ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

MBA IN ACCOUNTING AND FINANCE

THE IMPACT OF INTERNAL CONTROL ON THE OPERATIONAL PERFORMANCE OF SELECTED PRIVATE COMMERCIAL BANKS IN ETHIOPIA

BY:

WENDMAGEGN TESHOME GELEO

SGS/0633/2012A

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Dean, Graduate Studies   **Signature and Date**

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Advisor   **Signature & Date**

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External Examiner   **Signature & Date**

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Internal Examiner   **Signature & Date**

STATEMENT OF DECLARATION

I, Wendmagegn Teshome Geleo, hereby declare that this research project work titled "The Impact of Internal Control on the Operational Performance of Selected Private Commercial Banks in Ethiopia" is my original work and has not been presented for any scholarly award in this or any other institution and that all sources of materials used for the study has been dully acknowledged.

Wendmagegn Teshome Geleo

Signature_____

Date _____

CERTIFICATION

This is to certify that Wendmagegn Teshome Geleo has done a study on the topic "The Impact of Internal Control on the Operational Performance of Selected Private Commercial Banks in Ethiopia". This study is of his original work and all the sources of materials used for the research project paper has been fully acknowledged.

Advisor's Name   Mr. Asmamaw Getie (Assistant Professor)

Signature   _____

Date   _____

ACKNOWLEDGEMENTS

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LIST OF ABBREVIATIONS AND ACCRONYMS

CA – Control Activities

CE – Control Environment

COSO - Committee of Sponsoring Organizations of the Treadway Commission

ICS – Information and Communication

IFAC – International Federation of Accountants

M – Monitoring

NBE – National Bank of Ethiopia

P – Operational Performance

RA – Risk Assessment

SD – Standard Deviation

Abstract

This study aimed at examining the impact of internal control on the operational performance of selected private commercial banks in Ethiopia. The selected commercial banks were Cooperative Bank of Oromiya, Anbessa Internatiol Bank, Berhan Bank, Abay Bank and Debub Global Bank. The study sought to find the impact of COSO's integrated internal control components (control environment, risk assessment, control activities, information and communication, and monitoring) on operational performance. The target population was the internal audit and finance department employees of the selected private commercial banks. A stratified random sampling technique was applied to get data from employees through questionnaire. The study found out that the selected private commercial banks have effective control environment, effective risk assessment, effective control activities, effective information and communication, and effective monitoring. The study also found out that control activities and risk assessment have significant positive impact on the operational performance of the selected private commercial banks, and control environment and information and communication have insignificant positive impact the operational performance banks in the study. However, according to the research findings monitoring has insignificant negative impact on performance. The study recommends the selected private commercial banks to strengthen control environment, control activities, risk assessment and information and communication to enhance their operational performance.

Key Words: Internal Control, Control Environment, Risk Assessments, Control Activities, Information and Communication, Monitoring, operational Performance

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

Internal controls are important for the survival an organization by enabling effective and efficient utilization of resources (Jacob & Philip, 2016). There was implementation of internal control in the world at the times of Babylonian period, Egyptian civilization, Roman Empire, Greek Empire and dark age and this shows the existence of internal control in early periods of human life (Lee, 1971). According to Hightower (2008) internal control is defined as a program of activities established to catch and monitor a potential exposure that could result in a significant error, omission, misstatement, or fraud. The international standards on auditing (ISA 400) defines internal as all policies and procedures adopted by the management of an entity to achieve the primary objectives of the firm. Internal control helps the business to be conducted in the most possible and efficient way and ensures strict adherence to management policies, safeguarding of assets, prevention and detection of fraud, and timely preparation of financial statements (ISA 400). Effective internal control in the enterprise is important for objective assessment of potential development and tendencies of financial performance, and objective assessment enables the enterprise to detect and eliminate threats and risks and possess a reasonable security (Lakis & Giriunas, 2012).

Performance refers progressive efforts to achieve established goals. The performance of any organization depends upon the achievement of operational objectives set by the management of the organization (Akinleye & Kolawole, 2020). The performance of any business entity is primarily based on decreasing cost and maximizing wealth. A highly performing company will have a sustainable business with sustainable profitability and a competitive advantage over competitors in terms of service quality, customer satisfaction, innovation, and management efficiency (Edjoukou, 2016). According to Bhimani (2008) measuring performance is the very important part of every management control system. Performance measures are used to know if the company is in the right track to achieve preset operational objectives (Cheng, 2008). For this particular study service quality is used to measure performance. Data on service quality was found by using close end questionnaires using 5 point likert scale measurement.

Operational performance refers to the ability of setting processes, based on core capabilities within the organizations, which work well. Operational performance involves improving process performance by leading and controlling the processes within the firm as well as measuring and improving the processes. A better use of resources through these core processes enables the organization to eliminate waste, adapt more appropriate technology and therefore perform better than competitors (Porter, 1996). An increasing number of factors are motivating organizations and businesses to seek to operate more efficiently and to ensure they have better operational performances (Hill, 2010). This involves the need to deliver value-adding products or services of exceptional quality, on time, at a competitive price. Thus, organizations attempting to meet these objectives need to pay attention to their operational performance as this is a primary driver of business performance (Chambers & Johnston, 2004).

According to Osagie & Osifo (2009) the financial system of any state consists of financial market, money, financial institutions, financial regulations and financial instruments. Commercial banks, credit unions, finance companies, stock brokerage companies, asset management firms and insurance companies form the financial institutions of the country. The most dominant elements of the financial institutions are commercial banks. They are the central controllers of the flow of money in the economy. Commercial banks are used to connect individuals and organizations with surplus fund with those individuals and organizations that have deficit of fund (Osagie & Osifo, 2009).

In Ethiopia the financial sector has been broadly safe, sound, well capitalized and profitable. There are sixteen private commercial banks in Ethiopia currently operating in the country. These include Abay Bank, Addis International Bank, Awash Bank, Bank of Abyssinia, Berhan Bank, Bunna International Bank, Co-operative Bank of Oromiya, Dashen Bank, Debub Global Bank, Enat bank, Lion International Bank, Nib International Bank, Oromia International Bank, United Bank, Wegagen Bank and Zemen Bank. Most of the private commercial banks in the country are showing a better performance in terms of quantitative and qualitative performance measures from time to time (NBE, 2019). The aim of this study is to find the impact of internal control on the operational performance of selected private commercial banks in Ethiopia.

1.2. Problem Statement

Financial sector has become actor of technological improvement and globalization nowadays. These have made the sector produce various financial products, work internationally and create new markets. The development of the sector has increased the types and the weight of risks that the sector has to manage. The job of internal control is to keep risks under control, and might prevent financial costs. Therefore, any kind of inefficient and ineffective internal control in the company would result in a threat against the success of the financial sector in general and the banking sector in particular. The achievement of the ultimate objective of a firm is possible only in the presence of adequate internal control system (Hayali et al, 2014). Optimal system of internal control optimizes financial performance (Lakis & Giriunas, 2012). Thus, there is a need to study the impact of internal control on the operational performance of selected private commercial banks in Ethiopia.

The main objective of internal control in the banking sector is to track the compatibility of all banking operations with auditing standards, banking laws, rules and regulations (Ozten et al, 2012). A failure to have effective internal control system in the commercial banks leads to weakened banking service. The ineffectiveness of the internal control system also creates unwanted practices in the banks such as embezzlement of resources, sense of irresponsibility in the staff, corruption and deliberate and genuine mistakes. Internal control weaknesses in east Africa have resulted significant losses (Amudo & Inanga, 2009).

Moreover, there are a number of studies conducted regarding internal control and its impact on performance. A study in Nigeria by Akinleye and Kolawole (2020) with a title of internal controls and performance of selected tertiary institutions in Ekiti state: a committee of sponsoring organizations (COSO) concluded that there is a significant positive relationship between internal control and performance. Suarez (2017) conducted a study internal control systems leading to family business performance in Mexico: framework analysis. The study established that effective internal control framework is important to achieve targeted objectives, targeted performance and competitiveness.

Abiodun (2020) studied the effect of internal control procedures on firm's performance in Nigeria's south-west region, and the study found that performance is affected positively by

internal audit control, risk management and monitoring practices, but control practices and control environment have a negative significant impact on performance. A study by Mire and Mukhongo (2016) on the effect of internal control on the operational performance of remittance companies in Mogadishu-Somalia and concluded that control environment, risk assessment and control activities affect performance positively. A study by Tekalgn Negash (2018) on the effectiveness of internal control system in the commercial banks of Ethiopia in the case of Hawassa city has found that the companies under study had: clear code of conduct & objective, periodic policy review, communication, separation of duties & effective reporting. Most of the studies in internal control and its impact on performance are conducted in foreign countries and there are contradicting results. The study in the local context was only about the effectiveness of internal control. Therefore, there is a need to conduct the impact of internal control on the operational performance of the selected private commercial banks in Ethiopia.

1.3. Research Questions

a) Does the selected private commercial have effective internal control system?
b) What is the impact of control environment on the operational performance the selected private commercial banks in Ethiopia?
c) What is the impact of control environment on the operational performance the selected private commercial banks in Ethiopia?
d) What is the impact of control environment on the operational performance the selected private commercial banks in Ethiopia?
e) What is the impact of control environment on the operational performance the selected private commercial banks in Ethiopia?
f) What is the impact of control environment on the operational performance the selected private commercial banks in Ethiopia?

1.4. Objectives of the Study

1.4.1. General Objective of the study

The general objective of this particular study is to establish the impact of internal control on the operational performance of selected private commercial banks in Ethiopia.

1.4.2. Specific Objectives of the Study

The six specific objectives of the study are:

I. To assess the effectiveness of internal controls in the selected private commercial banks
II. To determine the effect of control environment on the operational performance of selected private commercial banks in Ethiopia.
III. To establish the effect of risk assessment on the operational performance of the selected private commercial banks in Ethiopia.
IV. To evaluate the effect of control activities on the operational performance of the selected private commercial banks in Ethiopia.
V. To establish the effect of information and communication on the operational performance of the selected private commercial banks in Ethiopia.
VI. To establish the effect of monitoring on the operational performance of the selected private commercial banks in Ethiopia.

1.5. Hypothesizes of the Study

Hypothesizes of this study are:

HO1: Control environment have no relationship with the operational performance of the selected private commercial banks in Ethiopia.

HO2: Risk assessment has no relationship with the operational performance of the selected private commercial banks in Ethiopia.

HO3: Control activities have no relationship with the operational performance of the selected private commercial banks in Ethiopia.

HO4: Information and communication has no relationship with the operational performance of the selected private commercial banks in Ethiopia.

HO5: Monitoring has no relationship with the operational performance of the selected private commercial banks in Ethiopia.

1.6. Significance of the Study

The study filled the gap in the area of study of the impact of internal control on operational performance in Ethiopia. The study is an important source of information for managements of private commercial banks in Ethiopia to make appropriate decisions in the implementation of internal control. The study is an important reference for future researchers in this particular area.

1.7. Scope of the Study

The subject scope of the study is addressing the impact of internal control on operational performance. The contextual (geographic) scope of the study is the selected private commercial banks in Ethiopia. The selected private commercial banks of the study are Cooperative Bank of Oromiya, Lion International Bank, Berhan Bank, Abay Bank and Debub Global Bank. Cooperative Bank of Oromiya is chosen from the top five; Debub Global Bank is chosen from the bottom five and the other three are chosen from the middle six. The classification was made based on size (total assets balance of 2019).

1.8. Limitation of the Study

Only five private commercial banks were studied while there are sixteen private commercial banks in the country. The study used the stratified random sampling technique which is the best for the study, so there was vulnerability to sampling risk.

1.9. Organization of the Study

This study is organized in five chapters. The first chapter presents the general introduction of the study. It contains background of the study, problem statement, objectives of the study, hypothesizes of the study, significance of the study, scope of the study, limitation of the study, and organization of the study. The second chapter presents review of related literature. In this chapter theoretical, empirical and conceptual reviews are included. The third chapter outlines the research methodology and design. It is composed of the research philosophy, research approach, research design, population, sampling, data type, data collection and empirical model of the study. The fourth chapter contains data presentation, analysis and interpretation. The last chapter deals with summary, conclusions, recommendations and future research directions.

CHAPTER TWO

2. LITERATURE REVIEW

2.1. Theoretical Review

2.1.1. The Concept of Internal Control

Internal control has various definitions. According to Abbas & Iqbal (2012) Internal control is a process designed to a specific organization to provide reasonable assurance for achieving objectives of the organization affected by the organization's stakeholders who develop internal control culture to maintain effective and efficient operation and compliance that results minimizing misuse or wastage of resources and presents reliable financial report which shows true and fair picture of the company's financial position to the stakeholders and help them to make their best investment decision.

Lakis & Giriunas (2012) define internal control as part of the enterprise's management system that ensures the enterprise's goals implementation, its effective economic and commercial performance, observance of accounting principles and an effective control of risks which enables to minimize the number of intentional and unintentional mistakes and to avoid frauds in the process of enterprise performance made by its authority or employees.

Committee of Sponsoring Organizations of the Treadway Commission (COSO) definition of internal control assumes it as a process implemented by board of directors, management and other personnel of the company to assure (effectiveness & efficiency of operations), reporting (reliability, timeliness, transparency and other standards set) and compliance (adherence to laws and regulations) objectives (Younas & Kassim, 2019).

2.1.2. Objectives of Internal Control

Internal control has three types of objectives (COSO, 2012).

A. Objectives:

These objectives relate to efficiency and effective operation, financial performance and safeguarding of assets.

B. Reporting Objectives:

Reporting objectives relate to meeting reliability, timeliness, transparency and other preset reporting standards or policies in the preparation of financial and non-financial reports.

C. Compliance Objectives:

Compliance objectives stand for the observance of laws, rules and regulations.

2.1.3. COSO Framework

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is composed of the five private sector organizations such as American Accounting Association, American Institute of CPAs, Financial Executives International, The Association of Accountants and Financial Professionals in Business, and The Institute of Internal Auditors) and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence. COSO's integrated internal control framework formed in 1992 and revised in 2002 focuses not only control on risk-based financial reporting but on all controls of the company including the entire range of activities and operations of the company (IFAC, 2006).

2.1.3.1. Components of COSO's Internal Control Framework

The internationally popular COSO framework has five components of internal control as control environment, risk assessment, control activities, information and communication system, and monitoring (Younas & Kassim, 2019). According to COSO these interrelated five components of internal control are derived from the way the business is managed, and they are integrated with the management process (IFAC, 2006).

A. Control Environment

Control environment refers to all factors which are effective in determining, increasing or decreasing the effectiveness of policies, procedures, and methods specific to a process. Control environment stands out with the basic understanding adopted by the senior management of the

corporation to control the organization, its attitude toward problems and approach to solving problems and their perspective of the importance of moral values (Hayali et al, 2013).

Fulbright (2016) identified five factors that affect control environment; integrity and ethical values, human resource policies and practices, assignment of authority and responsibility, a commitment to the competence, organizational structure, and management's philosophy and operating style, and board of directors or audit committee. Fulbright (2016) stated the following as control environment principles which organization should consider;

➢ The organization should demonstrate a commitment to ethical values and integrity. Through attributes of establishing standards of conduct evaluate adherence to standards of conduct; setting the tone at the top; and address deviations promptly.

➢ The board of directors demonstrates independence of management and exercises oversight for the development and performance of internal control. Through attributes: provide oversight during the development and performance of the system of internal control; retain or delegate oversight responsibilities as appropriate; establish board of directors oversight responsibilities; board of directors operate independently of the organization; and apply relevant expertise.

➢ Management establishes with board, an appropriate authorities and responsibilities in the pursuit of objectives, reporting lines, and oversight structures, through the following attributes: consider all structures of the organization (including out-sourced service providers), establish reporting lines; limit authorities, define, and assign responsibilities.

➢ The organization should demonstrate a commitment to retain, develop, and attract competent individuals in alignment with its objectives. Attributes: plan and prepare for succession, develop, attract, and retain the individual, establish policies and procedures, evaluate competence and address shortcomings.

➢ The organization should also hold individuals accountable for their internal control responsibilities in the pursuit of objectives. This can be achieved through the following attributes: establish performance measures, authorities, and responsibilities, enforce accountability through structures, rewards, and incentives, evaluate performance measures, incentives, and rewards for ongoing relevance, evaluate performance and rewards or discipline individuals, consider excessive pressures.

B. Risk Assessment

Risk Assessment is defined as identification of potential errors and implements procedures, policies, and control to detect those errors and prevent them. Risk assessment can also be the identification and analysis of risks relevant to the achievement of objectives (Frazer, 2012). According to COSO (2012) every organization faces risks from both external and internal sources that must be assessed. Therefore, management should take necessary actions to prevent these risks. But, sometimes management cannot avoid the risk from occurring. In these situations, management should determine whether to accept the risk, reduce it up to the acceptable levels, or avoid. An organization principally establishes an early warning system to determine risks with low probability, and take the necessary steps to minimize or remove such risks (Hayali et al, 2013). Fulbright (2016) identified the following risk assessment principles which organization should consider;

➢ The organization should assess and identify changes that could significantly impact the system of internal control.

➢ The organization should consider the potential for fraud in assessing risks to the achievement of its objectives. The organization should specify objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives. Should; consider toleration for risk and required level of precision/materiality comply with externally established standards and frameworks and laws and regulations reflect management's choices; reflect entity activities; include operations and financial performance goals; form basis for committing of resources. Should also consider various ways that fraud can occur; consider risk factors; assess incentive and pressures; assess opportunities; assess attitudes and rationalizations.

➢ The organization should identify risks across the entity to the achievement of its objectives and should also analyze those risks as a basis for determining how the risks should be managed. This can be achieved through the following attribute; involve appropriate levels of management; division, subsidiary, functional levels, and operating unit; analyze both external and internal factors; the determine how to respond to risks, and estimate the significance of risks identified

➢ The organization specifies objectives with sufficient clarity to enable the assessment and identification of risks relating to objectives. Attributes: consider toleration for risk and required level of precision/materiality; comply with externally established standards and frameworks and laws and regulations; reflect management's choices; reflect entity activities; include operations and financial performance goals; form basis for committing of resources

C. Control Activities

Control activities are tools both manual and automated that help prevents 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 (COSO, 2012).

A short description of each of the five control activities according to Frazer (2012) appears below.

A. **Segregation of duties** requires that different individuals be assigned responsibility for different elements of related activities, particularly those involving authorization, custody, or recordkeeping.
B. **Proper authorization** of transactions and activities helps ensure that all activities adhere to established policies and guidelines.
C. **Adequate documents and records** include adequate supporting documentation and timely preparation of documents.
D. **Physical control** over assets and records helps protect company's assets. These control activities may include electronic or mechanical controls (such as a safe, fireproof files, and locks) or computer-related controls dealing with access privileges or established backup and recovery procedures.
E. **Independent checks** of performance, which are carried out by employees who did not do the work being checked, help ensure the reliability of accounting information and the efficiency of operations. For example, a supervisor verifies the accuracy of the cash drawer at the end of the day or the Fund Manager verifies that all transactions in the monthly ledgers are correct for their funds.

The three principles applied in implementing of control activities include (COSO, 2012):

 ➢ The organization should select and develop control activities to mitigate risks for objectives achievement
 ➢ The organization should select and develop general control activities for technology
 ➢ The organization should implement control activities with the use of policies and procedures.

D. Information and Communication System

Information and communication focus on the quality and nature of information needed for effective control that the systems use to develop such information, and reports necessary to communicate it effectively. Information systems produce reports of operational, financial, and compliance related information that make it possible to run and control the business. Effective communication also must exist with external parties, such as customers, suppliers, regulators, and shareholders (COSO, 2012).

Organizations need information at all levels to assist the management in meeting its objectives (Douglas, 2011). This information should be communicated from top to bottom level that needs it within a specific time that helps them to carry out their objectives. Communication also uses by outside parties such as customers, suppliers, and regulators. Control environment, control activities, risks, information about an organization's plans, and performance must be communicated down, up, across an organization. Reliable and relevant information from both external and internal sources must be processed, captured, identified and communicated to the people who need it in a form and timeframe that are useful (Hayali et al, 2013). According to Fulbright the following are information and communication principles organization should consider;

 ➢ The organization obtains or generates and uses relevant, quality information to support the functioning of other components of internal control. Attributes: identify information requirements; capture internal and external courses of data; process relevant data into information; maintain quality throughout processing; consider costs and benefits.
 ➢ The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of other

components of internal control. Attributes: communicate internal control information with personnel; communicate with the board of directors; provide separate communication lines; select the relevant method of communication.

➢ The organization communicates with external parties regarding matters affecting the functioning of other components of internal control. Attributes: communicate to external parties; enable inbound communications; provide separate communication lines; communicate with the board of directors; select the relevant method of communication

E. Monitoring

The objective of monitoring is to determine whether internal control is effective, properly executed, and adequately designed. Continuous monitoring of the internal control system and discovery of deviations is required to achieve organizational objectives. It is also important to monitor internal control to determine whether any modifications are necessary or whether it is operating as intended. All employees need to understand the organization's objectives, mission, and responsibilities and risk tolerance levels for monitoring to be most effective (Hayali *et al,* 2013). Organizations should consider the following principles under monitoring (Fulbright, 2016):

➢ The organization selects, develops, and performs ongoing and separate evaluations to ascertain whether the components of internal control are present and functioning. This can also be achieved through the following attributes: adjust scope and frequency; evaluate objectively; integrate with business processes; use knowledgeable personnel; consider the rate of change; establish baseline understanding; and consider a mix of ongoing and separate evaluations.

➢ The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate. Attributes: assess results; communicate deficiencies to management; report deficiencies to senior management and the board of directors; monitor corrective actions.

2.1.4. Agency Theory

Agency theory assumes principals and agents to act rationally to maximize wealth (Jensen & Meckling, 1976). According to Habbash (2010) the basis for agency theory is principal-agent (agency) relationship. Agency relationship is defined by Jensen & Meckling (1976) as a contract between the principal and agent to delegate power from the principal to the agent. In modern companies and corporations there are large number of owners (shareholders) of a business who do not run the day to day operation of the business, rather these individual give the power to the run the company to managers (agents), and this creates agency relationship (Habbash, 2010).

Agency relationships cause agency problems because the decisions to run the business are made by individuals who do not bear the wealth effects of the decisions (Panda & Leepsa, 2017). Agents may commit moral hazards for the benefit of themselves on the expense of principals (Agarwal et al, 2014). As management of the company has clear access to information of the company, it may manipulate the information since owners of the company do not always possess an adequate competency to assess the impact of transactions on the company. The difference in information between the shareholders and the management creates information asymmetry, and information asymmetry creates adverse selection, moral risk and opportunism (Zogning, 2017).

Agency problems have agency costs (Panda & Leepsa, 2017). Agency costs arise when there is a suspicion between the agent and the principal (Zogning, 2017). It embraces the cost of examining and picking up a suitable agent, collecting of information to fix performance benchmarks, watching to control the agent's action, bonding costs and the loss due to the inefficient decisions of the agents (Panda & Leepsa, 2017). To reduce agency costs it is prudent to have levers at the corporate governance level to align the interest of all parties (Zogning, 2017). A reduction in agency cost improves the performance of the company (Agarwal et al, 2014). Internal control avoids agency problem and reduces information asymmetry to relate this particular study to agency theory.

2.1.5. Stakeholder Theory

Stakeholder stands individuals, groups and organization that are affect the organization or are affected by the organization. Stakeholder theory is a theory which promotes a practical, efficient,

effective and ethical way to manage organizations (Freeman et al, 2007). The theory is practical since every organization has to manage its stakeholders. The efficiency of the theory is assured by the fact that the well treated stakeholders develop positive attitudes. It is effective for creating bonding among the stakeholders of the company for the achievement of operational goals. It is also ethical as every single decision made in the organization has to be ethical (Harrison et al, 2015).

Stakeholder theory is created to solve the three interconnected business problems. Stakeholder theory suggests that if we adopt as a unit of analysis the stakeholder relationships we have a better chance to deal effectively with these three problems. The first problem is how value is created and traded. Businesses are about how stakeholders interact to create value and trade, and a business understood means the operation and the change pattern of these relationships is understood. The executive is expected to manage the relationships to create value and to distribute the value to stakeholders (Freeman, 1984). The second problem is the problem of connecting ethics with that of capitalism. Effective management of stakeholder relationships brings success in capitalist markets (Philips, 2003). The third problem is helping managers in addressing the first two problems. Management description focusing on creation, maintenance and alignment of stakeholder relationships facilitates value creation and morality (Sisodia et al, 2007).

According to Donaldson & Preston (1995) stakeholder theory is descriptive, instrumental, normative and managerial. The stakeholder theory is descriptive for it presents a model describing what the corporation is. It describes the corporation as a constellation of co-operative and competitive interests possessing intrinsic value. Stakeholder theory is instrumental because it establishes a framework for examining any kind of connection between the practice of stakeholder management and the achievement of various corporate performance goals. Corporations practicing stakeholder management experience better profitability and stability. Instrumentality of stakeholder theory makes it accept of the following ideas: (a) Stakeholders are persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity. (b) The interests of all stakeholders are of intrinsic value. Finally, the managerial aspect of the theory is proved by its recommendation of attitudes, structures, and practices that, taken together, constitute stakeholder management. Stakeholder management requires, as its key

attribute, simultaneous attention to the legitimate interests of all appropriate stakeholders (Donaldson & Preston, 1995)

According to Parmar et al (2014) Stakeholder theory is a living "Wiki" constantly evolving, as stakeholder theorists attempt to invent more useful ways to describe, redescribe, and relate our multiple conceptions of ourselves and our institutions such as business. The ultimate justification for the stakeholder theory is found in its normative base (Donaldson & Preston, 1995). According to Parmar et al (2014) stakeholder theory is a genre of theories capable of encompassing a variety of normative cores. Normative cores are an explicit effort to answer two questions facing all corporations: 1) what is the purpose of the firm? And 2) to whom does management have an obligation? Stakeholder theory answers these questions through a number of different lenses (Parmar et al, 2014). Stakeholder theory relates with this particular study for internal control promotes ethical behavior and ethical behavior relates control environment.

2.1.6. Reliability Theory

Reliability theory stands for the probability that the system performs its intended function adequately for a given period of time under the stated operating conditions or environment. It was emerged in the nineteenth century in maritime insurance and life insurance companies to compute profitability rates to charge their customer. The four key elements of reliability theory are probability, product performance, time and condition. One important goal of reliability work is to estimate the percentage of products that will still be functioning after a specific period of time (Singh & Ram, 2018).

Several problems are solved by reliability theory. First, reliability theory addresses the reliability and availability issue of a system by addressing the reliability and availability of issues of the components that form the system by using structural reliability. Second, reliability theory deals the problem of probabilistic lifetime modeling. The theory addresses this problem by answering two important questions: 1) which parametric families of lifetime distributions are suitable for describing random lifetime? 2) How to connect the physical failure model with the corresponding random mechanism causing failure and how to derive from it the analytic form of the lifetime distribution? Third, reliability theory addresses the issue of preventive maintenance. This problem is dealt by choosing optimal age and optimal time (Gertsbakh, 2000).

It is important to consider reliability in planning, designing and operation stages of the every system (Singh & Ram, 2018). In accounting, relevant financial events are recorded on source documents. The recording process is known as activity, and errors are in this recording process are reduced by a system called control. An activity is successful if and only if the documentation is error free and the event is valid. The successful application of the control shows the success of that particular control. The reliability of a control is effective application of that control. In order for there to be an error in the output of the subsystem, there has to be an error in the activity and in the control (Srinidihi & Vasarhelyi, 1985).

According to Srinidihi & Vasarhelyi (1985) reliability theory can be used to assess internal control systems. Reliability theory is important to assess and control risks, and the theory states that the weaker the internal control system, the more the cost of operation will be (Kinney, 2000). According to Singh & Ram (2018) reliability theory argues that a system should fulfill expectations. Therefore, reliability theory relates to this particular study as it is important in risk assessment and internal control evaluation.

2.1.7. Attribution Theory

According to Birnberg et al (1977) attribution theory states that how people seek and use information to control their social surrounding. Assumptions, beliefs, data, hypotheses and theories related to causality phenomena fall under attribution theory which is not a specific theory but rather field of study. The theory is cause centered. Causes explain end results such as success and failure, rather than actions. Causes apply to all intentional, unintentional, controllable and uncontrollable outcomes (Weiner, 2017).

Attribution theory was developed by social psychologists, but its centrality on causality helped it to expand to other fields of study (Weiner, 2017). Birnberg et al (1977) found that in businesses the eight most frequently cited causes of high or low performance of a first line supervisor were the specifics of the task involved, the person's effort, monetary or other extrinsic motives, the ability of the actor, the actor's intrinsic desire to do well, personality factors present in the workers, the superior-subordinate interaction and worker's effort. According to Martinko & Macky (2019) attribution constructs help to explain servant leadership, the dynamics of leaders–member relations, the effect coworker relationships on operational management, reactions of

operational members to human resource management practices, and consumer reactions to product recalls.

Because people attribute others behavior to dispositional tendencies when the observed behavior is negative, evaluators tend to infer the failure to detect internal control on revenue generation as a dispositional tendency on the auditor's part which concludes that auditors are negligent (Wilks and Zimbelman, 2004). According to Reffett (2007) attribution theory places the burden of fraud reporting to the relevant individuals within the institutions. It is the responsibility of managers and the board of directors to ensure all the relevant regulatory and compliance issues are adhered within the company (Reffett, 2007).

According to Reffett (2007) attribution theory states that auditors should report on the effectiveness of internal control system of the company. The theory wants auditors to gain better understanding of the internal controls in place, assess the design and implementation of the internal controls, and test the operating effectiveness of the internal controls. This is deemed necessary for the auditors' reliance and possibly scaling back of other substantive audit procedures for the required performance. The attribution theory suggests that when fraud occurs, identified parties should be held accountable and auditors are most likely to be held accountable if evaluators determine substandard audit services were provided (Reffett, 2007). Scope and performance of audit work relates to information and communication component of internal control, and performance, professional proficiency and objectivity of audit work relates to control environment (Fadzil, 2005). Thus, this theory is related to this particular study.

2.1.8. The Concept of Performance

Katz and Kahn (1966) define performance as maximizing revenue from operation through efficient and effective means. The means can be economic, technical or political. Chavez et al (2015) defines operational performance as the strategic dimensions of competing firms and consists of operational level indicators such as flexibility and delivery. According to Anthony (1965) performance is the result of two separate concepts such as efficiency and effectiveness. Efficiency refers to the value of outputs being greater than the sum of the value of inputs. Effectiveness stands for the achievement of planned outcomes.

Operational performance involves improving process performance through leadership and control. The better the company in the use of resources in its processes, the better its operational performance will as better resource usage enables wastage reduction and proper technology implementation (Porter, 1996). The five performance dimensions that help to achieve operational effectiveness are cost, quality, flexibility, speed and reliability (Hill, 2000).

The cost dimension is about reduction of wastes during every operation. Analyzing the cost components independently gives opportunity to identify areas which need improvement (Chambers & Johnston, 2010). Quality performance, which is not only about reducing defects and meeting standard but also consistent product and service provision to customers, helps to fill the gap between company offerings and customer demands. Flexibility competence gives companies an opportunity to adjust what they do and how they do to respond to customers (Slack, 1992). The speed dimension helps the company to have quick deliveries to customer requests (Hill, 2010), and finally reliability performance is about the company's ability to process consistently to meet customer expectations (Porter, 1996).

There are two ways of measuring performance, financial and non-financial. The financial measures of performance include profitability, cash flow position, return on investment, inventory turnover, and budget vs actual performance contrast and comparison. The non-financial measures of performance include customer satisfaction, product/service quality, market share and employee efficiency (Mashovic, 2018). For this particular study service quality was taken as performance of the selected private commercial banks in Ethiopia.

2.2. Empirical Reviews

Tuan & Hung (2015) conducted a study titled "a theoretical model studying the impact of internal control on performance and risks of commercial banks in Vietnam". The study used novel theory approach to be the foundation for studies of internal control in firms. The contingency theory was used to towards internal control's framework in the COSO and Basel reports, and the author combined the internal control's framework reported in COSO and Basel to construct theoretical models investigating the impact of internal control on performance of commercial banks in Vietnam. The researchers has modeled that internal control has a significant impact on performance of commercial banks in Vietnam.

Akinleye and Kolawole (2020) studied the impact of internal controls on the performance of selected tertiary institutions in Ekiti state. Only primary data was collected with the use of close ended questionnaire using likert scale measurement. 8 out of 10 tertiary institutions were selected purposively, and 425 samples out of 553 population number were selected randomly by using Taro Yamane statistical formula. The study concluded that control activities, information and communication, and monitoring have a significant positive impact on performance, but control environment and risk assessment have insignificant positive impact on performance.

Muhunyo & Jagongo (2018) studied the effect of internal control systems on financial performance of public institutions of higher learning in Nairobi city county, Kenya. Primary data for the study was found from finance, administration and operations departments of higher learning institutions in Nairobi. Researchers followed purposive sampling technique to collect data from 28 respondents from a population of 91. Secondary data was found from audited annual financial statements. Muhunyo & Jagongo (2018) have found that control environment, risk assessment, information and communication, and control activities have a significant positive impact on financial performance.

A study titled "internal control systems leading to family business performance: a framework analysis" was conducted by Suarez (2017). The purpose of this study is to understand the particularities of the concepts of control and internal control, as well as develop a framework for a family business' internal control system. The study established that internal control influences performance of the organization.

Ahmed and Muhammed (2018) studied internal control systems and its relationship with the financial performance in telecommunication companies Kurdashan region of Iraq in the case of Asiacell. For the study both primary and secondary data were collected. The findings of the study show that control environment, risk assessment, information and communication and control activities have a positive impact on financial performance, but monitoring has a negative impact on financial performance.

Ndaye et al (2019) studied the impact of internal control on the profitability of microfinance institutions in Senegal. A questionnaire to collect primary data was distributed to 110 respondents from managers and internal audit units (IAU) of microfinance institutions in Senegal

selected by proportionate stratified sampling, and secondary data was found from financial statements. The findings of the study show that internal control has significant positive impact on earnings per share (EPS), return on assets (ROA), return on equity (ROE) and profit margin (PM).

Ejoh and Ejom (2014) studied the impact of internal control activities on financial performance of tertiary institutions in Nigeria. Primary data was collected with the use of questionnaire and interviews. The study established that there is no significant relationship between control activities and financial performance.

A study titled the impact of internal control systems on the financial performance of the health institutions in upper west region of Ghana was conducted by Ibrahim et al (2017). Only primary data was collected to conduct this study with a sample size of 50 respondents sampled by using purposive sampling technique. A subjective measure (primary data) of financial performance was used in this study in order to deal with inconsistencies and varying financial reports and book keeping systems in different health institutions in upper west region of Ghana. They found that control environment, and information and communication have insignificant positive impact on the financial performance of health institutions in upper west region of Ghana with a P-Value of the coefficient being 0.427 and 0.908 respectively. Their findings also showed that internal audit, control activities and monitoring to have significant positive impact on the financial performance of health institutions in upper west region of Ghana with a P-Value of 0.018, 0.038 and 0.007 respectively.

Jacob & Philip (2016) conducted a study on the effect of internal control on the financial performance of selected manufacturing firms in Nigeria. In this study 150 questionnaires were distributed to five manufacturing company respondents which were selected purposively, and Statistical package for social sciences was used to analyze the collected data. The findings of the study have shown that internal control has significant positive impact on the financial performance of the selected five manufacturing companies in Nigeria with a P-Value of the coefficient being 0.002.

Abiodum (2020) studied internal control procedures and firm's performance in Nigeria's south west region. Primary data was collected with the use of structured questionnaires and multiple

regression was used analyze the collected data. The study established that internal audit, control activities and control risk management have positive impact on performance. However, control environment and control activities have negative significant impact on the performance of the firm according to the study.

Asiligwa and Rennox conducted a study on the effect of internal controls on the financial performance of commercial banks in Kenya. For this study both primary and secondary types of data were implemented. The researchers collected primary data from senior management, middle management and internal audit department, and they found secondary data from published financial statements. The regression analysis made in the study showed internal control's significant positive impact on the financial performance of commercial banks in Kenya.

Mire and Mukhongom (2016) studied the effects of internal control system on the operational performance of remittance companies in Mogadishu-Somalia. The number of companies involved in the study was 15. Questionnaires were distributed to 200 respondents out of 402 population size. The study concluded that control environment, risk assessment and control activities have a significant positive impact on operational performance.

Odhiambo et al (2014) conducted a study with the title of the effect of internal control activities on financial performance of sugarcane out grower companies in Kenya. Data was collected from both primary and secondary sources for the study purpose. They gathered primary data by using key informant method and questionnaire, and secondary data was found from literature on sugarcane out grower companies in Kenya. Odhiambo et al (2014) found that internal control has a significant positive impact on financial performance of sugarcane out grower companies in Kenya with P-Value of 0.0016 of the F-Value of the multiple regressions.

Tekalgn Negash (2018) assessed the effectiveness of internal control system in the commercial banks of Ethiopia in the case of Hawassa city. Primary data were collected by distributing self-administered questionnaire to commercial banks of Ethiopia staffs from both internal auditors and controllers who are found at different level with both open and close ended questions. The analysis of the collected data by SPSS has shown that the commercial banks of Ethiopia un Hawassa city are effective in some aspects of internal control and ineffective in other aspects.

The study recommended commercial banks in the case area to strengthen human resource and to control their environment.

2.3. Research Gap

The empirical literature review has shown mixed results that indicate the impact of internal control components on performance to be significant, insignificant, positive and negative in different contexts. Therefore, the researcher of this particular study decided to examine the impact of internal control on the performance of selected private commercial banks in Ethiopia.

Most of previous studies conducted on the impact of internal control on performance use financial performance especially profitability measures as dependent variable, but in this study non-financial measure which is quality service is used as dependent variable.

There are only few studies conducted in Ethiopia in the area of internal control and performance. Therefore, the researcher of this particular study has decided to study the impact of internal control on the performance of selected private commercial banks in the Ethiopian context.

2.4. Conceptual Framework

Hypothesizes of this study are:

HO1: Control environment have no relationship with the performance of the selected private commercial banks in Ethiopia.

HO2: Risk assessment has no relationship with performance of the selected private commercial banks in Ethiopia.

HO3: Control activities have no relationship with performance of the selected private commercial banks in Ethiopia.

HO4: Information and communication has no relationship with performance of the selected private commercial banks in Ethiopia.

HO5: Monitoring has no relationship with the performance of the selected private commercial banks in Ethiopia.

The conceptual framework of the study is based on hypothesizes of the study and the literature review. The constructed conceptual framework is used in the analysis of the results of the study. The conceptual framework helped the proposer of this study to have a framework of thinking that was useful to achieve his research objective. The conceptual framework is based on internal control has an impact on the operational performance of the selected private commercial banks in Ethiopia.

Figure 1: Conceptual Framework
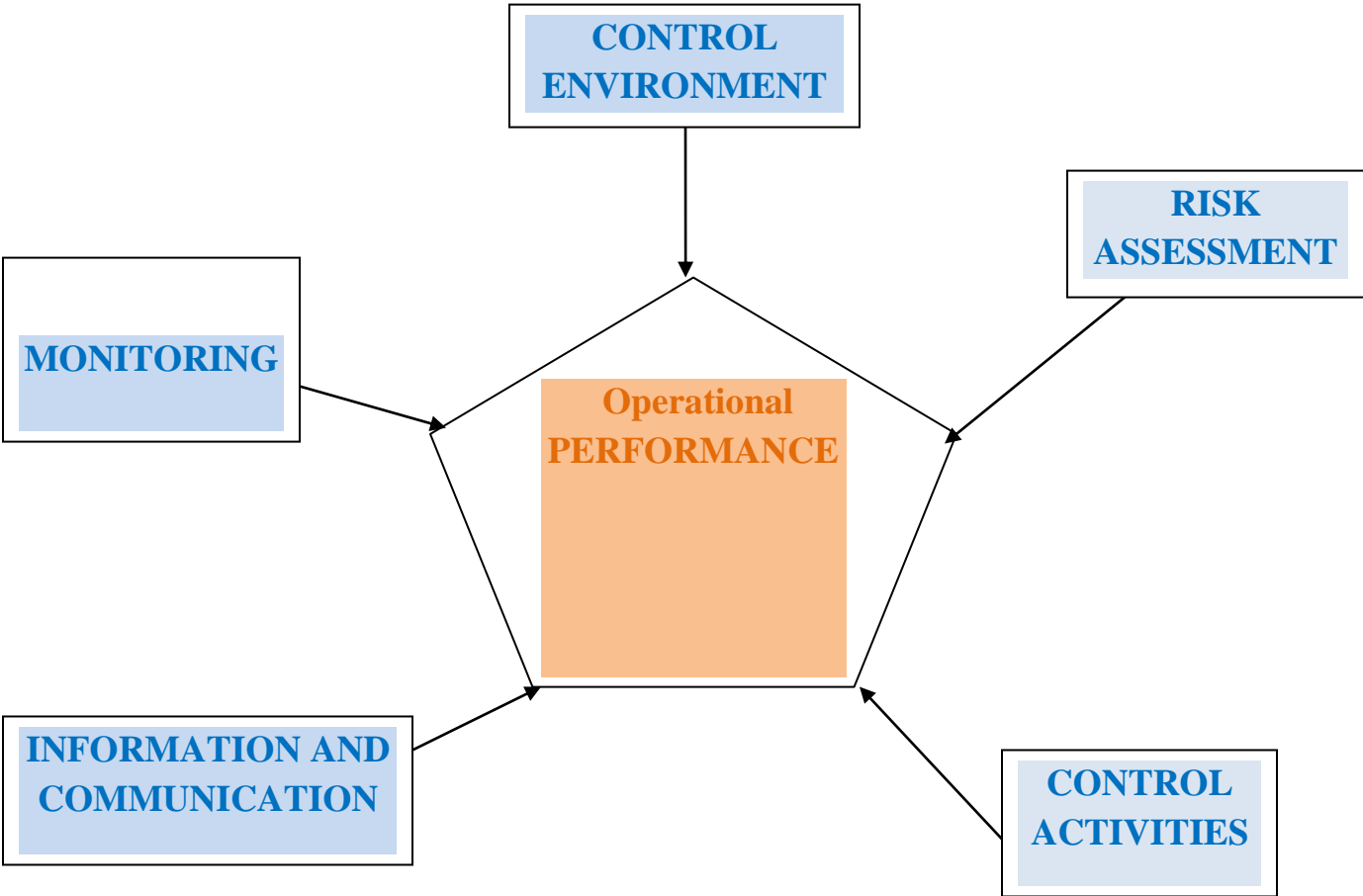
SOURCE: RESEARCHER'S OWN CONSTRUCT

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1. Research Philosophy

Research philosophy refers to a set of abstract beliefs and principles followed by the researcher in understanding the world and interpreting what he/she observes in this world (Kivunja, 2017). Research philosophy guides research design, data collection and data analysis (Ryan, 2019). The research philosophy that is applied in this particular study is positivism since positivism gives the researcher independence from the subject of the study, and it values proving or disproving of hypotheses.

3.2. Research Approach

There are three types of research approaches that are used in business research. These are quantitative approach, qualitative approach and mixed approach (Antwi & Hamza, 2015). For the purpose of conducting this study quantitative approach is followed as this approach enables to avoid any kind of human bias from the study. According to Antwi & Hamza (2015) quantitative approach is objective and it is grounded in positivism philosophy.

3.3. Research Design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact a research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data. A research design presents a framework or arrangement of action for a study (Kothari, 2004)

This study adopted explanatory (analytical) research design. According to Ergun & Goksu (2015) explanatory research assists to measure causal relationship between independent variable and dependent variable. Identification of the variables in the phenomenon and investigating the causal links among the variables are the major elements of explanatory research design (Ergun & Goksu, 2015).

3.4.   Population of the Study

Population encompasses all groups of individuals, events, firms or things that the researcher wants to study (Sekaran, 2003). The population of this study consisted of 200 workers from the internal audit and finance department of the selected five commercial banks. The selected five commercial banks are Cooperative Bank of Oromiya, Lion International Bank, Berhan Bank, Abay Bank and Debub Global Bank.

3.5.   Sample Size & Sampling Technique

According to Sekaran (2003) a sample refers a representative group of individuals, events, firms or things that represents the population and helps to generalize about the population by conducting the study on it. Sampling is the process of selecting the sample from the population and there are various ways of doing it (Greener, 2008). The five private commercial banks that are going to be studied by this paper are Cooperative Bank of Oromiya, Lion International Bank, Birhan Bank, Abay Bank and Debub Global Bank.

30% of the target population from internal audit and finance department of the selected five commercial banks were taken as sample for this study since 10% to 30% of the target population is sufficient to represent the target population if well chosen and the elements in the sample are more than 30 (Mugenda & Mugenda, 2003). Stratified random sampling technique was used to include 12 respondents from each selected commercial bank, and 6 respondents from each of the two departments of each bank.

3.6.   Types of Data

There are two types of data as primary and secondary. Primary data refer to information obtained firsthand by the researcher on the variables of interest for the specific purpose of the study. Secondary data refer to information gathered from sources already existing (Sekaran, 2003). This study used only primary data for the conduction of this research. All of the independent variables (control environment, risk assessment, control activities, information and communication, and monitoring) and the dependent variable (performance (service quality)) require primary source to fulfill the objective of the study.

3.7.   Method of Data Collection

Primary data that was used in this study was collected with the use of structured questionnaire with drop and pick (drop today pick later approach) which is chosen as it helps the respondents to have enough time in responding to the questionnaire.

3.8.   Empirical Model of the Study

Empirical model is required for this study as it is going to be conducted with the use of independent variable and dependent variable. Both the dependent variable of the study which is performance/service quality and the independent variable which is internal control were measured with the use of likert scale. The empirical model of this study is based on the expected relationship between the independent variable (internal control) and the dependent variable (performance). Thus, the multiple linear regression model of the study is as follows:

$P = \beta_0 + \beta_1 CE + \beta_2 RA + \beta_3 CA + \beta_4 ICS + \beta_5 M + \varepsilon$

Where:

P = Operational Performance

β_0 = The Constant Term

β_{1-5} = Regression Coefficients of the Independent Variables

CE = Control Environment

RA = Risk Assessment

ICS = Information and Communication

CA = Control Activities

M = Monitoring

ε= Error term

According to Younas & Kassim (2019) control environment is about the internal beliefs, ethics and values about the internal control system of the organization. It is a pervasive product

produced by the governance of the management and the affected operational structure and accountability relationships. If the control environment of the entity is ineffective, the whole system of internal control will be ineffective (Thabit et al, 2017).

Risk assessment indicates risk assessment and highlighting of high risk areas (Younas & Kassim, 2019). Every risk that is a threat to the achievement of the organization should be identified, evaluated and monitored by the management of the company. When a risk is identified by management of the company, a decision should be made to accept or reduce or avoid the risk (Thabit et al, 2017).

Control activities are manual or automated tools that help to identify or prevent or reduce risk that might be a threat to the success of the organization (Thabit et al, 2017). The five types Control activities are adequate separation of duties, proper authorization of transactions and activities, adequate documents and records, physical control over assets and records and independent checks on performance (Arens et al, 2012).

Information and communication refers to the creation and exchange of useful information for decision making and coordination (Thabit et al, 2017). There are internal and external ways of communication (Younas & Kassim, 2019). Methods used for initiating, recording, processing and maintaining of accountability for related assets are information and communication (Arens et al, 2012).

Monitoring is about ongoing and periodic evaluation of the organization's activities and transactions to assess quality of internal control performance by the management of the organization (Arens et al, 2012). For effective monitoring, employees should have adequate understanding of mission, objective and risk tolerance level of the organization, and they should also know their complete responsibility (Thabit et al, 2017). Monitoring ensures communication of the problem and solution for the problem (Younas & Kassim, 2019).

Operational performance refers to the ability of setting processes, based on core capabilities within the organizations, which work well. Operational performance involves improving process performance by leading and controlling the processes within the firm as well as measuring and improving the processes. A better use of resources through these core processes enables the organization to eliminate waste, adapt more appropriate technology and therefore perform better

than competitors (Porter, 1996). An increasing number of factors are motivating organizations and businesses to seek to operate more efficiently and to ensure they have better operational performances (Hill, 2010). This involves the need to deliver value-adding products or services of exceptional quality, on time, at a competitive price. Thus, organizations attempting to meet these objectives need to pay attention to their operational performance as this is a primary driver of business performance (Chambers & Johnston, 2004).

3.9. Method of Data Analysis

The data that was collected from primary source was analyzed with the use of Microsoft Excel, Statistical Package for Social Science (SPSS) 20 and Eviews 8. The study applied both descriptive and explanatory analysis. For the purpose of descriptive analysis the study used the following mean interpretation standard.

From	To	Interpretation
1	1.8	Very Low
1.8	2.6	Low
2.6	3.4	Neutral
3.4	4.2	High
4.2	5	Very High

Multiple regression analysis by using ordinary list squares (OLS) was conducted to establish the impact of the independent variables (Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring) on that of the dependent variable (Operational Performance), and a diagnostic test of the regression by the use of Eviews 8 was conducted to investigate the validity of the model. Interpretation of the regression results was made based on the coefficients of regression of the independent variables, and the P-values of the regression coefficients by selecting 0.05 (5%) as level of significance. Accordingly, positive regression coefficients indicate that the independent variable has a positive impact on the dependent variable, and negative regression coefficients indicate that the independent variable has a negative impact. With respect to P-values, P-values of less than 5% are interpreted as significant and that of P-values higher than 5% are interpreted as insignificant.

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1. Respondents' Profile

The demographic data enables the researcher to find out the suitability of the respondents in providing answers to the research questions for the purpose of generalizing the results of the study. In this research, the demographic data consisted of gender, current position, qualification and work experience in the current position.

4.1.1. Gender

Table 1: Respondents' Gender

Gender	Frequency	Percent	Cumulative percent
Male	30	50%	50%
Female	30	50%	100%

Source: Questionnaire Result, 2021

According to table 1, 50% of the respondents were male and 50% were female. This means there was no gender bias in the study.

4.1.2. Qualification

Table 2: Respondents' Qualification

Qualification	Frequency	Percent	Cumulative percent
Degree	48	80%	80%
Masters	12	20%	100%
PhD	0	0%	100%
Other	0	0%	100%

Source: Questionnaire Result, 2021

From table 2, 80% of the respondents were degree holders, 20% were master's degree holders, none were PhD holders and 0% had level of education other than degree, masters and PhD. This implies that respondents had the capacity to answer questions in the questionnaire.

4.1.3. Current Position

Table 3: Respondents' Current Position

Current Position	Frequency	Percent	Cumulative percent
Senior Internal Auditor	5	8.33%	
Senior Finance Manager	5	8.33%	
Finance Staff	25	41.67%	
Internal Audit Staff	25	41.67%	

Source: Questionnaire Result, 2021

From table 3, 8.33% of the respondents were senior internal auditors, 8.33% were senior finance managers, 41.67% were finance staff and 41.67% were internal audit staff. Therefore, 50% of the respondents are in finance related jobs and 50% are in internal audit related jobs. This means that the study is not biased with respect to position and respondents' position fits for the study.

4.1.4. Experience in Current Position

Table 4: Respondents' Experience in Current Position

Experience	Frequency	Percent	Cumulative percent
Less than One Year	2	3.33%%	3.33%
1 – 5 Years	20	33.33%	36.66%
6 – 10 Years	35	58.33%	94.99%
> 10 Years	3	5%	100%

Source: Questionnaire Result, 2021

According to the above table, 3.33% of the respondents had spent a period of less than a year, 33.33% had spent 1 to 5 years, 58.33% had spent 6-10 years and 5% had spent 10 years and above. This means that respondents had experience regarding the study.

4.2. Internal Control

With an objective to establish the effect of the internal control on performance of the selected private commercial banks in Ethiopia, the study sought the views of internal audit and finance staff of the selected banks on the extent to which they agree on the given aspects of COSO framework components (control environment, risk assessment, control activities, information and communication, monitoring) and performance as indicated by their level of agreement. A likert scale data was collected rating the extent of agreement in a scale of 1 to 5 where 1 (strongly disagree) is the least extent whereas 5 (strongly agree) is the maximum extent indicator. The results from the collected responses were analyzed based on means and their standard deviations to show the variability of the individual responses from the overall mean of the responses per each aspect.

4.2.1. Control Environment

Table 5: Control Environment

	Control Environment	Mean	SD
A1	The Bank has a code of conduct to guide behavior, activities and decision- making.	4.067	1.023
A2	The Bank has an accounting and financial systems.	4.333	0.986
A3	The bank has an objective, independent and active audit committee.	4.133	1.112
A4	Ethical values are upheld in all the bank's decisions	4.350	0.954
A5	The Board, the Management and Employees are all committed to competence and integrity	4.233	1.047
A6	There is an atmosphere of mutual trust in the Bank	4.167	1.076
A7	Roles and responsibilities are clearly stated for employees	4.317	1.000
Overall		4.228	1.028

Source: Questionnaire Result, 2021

According to the above table, the respondents agreed that the five selected banks have a code of conduct to guide the behavior, activities and decision making of the banks. This is indicated by the mean value of 4.067 and standard deviation of 1.023. According to the respondents the selected private commercial banks have an accounting and financial system which is shown by a

strong agreement level with a mean of 4.333 and standard deviation of 0.986. As indicated by the answers for statement A3 the selected banks have an objective, independent and active audit committee (Mean = 4.133 and SD = 1.112). The results also show that the respondents strongly agreed (mean = 4.350; SD = 1.055) that ethical values are upheld in all the decisions of the selected commercial banks.

From table 5, the answers for A5 have a mean of 4.233 and a standard deviation of 1.047. This indicates that the respondents are in strong agreement with the commitment of the board, the management and employees to competence and integrity. The respondents agreed (mean = 4.167; SD = 1.076) that there is an atmosphere of mutual trust in selected private commercial banks. The results also show that the respondents strongly agreed with the clear statement of roles and responsibilities to employees with mean value of 4.317 and standard deviation value of 1.000 to question A7. Generally based on the means and the standard deviations of the answers for control environment from A1 to A7, the selected banks in Ethiopia have a very effective control environment with overall mean value of 4.228 and standard deviation value of 1.028 which means stakeholders are playing their important roles in these banks.

4.2.2. Risk Assessment

Table 6: Risk Assessment

	Risk Assessment	Mean	SD
B1	The Bank has defined appropriate objectives for the organization	3.783	1.043
B2	The Bank identifies risks that affect achievement of the objectives in a timely manner	3.500	1.186
B3	The Bank has a criteria for ascertainment of the risks that are most critical to the organization	3.617	1.106
B4	The Bank has in place mechanisms of mitigating critical risks that may arise during the course doing business	3.517	1.127
B5	There is frequent reporting of bank's departmental risks to the management to assist in solving early	3.367	1.301
Overall		3.557	1.153

Source: Questionnaire Result, 2021

From table 6, the respondents agreed (mean = 3.783; SD = 1.043) that the selected private commercial banks have defined objectives for their organization. These banks identify risks that affect the achievement of the objectives in a timely manner as indicated by mean of 3.500 and standard deviation of 1.186 this. The five selected commercial have a criteria for ascertainment of risks that are most critical to them as shown by the respondents' agreement with statement B3 (mean = 3.617; SD = 1.106). The respondents agreed (mean = 3.517; SD = 1.127) that the five selected private commercial banks have in place mechanism of mitigating critical risks that may arise during the course of doing their business. The results of the study also show that the respondents are undecided (mean = 3.367; SD = 1.301) whether there is frequent reporting of bank's departmental risks. These findings show that banks in the study have effective risk assessment procedures indicating effective attribution and reliability theory implementation.

4.2.3. Control Activities

Table 7: Control Activities

	Control Activities	Mean	SD
C1	The Bank has clear separation of roles.	3.600	1.238
C2	Every employee's work checks on the others.	3.517	1.200
C3	The staff is trained to implement the accounting and financial management systems.	3.533	1.856
C4	Corrective action is taken to address weakness	3.700	1.013
C5	The Bank has a well-organized chart of accounts	4.100	1.037
C6	It is impossible for one staff to have access to all valuable information without consent from the senior staff.	3.783	1.209
C7	Controls are in place to check on incurring expenditure in excess of allocated funds.	3.600	1.153
C8	Departments undertake budget reviews and variance from budgeted expenditure are explained.	3.250	1.230
C9	The security system identifies and safeguards the Bank's assets	3.950	1.016
C10	The Bank's financial statements are regularly audited externally.	3.983	1.066
Overall		3.702	1.202

Source: Questionnaire Result, 2021

From the above table, respondents agreed (mean = 3.600; SD = 1.238) that the selected banks have clear separation of roles. For the five selected private commercial banks in Ethiopia every employee's work checks on the others as indicated by the mean value of 3.517 and standard deviation value of 1.200 for statement C2. The staffs of the selected banks are trained to implement the accounting and financial management systems with a mean value of 3.533 and standard deviation value of 1.856 showing the agreement of respondents with statement C3. The findings also show that respondents agreed (mean = 3.700; SD = 1.013) that Cooperative Bank of Oromiya, Anbesa International Bank, Berhan Bank, Abay Bank and Debub Global bank take corrective actions to address observed weaknesses.

From table 7, the respondents agreed (mean = 4.100; SD = 1.037) that the five selected banks have a well organized chart of accounts for their accounting. In the studied commercial banks it is impossible for one staff to have access to all valuable information without consent from the senior staff. This is as indicated by mean of 3.783 with a standard deviation of 1.209 for statement C6. The findings are further in agreement with for the in the study controls are in place to check on incurring expenditure in excess of allocated funds. This fact was indicated by the mean value and standard deviation value of 3.600 and 1.153 respectively of statement C7.

Findings in table 7 also show that respondents are undecided (mean = 3.250; SD = 1.230) whether departments undertake budget reviews and variance from budgeted expenditures are explained. The findings further indicated that the respondents agreed (mean = 3.950; SD = 1.016) that the security system of the selected five private commercial banks in Ethiopia identifies and safeguards their assets. The financial statements of the studied commercial banks are regularly audited externally as the respondents agreed to this with a mean of 3.983 and a standard deviation of 1.066.

Based the mean values and standard deviation values of the ten statements for control activities Cooperative Bank of Oromiya, Anbesa International Bank, Berhan Bank, Abay Bank and Debub Global bank have an effective control activities frame as indicated by overall mean value of 3.702 and standard deviation value of 1.202.

4.2.4. Information and Communication

Table 8: Information and Communication

	Information and Communication	Mean	SD
D1	The Bank has identified individuals who are responsible for coordinating the various activities within the bank	2.817	1.751
D2	All the employees understand the concept and importance of internal control including the division of responsibilities	3.683	1.455
D3	Communication helped the bank to evaluate how well the guidelines and policies of the bank are working and are implemented.	3.583	1.316
D4	The reporting system on the operational structure spells out all the responsibilities of each department in the bank.	4.450	0.746
D5	Sufficient information is identified and communicated in a timely manner to enable people perform their responsibilities	3.067	1.593
Overall		3.520	1.336

Source: Questionnaire Result, 2021

From the above table, the respondents are undecided (mean = 2.817; SD = 1.751) if the selected private commercial banks have identified individuals who are responsible for coordinating the various activities within the banks. The respondents agreed (mean = 3.583; SD = 1.455) with that all the employees of the banks in the study understand the concept and the importance of internal control including the division of responsibilities. Communication helped the selected private commercial banks to evaluate how well the guidelines and policies of the banks are working and are implemented. This fact is indicated by mean value of 3.583 with standard deviation value of 1.316 for statement D3. The reporting system on the operational structure of studied banks spells out all the responsibilities of each department in each bank which is indicated by the strong agreement of respondents with a mean value of 4.450 and standard deviation value of 0.746 for this. The results also show that it is unknown if sufficient information is identified and communicated in timely manner to enable people perform their responsibilities in the selected banks as respondents shown neutrality (mean = 3.067; SD = 1.593) with statement D5.

The findings on statements from D1 to D5 indicates that the respondents agreed that the selected banks have effective information and communication system with average mean value of 3.520 and average standard deviation value of 1.336.

4.2.5. Monitoring

Table 9: Monitoring

	Risk Assessment	Mean	SD
E1	The Bank has assigned responsibilities for the timely reviews of the audit reports and resolution of any non-compliance items noted in the audit reports	3.783	1.209
E2	There are independent processes, checks and evaluation of control activities on an ongoing basis	3.450	1.227
E3	Monitoring has helped in assessing the quality of performance of the bank over time	3.550	1.241
E4	An internal review of implementation of the internal control system in departments is conducted periodically to ascertain its effectiveness.	3.633	1.178
Overall		3.604	1.214

Source: Questionnaire Result, 2021

As shown in table 9, the respondents have agreed that the studied banks have assigned responsibilities for timely reviews of the audit reports and resolution of any non-compliance items noted in the audit reports. This had a mean of 3.783 with standard deviation of 1.209. In the selected private commercial banks there are independent processes, checks and evaluation of control activities on an ongoing basis. This fact was indicated by a mean value of 3.450 and a standard deviation value of 1.227 for statement E2. The respondents agreed (mean = 3.550; SD = 1.241) that monitoring has helped the private commercial banks in the study in assessing the quality of the performance of the banks over time. The findings also show that an internal review of implementation of the internal control system in departments is conducted periodically to ascertain its effectiveness with a mean of 3.633 and a standard deviation of 1.178 for this.

The findings from table 9 means Cooperative Bank of Oromiya, Anbesa International Bank, Berhan Bank, Abay Bank and Debub Global bank have an effective monitoring mechanism with average mean value 3.557 with average standard deviation value of 1.153.

4.3. Operational Performance

Table 10: Operational Performance

	Service Quality	Mean	SD
F1	You met the work target on time	4.050	1.141
F2	The job done by employees maintain work accuracy	3.983	1.112
F3	The working process provides support for quality service	3.967	1.089
F4	The organization has right number of employees at the right time with the right skill to deliver quality service	3.233	1.394
F5	All materials which help to provide quality service are available	3.05	1.419
Overall		3.657	1.231

Source: Questionnaire Result, 2021

From table 10, the respondents agreed (mean = 4.050; SD = 1.141) that they met the work target on time. In the studied banks the job done by their employees maintain work accuracy. This fact is indicated by a mean value of 3.983 with a standard deviation value of 1.112 for statement F2. The working process of the banks in the study provides support for quality service with mean and standard deviation value of 3.967 and 1.089 respectively. The respondents are unsure (mean = 3.233; SD = 1.394) whether the selected private commercial banks of the study had the right number of employees at the right time with the right skill to deliver quality service. The findings also show that the availability of all materials which help to provide quality service is undecided with a mean value of 3.05 and standard deviation value of 1.419 for this. Generally, the overall operational performance (service quality) of Cooperative Bank of Oromiya, Anbesa International Bank, Berhan Bank, Abay Bank and Debub Global bank is good with mean value of 3.657 and standard deviation value of 1.231

The five selected private commercial banks in general have effective internal control system as all of the five components show effectiveness which means these banks are able to manage agency problems effectively.

4.4.   The Impact of Internal Control on Performance
4.4.1. Validity Test

To ensure validity of the data collection instrument, the study considered both the face and content validity of the questionnaire. The face to face validity was assessed by having all the questions phrased in line with the study objectives. The researcher relied on the advisor to assist in undertaking the content validity of the data collection instrument. The data collection instrument was tested with a few members of the sample, and the study also adopted a stratified random sampling technique where all the selected private commercial banks of the study contributed equal number of respondents to enhance the validity and accuracy of the collected data.

4.4.2. Reliability Test

Table 11: Reliability Statistics

Variables	Cronbach's Alpha	N of Items
Control Environment	0.784	7
Risk Assessment	0.904	5
Control Activities	0.750	10
Information & Communication	0.789	5
Monitoring	0.707	4
Performance	0.806	5

Source: Questionnaire Result, 2021

Variables with Cronbach's Alpha values of greater than 0.7 satisfy the internal consistency measure (Mugenda & Mugenda, 2003).The result from table 11 shows that the Cronbach's Alpha values of control environment, risk assessment, control activities, information and communication, monitoring and performance are 0.784, 0.904, 0.750, 0.789, 0.707 and 0.806 respectively which are all above 0.7. This means the scales used to measure these variables were consistent and the data set is reliable.

4.4.3. Model Significance

Table 12: F Test

F-statistic	5.458135
Prob(F-statistic)	0.000389

Source: Questionnaire Result, 2021

From table 12, the F-statistic of the regression is 5.458135 and the P-value of the F-statistic is 0.0389%. The P-value of the F-statistic is less than the selected significance level of the study (5%), and this means the regression model used in the study is significant (the independent variables explain some variation on the dependent variable).

4.4.4. Coefficient of Determination

Table 13: Coefficient of Determination

R Square Value	Adjusted R Square
0.335717	0.274209

Source: Questionnaire Result, 2021

The above table shows that the adjusted R squared value of the regression is 27.4209%. This implies that 27.4209% of the changes in the operational performance (service quality) of Cooperative Bank of Oromiya, Anbessa International Bank, Berhan Bank, Abay Bank and Debub Global Bank are explained by internal control. Thus, 72.5791% of changes in the service quality of the selected banks are explained by factors other than internal control.

4.4.5. Diagnostic Tests

In order to validate the regression equation, assumptions of the ordinary least squares regression were considered. Thus, in the study the following four tests such as multicollinearity (variance inflation factor test), heteroschedasticity (white test), autocorrelation (Dublin-Watson) and normality (Jarqque-Bera test) were conducted.

4.4.5.1. Multicollinearity Test

Table 14: Multicollinearity Test

Variable	Coefficient Variance	Centered VIF
C	2.369446	NA
CE	0.052384	2.239734
RA	0.018126	1.408100
CA	0.039036	1.185843
ICS	0.024322	2.426275
M	0.015778	1.260946

Source: Questionnaire Result, 2021

The multicollinearity test above was conducted by using variance inflation factors (VIF). The centered variance inflation factors of control environment, risk assessment, control activities, information and communication and monitoring are 2.239734, 1.408100, 1.185843, 2.426275 and 1.260946 respectively. From this we can see that centered variance inflation variances of the independent variables are all below 10. This means there is no significant collinearity in the data set to hinder linear regression analysis.

4.4.5.2. Heteroscedasticity Test

Table 15: Heteroscedasticity Test

| Heteroskedasticity Test: White			
F-statistic	0.634878	Prob. F(5,54)	0.6740
Obs*R-squared	3.331270	Prob. Chi-Square(5)	0.6491
Scaled explained SS	3.449808	Prob. Chi-Square(5)	0.6310

Source: Questionnaire Result, 2021

The heteroscedasticity test was conducted by using white test. The p-value of F-statistics is 67.40% and that of the obs*R Squared is 64.91%. The P-values of both F-statistics and obs*R

squared are above the level of significance which is 5%. Therefore, in the data set there is no heteroscedasticity problem, and the data set is homoscedastic.

4.4.5.3. Normality Test

Figure 2: Normality Test
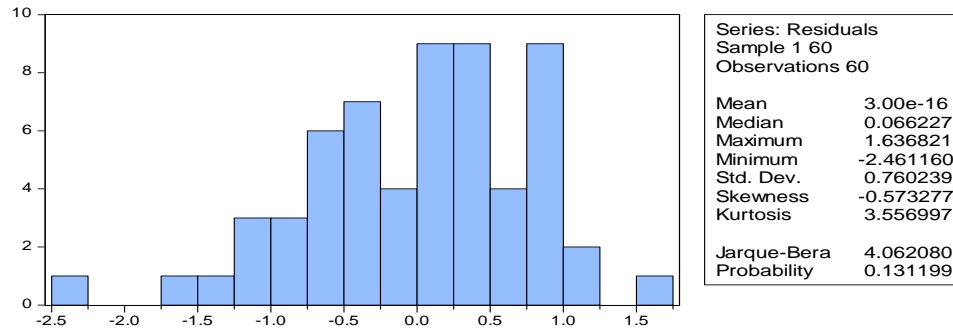
Source: Questionnaire Result, 2021

The normality test of this study was conducted by using Jarque-Bera test. From figure 2, the P-value of the Jarque-Bera according to the finding is 13.1199%, and this value is above the selected significance value of the study, 5%. This shows that the data set of the study does not have abnormality problem (the study data is normally distributed.

4.4.6. Regression Equation

Table 16: Regression Equation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.535520	1.539300	-0.347898	0.7293
CE	0.123274	0.228875	0.538610	0.5924
RA	0.327121	0.125609	2.604283	0.0119
CA	0.499480	0.197575	2.528061	0.0144
ICS	0.173585	0.155955	1.113043	0.2706
M	-0.010482	0.134634	-0.077857	0.9382

Source: Questionnaire Result, 2021

The above table presents the multiple regression result of the study for coefficients, t-value and p-value for the regression coefficients. In the regression control environment (CE), risk assessment (RA), control activities (CA), information and communication (ICS) and monitoring (M) were used as independent variables. The dependent variable in the regression was performance. From table 16, the regression coefficients for the constant term, control environment, risk assessment, control activities, information and communication, and monitoring are -0.53550 (p>0.05), 0.123274 (p>0.05), 0.327121 (p<0.05), 0.499480 (p<0.05), 0.173585 (P>0.05) and -0.010482 (p>0.05) respectively. Thus, the empirical model: $P = \beta_0 + \beta_1 CE + \beta_2 RA + \beta_3 CA + \beta_4 ICS + \beta_5 M + \varepsilon$, now becomes;

$$P = 0 + 0CE + 0.327121RA + 0.499480CA + 0ICS + 0M = 0.327121RA + 0.499480CA$$

4.4.7. Hypothesis Testing

The first null hypothesis of the study was control environment has no relationship with the operational performance (service quality) of the selected private commercial banks in Ethiopia. From table 16, the regression coefficient of control environment is 0.123274 and that of the P-value of the regression coefficient of the control environment is 59.24%. This indicates that control environment has insignificant positive impact the service quality (performance) of the selected Banks since the regression coefficient of it is positive and the p-value of the regression coefficient is greater than the significance level (5%). This finding is in line with the finding of Akinleye and Kolawole (2020) and Ibrahim et al (2017) who have also found insignificant positive impact by control environment on performance. But, the result contradicts with the results of Abiodum (2020), and Mire and Mukhongon (2016). The finding of Abiodum (2020) indicated negative significant impact, and Mire and Mukhongon (2016) found significant negative impact from control environment on performance.

The second null hypothesis of the study was risk assessment has no relationship with the operational performance of the selected private commercial banks in Ethiopia. The result from table 16 has shown that the regression coefficient of risk assessment is 0.327121 and the P-value for the regression coefficient of risk assessment is 0.0119 (a unit increase in risk assessment increases operational performance by 0.327121). Thus, risk assessment has a significant positive

impact on the operational performance of the selected private commercial banks. This finding is in line with the finding of Mire and Mukhongom (2016).

The third null hypothesis of the study was control activities have no relationship with the operational performance of the selected private commercial banks in Ethiopia. The finding from table 16 shows that the regression coefficient of control activities is 0.499480 and the P-value of the regression coefficient for control activities is 0.0144 (a unit increase in control activities increases operational performance by 0.499480). This means control activities have a significant positive impact on service quality of the selected private commercial banks of with positive regression coefficient and significant P-value for it. This finding is in line with the findings of Ahmed and Muhammed (2018), Ibrahim et al (2017), and Mire and Mukhongom (2016). The finding contradicts with that of Ejoh and Ejom (2014) and Abiodum (2020). Ejoh and Ejom found insignificant relationship between control activities and performance, and Abiodum (2020) found control activities' negative significant impact on performance.

The fourth null hypothesis of the study was information and communication has no relationship with the operational performance of the selected private commercial banks in Ethiopia. Table 16 indicated that the regression coefficient and the P-value of the regression coefficient for information and communication are 0.173585 and 0.2706 respectively. Thus, information and communication has insignificant positive impact on the operational performance of the selected banks. This finding is in line with the finding of Ibrahim et al (2017). But, it contradicts with the finding of Akinleye and Kolawole (2020), who found positive significant impact from information communication on performance.

The fifth null hypothesis of the study was monitoring has no relationship with operational performance of the selected banks. According to the finding from table 16, the regression coefficient of monitoring and the p-value of the regression coefficient of monitoring are -0.010482 and 93.82% respectively. This implies that monitoring has insignificant negative impact on the operational performance of the selected private commercial banks for the regression coefficient. The finding is line with finding of Ahmed and Muhammed (2018) who also found insignificant negative relation, but it contradicts with the findings of Akinleye and Kolawole (2020) and Ibrahim et al (2017) whose findings show that monitoring has significant positive impact on performance.

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATION

5.1. Summary

Cooperative Bank of Oromiya, Anbessa International Bank, Berhan Bank, Abay Bank and Debub Global Bank have a code of conduct to guide the behavior, activities and decision making of the banks, clearly stated roles and responsibilities to employees, mutual trust among employees, accounting and financial system, objective, independent and active audit committee, ethics in all the decisions, and committed board, management and employees to competence and integrity. The possession of these features made these banks produce effective control environment with insignificant positive impact on their service quality (performance).

The banks in the study have defined objectives for their organization selected and have a tendency of identifying risks that affect the achievement of the objectives in a timely manner. These banks also have criteria for ascertainment of risks that are most critical to them that may arise during the course of doing their business with in place mitigation mechanism to deal with those critical risks, but it the respondents are undecided whether there is frequent reporting of these bank's departmental risks to the management to assist in solving early. The combination of these has led to effective risk assessment in the selected private commercial banks in Ethiopia with significant positive impact on performance.

The selected private commercial banks have clear separation of roles with every employee's work checking on the others. The selected banks train their staffs to enable them implement the accounting and financial management systems with a well organized chart of accounts. Corrective actions are taken by the banks in the study to address observed weaknesses. In these banks it is impossible for one staff to have access to all valuable information without consent from the senior staff. They have placed controls in place to check on incurring expenditure in excess of allocated funds, but it is unknown whether budget reviews and variance from budgeted expenditures explanation are undertaken at the departmental level. The security system of these banks identifies and safeguards their assets, and the financial statements of the studied

commercial banks are regularly audited externally. The control activities in the studied banks are effective and they have significant positive impact on performance.

All the employees of the selected private commercial banks in the study understand the concept and the importance of internal control including the division of responsibilities with communication helping them to evaluate how well the guidelines and policies of the banks are working and are implemented, and the reporting system on the operational structure of studied banks spells out all the responsibilities of each department in each bank. But, it is unknown if sufficient information is identified and communicated in timely manner to enable people perform their responsibilities in the selected banks, and if the selected private commercial banks have identified individuals who are responsible for coordinating the various activities within the banks. The overall result indicates that the selected private commercial banks have effective information and communication system, and it has insignificant positive impact on performance.

In the selected private commercial banks there are independent processes, checks and evaluation of control activities on an ongoing basis. In these private commercial banks monitoring has helped in assessing the quality of the performance of the banks over time. The findings also show that an internal review of implementation of the internal control system in departments is conducted periodically to ascertain its effectiveness with the assignment responsibilities for timely reviews of the audit reports and resolution of any non-compliance items noted in the audit reports. Generally, the selected banks have effective monitoring system and monitoring has insignificant negative impact on the performance of those banks.

The employees of Cooperative Bank of Oromiya, Anbesa International Bank, Berhan Bank, Abay Bank and Debub Global bank met the work target on time. In these banks the job done by their employees maintain work accuracy. The working process of the banks in the study provides support for quality service. But, the respondents are unsure whether the selected private commercial banks of the study had the right number of employees at the right time with the right skill to deliver quality service, and whether all materials which help to provide quality service are available. Generally, the overall performance (service quality) of Cooperative Bank of Oromiya, Anbesa International Bank, Berhan Bank, Abay Bank and Debub Global bank is good with mean value of 3.657 and standard deviation value of 1.231

5.2. Conclusion

The first specific objective of the study was to determine the effect of control environment on performance of selected private commercial banks in Ethiopia. With respect to the finding of the study, it is conclusive that control environment has insignificant positive impact on the performance of the selected private commercial banks in Ethiopia

The second specific objective of the study was to establish the effect of risk assessment on the performance of the selected private commercial banks in Ethiopia. Based on the findings of the study it is concluded that risk assessment has significant positive impact on the performance of the selected banks in the study.

The third specific objective of the study was to evaluate the effect of control activities on the performance of the selected private commercial banks in Ethiopia. From the findings of the study, it is conclusive that control activities have significant positive impact on the performance of the selected private commercial banks of the country.

The fourth specific objective of the study was to establish the effect of information and communication on the performance of the selected private commercial banks in Ethiopia. With respect to results from the study, it is concluded that information and communication have insignificant positive impact on the performance of the selected banks of the study.

The last specific objective of the study was to establish the effect of monitoring on the performance of the selected private commercial banks in Ethiopia. The findings of the study led to a conclusion stating monitoring has insignificant negative effect on the performance of the selected private commercial banks of the study.

5.3. Recommendation

It is prudent for the selected private commercial banks to make sure the presence of the right number of employees at the right place with the right skill to provide enhanced quality service to their customers.

It is wise for the studied banks to have all kinds of materials that help to provide quality service so that to be in time with time.

There is a need for the five studied private commercial banks to ensure suitable control environment in order to enhance their performance as control environment and performance have positive relationship. More efficient and effective control environment reduces theft, threat to company property and operation.

Risk assessment has a significant positive impact on the performance of the selected private commercial banks of the study. Therefore, for a better performance of their institution it is important for these banks to have improved risk assessment procedures that help to recognize hazards to their organization and to be proactive instead of reactive.

It is prudent for the selected commercial banks to strengthen their control activities as control activities have significant positive impact on their performance. Better control activities reduce the risks of internal threat from employees as it requires proper authorization, physical control, adequate documentation, independent assessment on performance and adequate division of responsibilities.

Information and communication have insignificant positive impact on the performance of the banks in the study. Thus, there is need for the banks to improve on their information and communication system to produce a better performance. Ensuring the presence of activity coordinating individuals with a timely communication of identified information is important for the banks.

5.4. Future Research Direction

Internal control explains 27.4209% of changes in the service/performance of the selected private commercial banks. Therefore, other factors that may affect service quality should be studied.

There is need for a study to be conducted to determine the of impact internal control on other measures of performance such as innovation and financial performance.

The overall impact of internal control is significantly positive. Thus, it is important to conduct a study on the challenges of internal control implementation to identify constraints to internal control success.

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APPENDIX

APPENDIX A: QUESTIONNAIRE

The Respondent,

Dear Sir/Madam,

Re: Request for Research Data

I'm a Postgraduate student pursuing a Master's of Business Administration in Finance and Accounting (MBAAF) degree at St. Mary's University. My research project topic is "Internal Control and Financial Performance of Private Commercial Banks in Ethiopia". You have been selected to form part of those to provide the necessary data needed for this study. You are therefore kindly requested to assist by granting an opportunity for the filling in of the attached questionnaire at your convenience. The information you provide will be treated in strict confidence and is purely for academic purpose. In no way will your name appear in the final research report. Your assistance and cooperation will be highly appreciated.

Questionnaire

Dear Sir/Madam,

You are invited to participate in the above mentioned research project. The survey will only take 10 – 15 minutes to complete. To ensure confidentiality of all responses, you are not obliged to provide your name. The information you give in response to this survey will be purely used for academic purpose.

Section A. General Questions (Please "√" where appropriate)

1. Your qualification

A. Degree ☐   B. Masters ☐   C. PhD ☐   D. Other ☐

2. Your Current Position

A. Senior internal auditor ☐   C. Senior financial manager ☐

B. Senior operation manager ☐   D. Senior risk manager ☐

3. Years of experience in current position

A. Less than one year ☐   B. 1-5 years ☐   C. 6–10 years ☐   D. >10 years ☐

Section B. Questions Related to Internal Control of Your Bank

Please rank the following statements in each area of internal control system on Likert scale ranging from strongly disagree to strongly agree where: 1 = strongly disagree; 2 = disagree; 3 = not sure; 4= agree; and 5= strongly agree. **(Please "√" where appropriate)**

A. Control Environment Statements	1	2	3	4	5
A1) The Bank has a code of conduct to guide behavior, activities and decision-making.					
A2) The Bank has an accounting and financial systems.					
A3) The bank has an objective, independent and active audit committee.					

A4) Ethical values are upheld in all the bank's decisions					
A5) The Board, the Management and Employees are all committed to competence and integrity					
A6) There is an atmosphere of mutual trust in the Bank					
A7) Roles and responsibilities are clearly stated for employees					
B. Risk Assessment Statements	1	2	3	4	5
B1) The Bank has defined appropriate objectives for the organization					
B2) The Bank identifies risks that affect achievement of the objectives in a timely manner					
B3) The Bank has a criteria for ascertainment of the risks that are most critical to the organization					
B4) The Bank has in place mechanisms of mitigating critical risks that may arise during the course doing business					
B5) There is frequent reporting of bank's departmental risks to the management to assist solving early					
C. Control Activities Statements	1	2	3	4	5
C1) The Bank has clear separation of roles.					
C2) Every employee's work checks on the others.					
C3) The staff is trained to implement the accounting and financial management systems.					
C4) Corrective action is taken to address weakness					
C5) The Bank has a well-organized chart of accounts					
C6) It is impossible for one staff to have access to all valuable information without consent from the senior staff.					
C7) Controls are in place to check on incurring expenditure in excess of allocated funds.					
C8) Departments undertake budget reviews and variance from budgeted expenditure are explained.					
C9) The security system identifies and safeguards the Bank's assets					
C10) The Bank's financial statements are regularly audited externally.					

D. Information and Communication Statements	1	2	3	4	5
D1) The Bank has identified individuals who are responsible for coordinating the various activities within the bank					
D2) All the employees understand the concept and importance of internal control including the division of responsibilities					
D3) Communication helps to evaluate how well the guidelines and policies of the bank are working and are implemented.					
D4) The reporting system on the operational structure spells out all the responsibilities of each department in the bank.					
D5) Sufficient information is identified and communicated in a timely manner to enable people perform their responsibilities					
E. Monitoring Statements	1	2	3	4	5
E1) The Bank has assigned responsibilities for the timely reviews of the audit reports and resolution of any non-compliance items noted in the audit reports					
E2) There are independent processes, checks and evaluation of control activities on an ongoing basis					
E3) Monitoring has helped in assessing the quality of performance of the bank over time					
E4) An internal review of implementation of the internal control system in departments is conducted periodically to ascertain its effectiveness.					

Section C: Questions Related to Performance

Operational Performance (Service Quality)	1	2	3	4	5
F1) You met the work target on time					
F2) The job done by employees maintain work accuracy					
F3) The working process provides support for quality service					
F4) The organization has right number of employees at the right time with the right skill to deliver quality service					
F5) All materials which help to provide quality service are available					