



ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

**INTERNAL CONTROL OVER CASH: THE CASE OF BANK OF
ABYSSINIA**

By
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June, 2017
Addis Ababa, Ethiopia

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*A Thesis Submitted to St. Mary's University School of Graduate Studies in Partial
Fulfillment of the Requirements for the Degree of Master of Business Administration (General)*

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Abstract

Internal control over cash is of major importance in any business enterprise since cash is a vital factor in the operation of business and many business transactions involve cash. In addition, controlling of cash is important since it is the most liquid of all assets that is vulnerable to theft or misappropriation. The major objective of this research is to assess internal control system over cash operations in the Bank of Abyssinia and reviewing its current status. The study has employed the descriptive research methods in order to describe internal control system in BOA. The study was made through the combination of theory and empirical work. To achieve the study objectives survey research method was employed involving the use of both standardized questionnaire and personal interviews.

Analysis of the data collected shows that combination of cash operation functions and level of dependency in internal audit function over management. Internal control should take in to account controlling environment, controlling activity, risk assessment, communication and monitoring. The outcome of the study revealed that the bank should provide training and development program to the employee to create a good understanding of the banks policies to have a better result from now. In order to prevent cash theft and misuse, the bank should rotate cash handling duties periodically in regular. And also it should be experienced to change passwords in periodic basis it shouldn't have to be changed only when someone leaves the branch.

Keywords: Internal control, Internal Audit function, Internal Control over cash

Contents

Acknowledgments	i
Abstract	ii
Table of contents.....	iii
List of tables.....	v
Acronyms.....	vi
CHAPTER ONE.....	1
Introduction.....	1
1.1. <i>Background of the study</i>	1
1.2. <i>Statement of the problem</i>	3
1.3. <i>Objective of the study</i>	5
1.3.1. General objective.....	5
1.3.2. Specific objective.....	5
1.4.Significance of the study.....	5
1.5.Scope of the study.....	6
CHAPTER TWO.....	7
Literature Review.....	7
2.1.Theoretical review.....	7
2.1.1. Definitions of internal control system.....	7
2.1.2. Types of Internal Control System.....	8
2.1.3. Types of internal controls.....	10
2.1.4. Determining the Goals and Objectives of Internal Control.....	11
2.1.5. Internal control components.....	12
2.1.6. The purpose of internal control system over cash.....	16
2.1.7. Classification of Internal Control.....	17
2.1.8. Internal Control Standards.....	18
2.1.9. Internal Control of Cash on Hand.....	19

2.1.10. The need for internal controls on cash collection.....	20
2.1.11. Internal audit.....	22
2.1.12. Limitations of internal control system on cash collection.....	24
2.2. Empirical literature.....	26
2.3. Summary and research gap.....	29
CHAPTER THREE.....	31
Research Methodology and data source.....	31
3.1. Research design.....	31
3.2. Sample, population and participant.....	31
3.3. Data collection and analysis.....	32
CHAPTER FOUR.....	33
Data presentation and analysis.....	23
4.1. Introduction.....	33
4.2. Data obtained through questionnaire and interview.....	33
4.2 Presentation and analysis of data obtained through questionnaire and interview.....	34
4.3.1. Concerning policies and procedures.....	34
4.3.2. Controlling activities.....	37
4.3.3. Internal audit function over cash operation.....	40
4.3.4. Risk assessment on safeguarding of cash.....	41
4.3.5. Documentation and record keeping.....	44
CHAPTER FIVE.....	47
Conclusion and recommendation.....	47
5.1. Introduction.....	47
5.2. Finding and Conclusion.....	47
5.3. Recommendation.....	50
Reference	51
 APPENDIX	

List of Tables

Table 4.1 Employees' response towards their knowledge of the bank's policies and procedures

Table 4.2 Employees' opinion about the relevance of the procedure for internal control over cash

Table 4.3 Employees' response on how policies protect internal control system from mislead

Table 4.4 Responses about duty segregation in the bank

Table 4.5 Segregation of duties in cash operation

Table 4.6 Responses towards rotation in cash handling duties

Table 4.7 the dependency of internal auditors from top management

Table 4.8 Responses about how is a combination (passwords) and keys of the vault are handled

Table 4.9 Employees' response on periodic change of combinations or passwords

Table 4.10 Responses towards periods in which cash is counted

Table 4.11 Employees response on the occurrence of cash shortage or excess

Table 4.12 Responses to Filing of documents

Table 4.13 Employees' response on the availability of recorded documents in relation to easiness to find when needed

Table 4.14 Responses towards report on summary of cash

Acronyms

AICPA- American Institute of Certified Public Accountants

BCBS - Basel Committee on Banking Supervision

BOA- Bank of Abyssinia

COSO - The Committee of Sponsoring Organizations of the Tread way Commission

GAO-General Accounting Office

NBE – National Bank of Ethiopia

CHAPTER ONE

INTRODUCTION

1.1. Background of the study

Internal control systems in banking organizations are managerial tools used in banking operations towards achieving their objectives. These objectives includes efficient and effective operational measures, credit control systems, reliability of financing reporting and compliance with relevant and regulations (COSO, 1992). Though the functions of internal control makes it wider American Institute of Certified Public Accountants(AICPA, 1988) General Accounting Office(GAO, 1999) and other sources, broadly define internal accounting control as a series of procedures and practices designed to promote and protect sound management practices, both general and financial. Thus an effective internal control procedures will significantly increase the likelihood that: financial information is reliable, so that managers and the board can depend on accurate information, assets and records of the organization are not stolen, misused, or accidentally destroyed, the organizations policies and government regulations are met, overall organization objective is achieved. According to Fight (2002), cash is the most liquid of assets and is susceptible to loss if not properly controlled, therefore, it is extremely important that, all departments handling cash implement and adhere to strong internal controls. For the purposes of this study, “cash” includes coins, currency, checks, money orders, internal charges, credit card etc. The recent financial crisis has put cash collection and its management through effective internal control system back in the spotlight, forcing treasurers to focus their efforts on ways to improve their companies’ cash management (San José et al., 2008). The committee of sponsoring organization (COSO, 1992) report defines internal control as. “The process effected by an entity’s board of directors, management and other personnel designed to provide reasonable assurance, regarding the achievement of objective like: reliability of financial reporting, compliance with applicable laws and regulations, and effectiveness and efficiency of operations.

The objective of internal control over cash is to make sure whether the organization is safeguarding and reporting cash in the appropriate manner as cash has the highest risk and is difficult to control. Internal control over cash management is one of the engines to any organization which must be handled in a very special way. Under this area, management must be very careful so that rules and regulations that one must follow need to be done as the rule says

(Geoffrey, 2014). The internal control process which historically has been a mechanism for reducing instances of fraud, misappropriation, and errors has recently more become extensive, addressing all the various risks by any organization. It is now recognized that internal control is critical to organization's ability to meet its established goals and objectives, and to maintain its financial viability (Basle committee, 1998).

Cash or money has a long evolutionary history, and we are familiar with money. After all, we handle it every day of our lives and its use regulates many of our daily activities. Yet how often do we pause to consider just how artificial a device it is? Nevertheless, the invention of money was as crucial to the development of our modern commercial economy as the invention of the wheel was to the development of technology. Beginning of the period of ancient time/antiquity, men from all walks of life have searched for things, which made their life on the earth easy and comfortable. Though was being the case, to their existence. There was no commerce with other groups. What the community could not provide for itself, it went without like alone individual living in the wilderness and catering for his own needs without assistance, such societies have not need or use for money. As a result, the primitive men were used to get what they themselves did not produce or possess either forcefully or through theft. However, they gradually realized that such methods were no longer effective and desirable to social stability and order. Men, being a rational animal, instead began to seek other peaceful ways of getting what they need for their survival or existence. Barter was the first and the crude method they have invented as a solution to the problem. It is a simple exchange of goods. People began restoring to primitive money because of obvious disadvantage of barter. In our country the Maria Theresa known as "sete" birr made of silver and "wonde" birr of Menilik birr is the first Ethiopian paper money was introduced by bank of Abyssinia-1941E.C. Now a day, it is not paper money that people carry around most of the time in highly developed countries use checks, credit cards, ATM (Automated Teller Machine or Payment card) were introduced in most developed countries. Having enough amounts of capital in the form of cash is the most important source for every aspects of investment. To improve the performance of the business as well as to introduce new business opportunity in the organization cash is very important.

Cash has been described as an asset, which banks acquire in exchange for deposit liability. In other word when a customer puts money in to his bank account, the bank acquires cash in exchange for documentary acknowledgment of liability toward the customer (BOA, 2008). Cash operation of a bank should be handled carefully and promptly under properly secured cash operations environment. The responsibility for ensuring that these objectives are met rests on the bank's management and control organs in general, and branch managers and cash operations personnel in particular. Due to this cash is the most powerful working capital. So, the collection and payment of cash must be managed carefully. Because of easiness to transfer, fraud, cheat and in its usage out of its intended target, cash need safeguard and good controlling mechanism especially in financial institutions like banks. Transactions in banks either directly or indirectly affect receipt or payment of cash. Therefore, the main reason for this research to be undertaken is due to the fact that some branches of the bank were exposed for cash misuse example, on Bank of Abyssinia, Ragual and Gottera branches were exposed for theft because of improper use of cash by their own employees (BOA, 2008).

1.2. Statement of the problem

A business must maintain sufficient cash for current operation and paying obligation as they come due. Effective cash control requires protecting cash from loss by theft or fraud. Since cash is the most liquid asset, it is particularly acceptable to misappropriation unless properly safe guarded (Smith, 1995). According to GAO Internal control should be designed to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisition, use, or disposition of an agency's asset.

The importance of managing risk has grown over the years due to significant losses that have been experienced in the financial sector because of inadequate management of risk. The continued losses incurred by businesses due to inefficient controls has emphasized once again the need for continual review of regulatory requirements and increase in banks supervision and monitoring (Pulane, 2011).

It is now recognized that internal control is critical to organization's ability to meet its established goals and objectives, and to maintain its financial viability (Basle committee, 1998). Because of high degree of liquidity, cash is most like to be the object of fraud and theft.

Therefore in accounting for cash, the procedures for protecting cash from theft and other misuses are very important. This is done by with the help of internal control over cash (Kermit, 1990). Although different studies have made immense contribution to internal control over cash, their focus in most cases is outside banking industry and little is done targeting banks (Mensah et al., 2013). Existing studies assessing the problems associated with internal control system over cash; examine effective and efficient internal control over cash operations (Dagnu 2009; Elizabet et al., 2014).

Dagnu (2009) examine effective and efficient internal control system over cash operation using two of internal control components, which is control environment and controlling activity. Therefore, the study does not consider the effect of the remaining controlling components like, risk assessment, communication and monitoring. This study is different from Dagnu (2009) in the sense that is focused all five components of internal control system to the cash operation.

Despite the recent three related exceptional research articles which had conduct by the above researchers internal control over cash in all five components, environmental, risk assessment, controlling activities, communication and monitoring are unexplored yet and relate with its consideration of ethical values and integrity in the bank. So, this research tries to assess the existing internal control over cash in the bank and it will address all branches in the city by using all five components of IC also helps to strengthen the controlling system over cash through assessment of problem areas and suggestion of solutions.

More specially, the research will tries to answer the following basic research questions:

1. What are the practice of the bank on separation (division) of duties and responsibilities of work in the area of cash related activities?
2. How does the bank's documentation and record keeping looks like?
3. How does the current system safeguard cash from misappropriation in the bank?
4. What status and responsibilities have internal auditors take to control cash?

1.3. Objective of the study

1.3.1. General objective

The general objective of the study will to assess the internal control over cash in the bank of Abyssinia.

1.3.2. Specific objectives:-

- To assess the existence of division of duties and responsibilities in the area of cash and cash related activities.
- To assess the bank's documentation and record keeping.
- To review the current system that safeguard cash from misappropriation in the bank.
- To assess internal auditor responsibility to control cash.

1.4. Significance of the study

A comprehensive research of internal control will contribute to more coherent and effective bank operation, which in the future will help to avoid problems when major risks threaten banks. This paper clearly reflects most of the internal control practices over cash in Bank of Abyssinia and gives possible solution as to how manager should process potential healthy cash and undertake proper follow up measures when problems occur during the activities and also it's an input for the preparation of NBE controlling activity to the bank's policies and procedure. This study,

- ✓ It will enable the branches of the bank to safeguard cash from misappropriation
- ✓ The findings will help to know the areas of weakness and thus help the branches of the bank to make corrective measures.
- ✓ The researchers also hope that the findings of this research provide a support to other researchers who are interested to conduct further study in the area.

1.5. Scope of the Study

This study assesses internal control over cash in Bank of Abyssinia. Due to time and financial constraints it is out of the reach of the researcher to incorporate all Bank of Abyssinia branches instead it cover 66 branches under Addis Ababa city. Thus, from the total branches in BOA most of them are settled in the city Addis. The motivation of selection of Addis Ababa city for this study is considering its number of branches, higher market flow and its deposit position throughout the bank. Therefore, the scope of this study is to focus on internal control over cash in branches of BOA under Addis Ababa city and will assess the areas of status of internal control, implementation of rules and regulations, and status of man power toward cash.

CHAPTER TWO

LITERATURE REVIEW

2.2. Theoretical review

Control is universal and important function of management it is to guide somebody or something in the direction in which it is intended to go. In this sense, control means the proper or authority to direct, order or restrain. It also implies a standard of comparison for the result of any operation. In terms of managerial functions, control consists of the steps taken to ensure that the performance of the organization conforms to the plans. Haimann defines control as the process of checking to determine whether or not, proper progress is being made towards the objectives and goals and acting if necessary to correct any deviation (Gupta, et al., 1988).

Internal control system is an integrated system, integrated with management processes to achieve overall organizational goals. For an organization to achieve its organizational objectives, then the five control components of control environment, risk assessment, control environment, information and communication and monitoring must be integrated into management processes over the entire organization (Subsidiaries, divisions, units). Like the body system, the internal control components and business processes must interact ceaselessly for a healthy, effective internal control system.

2.2.1. Definitions of Internal Control System

According to business dictionary internal control is defined as the systematic measures (such as reviews, checks and balances, methods and procedures) instituted by an organization to

- Conduct its business in an orderly and efficient manner,
- Safeguard its assets and resources,
- Deter and detect errors, fraud, and theft,
- Ensure accuracy and completeness of its accounting data,
- Produce reliable and timely financial and management information, and

- Ensure adherence to its policies and plans.

Anderson, (2008) asserts that in accounting and auditing, internal control is defined as a process affected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives. It is a means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources, both physical (e.g., machinery and property) and intangible (e.g., reputation or intellectual property such as trademarks). At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. At the specific transaction level, internal control refers to the actions taken to achieve a specific objective (e.g., how to ensure the organization's payments to third parties are for valid services rendered.) Internal control procedures reduce process variation, leading to more predictable outcomes. Internal control is a key element of the Foreign Corrupt 29 of 2002, which required improvements in internal control in United States public corporations. Internal controls within business entities are also referred to as operational controls (Committee of Sponsoring Organizations (COSO), 1992).

2.2.2. Types of Internal Control System

Galloway (1994), posits that controls can be either preventative or detective. Preventative controls attempt to deter or prevent undesirable events from occurring. Separation of duties, proper authorization, adequate documentation, passwords and physical control over assets and even traffic signs are all examples or preventative controls.

According to Galloway (1994), detective controls attempt to detect errors or irregularities which have already occurred. Reviews, analyses, reconciliations, periodic physical inventories, audits and surveillance cameras are all examples of detective controls. Both types of controls are essential to an effective internal control system. From a quality standpoint, preventative controls are essential because they are proactive. However, detective controls play a critical role providing evidence that preventative controls are functioning effectively.³¹

Zabihollah (2002), also explains that controls can be either preventive or detective. The intent of these controls is different. Preventive controls attempt to deter or prevent undesirable events from occurring. They are proactive controls that help to prevent a loss. Examples of preventive controls are separation of duties, proper authorization, adequate documentation, and physical control over assets. Detective controls, on the other hand, attempt to detect undesirable acts. 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, reconciliations, physical inventories, and audits. Both types of controls are essential to an effective internal control system. From a quality standpoint, preventive controls are essential because they are proactive and emphasize quality.

Zabihollah (2002) further explains that management authorizes employees to perform certain activities and to execute certain transactions within limited parameters. In addition, management specifies those activities or transactions that need supervisory approval before they are performed or executed by employees. A supervisor's approval (manual or electronic) implies that he or she has verified and validated that the activity or transaction conforms to established policies and procedures.

- ✓ Reconciliations (Detective): An employee relates different sets of data to one another, identifies and investigates differences, and takes corrective action, when necessary.
- ✓ Reviews of Performance (Detective): Management compares information about current performance to budgets, forecasts, prior periods, or other benchmarks to measure the extent to which goals and objectives are being achieved and to identify unexpected results or unusual conditions that require follow-up.
- ✓ Security of Assets (Preventive and Detective): Access to equipment, inventories, securities, cash and other assets is restricted; assets are periodically counted and compared to amounts shown on control records.
- ✓ Segregation of Duties (Preventive): Duties are segregated among different people to reduce the risk of error or inappropriate action. Normally, responsibilities for authorizing transactions, recording transactions (accounting), and handling the related asset (custody) are divided

2.2.3. TYPES OF INTERNAL CONTROLS

According to I. T. Okai (1996) Auditing for you, the types on which the Auditor seeks to rely vary widely. The main types of internal control systems which the Auditor may find and on which to seek some degree of release are as follows.

a. Organization

Every enterprise ideally should have a plan of their organization, defining and allocating responsibilities and identifying lines of reporting for all aspects of the enterprise's operations.

Authority delegation within the organization and responsibilities should be clearly specified.

b. Segregation of duties

It is important to separate those responsibilities or duties if combined enable one individual to record and process a complete transaction. Segregation of duties thus reduces the risks of intentional manipulation or errors and increases the element of checking. The functions which should be separated include authorization, execution, custody, and recording and in the case of computer-based accounting systems, systems development and daily operations.

c. Physical

These are concerned mainly with the custody of assets and involve procedures and security measure designed to ensure that access to assets is limited to authorised personnel. This includes both direct and indirect access via documentation. These controls assume importance in the case of valuable, portable, exchangeable or desirable assets.

d. Authorization and approval

All transaction should require authorization or approval by an appropriate responsible person.

The limits for those authorizations should be specified.

e. Arithmetic and approval

These are the controls within the recording function which check that the transactions to be recorded and processed have been authorized, that they are all included and that they are correctly recorded and accurately processed.

Such controls include checking the arithmetical accuracy of the records, maintenance and checking for documents.

f. Personnel

There should be procedures to ensure that personnel have capabilities commensurate with their responsibilities. Inevitably, the proper functioning of any system depends on the competence and integrity of those operating it. The qualifications, selection, and training as well as the innate personal characteristics of the personnel involved are important features to be considered in setting up any control system.

g. Supervision

Any system of internal control should include the supervision by responsible officials of day-to-day transactions and the recording thereof.

h. Management

These are controls exercised by management outside the day to day routine of the system. They include the overall supervisory control exercised by management the review of management accounts and comparison thereof with budgets, the internal audit function and any other special review.

2.2.4. Determining the Goals and Objectives of Internal Control

The Internal Control Reference Guide (2002) indicated that, the central theme of internal control is (1) to identify risks to the achievement of an organization's objectives and (2) to do what is necessary to manage those risks. Thus, setting goals and objectives is a precondition to internal controls. At the highest levels, goals and objectives should be presented in a strategic plan that includes a mission statement and broadly defined strategic initiatives. At the department level,

goals and objectives should support the organization's strategic plan. Goals and objectives are classified in the following categories:

- ✓ Operations Objectives: These objectives pertain to the achievement of the basic mission(s) of a department and the effectiveness and efficiency of its operations, including performance standards and safeguarding resources against loss.
- ✓ Financial Reporting Objectives: These objectives pertain to the preparation of reliable financial reports, including the prevention of fraudulent public financial reporting.
- ✓ Compliance Objectives: These objectives pertain to adherence to applicable laws and regulations.

According to the Internal Control Reference Guide (2002), a clear set of goals and objectives is fundamental to the success of a department. Specifically, a department or work unit should have (1) a mission statement, (2) written goals and objectives for the department as a whole, and (3) written goals and objectives for each significant activity in the department. Furthermore, goals and objectives should be expressed in terms that allow meaningful performance measurements. There are certain activities which are significant to all departments: budgeting, purchasing goods and services, hiring employees, evaluating employees, accounting for vacation/sick leave, and safeguarding property and equipment. Thus, all departments should have appropriate goals and objectives, policies and procedures, and internal controls for these activities.

2.2.5. Internal control components

Various authors agree on the following to be the Control environment, risk assessment, control activities, communication and monitoring (Michael, 2004; Steven, 2000; Alvin, 2003, Kenneth, 2005; Raquel, 2005). However, according to Zabihollah (1995), majority of the researchers on internal controls used or are reported to be referring to the Committee of Sponsoring Organizations of the Trade way Commission (COSO, 2012) report on internal control integrated framework. This report emphasizes the importance of internal control in achieving an entity's objective.

The components are,

A. Control environment

Millichamp (2002) describes control environment as the overall attitude, awareness and actions of directors and management regarding internal controls and their importance in the entity. Seven factors affecting the control environment include management's philosophy and operating style, integrity and ethical values, a commitment to the competence, board of directors or audit committee, organizational structure, assignment of authority and responsibility and human resource policies and practices respectively. The control environment includes awareness values, decisions, attitude and actions regarding control. Hevesi (2005), considered the control environment to be the attitude toward internal control and control consciousness established and maintained by the management and employee of an organization.

B. Risk assessment

The second major component of internal control is risk assessment. The Committee of Sponsoring Organizations on the Tread way Commission's COSO (2012) draft framework on enterprise risk management defines it as a process. Risks are the happenings that threaten the achievement of objectives. They finally affect an organization's ability to achieve its mission. Risk assessment is the process of detecting, assessing and determining how to succeed these things. There are both internal and external risks that could prevent the achievement of established objectives at the every level in an organization.

According to Amudo and Inanga (2009), every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economics, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change. Objectives must be established before administrators can identify and take necessary steps to manage risks. Operations objectives relate to effectiveness and

efficiency of the operations, including performance and financial goals and safeguarding resources against loss.

The Internal Control Reference Guide (2002) pointed out that, risk assessment is the identification and analysis of risks associated with the achievement of operations, financial reporting, and compliance goals and objectives. This, in turn, forms a basis for determining how those risks should be managed. To properly manage their operations, managers need to determine the level of operations, financial and compliance risk they are willing to assume. Risk assessment is one of management's responsibilities and enables management to act proactively in reducing unwanted surprises. Failure to consciously manage these risks can result in a lack of confidence that operation, financial and compliance goals will be achieved.

A risk is anything that could jeopardize the achievement of an objective. For each of the department's objectives, risks should be identified. Asking the following questions helps to identify risks:

- ✓ What could go wrong?
- ✓ How could we fail?
- ✓ What must go right for us to succeed?
- ✓ Where are we vulnerable?
- ✓ What assets do we need to protect?
- ✓ Do we have liquid assets or assets with alternative uses?
- ✓ How could someone steal from the department?
- ✓ How could someone disrupt our operations?
- ✓ How do we know whether we are achieving our objectives?
- ✓ On what information do we most rely?
- ✓ On what do we spend the most money?

- ✓ How do we bill and collect our revenue?
- ✓ What decisions require the most judgment?
- ✓ What activities are most complex?
- ✓ What activities are regulated?
- ✓ What is our greatest legal exposure?

C. Control activities

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. Management should establish control activities to effectively and efficiently accomplish the organization's objectives and mission. Messier (1997) noted that control activities are the policies and procedures that help ensure that necessary actions are taken to address the risks involved in the achievement of the entity's objectives.

Again Amudo and Inanga (2009) suggest that liquid assets, assets with alternative uses, dangerous assets, vital documents, critical systems, and confidential information must be safeguarded against unauthorized acquisition, use, or disposition. Typically, access controls are the best way to safeguard these assets. Examples of access controls are as follows: locked door, key pad systems, card key system, badge system, locked filing cabinet, guard, terminal lock, and computer password, and menu protection, automatic callback for remote access, smart card, and data encryption.

D. Communication

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. Communication focuses on the nature and quality of information needed for effective control that the systems use to develop such information, and reports necessary to communicate it effectively. Information is needed at all levels of

organization to assist management in meeting the organization's objectives. The information is used by inside parties as well as outside parties. This information should be communicated from top to bottom level that needs it in a form and within a time frame that helps them to carry out their responsibilities.

E. Monitoring

Monitoring, the last component of internal control, is a process that assess the quality of internal control over time. Also monitoring is the evaluation of an organization's events and transactions to gauge the quality of performance throughout the period and to decide whether controls are effective. Management should emphasize monitoring efforts on internal control and accomplishes the organization objectives. It is important to monitor internal control to determine whether it is operating as intended and whether any modifications are necessary. All employees need to understand the organization's mission, objectives, and responsibilities and risk tolerance levels for monitoring to be most effective. Simmons (1995) Monitoring can be done through ongoing activities or separate evaluations.

2.2.6. The purpose of internal control system over cash

Cash includes coins, currency, money orders and checks (made payable or endorsed to the company), and money on deposit with banks or savings institutions that can be used to satisfy the company's obligations. All the various transactions involving these forms of cash are summarized and reported under a single balance sheet caption, cash.

A key function of the treasurer's office in most major firm is to monitor and control the amount of cash available for the firm's use. There is always a trade-off between having too much cash on hand they cannot be used effectively in the operations of the business and having too little cash to operate the business. Thus, management wants to control and safeguard the cash it needs to have available to operate, as well as to find profitable ways to either invest excess cash or utilize it effectively in operating the business.

Because it is the easiest asset to spend it is stolen, cash is a tempting target and must be carefully safeguarded. Several control procedures have been developed to help management monitor and protect cash because it is particularly vulnerable to loss or misuse.

One of the most important controls for cash is separating the handling of cash from the recording of cash. The purpose of this separation of duties is to make it difficult for theft or errors to occur unless two or more people are involved. If the cash records are maintained by an employee who also has access to the cash itself. Cash can be stolen and the employee can cover up the shortage by falsifying the accounting records (Diamond, 2000).

Internal Control Evaluation

DiNapoli (2009) stated precisely the meaning of evaluation is the process 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 are functioning effectively, and they can identify both risks to the organization and opportunities for improvement

2.2.7. Classification of Internal Control

Internal control is classified into two types, which are accounting and administrative controls.

i. Accounting Internal Control

This directly depends on the accounting records and financial statements. Administrative internal control heavily depends on the managerial aspects of control within the organization.

John, et al., (1980) defines accounting controls consists of the methods, procedures and plans of organization that pertain mainly to protection of the assets and to assure that accounts and financial reports are reliable.

ii. Administrative Internal Controls

These are procedures and methods that pertain primarily to the operation of corporation and managerial directives, Policies and reports. (Wongel, 2006)

2.2.8. Internal Control Standards

The integrity of cash management activity depends on the application of control principle and standards. According to (Internal Control Standards Committee, 2001), the attainment of these principles and standards in the cash management can be achieved by pursuing the following guidelines:

The time value of money shall recognize as a part of each cash management decision. Cash related transactions shall occur only after the approval of an individual with delegated authority to make approvals. Cash related transactions shall be fully documented so that undisputed audit trail exists. Cash related transaction shall be recorded promptly during each step of the handling function. Serially numbered forms shall be used to document cash related transactions to enhance reconciliation and accountability. Documents used in cash related transactions shall be safeguarded against re-use, tampering or unauthorized disposal. Provision shall be made for the regular review and comparison of transaction documentation to detect errors and payments. The approval of adjustments to each related transaction shall be administratively controlled. Supervision of each management activities shall be strictly and continually administered. Cash related duties, such as maintenance of A/R, cashiering accounting; disbursing and collecting funds shall segregate. Cash related accounts shall be frequently reviewed and reconciled with subsidiary records. The accessibility to funds and found records shall be restricted and administratively controlled. Only properly designated employees shall handle impress funds, disbursement certifications and collection duties. Employee's assigned cash related duties shall be trained and must accept their responsibilities. Unnecessary clerical routines and handling of cash or cash related documentation shall be eliminated to lessen the risk of loss and exposure to errors. Electronic funds transfer and direct deposit shall be used where feasible and advantageous. Computer edit programs shall be used to the maximum extent possible to disclose or reduce the incidence error on cash related transaction. Cash derived from collections and cash for disbursements shall not commingle.

Cash transactions shall not be used to substitute or circumvent, prescribed procurement approvals and procedures. Checks received in collection shall be endorsed up on receipt and collections shall be safeguarded until deposit is accomplished. Deposit shall be processed within prescribed intervals and reconciled against records of fund received. Prompt responses shall be

made to reviews performed by the office of inspector general and the general accounting office on cash management activities to correct cited deficiencies. Cash disbursement transaction shall be processed promptly and cash shall be reconciled daily. Cash held outside the treasury shall be maintained at the minimum amount needed to cover currently transaction. Credit shall be extended only when authorized by a designed official who is aware of the department's debt management policies.

2.2.9. Internal Control of Cash on Hand

Cash on hand mostly consist of receipts from customers for delivering different goods and services, petty cash account, payment for different payables. It needs strong control because at it is easily available and liquid it is very risky asset.

According to John, et al., (1980) the procedures applied for controlling cash on hand are:

A. Counting

When controlling cash on hand by counting are must exercise simultaneous counting over cash and other negotiable assets in order to prevent substitution. It prevents covering cash shortage by transporting from one fund to another by converting other assets. In order to prevent assets from being counted more than once, the controller must assign other controllers to verify at the same time. The other means of exercising control by counting is presenting all cash and counting by sealing the counted to prevent substitution.

B. Examination of item

After cash on hand has been counted, the totals of the petty cash and un-deposited receipts should be traced to cash receipts records. Ambiguous documents like checks, draft, disbursement voucher and any other item questionable should be investigated further. On the balance sheet data all petty cash funds should be cleared of vouchers by replenishing so that cash and expenses will be stated properly on the financial statement.

C. Observing deposit

To assure the validity of checks, the controller should determine if the checks included in the cash on hand are deposited in the bank. If the checks are not deposited when the controller examines cash, there will not be a way for the controller to assure that worthless checks was not previously placed if the bank returned the checks as worthless or fraudulent. At the end of the year, checks of related companies and transferred checks are included on the cash on hand; they must be deducted as outstanding in the bank reconciliation.

D. The element of surprise

In controlling cash the controller must exercise a surprise count. In order to make internal control adequate surprise count of cash must be given a high priority. In verification of cash, the controller must not exercise always at the year end. He may make two verifications dates one on a surprise and the other at year end (John, 1980).

2.2.10. The need for internal controls on cash collection

According to the COSO framework, internal controls are put in place not only to help companies reach profitability goals and achieve their missions, but also to minimize surprises along the way. An internal control system enables management to deal with quickly changing economic and competitive environments, market changes such as shifting customer demands and priorities and restructuring. Similarly Willis (2000) reported that effective internal control helps an organization achieve its operations, financial reporting, and compliance objectives. Effective internal control is a built-in part of the management process (i.e., plan, organize, direct, and control). Internal control keeps an organization on course toward its objectives and the achievement of its mission, and minimizes surprises along the way. Internal control promotes effectiveness and efficiency of operations, reduces the risk of asset loss, and helps to ensure compliance with laws and regulations. Internal control also ensures the reliability of financial reporting (i.e., all transactions are recorded and that all recorded transactions are real, properly valued, recorded on a timely basis, properly classified, and correctly summarized and posted).

Also Van Der Nest (2000) noted that, from the financial sector point of view, internal control should be seen as an opportunity for the entities to improve their performance, both from an internal and an external perspective.

Internally, good internal control systems lead to improved recognition, assumption and prevention of risks associated with cash collection, which is of prime importance in a sector with the particularities of cash collection.

Also competitiveness will be fostered by appropriate controls not only in the short but also in the long term. It will also help reduce the impact of unexpected events, or even to avoid them altogether, for example by means of good early warnings or scenario testing. According Mautz and Winjum (1981) internal control system guarantees some reasonable assurance: thus accepting the existence of a certain degree of uncertainty that cannot be completely controlled or absorbed by the undertaking. Accepting the idea that internal control systems have to be linked with the cost of carrying out control procedures, yet they have to guarantee a reasonable degree of confidence according to the nature and extent of risks taken (Van Der Nest, 2000; Mautz and Winjum, 1981; Angelovska, 2010). From the forgoing analysis of importance of internal control, it could be concluded that, the overall purpose of the concept is to help an organization achieve its mission, internal control also helps an organization to: promote orderly, economical, efficient and effective operations, and produce quality products and services consistent with the organization's mission, safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud. Finally is to promote adherence to laws, regulations, contracts and management directives as well as develop and maintain reliable financial and management data, and accurately present that data in timely reports.

A. Segregation of duties

Meigs et al., (1982) explained that the prime means of control is the separation of responsibilities which if combined would enable one individual to record and process a complete transaction. This feature reduces the risk of internal manipulation or error and increases internal checking. Mwisho, (2000) explained that if a large number of people are employed in the organization, they must be kept in charge of some responsible officer. Failure to exercise either examination or

supervision tends to weaken the foundation of internal control thus creates a loophole for payment which are not genuine and intern causes the loss of cash.

2.2.11. INTERNAL AUDIT

Internal Audit constitutes an element of internal control systems established by management. I.T. Okai (1996) states that, internal audit is an independent appraisal activity within an organization for the review of operations as a service to management. It is a management control which functions by measuring and evaluating the effectiveness of other controls within an enterprise. The appraisal here signifies an impartial assessment of a functional area of activity. It further reviews the procedural controls and various departments to assess whether or not the intended function is being carried out.

❖ Substantive Tools for Carrying Out Tests

The following are some of the tools employed in substantive tests account balance and other relevant information in the account.

- i. Confirmation.
- ii. Inspection
- iii. Re-performance
- iv. Vouching.

Observation and enquiry

❖ Confirmation

This consists of obtaining evidence on a fact or conditions from a third party with regards to account balance or information contained in the accounts confirmations obtained from persons who are independent of the client provides strong support for the fact or account balance and often serve as the principal substantive test of detail related to that account balance.

❖ **Inspection**

This involves counting and/or examining physically transactions or items contained in the financial statement. Examples include cash count, examination of share certificate of fixed asset, observation of stock count etc.

❖ **Re-Performance of Computations**

Where an account balance is derived as a result of certain computations, the substantiation of such balance may be carried out by recalculation that is, re-performance of the computation in order to confirm its accuracy. For example where a firm uses a certain formula to make provision for say bad and doubtful debts or for obsolete and slow moving stock, the Auditor in carrying out substantiate will;

- i. Evaluate the reasonableness of the basis of the computation and
- ii. Mathematically check the calculations.

❖ **Vouching**

This deals with examination of documentary evidence giving rise to item in the financial Statement of an enterprise with the view to determining their nature and propriety.

❖ **Observation and Enquiry**

These are used to assess how;

- i. Management compares actual with budgeted performances and
- ii. Exceptions are dealt with.

The assurance obtained by the Auditor in applying the above mentioned tools will in no small way influence his decision on the extent of substantive test to be carried out.

The tools already mentioned are mainly used as direct test of accounts balances and information as contained in management accounts. There are other tools of substantive tests but of a more general nature and these include.

- i. Analytical review procedures
- ii. Reading board and Annual General Meeting Minutes
- iii. Obtaining confirmation from company lawyers regarding pending litigations.
- v. Security procedures and
- vi. Reconciliation

2.2.12. Limitations of internal control system on cash collection

The main limitation concerning Internal Control system on cash collection is that, no matter how good a system is, it will only provide reasonable assurance not complete certainty that the measures undertaking will withstand undesired events happening (Mautz, 1981). Internal Control on cash collection is carried out by people, and will therefore be affected by human error. Good training programs, as well as an ethical component within the entity and its way of doing business can help mitigate this situation.

As a result of technological advancements and changing management techniques, organizations employ less people and are therefore less able to perform many internal accounting controls, for example, layers of authorization, cross-checking, segregation of duties, supervision etc. A range of control elements are therefore required in order for internal controls to be effective. The COSO framework shows five basic control components: control environment, control activities, risk assessment, information and communication and monitoring.

Effective internal control requires a strong control environment and also underlying good control and commitment to sound control compliance must be present so as to ensure healthy interactive control structure.

Risk assessment forms the basis for determining where internal control activities are needed. This enables the organization to focus on those risks that will impact on the overall success of the firm. Communicating information resulting from the exercise of internal controls keeps key personnel and management informed of potential problems (San José, 2008).

An effective monitoring system is an ongoing assessment program that oversees the design, implementation and effectiveness of controls in mitigating risks. Internal control must also be tailored to meet the needs of the individual business. This is because the more elaborate an organization's control systems, the greater the cost (IRM et al., 2002). The scandals of recent years emphasized the need to evaluate, scrutinize and reformulate control systems of checks and balances in order to guide corporate executives and persons in decision-making.

Therefore as much as an organization would like to implement appropriately derived control measures; it must also consider the amount of money involved in implementing such measures. Finally, there is the need for companies to have a risk protection strategy (Chorafas, 2008).

- A. *Ethical Values and Integrity*** is key elements contributing to a good control environment. Ethical values are the standards of behavior that form the framework for employee conduct. Ethical values guide employees when they make decisions. Management addresses the issue of ethical values when it encourages: commitment to honesty and fairness; recognition of and adherence to laws and policies; respect for the organization; leadership by example; commitment to excellence; respect for authority; respect for employees' rights.
- B. *Competence*** is a characteristic of people who have the skill, knowledge and ability to perform tasks. Management's responsibility for ensuring the competency of its employees should begin with establishing appropriate human resource policies and practices that reflect a commitment to: establishing levels of knowledge and skill required for every position
- C. *Supportive Attitude*** is a disposition that encourages desired outcomes. Since internal control provides management with reasonable assurance that the organization's mission is being accomplished, management should have a supportive attitude toward internal control that permeates the organization. Executive management should set a tone that emphasizes the importance of internal control. Such a tone is characterized by: minimal and guarded use of control overrides; support for conducting control self-assessments and internal and external audits; responsiveness to issues raised as the result of the evaluations and audits; and ongoing education to ensure everyone understands the system of internal control and their role in it.

2.2. Empirical literature

The study on evaluation of internal control system of banks in Nigeria is done by Charles, (2011). The study expected to find out that whether the established internal control systems in the bank are sound enough to detect and prevent frauds. Five banks in Nigeria focused for the study. The study concluded that the banks have sound internal control systems as there is positive relation between the presence of internal control system and the effectiveness in the management, the efficiency in the operations, the reliability of the financial and management reporting system, the compliance by banks in Nigeria with applicable laws and regulations. But most of the internal control staff had complained of lack of promotion, poor welfare and training, function of good corporate governance by these banks is not yet at its best, they can still do better.

Elisabeth et al., (2014) research teams were done a study on internal control over cash on a case of national alcohol and liquor factory. The objective of internal control over cash is to make sure whether the organization is safeguarding and reporting cash in the appropriate manner as cash has the highest risk and is difficult to control. It is now recognized that a sound internal control process is critical to organization's ability to meet its established goals and objectives and maintain its financial ability. The study was conducted by applying both descriptive and explanatory research designs. The research team has got the needed data from both primary and secondary sources.

The study is a population study because, the target population consists only the Factory's Finance Staff Members Internal Auditor and General Manager. For the secondary data, that team has compiled the necessary data from the Factory's financial audit report, procedural manuals, guide lines etc.

The team had taken a preliminary study and identified the existence of a researchable problem. That is the existence of cash related problem like cash shortage from daily cash sales and improper cash utilization. The firm doesn't have proper authorization, approval and record procedures for cash payments. Most of the respondents indicated that their Factory doesn't have those procedures.

William, (2013) have done research on the significance of internal control in the rural banking sector; they wanted to examine whether effective internal control system is adopted by the bank in the Eastern Region of Ghana. The population for this study includes internal auditors, management, account personnel, and other staff in the bank. The employees at senior level, middle levels and lower levels were included in the study too. The study concluded that the internal control systems assist management and auditors in executing their duties, The internal controls are established by management by adopting policies and procedures with each system of control having specific functions to perform, The computers should be provided with passwords to provide security for the in formations of the bank to prevent fraudulent acts, Auditors should employ professional judgment to asses and design audit risk procedures in other in other to minimize audit risks, Substantive test should be used by auditors to appraise the performance of internal accounting controls and identified weaknesses communicated.

Fadzil et al., (2013) has done a study to achieve two objectives to determine whether the internal audit department of the companies listed in the Bursa Malaysia complies with the Standards for the Professional Practice of Internal Auditors IIA (2000);

The study evaluated the Internal Auditing Practices as independent variables and Quality of Internal Control System as dependent variable. As the quality of internal control system they focused on control environment, risk assessment, information & communication system, control activities and monitoring.

It was found that management of internal audit department; professional proficiency, objectivity and review significantly influence the monitoring aspect of the internal control system. Scope of work and performance of audit work significantly influences the information and communication aspect of the internal control system while performance of audit work, professional proficiency and objectivity significantly influence the control environment aspect of the internal control system. The study also shows that management of internal audit department, performance of audit work, audit program and audit reporting significantly influences the risk assessment aspect of the internal control system. Lastly, performance of audit work and audit reporting significantly influences the control activities aspect of the internal control system.

Dagnu, (2009) examine effective and efficient internal control system over cash operations in Cooperative Bank of Oromia and reviewing its current states, by such factors, as operating and financial control, custody of asset, and record keeping, personal policies and procedures, and internal audit function in four branches of the bank and select 34 employees as sample of the study in the bank. The study has employed the descriptive research methods in order to describe factors that affect effective and efficient internal control system in CBO. Analysis of the data collected shows that combination of cash operation functions and some personal relationships; lack of integrity, competence, knowledge and experience by employees working around cash operations; inadequate communication of proper information for decision making; misappropriation of cash; unsatisfactory verifications and weak internal audit functions in the bank which affects effective and efficient internal control systems in the bank.

Julius, (2015) this study was conducted to evaluate the internal controls system of cash in the management and growth of the small businesses in Nairobi. The study used stratified random sampling method to select the sample size. The businesses were selected depending on their location such as Nairobi North, Nairobi South and the Central Business District. The study found that only 12.5% of the businesses have responsibilities for collection and deposit preparation functions adequately segregated from those for recording cash receipts and general ledger entries. The remaining 87.5% did not segregate the duties. This was the same case for responsibilities for cash receipts functions adequately segregated from those for cash disbursements as well as for responsibilities for disbursement preparation and disbursement approval functions adequately segregated from those for recording or entering cash disbursements information on the general ledger. The study found that the age of a business has a positive influence on internal control on cash. About 77% of the variation in internal controls on cash is as a result of age of the business. Thus, the older the business, the stronger it's internal control on cash and vice versa.

Geoffrey, (2014) this research is all about the problems associated with internal control systems over cash management in five compassion centers. The main reason for this research to be undertaken is due to the fact that some compassion centres were closed due to funds sabotage. Primary and secondary data has been used on this study to qualify the evaluation of the systems of internal control over cash. Data was collected through questionnaires, interviews and

observations and documentary review. Through this research there are some areas which need more efforts in the internal control systems over cash particularly in professional abilities and capabilities of accountants and internal auditors.

In this study it was revealed that to some extent there was ineffectiveness on the operation systems of internal control over cash management due to poor operations or fund mismanagement and delayed of financial report to the donors. Also it was found that to some extent there was a lack of professional abilities to carry out the assigned duties as there was failure to keep account books in accordance and failure to conform the procurement procedures. There is a problem of accountants and auditors not adhering to professional standards hence use improper accounting books.

2.3. Summary and research gap

From the forgoing review of relevant literature it is evident that resource in the area of internal control over cash has not been done in a more comprehensive approach. Five internal control components has been discussed by different studies but there focus in most study for over all controlling system of certain company so that these study differ by showing specific part of internal control that is cash which is the most liquid asset ever specially in financial industry there effect has been higher so it needs to discuss through those all components of internal control elements. Therefore, the study tries to conduct on the issue of internal control over cash on the Bank of Abyssinia. The study research gap is demonstrated by the scarcity of empirical studies on determinants of internal control over cash, especially in the banking sector. Practical studies William, (2013), Fadzil , Haron & Jantan, and Charles, (2011)are inadequate as they concentrated on internal control the other is Elisabeth el al., (2014) even if they show liquidity of cash in internal control, none of these studies focus on internal control system on cash operation from the survey of relevant literature. Dagnu , (2009) focuses the examination effects and efficiency of internal control system over cash in CBO using some branches employees' sample. Under this study, the research will conduct in order to know the constraints associated with internal control over cash in banking industry by using way of branch sample in the city. The study of Julius, (2015) and Geoffrey, (2014) mainly focused out of banking industry. This study

therefore intends to fill these pertinent gaps in literature by studying internal control over cash in bank of Abyssinia.

CHAPTER THREE

METHODOLOGY AND DATA SOURCE

3.1 Research design

This study is descriptive in nature as the researcher tries to describe the topic of internal control over cash and its components. The researcher used survey research method involving the use of both standardized questionnaire and personal interviews to collect data in a systematic manner. Data necessary to answer the research questions were collected and have both qualitative and quantitative nature.

The questionnaire was composed of structured questions where the respondents were asked to choose an answer from a given set of choices. At the end of each dimension of the questionnaire questions, respondents were asked to provide a response in their own words to one open ended question. Interview data which was non-numeric and qualitative was gathered to complement the questionnaire and to obtain deeper understanding of the subject matter. Numeric assessment with numeric scores in the form of questionnaire is gathered to get quantitative and objective information about the research (Bhattacharjee, 2012).

3.2. Sample, population and participant

The target populations of this study were the total number of branches in BOA under Addis Ababa city. BOA has been providing service with 66 Branches in the city as of June 2015, which shows from the total branches in the operation most of them are settle in the city Addis Ababa. From the entire population of the employees of the bank, the researcher purposely drew a sample of staff that was suited for the questions. To ensure appropriate responses were collected, the targeted population composed of branch management or internal controller and senior cashier were considered, and as much as possible the participants within these were chosen taking into account their relation with cash. Hence primary data is collected from respondents in branch Management or Internal controller and senior cashier who are believed to have a good understanding of the internal control practices in the branches of the bank.

Therefore, the sampling frame, also known as a working population, opted was a non-probability sampling method, contained units or people who were suited for the questions. Expert sampling

as Bhattacharjee (2012) defined is a technique where respondents are chosen in a non-random manner based on their expertise on the phenomenon being studied. The basis of selection is therefore the desired knowledge and expertise of the respondents.

3.3. Data collection and analysis

The data collection method employed in this study involves gathering both numeric information on the questionnaire as well as text information on the interviews so that the final database represents both quantitative and qualitative information (Creswell, 2010).

The data was collected from questionnaires and an interview is categorized and enters in the computer. In attempting to analyze the data the researcher were used descriptive analyses important for making research judgments on the data collected for meaningful conclusions and recommendations. Qualitative data and quantitative was prepared on the study variables and after this, descriptive statistics help the researcher to assess internal control system on cash operation in the bank.

Data collection techniques can be classified as either quantitative or qualitative method. Non-numeric data such as observational or interview data represents the qualitative measures, whereas, numeric assessment such as numeric scores and metric like questionnaire is used as quantitative measures (Bhattacharjee, 2012). Mixed approach whereby the researcher tends to base knowledge claims on pragmatic grounds (e.g., consequence-oriented, problem-centered, and pluralistic) is employed in this study (Creswell, 2010).

A descriptive analysis of data is provided in terms of percentages. Moreover, evaluation of results, possible reasons and their implications are analyzed.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1. Introduction

This study was, as described in the aforementioned chapter, aiming assessing internal control over cash in the Bank of Abyssinia. The data were collected from the manager or assistant manager and internal auditor of the bank. To gather relevant data for the purpose of the study, questionnaire and interview means of data instruments were employed. Therefore, the data collected from the target population of the study through these instruments were presented and discussed in this chapter.

In this section, the collected data were discussed, analyzed, presented. In doing so, the data gathered through the questionnaire were presented in tables. Apart from this, the data collected through interview were merged together and interpreted with the result of the questionnaire.

This chapter generally consists of presentation of the statistical results obtained, illustrated tables, discussions of the results obtained from the questionnaire and interview of the target population

4.2. Data obtained through questionnaire and interview

A closed-ended questionnaire of with open-ended questions was prepared in English and administered to the branch manager. Accordingly, they gave their responses about internal control over cash in the BOA. Therefore the data found from the respondents were analyzed and discussed in line with the research questions as follows. The researcher also used interview method of data gathering technique to triangulate with the results of the data found from the questionnaire and to validate the reliability of the results eventually. When the data found from the questionnaire were analyzed, the data obtained from interview were also discussed and interpreted together with the result of the questionnaire.

4.3.Presentation and analysis of data obtained through questionnaire and interview

The questionnaires were distributed to 132 staff members of the branches manager or assistant manager and controller or senior cashier. Six of the returned questionnaires missed some information and are excluded from analysis. The questionnaire consisted of questions about the basic research questions. The questions about controlling activity, communication, risk assessment and their monitoring departments within the bank to ensure the right employees are participated in the completion of the questionnaire.

4.3.1. Concerning policies and procedures

Table 4.1: Employees’ response towards their knowledge of the bank’s policies and procedures

Employees’ knowledge of bank’s policies and procedures	Number (frequency)	Percentage
Good knowledge	96	72.7%
Somewhat	30	22.7%
No knowledge	-	
No response(optional)	6	4.6%
Total	132	100%

Source: on survey, 2017

Before assigning employees on a certain task in the bank, there is a consideration of their knowledge/understanding of the bank’s policies and procedures. As per the response, 72.7% of the respondents responded that they have a good knowledge or understanding of the policies and procedures and 22.7% answered they somehow knows the bank’s policies and procedures, While the rest 4.6% did not respond on the statement.

The Basel Committee for Banking Supervision (2005) recommends that banking organizations should maintain written code of business conduct with effective reporting and enforcement mechanisms. Employees should have a means of alerting management and the board to potential misconduct without fear of retribution, violations of the code should be addressed promptly and effectively.

From this in general, we can say that most of the employees have the appropriate knowledge of the bank's policies and procedures which helps them to perform their job based on the established policies and procedure and have confidence on the job they are working. And some of them have an overview which means they know some part of the policies and procedures it implies that they practice bank norms instead of written policy and procedure of the bank it create great gap in the employees of the bank.

Table 4.2: Employees' opinion about the relevance of the procedure for internal control over cash

Relevance of the procedure for internal control over cash	Number (frequency)	Percentage
Relevant	122	92.4%
Somewhat relevant	10	7.6%
Irrelevant	-	-
I don't know	-	-
No response(optional)	-	-
Total	132	100%

Source: on survey, 2017

It is known that in organizations internal control is achieved based on the established policies, which mean the relevancy of the policy towards the internal control system is very crucial. Based on the above data 92.4% of the respondents reflected the banks policies and procedures are highly relevant to support the internal control system and helps to control and prevent from misuse of cash in the bank. And the rest 7.60% responded the bank's policies and procedures are to some extent relevant (somewhat relevant). In this case we can see the banks policies and procedures have high contribution to the internal control system.

Also from conducting interviewee of the branch managers and assistant branch managers respond that the top management is not stable and changing very frequently. However, continuous follow up on internal procedures and manual should be done in order to perform the objectives of the bank. This problem has a significant contribution to the overall system of internal control in general and internal control over cash in particular. While management

officials of the bank also stated that money is easily accessible either in the bank or in the business and it is also a highly liquid asset. So the bank should strictly follow the procedures stated on the cash operation manual. In general the respondents from questionnaires and interview the implementation and follow up of internal control system is under take in the Bank of Abyssinia; even though, rapidly changing management has its own impact on internal controlling system.

Table 4.3: Employees’ response on how policies protect internal control system from mislead

How strong by internal control systems protect cash from misuse?	Number (frequency)	Percentage
Strong	98	74.2%
Medium	34	25.8%
Weak		
No response(optional)		
Total	132	100%

Source: on survey, 2017

Table 1.3 shows the employees’ responses on how policies protect internal control system from mislead. Of the 132 respondents 74.2% believed that the bank’s policies and procedures are helpful to perform and implement bias free internal control style. But the rest 25.8% responded the bank’s policies have a medium impact on performing and implementing the internal control in the bank.

4.3.2. Controlling activities

Table 4.4: Responses about duty segregation in the bank

Availability of Segregation in duties in the bank	Number (frequency)	Percentage
Very good		
Good	72	54.5%
Moderate		
Poor	58	43.9%
No response(optional)	2	1.6%
Total	132	100%

Source: on survey, 2017

Division/segregation of duties is helpful in giving efficient service. From the above table, 54.5% responded that there is a good segregation of duties in the bank. The 43.9% employees didn't see segregation of duty in the bank (they believe there is poor segregation in duties in the bank). 1.6% did not respond the question.

Based on the above data, bank is segregating duties in average but not enough and results in loading a lot of duties on one person which leads to efficient service.

This in general implies that there is average duty segregation in Bank of Abyssinia. The study shows that there is sizable respondents said that poor practice of segregation of duty. It implies that in the bank there is an individual doing multiple job in the branches such practice may have higher risk for the bank. While from the interview it's obtained that cash is the most sensitive asset which requires maximum care. The branch managers branch managers also stated that banking business is almost entirely related to cash operation, the purpose of these separation of duties is to make difficult for theft or errors to occur unless two or more peoples are involved; whereas mostly occur when scarcity of employees in the area. Thus, everyone in the bank who is directly handling cash operations has to take due care. This means the segregation of duty with responsibility to take care of cash is mandator

Table 4.5: Segregation of duties in cash operation

Segregation of duties in cash operation	Number (frequency)	Percentage
Very good	20	15.2%
Good	40	30.3%
Moderate	72	54.5%
Poor		
No response(optional)		
Total	132	100%

Source: on survey, 2017

As stated in the above table, 15.2% of the respondent stated that there is very good duty segregation in cash operation regard to internal control, whereas 30.3% of the respondents stated that there is good segregation of duties in cash operation. On the other hand 54.5% of the respondents clearly notice that there is a moderate controlling activity. This in general implies that there is average segregation of duties in cash operation in Bank of Abyssinia.

From the interview it's obtained that cash is the most sensitive asset which requires maximum care. The branch managers and assistant branch managers also stated that banking business is almost entirely related to cash operation, the purpose of these separation of duties is to make difficult for theft or errors to occur unless two or more peoples are involved; whereas most transaction are being under taken using liquid cash. Thus, everyone in the bank who is directly handling cash operations has to take due care. This means the segregation of duty with responsibility to take care of cash is mandatory.

This implies that there is a presence of surprise cash count as well as a strong control activity that check authorization of cash undertaken in Bank of Abyssinia.

Since the researcher conducted an interview, interviewer confirmed that bank "cashier" is responsible to coordinate, supervise and control the activity of cash operation. The cashier is one of the dual key holders of the vault and petty cash that safes at each branch. The cashier also

insures that paying tellers are supplied with adequate cash and receiving tellers are cleared of excess cash during the operation. In addition to this branch managers and assistant branch managers puts the existence of internal auditors to supervise the accuracy of surprise cash count. Generally this indicates that the role of “surprise cash count and check authorization activities” in the internal control over cash system is crucial. This in turns maintain for the safe guard of cash activity in any financial institutes.

Table 4.6: Responses towards rotation in cash handling duties

Rotation in cash handling duties	Number (frequency)	Percentage
Periodical	22	16.7%
Some times	40	30.3%
No periodic limit	70	53.0%
I don't know		
No response(optional)		
Total	132	100%

Source: on survey, 2017

The above tables tells us, out of the respondent employees 53% of the employees responded that there is no periodic rotation in cash handling duty or one has no periodic limit in cash handling duty. 30.3% reflected there is rotation of cash handling duty but it is not in periodic basis/ it has no regular period to rotate the duty. And the rest 16.7% responded that there is periodic rotation in cash handling duty.

This rotation of duties is related to the segregation of duty and availability of enough man power. It implies that there isn't common practice in the branches because of problem on segregation of duty and responsibility in cash related operation. In the branches there is observed that norms that have not included in the policy but they implement practice of depend on branch environment. As we know cash is the most liquid asset ever so, in order to protect cash from embezzlement we need to have better segregation and rotation of employee's in different operational area these may increase individual effort.

4.3.3. Internal audit function over cash operation

Table 4.7: The dependency of internal auditors from top management

Dependency of internal auditors from top management	Number (frequency)	Percentage
Highly dependent	39	29.6%
Somewhat dependent	57	43.2%
Independent	27	20.4%
I don't know	9	6.8%
No response(optional)		
Total	132	100%

Source: on survey, 2017

The dependency level of internal auditors from top management as stated in the above table, 57% of the employees responded that the internal auditors are somewhat dependent on top management, 39% said they are highly dependent, the internal auditor functions are highly dependent on top management. 27% of the employees responded that internal audit functions are independent from top management. The rest 9% of the respondent don't know the dependency level of internal audit function from top management.

The dependency level of internal auditors to top management has an impact on the control system in the bank. From the collected data we can say most of the internal audit functions and control systems are dependent on the top management decision and reactions.

Also from conducting interviewee of the branch managers or assistant branch managers respond that the change in structure of the bank a year on ward audit function clearly responsible for branch manager but before that auditors have responsible for directly to board of directors these system may change function of auditor in controlling process in daily operation in the bank. Know internal auditors have responsible for branch manager these imply that there may be influence of manager on the day to day practice and report of auditor to change.

4.3.4. Risk assessment on safeguarding of cash

Table 4.8: Responses about how is a combination (passwords) and keys of the vault are handled

Handling of combinations (passwords) and keys of the vault	Number (frequency)	Percentage
Individually	7	5.3%
Dual handling	125	94.7%
More than two		
I don't know		
No response(optional)		
Total	132	100%

Source: on survey, 2017

From the table above we can see that 94.7% of the respondents said that the handling system of combinations (passwords) and keys of the vault is dual control which helps to secure cash from misuse. The left 5.3% responded that only individual in the bank has access to the combinations (passwords) and keys of the vault. From the above data we can understand that almost all branches from the sample use secured handling of combinations (passwords) and keys of the vault.

In whatever way the vaults locks are operated by keys with strong rooms. In addition, the branch managers and assistant branch managers confirmed that the locks are operated by more than one person. They also respond the strength of strong rooms both at head office and other cash operating centers which ascertained in order to assure the safety of the cash.

When an individual take to control and access to the vault (cash safety box) it create away to embezzlement in the area where as, in other way such kind of practice may happen when there is scarcity in human resource power the bank.

The same is true that from the interview obtained, the interviewees stated that in whatever way the vaults locks are operated by keys with strong rooms, in addition, the branch managers and

assistant branch managers confirmed that the locks are operated by more than one person. They also respond the strength of strong rooms both at head office and other cash operating centers which ascertained in order to assure the safety of the cash.

Table 4.9: Employees’ response on periodic change of combinations or passwords

Combinations or passwords changed periodically	Number (frequency)	Percentage
Agree	20	15.2%
Somewhat agree		
Disagree	112	84.8%
I don’t know		
No response(optional)		
total	132	100%

Source: on survey, 2017

From the data collected from the questionnaires, 15.2% of the employees agree on the statement that combinations or passwords of the vault are changed periodically in the bank, while the rest 84.8% employees disagree to the same statement which indicates the combinations or passwords of the vault are not changed on periodic basis and this might put the case in risk. The respondents were asked to specify the reason behind why the password is no changed periodically, and of 84.8%, 26.8% (30 respondents) specified that it is due to trust and will be changed only if employee (who has access) leaves the branch. While 73.2% (82 respondents) stated the reason it is because there is no periodic limit on cash handling duty. In the bank there is strong vault that protect cash and there have been authorized person that access the vault using keys or password combination. Therefore, such practice may encompass with periodic renew of password either when individual have live the bank or change to specific branches and there is monthly renewing of password of user periodically that is play crucial role for the better protection of cash and promoting dual system in the bank.

Table 4.10: Responses towards periods in which cash is counted

Periods that cash is counted	Number (frequency)	Percentage
Daily	132	100%
Weekly		
Monthly		
Quarterly		
No response(optional)		
total	132	100%

Source: on survey, 2017

“Cashier” is responsible to coordinate, supervise and control the activity of cash operation. The cashier is one of the dual key holders of the vault and petty cash that safes at each branch. The cashier also insures that paying tellers are supplied with adequate cash and receiving tellers are cleared of excess cash during the operation. In addition to this branch managers and assistant branch managers puts the existence of internal auditors to supervise the accuracy of surprise cash count. Generally this indicates that the role of “surprise cash count and check authorization activities” in the internal control over cash system is crucial. This in turns maintain for the safe guard of cash activity in any financial institutes.

In bank of Abyssinia there are two vaults which is important for daily operation the one is prepared for bundle and bricks of notes and passwords and key kept under branch manager were as the other one is applicable for loose notes collected from front makers petty by chief cashier and keys are kept under senior customer service office hands.

In general cash is counted periodically by chief cashier and internal auditors. Moreover, the overall cash balances are compared daily. Therefore, this may reduce errors and omissions by employees of the bank that are working around cash operations. Besides, this also indicates as there are continuous follow up and daily pre-audit tests in the bank which may reduce possibility of fraud by employees working around cash operations.

Table 4.11: Employees response on the occurrence of cash shortage or excess

Occurrence of cash shortage or excess	Number (frequency)	Percentage
It happen every day		
Sometimes	80	60.6%
Rarely	52	39.4%
Never		
No response(optional)		
Total	132	100%

Source: on survey, 2017

In the data shown above, 60.6% of the respondents replied that sometimes there is occurrence of cash shortage/excess in the bank while the rest 39.4% said it happens in rare case. It implies that there are probability occurrences of loss on cash in the operation. Since cash is liquid asst of the bank, it can easily be lost if much care is not taken. Besides taking care there is an avertable error humans made which results in the occurrence o f cash excess or shortage. So the bank experienced both cash shortage and cash excess which happens sometimes/rarely it show that it create way for practice of theft and misappropriations in the bank. From the interview of manager the bank use different measurement to minimize the occurrences of cash difference in the operation by using policies and procedure to punish those individual to control the risk related.

4.3.5 Documentation and record keeping

Table 4.12: Responses to Filing of documents

Filing of documents	Number (frequency)	Percentage
Very strong	3	2.7%
Strong	129	97.3%
Moderate		
Weak		
No response(optional)		
Total	132	100%

Source: on survey, 2017

As shown in the above table 97.3% of the respondents replied that the filing and documentation system of the bank is strong and only 2.7% of the respondents believed there is a very strong filing and documentation system. The responses for the filing and documentation system of the bank as shown in the above table in general implies that there is a strong filing and documentation of records which shows a good status of the bank on filing of documents.

Table 4.13: Employees’ response on the availability of recorded documents in relation to easiness to find when needed

Availability of recorded documents in relation to easiness to find when needed	Number (frequency)	Percentage
Easily available	127	96.2%
Takes sometime	5	3.8%
Difficult and time consuming		
No response(optional)		
total	132	100%

Source: on survey, 2017

Besides the strong filing and documentation system of the bank there is a related question about the availability of recorded documents in relation to easiness to find when needed. So when analyzing the collected data, 96.2% of the respondents said that the filed documents are easily available at the time they are needed this response also supports the strong file and document keeping. The rest 3.8% respondents implied it takes some time to find the documents which results in lagging in job performance.

Table 4.14: Responses towards report on summary of cash

Report on summary of cash	Number (frequency)	Percentage
Annually		
Monthly	130	98.5%
Quarterly		
Weekly		
No response(optional)	2	1.5%
Total	132	100%

Source: on survey, 2017

From the above table, 98.5% of the respondents' responded summary of cash is reported monthly in regular. The rest 1.5% skipped the question. This implies that, cash summary report which includes all the receipts and payments made by the bank is reported to the responsible organ in monthly basis.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1. Introduction

The study that has been made throughout this paper is entirely devoted to the practices of internal control system with special emphasis on cash control. The main objective of this chapter is to summarize the key findings of the research titled, “assessment of internal control systems over cash management” and to provide readers with a systematic and comprehensive overview of the progress of implementation of the measures so far suggested. The summary is organized according to the five specific objectives of the report, which contributed to the main aim for the research to be undertaken as explained above. The chapter comprises of conclusion and recommendation.

5.1 Finding and Conclusion

The general objective for this study was to assess the internal control systems over cash with five specific objectives which were to assess the operation effectiveness of systems of operations of internal control over cash management, to assess the challenges encountered in the internal control systems over cash management, to determine the steps to readdress the challenges over cash managements operate.

In the study it is tried to conclude the collected data in terms of the five elements of control that are control environment, risk assessment, control activities, communication and monitoring.

In order to perform the assigned duty and responsibility in the bank, we have to make sure that an employee understands and knows the procedures and policies of the bank. In Bank of Abyssinia the employees knows and have a good understanding on bank’s procedures and policies which makes the job they perform more reliable and acceptable. In connection with their knowledge about the policies they can tell how relevant the procedures are for internal control

over cash. Based on the collected data the bank's policies and procedures are very relevant and are supportive for the internal control systems over cash in the bank's branches and protects the internal controllers from mislead in other words it prevents inappropriate control system which is outside the procedure and arbitrary controlling system in the bank's branches.

Segregation of duty is highly related to having enough employees and is one way of providing efficient service by dividing the activities to employees other than assigning the job to an individual. In addition to this since the banking business is almost entirely related to cash operation, the purpose of this separation of duties is to make difficult for theft or errors to occur. In Bank of Abyssinia there is segregation of duty on average, means in some of the selected branches there is a good segregation of duty but in some there is a poor segregation of duty in the bank which leads to loading many activities on one person. The segregation of duties in the bank is good but not good enough; this is one drawback for the bank to perform a good control in the branches. In addition to this general duty segregation, the segregation duty in cash operation is also similar, moderate segregation in cash operation duty. This moderate segregation of duty in cash operation makes the internal control system difficult for the branch controllers in the branches of the bank. The segregation of duties in the branches has connection with rotation in cash handling duty. Cash handling duties are not rotated periodically resulted from poor duty segregation and shortage in man power to segregate duties.

Internal audit function over cash operation is one of the internal control systems. And this function is highly affected by the level of dependency of internal controllers from top management. The dependency level of internal auditors to top management has an impact on the control system in the bank. The collected data shows that most of the internal audit functions and control systems are dependent on the top management decision and reactions. This dependency highly affects the controlling style and system of the branch controllers because they are responsible to the top management. These is due to change in structure of the bank, internal auditors were responsible for directly to board of directors but now they are responsible for branch manager.

Cash is the most sensitive asset and banking business is almost entirely related to cash operation, it requires maximum care. Safeguarding of cash can be seen in many ways: cash vault key &

password handling, balancing & counting cash daily referring transaction and periodic change of passwords. In BOA, there is a dual control on cash vault which make difficult for theft unless both are involved. And the password of the vault is not changed periodically unless the employee, who was operating the vault, leaves the branch this is because cash handling duties are not rotated periodically and one person have no periodic limit to operate cash. Having these difficulties, in order to have good internal control over cash internal controllers has some cash controlling activities. Counting the branches over all cash in monthly basis and the chief cashier counts and receives tellers' cash at the end of the day. And sometimes there is a surprise cash count in the bank's branches. This helps to control cash from theft or misuse both by internal and external bodies.

In operating cash in the bank's branch, there a probability of cash excess and shortage. Also BOA has this experience which happens sometimes. Regarding this the internal controllers and the branch managers tries to investigate the case by balancing teller's cash on hand, till transactions & vouchers (both deposit and payment) and then find a solution.

In banking business, there is a high customer and cash operation contact simultaneously in giving financial service to its customers. And the banking operation is requires documents and records of each transaction processed at a time. Documents include: vouchers (both deposit and payment), reports, letters of instruction and each necessary files related to the banking operation. These documents and records in BOA are kept and filed in strong manner. The strong filing keeping actual documents of the bank makes it easy to find documents easily when they are needed. The bank reports (send a report) cash operation summary on monthly basis to the concerned organ.

5.2 Recommendation

To improve the effective and efficient internal control system over cash in the bank, problems and deficiencies that were observed here above in the finding should be looked carefully. Thus, some recommendations are forwarded to modify or alleviate them here under: - cash operation transactions should be continued to maintain the overall efficiency of operations in the bank On the other hand., to reduce probability of fraud and likelihood of unintentional errors in the accounting data for cash operations, it is advisable to the management of the bank to follow up and take corrective actions on employees' combination of functions and unnecessary personal relationships.

Even though internal control over cash is implemented in a good way in Bank of Abyssinia, there are some problems. Therefore, the study recommends the following points based on the analysis;

- To increase the analyzing skills and knowledge of the employees, the bank should have specific characteristics for such competence and screen new employees based on the criteria already set. Besides, to develop competence of the existing employees, the bank should also provide its staff with educational opportunities and continuous training and orientation on new technologies and other procedures.
- BOA has to segregate duties and responsibilities to provide efficient and effective service to its customers. This might be done via hiring additional employees, if necessary, to distribute duties and facilitate the banking operation.
- In order to prevent cash theft and misuse, the bank should rotate cash handling duties periodically in regular. And also it should be experienced to change passwords in periodic basis it shouldn't have to be changed only when someone leaves the branch.
- The dependency level of internal auditors to the management affects the controlling system in the branch. So the internal auditors shouldn't be highly dependent on the top management. To perform their duties freely internal controllers have to be independent from top management in general.

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APPENDIX

ST. MARRY UNIVERSITY QUESTIONNAIRES TO BE FILLED BY RESPONDENS ASSESSMENT OF INTERNAL CONTROL OVER CASH THE CASE OF BANK OF ABYSSINIA

Dear Respondent,

This questionnaire is designed with the aim of extracting desired information for our research project entitled “Assessment of Internal Control over Cash in case of bank of Abyssinia.”

Since your prompt response is necessary for the research, please try to answer the questions frankly with due attention.

The questionnaire is prepared strictly for academic purpose and there is no need of writing your name.

Thank you!

Instruction I: Respond for the following items by circling on your choice.

1. How do you evaluate the practice of documentation and filing in the branch?
 - A. Very strong
 - B. Strong
 - C. Moderate
 - D. Weak
2. How do you evaluate the availability of recorded documents in relation to easiness to find when needed?
 - a. Easily available
 - b. Takes sometime
 - c. Difficult and time consuming
3. Concerning report on summary of cash payment: in what range summary of cash payment prepared and reported?
 - a. Annually
 - b. Monthly
 - c. Quarterly
 - d. Weekly
4. How strong are the banks polices that protect internal control system from mislead?

- a. Strong
 - b. Medium
 - c. Weak
5. How do you evaluate your knowledge of established policies and procedures in the bank?
- a. Good knowledge
 - b. Some what
 - c. No knowledge
6. How do you evaluate relevancy of cash procedure to the bank for controlling misuse of cash in the branch?
- a. Relevant
 - b. Some what
 - c. Irrelevant
 - d. No idea
7. How do you evaluate practice of segregation of duty and responsibility in the branch?
- a. Very good
 - b. Good
 - c. Moderate
 - d. Poor
8. How does it look the segregation of duties in cash operation at the branch?
- a. Very good
 - b. Good
 - c. Moderate
 - d. Poor
9. How independent are internal audit function from top management?
- a. highly dependent
 - b. somewhat dependent
 - c. independent
 - d. I don't know
10. Does cash handling duties rotated on a periodic basis?
- a. Periodical
 - b. Some what
 - c. No limit
 - d. No idea

11. The number of people with access to combinations, passwords or keys to the secure area (vault or safe)?
- a. individual
 - b. two person
 - c. More than two person
 - d. No idea
12. The key or password of the vault, how are they kept or handled?
-

13. Are combinations or passwords changed periodically; at least annually or when someone leaves the branch?
- A. Agree
 - B. Somewhat agree
 - C. Disagree
 - D. I don't know
14. Is cash periodically counted?
- a. Agree
 - b. Disagree
15. If your answer is agree for the above question, by what range?
- a. Daily
 - b. Weekly
 - c. Monthly
 - d. quarterly
 - e. Other, please specify _____
16. How do you evaluate occurrence of cash shortage or excess?
- a. It happen every day
 - b. Sometimes
 - c. Rarely
 - d. Never
17. If you have the experience, is the amount of Cash excess/shortage investigated?
-

18. What kinds of measures/principles are there in the bank's branch to prevent this kind of problem by the internal controllers?

Interview questions

This Interview guide prepare for Bank of Abyssinia Managers and Assistant Branch Managers.

1. How the Bank personnel follow the cash procedures and manuals set by the organization?
2. What are the practice of the bank on separation (division) of duties and responsibilities of work in the area of cash and cash related activities?
3. How does the Bank of Abyssinia Internal Control System safe guard cash?
4. Who made decision for approval of cash in-transit?
5. If there are internal auditors, are they independent from the Internal Control process?

Thank you!!

DECLARATION

I the undersigned declare that this thesis entitled “Assessment of internal control over cash the Case of Bank of Abyssinia” is my original work and has not been submitted to St. Mary’s University or any other institution of higher learning as a thesis and all sources of information have been duly acknowledged.

I have carried out the research independently under the supervision of the research advisor, Dr. Zinegnaw Abiy

Alemayehu Bayissa Biratu

June 2017
St. Mary’s University
Addis Ababa, Ethiopia

CONFIRMATION

This is to confirm the thesis entitled “Assessment of internal control over cash the Case of Bank of Abyssinia” is conducted by Mr. Alemayehu Bayissa Biratu under my supervision.

The work is original in nature and is appropriate for submission for the award of the General Masters of Business Administration (GMBA) degree.

Dr. Zinegnaw Abiy

June 2017

Addis Ababa, Ethiopia