance in particular. Therefore, anyone involved in some way in their management is necessarily concerned with the effective utilization of resources available for discharging the commercial activities for which they are responsible. This is done through a sound internal control system that ensures the attainment of the desired results. It is in this perspective that internal control system plays a critical role in allocating and utilizing financial resources. It is thus the responsibility of the management to device, establish, and supervise the implementation of internal controls via which resources will be efficiently allocated and utilized.

Internal control systems including internal audits are intended primarily to enhance the reliability of organizational efficiency, either directly or indirectly by increasing accountability among information providers in an organization (Jones, 2008). In this situation, internal controls contribute to organization efficiency means the ability of the internal control to achieve the established objective within organization. This goes along that the objectives of internal control for every organization are depending on the goals set out by the management of the organization (Pungas, 2013) as such, the objective of internal control in bank sector should also goes a long with the set up goals by the board of directors.

### **2.13. Empirical Review**

Internal control systems is a topical issue following global fraudulent financial reporting and accounting scandals in both developed and developing countries. Prior studies reviewed have focused on aspects of controls that relates to organizational efficiency and effectiveness, overall efficiency and effectiveness of a firm, organizational efficiency on financial institutions and existing internal controls without looking at the impact they have on organizational efficiency of a company. It is on this basis therefore that this study sought to examine internal control and its contribution to organizational efficiency.

Muraleetharan (2008) conducted a study on internal controls and their impact on organizational efficiency of both public and private organizations' in Jaffna district. The objective of the study was to find out the relationship between internal control and organizational efficiency, the major determinants of internal control system and organizational efficiency. The study was limited to randomly select public and private organizations in Jaffna district. The findings of the study revealed that internal control has a significant impact on organizational efficiency and that the control environment and information and communication negatively influence organizational efficiency. Risk assessment, control environment, monitoring, however, were identified as having positively influenced organizational efficiency.

Mawanda (2008) conducted a research on effects of internal control systems on financial performance in institution of higher learning Uganda. In his study he investigated and sought to establish the relationship between internal control systems and financial performance in an Institution of higher learning in Uganda. Internal controls were looked at from the perspective of control environment, Internal audit and control activities whereas financial performance focused on liquidity, accountability and reporting as the measures of financial performance. The Researcher set out to establish the causes of persistent poor financial performance from the perspective of internal controls. The study established a significant relationship between internal control system and financial performance. The investigation recommends competence profiling in the Internal Audit department which should be based on what the University expects the internal audit to do and what appropriate number staff would be required to do this job. The study therefore acknowledged role of internal audit department to establish internal controls which have an effect on the financial performance of organizations.

Mwangi (2011) carried out a research on the internal control system and its role on organizational efficiency of Alexander Forbes financial services of (EA) limited. The research design used was a case study that relied heavily on secondary data from published financial statements of the company. The findings revealed that control activities contribute more to the effectiveness of internal controls and organizational efficiency of Alexander Forbes Financial services of (EA) limited followed by the risk assessment, information and communication, monitoring ,control environment being the least. The study was done on a financial institution.

Ochege (2011) carried out a research on internal controls and organization efficiency a case of Midpoint Industries Ltd. The objectives of the study were to examine the effectiveness of internal controls used in Midpoint Industries Limited, establish a relationship between internal control and organization efficiency in Midpoint Industries Limited. A cross sectional survey was used in the course of the study. Both qualitative and quantitative data was gathered in order to establish the relationship between the independent and dependent variables from the study findings, it was concluded that the internal controls used in Midpoint Industries Limited were ineffective and unsatisfactory and a significant positive relationship between internal controls and organizational efficiency was established to exist. The use of cross sectional design could not give actual result as it only helped the researcher to establish whether significant associations among variables exist at some point in time (Mugenda, 2008).

Moses (2011) examined the effectiveness of Internal Control Systems in achieving Value for Money in school projects in Local Governments of Uganda. The purpose of the study was to identify the impact of internal control in achieving value for money. The study used a cross sectional survey design implementing self administered structured questionnaire to gather data. Control in the school project is efficient, effective and economical. The findings revealed that internal control systems have a significant positive effect in achieving value for money. The study further reveals that there a significant positive relationship between the control environment, control activities, risk assessment, information and communication and monitoring and value for money in local governments. The findings revealed that internal control systems have a significant positive effect in achieving value for money. All the constructs of internal

control systems (control environment, control activities, risk assessment, information and communication and Monitoring) had a significant positive relationship with Value for Money.

Douglas (2011) evaluated internal control effectiveness and efficiency at Eco bank limited at Ghana. A review of the finding from study, internal control systems do exist at Eco bank Ghana Limited and they are the responsibilities of country management team. The Eco bank Ghana Limited has well defined organizational structure. Expectations and policies are communicated to staff members. Employees of Eco bank Ghana Limited are conscious of the internal control system at the work place and relevant information regarding legislation, regulatory developments, economic changes, changes in operation.

Mahdi, Mahmoud and Fatemeh (2011) investigated the effectiveness of internal control in the Iranian banking sector with special reference to Bank Mellat. The study used questions that needed to be answered in the study are: (1) Does an internal control system in Bank Mellat has proper power in preventing fraud and error? (2) Is there a significant relationship between the weakness of internal control system components (control environment, risk assessment, information and communication, control activities and monitoring) and the occurrence of error, management override and fraud? The paper evaluated the effect of control environment, control activities, risk assessment, information and communication and continuous monitoring on failure of internal control quantified as reported errors, management override and fraud. Therefore, the more the increase in the weakness of a control environment, control activities, risk assessment, information and communication and monitoring in Bank Mellat, the more is the incident of error, management override and fraud. However, statistically control environment is found to have the highest effect for the failure of internal control.

Khamis (2013) assesses the contribution of internal control system to financial performance of financial institution. The study sought to establish a relationship between internal control and organizational financial performance of People's Bank of Zanzibar Limited. The study objectives were; to examine the effectiveness of internal controls used in PBZ, to establish the level of performance in PBZ and to establish a relationship between internal control and financial performance in PBZ. A cross sectional survey was used in the course of the study. Qualitative

data was gathered in order to establish the relationship between the independent and dependent variables. Despite rare studies conducted in Ethiopia on internal control and its contribution to organizational efficiency.

Endashaw (2015) this study focused on internal control and its contribution to organization efficiency and effectiveness on the case study of yes brands food and beverage plc. The study used purposive type of sampling techniques and research instrument used by the researcher are questioners and interview. In analyzing the data, frequency tables and percentage were used as the analytical techniques. The results of the study indicate that there are measures put in place by yes brands food and beverage to enhance compliance. The recommendation drawn from the study was that yes brands food and beverage should set internal audit unit at their various sites across the region, so that there shall always be internal audit personnel to ensure compliance to the internal controls exist in the organization

#### **2.14. Conclusion and Knowledge Gap**

In general the literature indicates that banking sector should invest heavily on the internal control and used to improve the quality of their internal control systems. The devotion of resources, knowledge, time and human power is needed for a number of reasons, notably: good internal control is good business by itself. It helps organizations ensure that operating, financial and compliance objectives are met.

Literatures indicate that there are different types of internal control. While most of the classifications are based on purposes of the controls, some other classifies them based on the control methods applied in the system. However, the objectives of every internal control system were to achieve organizational efficiency meet corporate objective and ensure adherence to rules and regulations. Internal control is integration of elements which are used to operate and control its system. The common elements (frame) works are control environment, control activities, risk assessment, information and communications and monitoring. Control environment is the atmosphere or the stone at the top of internal control system. Control activities are policies and procedures used to operate the internal control system. Identifying risks caused by failure of internal control and an inherent risk of the system also a standard of internal control system.

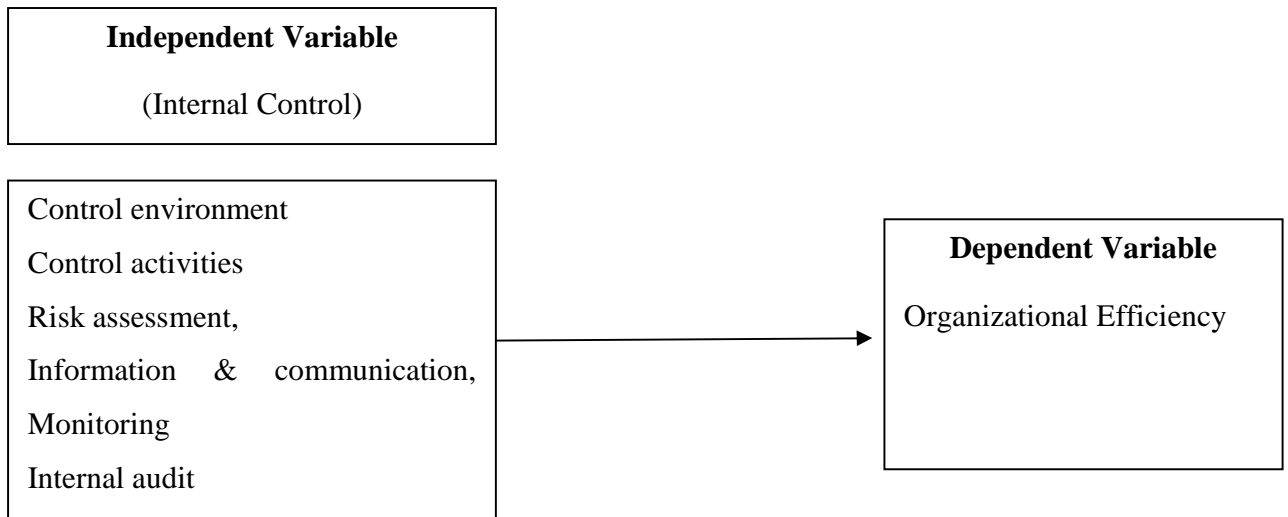


A flow of communication by financial reports and accounting system plays role in effective internal control.

### 2.15. Conceptual Framework

The conceptual framework indicates the critical process, which is useful to show the direction of the study. The study shows an effective internal control components like control environment, control activity, risk assessment, information and communication, monitoring and internal audit. International organization of supreme audit institution, (2004) has proposed a model for internal control.

**Figure 1: Conceptual Frame Work**



## **CAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.0. Introduction**

This chapter deals with the research design, target population, data collection method, data collection procedures, data analysis, presentation technique, validity and reliability and ethical consideration. In general this focused on the activities and processes for under-taking the study. The methodology for a research must therefore be scientific.

#### **3.1. Research Design**

Research design refers to the way a study is designed and performed. It entails choosing the subjects who participate in the study. The main objective of a research design is to enhance the soundness or degree to which the results obtained from the analysis of the data actually represent the phenomenon under study (Mugenda, 2003). While carrying out the study, the researcher adopted a descriptive research design. This design investigates the current status and nature of the phenomena. According to (Orodho, 2003) defines descriptive research design as a method of collecting information by interviewing or administering a questionnaire to a respondent of individuals. Descriptive research, describes data and characteristics about the population or phenomenon being studied. According to (Coopers and Schindler, 2003) descriptive studies are more formalized and typically structured with clearly stated hypotheses or investigative questions. The descriptive analysis approach was choosing for the present study, because it seeks to gain insight into a phenomenon as a means of providing basic information in an area of study. The nature of this study is qualitative research because; the issue and subjects covered can be evaluated in detail and depth.

#### **3.2. Case Study**

Using a single case study is an intensive description and analysis of single organization (individual), the researcher of this thesis was make the findings using the chosen organization (AIB) as well as providing an opportunity to analyze the phenomenon that few have considered before, representing a useful tool to achieve research questions and research objectives. Based on the interest of the researcher's that led to the choice of Awash bank as the case study.

Awash international bank is one of the private banks in the financial sector and it is among the largest domestic bank by market value at the end of March 2016 (source: National bank of Ethiopia). This bank is also the leading bank from the private banks which attract stakeholder from the business market. With progressive deregulation and liberalization of financial sector, banks are increasingly exposed to various kind of risk both financial and non financial. Efficiency of ever bank depends on how effectively managing risks and ensuring a competitive risk adjustment. For this it is essential to have in place effective and strong internal control system which is crucial to the conduct of banking business.

### 3.3. Target Population

The target population in statistics is the specific population about which information is desired. According to Ngechu (2004) a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. A target population is one that the researcher wants to generalize the result of the study. The target population of the study was employees from control department at head quarter. In the study the target population consisted of auditors, relief internal auditors, audit supervisors, chief internal auditors, inspectors, chief inspector, IT auditors and controller who form the population of the study. The total population of the study consist 53 employees from controlling department.

**Table 3.1: Target Population**

Category	Number of Population ( N )	Sample ( n )
Auditors	9	9
Relief internal auditors	6	6
Audit supervisors	3	3
Chief auditor	1	1
Inspectors	30	30

Chief inspector	1	1
IT auditors	2	2
Controller	1	1
Total	53	53

**Source: From human resource dep.**

### **3.4. Census Survey**

The relatively small number of 53 comprising of the target population eliminated the rationale of sampling. In this regard, all members of the target population were included in the study. In this study census method was adopted. Besides being necessitated by the relatively small population of the study, it also eliminated the sampling bias and sampling error. This enhanced the generalization ability of the study findings.

### **3.5. Data Collection Methods**

According to Donald (2006) interpret that there are two major sources of data used by researchers: primary and secondary data. In order to attained adequate, appropriate and reliable information the researcher of this study also used both primary and secondary data. Under this study the researcher has been applied the following research instruments such as questioner, interview and document review.

#### **3.5.1. Primary Data**

The researcher was used several tools to collect the primary data. Primary data are information received directly from the respondent based on the researcher needs. Primary source of data was chosen because it provides first-hand information to the researcher of this study. It is original, it is collected for a specific purpose and it is used to solve a specific problem. Primary data was gathered through interview and standard questionnaires using 5-point Likert scale Likert, (1932). To answer the questions on components of internal controls and audit ranging from strongly agree to strongly disagree. The likert scale was used to measure respondent's knowledge and perception of internal controls and organization efficiency it is easy to read and complete by participants.

### **3.5.1.1. Questionnaire**

Questionnaire is a series of questions asked by the researcher to get responses from the respondent to obtain information about internal control and its contribution to organizational efficiency. When properly constructed and responsibly administered, questionnaires become an essential instrument Roopa (2012). Questionnaires are frequently used in social research. They are a valuable method of collecting a wide range of information from a large number of individuals, often referred to as respondents. The researcher of this study use both open ended and closed ended questioners. The open ended questionnaires enabled the respondent to clarify issues further and provide in-depth findings for the study while close ended questions enabled the researcher to obtain background information. While the closed-ended questions allow for easier analysis of the data due to standardized questions, their main limitation is that they allow the researcher to determine only what the respondents are doing and not how or why they are doing it Kothari (2004). The advantage of using questionnaires was that it is the most feasible and allows the respondents moments of reflection on the subject. This is cost effective, free from bias and gives the respondent adequate time to respond to the questions Kothari (2004).

### **3.5.1.2. Interview**

The researcher was also use the interview to collect data from control head (controller) to gain a deeper understanding on the internal control and its contribution to organizational efficiency. An interview is a conversation between the interviewer and the interviewee where questions are asked by the interviewer to obtain information from the interviewee Neuman (2006). This involved face to face interviews between the researcher and the respondent. Interviews eliminated many sources of bias that could be associated with the other methods of data collection like in questionnaires, e.g. there was a chance of clarifications in case of any misunderstanding between the researcher and the respondent through questioning.

### **3.5.2. Secondary Data**

The researcher also uses other source of information which collected data through records includes policy and procedure and audit manual. The researcher chose the secondary source of information because of its advantages. The main advantage of the secondary data is that it saves

time and cost. The data is of high quality, it offers the researcher more time for data analysis and reanalysis may offer new interpretations.

### **3.6. Data Collection Procedures**

This refers to the series of events that were followed during the data collecting process. In this research study, the researcher first collected an introductory letter from the St. Mary's university and booked appointments with the control department head of Awash international bank before making a formal visit on the respective day of the appointment. The researcher requested to be allowed to conduct the study in the Awash bank. The researcher provided an introductory letter to the management of Awash bank to be granted permission. The appointment day of study, the researcher takes all of respondents from the controlling department because the control department few in number of employee and issued them with the questionnaires after which the questionnaires will be collected. Any problems resulting from filling the questionnaires; the researcher assisted them before taking away the collected data. The researcher then conducted interview with the control head to provide the needed information. The researcher assembled all the information collected for analysis.

### **3.7. Data Analysis and Presentation Technique**

Data analysis is the ways of sorting the data so as to establish statistical patterns and identification of relationships. The data obtained from the questionnaires was accepted, coded for completeness and accuracy and the response on each item put into specific main themes. Mostly descriptive statistics analysis used to analyze data obtained from respondents through questionnaire and interview. These include percentages and frequencies were major types of the descriptive statistic analysis of the study. The data obtained from the research instruments was edited, coded, summarized and analyzed using Statistical Package for Social Science programme (SPSS). Both quantitative and qualitative techniques were used to analyze the data. Quantitative analysis involves the use of means, relative frequency, mode, median and standard deviation Kothari (2009). The data was first analyzed quantitatively by using frequency, percentage, table, mean and standard deviation. The data were later analyzed qualitatively to give meaning to quantitative data as well as explain their implication.

### 3.8. Validity and Reliability

The questionnaires were tested for reliability by using Cronbach coefficient alpha to determine the internal consistency of the items. The reliability was made sure by testing the instruments for the reliability of values (Alpha values) as recommended by (Cronbach, 1946). Alpha test for reliability was used to establish the reliability of the research instrument. In this study, the items were considered reliable if they yielded a reliability coefficient of 0.60 and above. The table below shows the reliability coefficient for the entire questionnaire in the study.

**Table 3.2 reliability statistics**

Cronbach's Alpha	N of Items
.902	28

**(Source: From primary data 2016)**

However, the Cronbach's coefficient alpha that is greater than 0.60 which is 0.90 it implies that the research instruments are reliable and the researcher would distribute the questionnaires to collect data.

### 3.9. Ethical Considerations

The principal researcher formally sought the consent of all respondents and observed all the necessary protocol. A formal letter was sent to Awash International Bank by the researcher from the St. Mary's University to inform the management of the organization about the researcher's interest to conduct a study in their institution. The researcher ensured that information received from respondents was treated with a high level of care and confidentiality.

## **CAPTER FOUR**

### **DATA ANALYSIS AND PRESENTATION OF FINDING**

#### **4.1. Introduction**

This chapter presents the data analysis, results and discussion of the findings on the internal control and its contribution to organizational efficiency. It is divided into two major sections. The first section describes the demographic characteristics of the empirical survey in terms of their sex, age, marital status, level of education, position and their work experience with in Awash International Bank. The second section of the chapter provides results and discussions which were based on the six major research questions of the study. For the purposes of this preliminary analysis, descriptive statistics was frequently used to describe the general characteristics of the data collection.

#### **4.2. Response Return Rate**

Out of 53 questionnaires dispatched, 50 were dully filled and returned back to the researcher and the remaining 3 were not returned back.

**Table 4.1: response return rate**

Questionnaires	Frequency	Percentage
Dispatched	53	100



Returned	50	94
Unreturned	3	6

(Source: Author, 2016)

From the table 4.1, percentage return rate was 50 (94 %). According to Nachimias and Nachimais, (1992) 80% to 90% return rate is enough for a descriptive study.

### 4.3 Background Information of the Respondents

The study sought to assess the background information of the respondents in terms of their sex, age, marital status, level of education, position and their work experience in Awash International Bank.

**Table 4.2: background information of the respondents**

Background Information of the Respondents		Frequency	Percent
<b>Sex</b>	Male	39	78.0
	Female	11	22.0
	<b>Total</b>	<b>50</b>	<b>100.0</b>
<b>Age</b>	Twenty - Twenty nine	18	36.0
	Thirty - Thirty nine	22	44.0
	Forty - Forty nine	7	14.0
	Fifty or more	3	6.0
	<b>Total</b>	<b>50</b>	<b>100.0</b>
<b>Marital status</b>	Married	33	66.0
	Single	14	28.0
	Divorced	2	4.0
	Windowed	1	2.0
	<b>Total</b>	<b>50</b>	<b>100.0</b>
<b>Education</b>	Diploma	6	12.0
	First Degree	41	82.0

	Masters Degree	3	6.0
	<b>Total</b>	<b>50</b>	<b>100.0</b>
<b>Position</b>	Auditor	9	18.0
	Relief Auditor	4	8.0
	Audit supervisor	3	6.0
	Chief internal auditor	1	2.0
	Inspector	30	60.0
	IT auditor	2	4.0
	Controller	1	2.0
	<b>Total</b>	<b>50</b>	<b>100.0</b>
<b>Experience</b>	Less than one year	2	4.0
	One up to Five year	14	28.0
	Five up to Ten year	19	38.0
	Ten up to Fifteen year	14	28.0
	More than Sixteen year	1	2.0
	<b>Total</b>	<b>50</b>	<b>100.0</b>

(Source: From primary data 2016)

From the above table the study sought to determine the respondents' background information in terms of sex. This was necessary to determine the number of men and women employees in the organization and establish any gender disparity in the organization's workforce. From table 4.2 out of the 50 respondents who responded to the questionnaires, majority of them (78%) were male and (22%) are female. The purpose of collecting data from both male and female genders was to avoid gender bias and also to obtain a relatively accurate data. This was unfair representation of genders in the organization.

The study did find it necessary to understand the age distribution of the employees. The respondents were asked to state their age bracket and the results were presented. From table 4.2 it can be deduced that majority respondents were aged between thirty - thirty nine years as indicated by 44% responses. The age distribution clearly depicts that most of the respondents are adult, energetic and active employee or most respondent quit before 50 years of age.

The study sought to find out the respondents' background information in terms of their marital status. The respondents were asked to indicate whether they were single, married, divorced or widowed. From table 4.2, the study findings indicated that, out of the 50 respondents, 66% were married. This shows that most employees are married.

The study sought to establish the background information of the respondents in terms of educational attainment. This was necessary to establish the educational qualifications of Awash International Bank employees. From table 4.2, it can be deduced that majority of the respondents were first degree holders as indicated by 82%. The remaining respondents were diploma and master holders indicated by 12% and 6% respectively. This shows that most of the employees of Awash Bank have the right qualifications for employment with degrees qualifications. This in general describe as this employees are said to be open to idea from other people and have a high ability to acquire new skills if oriented to any training. So, qualities of an organization labor are often dependent in part on the general education.

The study did find it necessary to understand the position of respondents. This was important as it gave the data for analysis to find out position of respondents and to give their opinion on internal control and its contribution to organizational efficiency. From the table 4.2, the researcher analyzed that the positions being held by the respondents in the various schemes. It revealed that most of the respondents (60%) constitute are inspectors.

The study sought to examine the respondents' background information in terms of work experience in the period of time they have worked with Awash Bank. From table 4.2, the findings showed that majority of the respondents pointed out that the organization had been in operation between five up to ten years as indicated by 38% respondents. From the findings showed 28% of the respondents had been in operation for a period between one up to five year, 28% of the respondents had been in operation for a period between ten up to fifteen. There was a 4% of the respondents had been in operation for a period less than one year and the other 2% of the respondents more than sixteen year.

#### 4.4. Functionality of the Control Environment

The study sought to analyze, how the control environment of the organizations actually contribute to organizational efficiency. The respondents were asked to rate their levels of agreement with various statements which were used as indicators of the control environment on a scale of 1 – 5. The mean ratings were computed as presented in the table below.

**Table 4.3: descriptive statistics on control environment**

	N	Min	Max	Mean	Std. Deviation
The management closely monitor implementation of internal control systems in your organizations	50	1	5	2.00	.926
The management act with a great degree of integrity in execution of their roles	50	1	4	2.16	.792
Management periodically reviews policies and procedures to ensure that proper controls are in place	50	1	5	2.28	1.070
Ethical values are upheld in all management decisions	50	1	4	2.26	.777
The organization have an accounting and financial management system	50	1	4	1.64	.631
Valid N (listwise)	50				

**(Source: Primary data 2016)**

The result as reflected in table 4.3 shows a mean of 2.28. This is below the mean average, implying that respondent's disagree as to the statement regarding management periodically reviews policies and procedures. Therefore, a greater standard deviation figure of 1.070 raises concerns regarding to periodically review police and procedures to ensure that proper controls are in place. The figure of standard deviation further reveals that the respondents had varied opinion about periodical review of policies and procedure and this could also mean that besides

not sure about periodically review of polices and procedure. The above results are odds with Basle Committee on Banking Supervision (1998) senior management is responsible for periodical reviewing the existed police and procedures and also to carrying out the directives of the board of directors, including the implementation of strategies, policies, procedure and the establishment of a successful system of internal control. The main responsibility of the organization management is to establish more specific internal control policies and procedures to those responsible for a particular business unit. It is important for senior management to oversee the entire activity of the business to ensure that they develop and enforce appropriate policies and procedures.

The study (as reflected in the above table) found that the respondents seem to disagree that the organization has an accounting and financial management system in place with a mean value of 1.64 which is slightly below the average and appears to be close to the maximum rank of 4. This shows that they generally disagree about the existence of an accounting system. However, the corresponding standard deviation also revealed a significant value of 0.631. This also shows that there is a clear variation in the responses provided by the respondents about the existence of the accounting and financial management system. Having an accounting and financial management system as reflected by the above results as advocated by John J. Morris'(2011) advocacy for an enterprise resource planning system that deliver fast and accurate financial reports with inbuilt controls necessary to ensure accuracy and reliability of information being reported to shareholders. It is also an indication that Whittington and Pany's requirement of preparing, verifying and distributing reports to the various management levels is achievable.

In above table, respondents provided their understanding in regard to how management closely monitors implementation of the controls and their perceptions show mean of 2.00 which is slightly below the average implying that they disagree with the statement. However, the corresponding standard deviation of 0.926 suggests significant differences in responses as regards management's monitoring of implementation of internal control system. The finding therefore seems to monitor the implementation of internal control a failure by Goodwin-Stewart & Kent (2006) and Sarens & De Beelde (2006) all of whom advocate for management (control environment) as the cornerstone for an effective internal control system. Sarens & De Beelde in

particular emphasizes the “tone at the top, the level of risk and control awareness” as critical to the success of an internal control system.

The analysis results in the above table reveals that to some extent, ethical values are upheld in all management decisions as reflected by a mean value 2.26 which slightly below the average. However, even the 50 of the respondents seemed to have varied responses regarding ethical values in all management decisions as revealed by a standard deviation of 0.777. Upholding ethical values in management decisions advocated by Cohen et al. (2002) where he state that “the tone at the top refers to a company’s ethical values, management’s philosophy and operating style” which are reflected in the code of conduct or code of ethics. In addition to that an ethical value was the principal contribution of internal control – integrated framework published by (COSO, 2011) on fraudulent financial reporting.

The results of the study as revealed by the above table suggest that management acts with integrity. This is evident when the mean of respondents as computed by the system is well 2.16 which slight below average mean. Nevertheless, the corresponding standard deviation of 0.792 suggests that respondents had a significant variation in responses on management integrity in the execution of their role; a highly contentious issue. However, this could also be construed to imply that respondents might not have clearly understood the dimensions of integrity in this context. The result in this section does not argue well with Whittington and Pany (2001)’s assertion where they talk of the control environment to include factors like integrity and ethical values of persons responsible for creating, administering controls. This can also be likened to “the control environment setting the tone of the organization by influencing the control consciousness of people” stipulated by Cohen et al., (2002). In addition to that management integrity was the principal contribution of internal control integrated framework published by COSO on fraudulent financial reporting (2011).

According to the interview result from control head the control environment is the overall consciences of the organization and effected by the management through procedure manual, policies, memos, ethical standards and national bank directives. Although, the researcher get additional information about the control environment which are the base for carrying out internal

control through the organization and which come to the ground when both the management and all staff has awareness value, decision, positive attitude and action regarding control. In general internal control system not only contributes to organizational efficiency but also it creates managerial effectiveness and establishes important duties of corporate board of directors.

#### 4.5 Functionalities of the Control Activities

The study sought to analyze, how the control activities of the organizations actually contribute to organizational efficiency. The respondents were asked to rate their levels of agreement with various statements which were used as indicators of the control activities on a scale of 1 – 5. The mean ratings were computed as presented in the table below.

**Table 4.4: descriptive statistics on control activities**

	N	Min	Max	Mean	Std. Deviation
Policies and procedures exist to ensure critical decisions are made with appropriate approval	50	1	4	1.88	.799
Processes exist for independent verification of transaction (to ensure integrity)	50	1	4	1.86	.783
Processes are in place to ensure that policy overrides are minimal and exceptions are reported to management	50	1	4	2.18	.748
There is appropriate supervision by senior staff on the work of their juniors	50	1	4	2.10	.863
It is impossible for one staff to have access to all valuable information without the consent of senior staff	50	1	5	2.32	1.019
The organization has clear separation of roles	50	1	5	2.18	1.004
Valid N (listwise)	50				

(Source: Primary data 2016)

The results of the study from the table above, suggest that respondents not sure there is a clear separation of roles while executing their duties. This is shown by a mean of 2.18 which slight below the average. However a significant standard deviation of 1.004 is a clear manifestation of varied responses from respondents as far as clear separation of roles is concerned. The finding does not agree with Ray and Pany (2001)'s "suggestion of segregation of duties" such that no one person should handle all aspects of a transaction from the beginning to the end.

From the above table, the respondents were not sure that, it is impossible for staff to have access to valuable information without the consent of senior staff. This is revealed by a mean value of 2.32 which is slight below the average. Although the standard deviation of 1.019 indicates the respondents varied greatly as far as this matter was concerned. In connection to this it is impossible for on staff to have access to all information without the consent of senior staff; this implies that the bank has established control on the authorization in all material items so as to avoid fraud and irregularity within the bank. This result seems to disagree with Anti money laundering Act (2006) and its regulation (2007).

From the above table, the respondents were not sure that there is appropriate supervision of junior staff by their seniors. This is revealed by a mean value of 2.10 which is slight below the average. The standard deviation of 0.863 reveals that there were varied responses from the respondents questioned. The finding does not agree with Mawada (2008) says that the lack of supervision by senior staff is an indication of deficiencies in supervision strategy which if not addressed may lead to material internal control weaknesses.

From the above table, the respondents disagree that the policies and procedures exist to ensure critical decisions are made with appropriate approval. This is revealed by a mean value of 1.88 which is below average. However, a significant standard deviation of 0.799 suggests that respondents varied greatly in their responses to answer the statement. The finding does not agree with both Walker and DiNapoli (1999) suggest that to prevent or reduce risks that affect the organization in achieving its objectives, organization must establish policies, procedures, instructions, rules and decisions. This is because control activities occur at all levels and functions of the organization. This includes a wide range of activities such as approvals,



authorizations, verifications, reconciliation which provide evidence of execution of these activities.

From the above table, the respondents disagree that the processes exist for independent verification of transaction (to ensure integrity). This is revealed by a mean value of 1.86 which is below average. However, a significant standard deviation of 0.783 suggests that respondents varied greatly in their responses to answer the statement.

From the above table, the respondents were not sure that processes are in place to ensure that policy overrides are minimal and exceptions are reported to management. This is revealed by a mean value of 2.18. However, a significant standard deviation of 0.748 suggests that respondents varied greatly in their responses to answer the statement. The finding don't agree with comptroller's handbook (2001), in order to achieve the objective of control activities whether the board or senior management has established effective control activities in all lines business. After establishing effective control activity the management implements adequate procedure to ensure that the threat of management override does not become a reality. To do this the management take action like, a fraud risk assessment process, and using the code of conduct.

According to the interview result from the control head Awash bank has control and procedure which ensure reliable report and this reports prepared to respond the need of the public at large, for shareholder, for government bodies for accountability purpose and may also provide useful information to other users .Based on the researcher analysis the organization has policies and procedure that help ensure the management directives are carried correctly and timely. In general in awash bank control activity basically compromise performance reviews which compare the actual with budget, information processing such as checking the accuracy of records and completeness of records and physical control like limiting access to the assets to only authorized people.

#### **4.6 Functionalities of the Risk Assessment**

The study sought to analyze, how the risk assessment of the organizations actually contribute to organizational efficiency. The respondents were asked to rate their levels of agreement with

various statements which were used as indicators of the risk assessment on a scale of 1 – 5. The mean ratings were computed as presented in the table below.

**Table 4.5: descriptive statistics on risk assessment**

	N	Min	Max	Mean	Std. Deviation
The company has clear objectives and these have been communicated so as to provide effective direction to employees on risk assessment and control issues	50	1	4	1.82	.748
There are sufficient staff members who are competent and knowledgeable to manage company activities and these have been provided with adequate resources	50	1	5	2.54	.973
Management identifies risks that affect achievement of the objectives	50	1	4	2.00	.948
Valid N (listwise)	50				

**(Source: From primary data 2016)**

The results of the study as reflected in table 4.5 suggest that respondents disagree the company has clear objectives and these have been communicated so as to provide effective direction to employees on risk assessment and control issues. This is revealed by a mean value of 1.82. However, a significant standard deviation of 0.748 suggests that respondents varied greatly in their responses to answer statement. The finding don't agree with COSO (2011) says that any organization has a clear objective and this objective achieved by employees through risk assessment and controlling issues by identifying and analyzing relevant risks to achieve objectives. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

From the above table, the respondents were not sure that there are competent and knowledgeable staffs how manage the organization activities with sufficient resources. This is revealed by a mean value of 2.54 which slightly below average. The standard deviation of 0.973 suggest that respondents varied greatly in their responses to answer statement. The findings also don't agree with William. According to (William, 2011) to manage the organization activities, management must communicate acceptable risks levels to all staff in their duties as well as train them to get the needed knowledge and skills coupled with adequate resources to enable them carry on work effectively and efficiently.

From the above table, the respondents disagree that management identifies risks that affect achievement of the objective. This is revealed by a mean value of 2. However, a significant standard deviation of 0.748 suggests that respondents varied greatly in their responses to answer the statement. The finding of the study odd according to (Douglas, 2011) management should perform a compressive analysis of identifiable risk, including all risks associated with department wide and activity level objective. To identify risks management use several means of mechanism to achieve its objective like management planning conference, strategic planning and periodic review.

According to the interview result from control head the management should given a responsibility of identifying risk which affects the achievement of the objectives but, the management is not effective to maintain the overall activity of the business risk. The management should given low attention to risk previously but, now to achieve the vision 2025 the management gives high attention to risk and to re-structure the risk department. The researcher also analyzed that after identifying risk the management should perform a risk analysis this is possible as principle but, in practice it is not visible at awash bank the main reason for this lack of well trained and qualified person in this area In addition to this the researcher analyzed that in order to properly managing risk the management should monitor any change to ensure that each risk continues to be managed as change occurs because, risk is uncertain. In general the management must consider the significant interaction with internal as well as external to the organization at both the department wise and activity level.

#### 4.7 Functionalities of Information and Communication

The study sought to analyze, how information and communication of the organizations actually contribute to organizational efficiency. The respondents were asked to rate their levels of agreement with various statements which were used as indicators of the information and communication on a scale of 1 – 5. The mean ratings were computed as presented in the table below.

**Table 4.6: descriptive statistics on information and communication**

	N	Min	Max	Mean	Std. Deviation
There are effective reporting procedures in communicating a balanced and understandable account of the company's position and procedures	50	1	4	1.98	.769
The staff share password to unauthorized personnel to access information of the company finances	50	1	5	3.18	1.190
The company have computerized accounting system	50	1	3	1.60	.639
Management receives timely, relevant and reliable reports for decision-making	50	1	4	2.10	.863
There are established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties	50	1	5	2.32	.891
All staff understands their role in the control system	50	1	5	2.38	1.028
Valid N (listwise)	50				

(Source: From primary data 2016)

From the above findings was revealed that information and communication as a functionality of internal control. The results of the study as reflected in table 4.6 suggest that respondents disagree that there are effective reporting procedures in communicating a balanced and understandable account of the company's position and procedures. This is revealed by a mean value of 1.98. However, significant standard deviation of 0.769 suggests that respondents varied greatly in their responses to answer statement. The finding of the study disagree with William (2011), concerning information and communication system; it is recommended that, management should see to it that, there are effective reporting procedures in communicating a balanced and understandable account of the company's position and procedures. Again, management must also be very serious with organizing programs for employees to sensitive them on the understanding of their roles in the control system.

The results of the study as reflected in table above, suggest that respondents agree that staff sharing password to unauthorized personnel to access information. This is reflected by a mean value of 3.18. However, a significant standard deviation of 1.190 suggests that respondents varied greatly. Staff sharing password to unauthorized personnel to access information as reflected by the above results argue by Sarbanes-Oxley Act of (2002), password sharing is inappropriate and represents risk to the organization because there is no accountability. Most notorious clause which deals with the internal controls required for financial reporting. The management is responsible for establishing, maintaining an adequate internal control structure and procedures for financial reporting. The effectiveness of the internal control structure and procedure useful for to issue financial report.

The finding of the study reflected in the above table, respondents disagree on the company has computerized accounting system. This is showed by the mean of 1.60 which below average mean. However, significant standard deviation of 0.639 suggests that respondents had varied responses greatly in their responses to answer statement. The finding doesn't agree with Gexin (2013), computerized accounting system running in internet environment and its internal control flows. This is to help the corporate to increase risk awareness when setting up computerized accounting system and carefully establishes internal control system, as well as, practically implement appropriate control measures to maximize the accounting information quality.

From the above table, there were also varying response as to the timeliness of receipt of relevant and reliable reports for decision making with a mean of 2.10 and standard deviation of 0.863. Majority of the respondents disagree on the management receives timely, relevant and reliable reports for decision making. The finding of the study don't agree with internal control revised guidance (2005) the management and the board receive timely, relevant and reliable reports on progress against business objectives and the related risks that provide them with the information, from inside and outside the company, needed for decision-making and review. This could include performance reports and indicators of change, together with qualitative information such as on customer satisfaction, employee attitudes etc.

In as much as there are good channels of communication, most respondents are not sure procedures for individuals to report suspected breaches of laws, this is revealed by the mean of 2.32 and standard deviation of 0.891. The finding of the study don't agree with research undertaken by Lamoye (2005), for the control system to be effective and efficient, there should be relevant and reliable information which should be recorded and communicated to management and other personnel within the organization.

The results of the study continue to suggest that respondents were not sure that all employees understand their role in the control system. This is revealed by a mean value of 2.38. However, a significant standard deviation of 1.028 suggests that respondents varied greatly in their responses. The finding of the study odd to internal control revised guidance (2005) all employees have some responsibility for internal control as part of their accountability for achieving objectives. They, collectively, should have the necessary knowledge, skills, information, and authority to establish, operate and monitor the system of internal control. This will require an understanding of the company, its objectives, the industries and markets in which it operates, and the risks it faces.

#### **4.8 Functionalities of Monitoring**

The study sought to analyze, how organization monitor activities that contribute to organizational efficiency. The respondents were asked to rate their levels of agreement with various statements which were used as indicators of the monitoring on a scale of 1 – 5. The mean ratings were computed as presented in the table below.

**Table 4.7: descriptive statistics on monitoring**

	N	Min	Max	Mean	Std. Deviation
There are ongoing processes within the company's overall business operations and these are addressed by senior management to monitor the effective application of the policies, processes and activities related to internal control and risk management	50	1	3	1.80	.606
The board, or a board committee, approve the scope of all internal activities that review internal controls	50	1	4	1.98	.769
There are effective follow-up procedures to ensure that appropriate change or action occurs in response to changes in risks and control assessments	50	1	4	2.10	.763
Management assess the system of control from time to time	50	1	5	2.10	.995
The Inventory are regularly checked	50	1	4	1.96	.947
Valid N (listwise)	50				

**(Source: From primary data 2016)**

From the above table 4.7, respondents seemed to disagree that senior management to monitor the effective application of the policies, processes and activities related to internal control and risk management as reflected by the mean value of 1.80 which is tending towards the maximum point of 3. However, a significant standard deviation of 0.606 suggests varied responses regarding processes within the company's overall business operations and these are addressed by senior management to monitor the effective application of the policies, processes and activities related to internal control and risk management. The finding of the study disagree with suggestion given by William (2011) says senior management sets the ground of the internal control environment by providing leadership and direction to senior managers and reviewing the way they are controlling the business. Senior management is in charge of the risk management process of the organization and its continuous development, allocation of resources to the work, review of risk management policies as well as defining the principles of operation and overall process. Senior

management is responsible for regarding to risk management and internal control that endangering the fulfillment of objectives set to the organization.

In table above, respondents provided their understanding in regard to how the board, or a board committee, approve the scope of all internal activities that review internal controls and their perceptions show mean of 1.98 which is tending towards the maximum point of 4, implying that they disagree with the statement. Thus, a standard deviation of 0.769 suggests significant differences in responses as regards a board committee; approve the scope of all internal activities that review internal controls. The finding of the study disagree with [www.bittium.com](http://www.bittium.com) says the board of directors is ultimately responsible for the administration and the proper organization of the operations of the company. According to good corporate governance, the board also ensures that the company has duly endorsed the corporate values applied to its operations. The board approves the internal control, risk management and corporate governance policies. The board establishes the risk-taking level and risk bearing capacity of the organization and re-evaluates them on a regular basis as part of the strategy and goal setting of the organization.

From the table above, respondents seemed to nor sure that there are effective follow-up procedures to ensure that appropriate change or action occurs in response to changes in risks and control assessments as reflected by the mean value of 2.10 which is tending towards the maximum point of 4. However, a significant standard deviation of 0.763 suggests varied responses regarding management regularly follow-up procedure to ensure that appropriate change or action occurs in response to change in risk and control assessment.

The study as reflected in table 4.7, found that the respondents seem to not sure that the management assess the system of control from time to time with a mean value of 2.10 which appears to be close to the maximum rank of 5. This shows that they generally strongly agree about the assessment of the controlling system. However, the corresponding standard deviation also revealed a significant value of 0.995. This also shows that there is a clear variation in the responses provided by the respondents about the management assesses the system of control from time to time. The finding of the study is not in line with COSO (2009) say that management is required to assess internal control systems because business risks change over



time. The internal control system needs to be capable of determining that the controls in place are relevant and effective in addressing new risks. A monitoring process must be capable of addressing the need for revisions in the design of controls based on changing risk. Effective internal control systems must be capable of containing risks at an acceptable level to ensure effective and efficient operations on an ongoing basis.

From the above table, it is clearly evident that respondent seems to disagree those inventories are regularly checked as reflected by a mean value of 1.96 which is tending towards maximum value of 4 however, the standard deviation of 0.947 suggest variations in responses by the various respondents. The finding of the study is not in line with Whittington and Pany (2004) suggest that every asset of the organization should be periodical checked and reconciled with the ledger.

According to the interview result from control head the management as much as possible regularly and effectively monitors internal control. In addition the researcher analyzed that a good monitoring system should be able to identify internal control deficiencies and to report immediately to top administrate and governing organ. In general the management of Awash monitor those activity which involves in performing procedures periodically and reviewing banks documentation to confirm this all procedures has been performed as required.

#### 4.9 Functionalities of Internal Audit

In the table 4.8, the researcher set out to examine the internal audit function (another component of the internal control system) as a way of examining the functionality of the internal control system. The respondents were asked to rate their levels of agreement with various statements which were used as indicators of the control activities on a scale of 1 – 5. The mean ratings were computed as presented in the table below.

**Table 4.8: descriptive statistics on internal audit**

	N	Min	Max	Mean	Std. Deviation

The internal auditor make appropriate recommendations for management to improve the internal control system	50	1	5	2.02	1.020
The internal audit report address weaknesses in your internal control system	50	1	4	1.96	.903
The internal auditor perform his duties with a greater degree of autonomy and independence from management	50	1	5	2.16	1.017
Valid N (listwise)	50				

**(Source: From primary data 2016)**

From table 4.8 above, respondents seem to not sure with statement regarding internal auditor make appropriate recommendations to management regarding improvement in system of control as reflected by the mean value of 2.02. However, a significant standard deviation figure of 1.020 reveals varied responses from the respondents on the same, implying that they have different opinions about this role played by internal auditor. This could also conclude as to whether the internal auditor makes appropriate recommendations for management to improve. The finding is not in line with Gerrit and Mohammad (2010) statement that “the objective of internal audit is to assist members of the organization in the effective discharge of their responsibilities”. In addition to this Mihret and Yismaw (2007) describe the characteristics of effective internal audit is to provide useful recommendations for improvement as necessary.

Results of the survey as reflected in table 4.8 suggest that respondents disagree that the internal audit reports address weaknesses in the internal control system. This is revealed by a mean of 1.96, although the standard deviation of 0.903 seems to suggest variation in the responses generated for the test. The finding of the study don’t agree with Whittington and Pany (2001)’s suggestion that “internal auditing is performed as part of the monitoring activity of an organization”.

The results of the survey as reflected in table 4.8 suggest those respondents are indifferent as to the internal auditor’s independence from management. This is revealed by a mean value of 2.16.

However, a standard deviation of 1.017 reveals that there were varied responses from the respondents as to the independence of the internal auditor from management. The finding is agree with (IIA, 2001) statement that internal audit typically the whole management process, to maintain objectivity, to increase the reliability of information, to be free from unacceptable risk of material bias, and to issue reasonable and credible audit opinion, it is required to be independent. Hellman N. (2011) suggested that CEOs seek to influence audit planning, particularly with regard to internal controls and the selection and scope of entities subject to audit; and this in return impairs the independence of internal auditors. The independence of audit committee has largely been theoretical in most organizations.

The researcher also present open end question in addition to 5-point Likert scale questionnaires and interview, because it explain briefly on the question about internal control and organizational efficiency. The researcher analyzed the finding get from the respondents of the questionnaires as follows. In awash bank there are problems associated with internal control and these problems affect the bank to achieving its objective. Problems including like knowledge gap and lack of awareness on those who join the bank recently and existed staff on internal control activity, lack of consistent follow-up by top management related to recommendation given by control department, approval of documents without review, lack of verification of transaction after they have been entered in the system, negative perception toward control activity, un-organized communication of circulars, manuals and memos, lack of ongoing and up to date training to auditor, policy and procedures does not clearly identified, lack of independency specially in audit area and existence of non regulation of duties to whom extent. This and other problem which is not written here is a big challenge to internal control activity.

The researcher continue to analyzed the finding get from respondent on question related to effect of facility and equipment controls employed by awash international bank to enhance organizational efficiency. In order to enhance organizational efficiency awash bank by implementing online banking system has minimized its long outstanding items, by implementing new technology the bank improve its service delivery and minimizing risk, training the staff to cop up with dynamic business environment and perform their work in the best of company interest, develop pre-audit system and Indeed organizational efficiency is achieved when

facilities and equipment usage are under restricting control. To this effect AIB various departments namely finance department properly and control play crucial role in controlling facility usage and equipment handling.

The researcher also continued to analyze the finding from respondents on the question of what has been done by the organization to enhance organizational efficiency. Staff training and capacity building, adoption of new technology like mobile banking, M-wallet; create group and individual awareness about the computation between banks.

The researcher analyzed the finding from respondents on the question on measures taken by the bank to enhance organizational efficiency such the manuals, policies and procedures need to be revised in line with the current advancement in technology and new product, timely and relevant training shall be provided to all staff, evaluating the effectiveness of control in the organization, accountability and transparency, enhance internal control, empower the staff to know the rule and regulation, team work, updating oneself to the current issue.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION**

#### **5.1 Introduction**

In this chapter, the researcher discussion, conclusion and recommendation of the main findings of the study are presented. The section is arranged as per the objectives of the study. In order to achieve the study objectives, a census design was carried on the total population from control

department at headquarters. Researcher use primary and secondary research instrument to collect data. Primary data obtained from standard questioner and interview and secondary data was also obtained from banks policy, procedure and revised audit manual. The data was processed and analyzed by using Statistical Package for Social Scientists (SPSS) computer soft ware.

## **5.2 Summary of Findings**

The study sought to assess the extent to which internal control and its contributions to organizational efficiency; in the case of awash international bank and the following were the study findings. The study revealed that majority of the respondents were males and most employees work under the position of inspector. Also, most of respondent were age between thirty- thirty and majority of the staff at awash bank have acquired first degree and most of them have five up to ten years' working experience with the Awash bank.

The study revealed that the management of bank less closely monitors the implementation of internal control system and degree of integrity in carrying out of their responsibility. The study also asserted that ethical values support management decisions. Also there is periodical review of procedures and policies by management to ensure proper control are in place in the bank. Furthermore, the study indicated that there was no an accounting and financial management system in the bank this may affect the accuracy and reliability of information reported to shareholders.

Regarding control activities, the study found that, there is a clear separation of roles, supervision of activities by senior staff and it is impossible to accesses all valuable information without the consent of senior staff. The study found out that the Awash bank does not have enough established policies and procedure to support decision made by the management for right approval. The study further reveled that there is no an independent verification of transaction to access its authenticity. Majority of the respondents did indicate that policy overrides are minimal and exceptions reported to management.

In the assessment of risk in Awash bank, it was found out that considered by management to identify any possible risk that affect the achievement of the objectives. The study results further

proved that competent and knowledgeable staff is available to handle tasks. The study found out that Awash bank does not have a clear objective on risk assessment and control issue.

The results further indicated that information about reporting procedures is fairly communicated and as such reporting procedures are seen as effective. Channels of communication are also spelt out and most staff understands their role in the internal control system. The study also showed that all staff understands how their role relates to control system. The study further reveals that management receives timely, relevant and reliable reports for decision making. The results further indicate that sharing password to unauthorized person to access information is restricted. The study found out that Awash bank does not have computerized accounting system.

The study results also revealed that senior management is not effectively monitor the effective application of policies, activity and monitoring ongoing processes of their day to day activities. The study also asserted that the management doesn't regularly check assets. Also the board or board committee is not taken its responsibility to approve the scope of internal control activity that reviews internal control. The study also showed that availability of effective follow up procedures is good to ensure that appropriate change or action occurs. The study also showed that management is somewhat assess the system of control from time to time.

The study show that audit report weakly address weaknesses of internal control system at the minimal level. The results further indicated that internal auditor make appropriate recommendation for management is fairly to improve internal control system and internal auditors perform their duty with some degree of independence from management.

### **5.3 Conclusions**

Based on the findings, internal control and its contribution to organizational efficiency have been satisfactory because all the components of internal control were not working together.

- ✓ The study revealed that information communication is the effective component in the internal control setup by the bank while monitoring activities was found to be the least effective when compared to others.
- ✓ The study revealed that Awash bank hasn't enough established policies and procedure to support decision made by the management for right approval.
- ✓ The study revealed that there is no an independent verification of transaction to access its authenticity.
- ✓ The study also revealed that Awash bank does not have a clear objective on risk assessment and control issue.
- ✓ It was established that internal controls were in place but there was need for more follow-up by management to ensure the implementation takes place.
- ✓ Based on the study findings, the results indicated that Awash bank faced challenges in effective implementation of internal control systems due to knowledge gap and lack of awareness on internal control activity to those who join the bank recently and existed staff, lack of consistent follow-up by top management related to problems that affect internal control and not take recommendation given by control department, approval of documents without review, lack of verification of transaction after they have been entered in the system, negative perception toward control activity, un-organized communication of circulars, manuals and memos, lack of ongoing and up to date training to auditor, policy and procedures does not clearly identified, lack of independency specially in audit area and existence of non regulation of duties to whom extent, lack of sufficient resources to invest in modern technologies for example information communication technology.

#### **5.4. Recommendations**

The study result indicates internal control has a contribution to organizational efficiency. However, certain measures can be put in place to assist Awash International bank in strengthening internal controls for better organizational efficiency.

The control environment was found to be effective but there is the need for management to monitor the implementation of internal control. Management must periodically review their policies and procedures regarding compliance in order to ensure that controls are in place.

Management is responsible for the existence of accounting and financial system to ensure accuracy and reliability of information. Management must be responsible for integrity and ethical values of his staff in performing their work to win the confidence that the public needs.

In ensuring effective control activity management must to established control policies and procedures to prevent or reduce risks that affect the organization in achieving objectives. Management must be responsible for the implementation of adequate procedure to ensure that the threat of management override does not become real. To do this management take action like fraud risk assessment process and code of conduct. The study also recommends that the management must establish a strategy for independent verification of transaction.

For effectiveness of risk assessment the management must develop a clear objective on risk assessment and control issue.

The information and communication was found to be effective but there is also the need for management to improve information and communication systems that surround internal controls. Management should see to it that, there are effective reporting procedures in communicating a balanced and understandable account of the company's position and procedures. Communication networks needed to ensure effective controls must be improved to support distribution of information to various departments. Procedures must be put in place to ensure everyone is aware of issues and clearly define roles or responsibilities. Reporting procedures and processes must be enhanced, this can help to evaluate reported events and correct shortage in information gaps. Based on respondent perception the study recommends that the management of awash should develop computerized accounting system.

The monitoring activity was found to be the weakest component in the control setup by the bank according to the study results. The bank can improve upon its monitoring activities by:

- Report significant failings and weakness promptly in order to ensure internal controls are working effectively.
- Report significant findings on time to keep controls active and effective.



- There is the need for management to embark on prompt effective follow-up procedures to ensure that changes in their systems can be adapted to appropriately.
- Observing and physically counting asset to check any misstatement.

It was found out from the study internal audit report not effectively address weakness of internal control system. It is further recommended that the internal auditor exercise his independence in discharge of his duties. Management should treat audit reports as urgency as possible.

Finally, the study recommends that the management of the bank prepare training on internal control activity, regularly follow-up problems that affect internal control system, clearly identify policies and procedures, develop pre audit system minimize its long outstanding items by implementing computerized accounting system.

### **5.5. Area of Further Research**

- What is needed now is a comprehensive research on what internal control component should be employed for organizational efficiency in the banking industry.
- This research was carried out using qualitative approaches by using descriptive as research design. However, the cross sectional design can be used on the same topic.
- Internal control component can be used as a framework to find out if internal control has a contribution to organizational efficiency.
- In the subsequent research, the researcher should consider questioning and interviewing auditors, relief auditors, inspectors, audit supervisor, IT auditors, chief internal auditor and controller of the bank so that the relief auditors and auditors views are also captured instead of Managers and accountants as in this case.

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# APPENDIX

## **APPENDIX I - COVER LETTER**

### **TO WHOM IT MAY CONCERN**

Dear Sir/Madam,

*I am a student of St. Mary's University and am writing my Master's Degree thesis on internal control and its contribution to organizational efficiency. I am therefore carrying out a research on Awash International Bank S.co. In this research I wish to gain a deeper understanding of internal control and organizational efficiency. Your organization Awash International Bank is one of the leading financial institutions in banking industry in Ethiopia. I have therefore selected it for my study. I would like to distribute questionnaires through physical contact to complete by respond people, in the fields of operation they acts such as auditor, relief auditor, audit supervisor, chief auditor, inspector, chief inspector, IT auditor and controller. I would be grateful if the completed questionnaire could be returned back to me with correct answer until June 5<sup>th</sup> 2016. The outcome of this research would be sent to your organization. Thank you in advance for the time spent to complete this questionnaire.*

Yours sincerely,

Zerihun Hailu Meshesha

## **APPENDIX II QUESTIONNAIRES**

### **St. MARY'S UNIVERSITY**

#### **REQUEST FOR THE COMPLETION OF QUESTIONNAIRE**

*The researcher doing this thesis submitted in partial fulfillment of the requirements for the Degree of Master of Science in accounting and finance to be submitted to St. Mary's University. Therefore I kindly forward my research questionnaires to you to help me on getting this information concerning internal control and its contribution to organization efficiency. This study is purely academic and respondents are assured that whatever information is provided will be highly confidential. Please Tick [✓] the most appropriate alternative/s*

#### **(SECTION ONE)**

##### **A.PERSONAL DATA**

1. Sex:                      Male                                          Female
2. Age:                      20—29               30—39               40—49               50 or more
3. Marital status:              Married               Single               Divorced               Widowed
4. Educational attainment: Diploma               First Degree               Masters Degree               PhD
5. Position held/Grade:      Auditors               Relief internal auditor               Audit supervisors   
   Chief internal auditor               Inspector               Chief inspector   
   IT auditor                                       Controller

6. Years of experience employed in your current organization:

Less < 1 yrs. [ ]    1 – 5 yrs. [ ]    5 – 10 yrs. [ ]    10 – 15yr. [ ]    16+ years [ ]

**(SECTION TWO)**

LIKERT SCALE		Strongly disagree	Disagree	Not Sure	Agree	Strongly agree
<u>B. CONTROL ENVIRONMENT</u>						
1	The management closely monitor implementation of internal control systems in your organizations					
2	The management act with a great degree of integrity in execution of their roles					
3	Management periodically reviews policies and procedures to ensure that proper controls are in place					
4	Ethical values are upheld in all management decisions					
5	The organization have an accounting and financial management system					
<u>C. RISK ASSESSMENT</u>						
6	The company has clear objectives and these have been communicated so as to provide effective direction to employees on risk assessment and control issues					
7	There are sufficient staff members who are competent and knowledgeable to manage company activities and these have been provided with adequate resources					
8	Management identifies risks that affect achievement of the objectives					

	<u>D. CONTROL ACTIVITY</u>					
9	Policies and procedures exist to ensure critical decisions are made with appropriate approval					
10	Processes exist for independent verification of transaction (to ensure integrity)					
11	Processes are in place to ensure that policy overrides are minimal and exceptions are reported to management					
12	There is appropriate supervision by senior staff on the work of their juniors					
13	It is impossible for one staff to have access to all valuable information without the consent of senior staff					
14	The organization has clear separation of roles					
	<u>E. INFORMATION AND COMMUNICATION</u>					
15	There are effective reporting procedures in communicating a balanced and understandable account of the company's position and procedures					
16	The staff share password to unauthorized personnel to access information of the company finances					
17	The company have computerized accounting system					
18	Management receives timely, relevant, and reliable reports for decision-making					
19	There are established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties					
20	All staff understands their role in the control system					
	<u>F. MONITORING</u>					

21	There are ongoing processes within the company's overall business operations and these are addressed by senior management to monitor the effective application of the policies, processes and activities related to internal control and risk management					
22	The board, or a board committee, approve the scope of all internal activities that review internal c					
23	There are effective follow-up proced appropriate change or action occurs in in risks and control assessments					
24	Management assess the system of control from time to time					
25	The Inventory are regularly checked					
	<u>G.INTERNAL AUDIT</u>					
26	The internal auditor make appropriate recommendations for management to improve the internal control system					
27	The internal audit report address weaknesses in your internal control system					
28	The internal auditor perform his duties with a greater degree of autonomy and independence from management					

***(SECTION THREE)***

Kindly, explain briefly on the following questions about internal control.

1. What are some of the problems associated with internal control at your organization?

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2. What are the effects of facilities and services employed by Awash International Bank in enhancing organizational efficiency?

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3. What has been done in your organization to enhance organizational efficiency?

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4. What measures need to be put in place to enhance organizational efficiency?

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.....  
.....

**APPENDIX III:**

**INTERVIEW**

- a. Does the control environment of the entity provide an adequate basis for carrying out internal control across the organization?
- b. Does the entity identify risks to the achievement of its objectives across the organization and risks analyzed as the basis for determining how they should be managed?
- c. Does the organization deploy effective internal control activities?



- d. Does the organization have control and procedure in place which ensure reliable reporting both internal and external requirements and standards?
- e. Does the organization monitor internal control regularly and effectively?