

**ST. MARY'S UNIVERSITY COLLEGE
BUSINESS FACULTY
DEPARTMENT OF MANAGEMENT**

**AN ASSESSMENT ON INTERNAL CONTROL
OVER CASH IN THE CASE OF
BANK OF ABYSSINIA**

**BY:
KIBRU DESSU**

**June, 2010
SMUC
ADDIS ABABA**

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OVER CASH IN THE CASE OF
BANK OF ABYSSINIA**

**A SENIOR ESSAY SUBMITTED
TO THE DEPARTMENT OF MANAGEMENT
BUSINESS FACULTY
ST. MARY'S UNIVERSITY COLLAGE**

**IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE
DEGREE OF BACHELOR OF ARTS IN MANAGEMENT**

**BY
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DEPARTMENT OF MANAGEMENT

APPROVED BY THE COMMITEE OF EXAMINERS

Chair Person

Signature

Advisor

Signature

Examiner

Signature

Examiner

Signature

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DEPARTMENT OF MANAGEMENT

Questionnaire for employees

Dear Respondents.

I am conducting a research work on an *Assessment of Internal Control System over Cash in the case of Abyssinia Bank*, for my partial fulfillment of, BA Degree in Management. I kindly request you to genuinely complete this questionnaire and this would greatly enhance the quality of my research.

I assure you that the information that you provide will be kept confidential and would only be used for academic purpose.

Thank you in advance for taking your precious time to fill it out for me.

N.B. Do not write your name

Part I: General Background Information

Instruction I: Respond for the following items by putting a tick (/) mark on the box provided.

1. **Sex :** A. Male B. Female.

2. **Educational Level:** A. College Diploma
 B. B.Sc. or B.A. Degree
 C. Post graduate and above

3. **Position:** A. Cashier
 B. Accountant
 C. Auditor
 D. Journal Keeper
 E. Teller

4. **Year of Service:**
 A. Below 3 years
 B. Below 3-5 years

C. Below 6-10 years

D. Above 10 years

Part II. General question related to Internal Control over Cash

Instruction II: Respond by putting a tick (/) mark on the box provided and explain the items that need further explanation. You can mark more than one item.

1. Does the Bank update its work procedures and manuals in regard to internal cash controlling system?

A. Yes B. No

2. Is there continuous evaluation to revise internal policies and manuals?

A. Yes B. No

3. If your answer for question number 2 “yes” how often?

A. Weekly

B. Monthly

C. Semi-Annually

D. Annually

E. Any other time

4. How do you get the implementation of Internal Control of cash system?

A. Excellent

B. Very Good

C. Average

D. Bad

E. Very bad

If your answer is “Bad or Very bad” please specify _____

5. Do the personnel follow the procedure and policies set by the Bank?

A. Yes B. No

6. Are the cash safes under dual control?

A. Yes B. No

If your answer is “No” please specify _____

7. Are cash and cash related items kept in secured storage (Vault)...?

A. Yes B. No

If your answer is "No" please specify _____

8. Does the Bank have a practice of segregation of duties with responsibility?

A. Yes B. No

9. How is duty segregation in the Bank in regard to internal control procedure?

A. Sufficient

B. Insufficient

C. Average

D. Non -Existence

10. Is there a Voucher system with regard to cash transaction?

A. Yes B. No

11. Are the voucher pre-numbered for each cash collection transaction?

A. Yes B. No

12. Are the voucher pre-numbered for each cash payment transaction?

A. Yes B. No

13. Is there surprise Cash Count?

A. Yes B. No

14. Is there strong control activities that check authorization of cash?

A. Yes B. No

15. Is the Internal Control over Cash System efficient to handle service transaction?

A. Yes B. No

If your answer is "No" please specify _____

16. Do you think "Bank of Abyssinia" has generally a sound Internal Control over Cash?

A. Yes B. No

If your answer is "No" please specify_____

17. What do you suggest to improve current Internal Control over Cash System?

Annex-II

Interview Questions

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

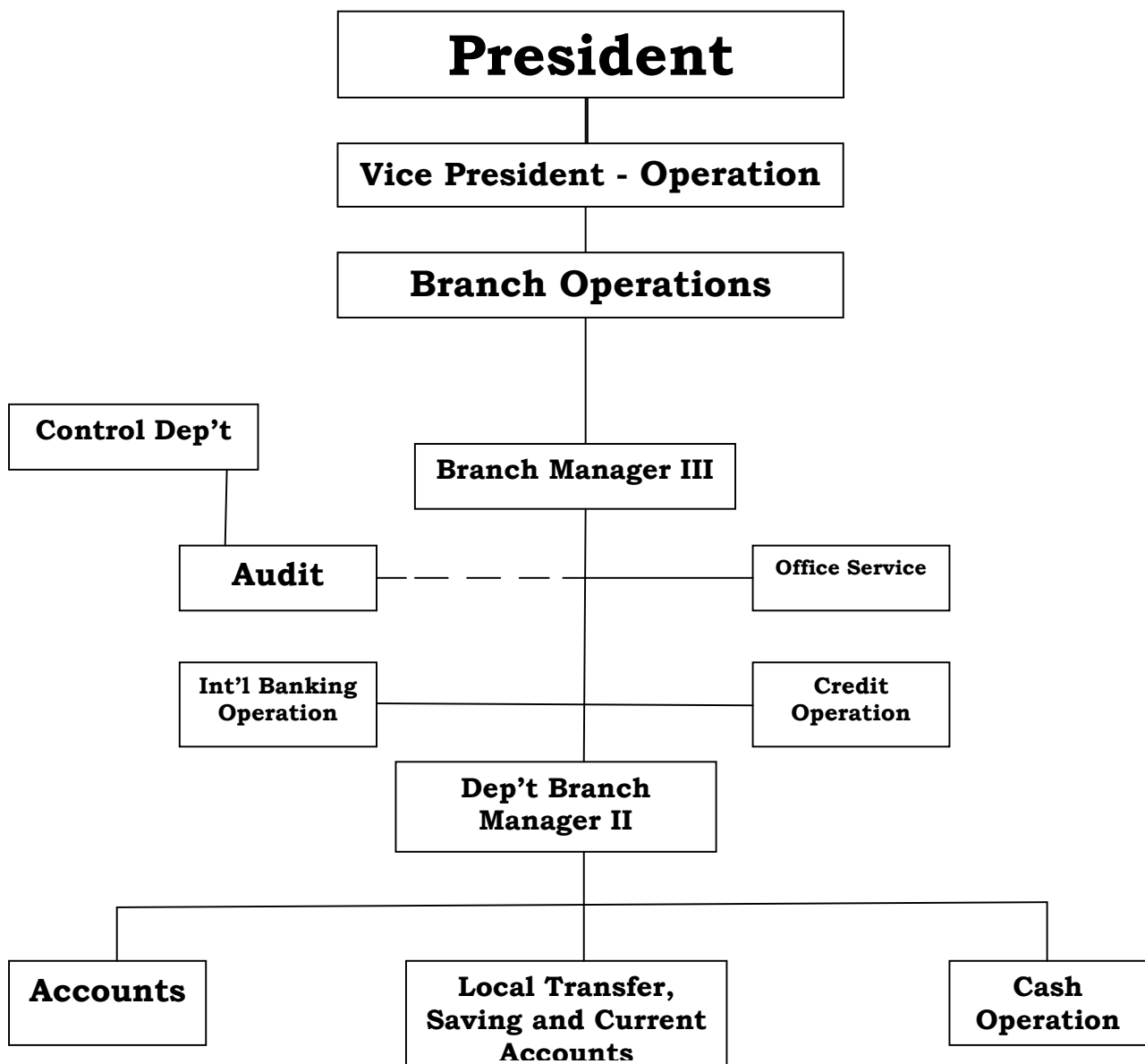
1. What are the Bank's policies and procedures regarding cash management?
2. How the Bank personnel follow the cash procedures and manuals set by the organization?
3. What are the practice of the bank on separation (division) of duties and responsibilities of work in the area of cash and cash related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

Thank you!!

APPENDICES

Annex-III

Organizational Structure of Bank of Abyssinia (BOA)



Source: BOA, Annual Bulletin 2009

DECLARATION

I, the under designed, declare that this senior essay is my original work prepared under the guidance of Ato Ephrem Admassu. All sources of materials used for the manuscript have been dually acknowledged.

Name_____

Signature_____

Place of submission_____

Date of submission_____

SUBMISSION APPROVAL SHEET

This senior research paper has been submitted to the department of Management in partial fulfillment for the requirement of B.A. degree in Management with my approval as an advisor.

Name_____

Signature_____

Date of submission_____

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I am also great full to the staff of Bank of Abyssinia Bole, Negaderas and Guenet branch for their assistance through my way. My great thanks also go to Bank of Abyssinia Officials for their kind assistance for the accomplishment of this study.

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ACRONYMS

ATM	Automated Teller Machine
B.A.	Bachelor of Art
BOA	Bank of Abyssinia
CBE	Commercial Bank of Ethiopia
CPO	Certified Payment Order
IC	Internal Control
GAAP	Generally Accepted Accounting Principle
NBE	National Bank of Ethiopia
TT	Telegram Transfer
C/A	Current Account
A/R	Account Receivable

Chapter One

Introduction

1.1. Background of the Study

Cash is the medium of exchange, which a firm or an individual can disburse immediately without any restriction. The term cash includes coins, currency and checks held by the firm and balances in its bank accounts. Sometimes near-cash items, such as marketable securities, bank time deposit and near-cash assets that can easily be converted in to cash. Cash is the oxygen that enables a business to survive and prosper and is the primary indicator of business health. A business can survive for a short time without profit but it will die without cash. Cash has been described as an asset, which banks acquire in exchange for deposit liability. In other word when a customer puts money in to his bank account, the bank acquires cash in exchange for documentary Acknowledgment of liability toward the customer (BOA, 2008).

Cash or money has a long evolutionary history, and we are familiar with money. After all, we handle it every day of our lives and its use regulates many of our daily activities. Yet how often do we pause to consider just how artificial a device it is? Nevertheless, the invention of money was as crucial to the development of our modern commercial economy as the invention of the wheel was to the development of technology. Beginning of the period of ancient time/antiquity, men from all walks of live have searched for things, which made their life on the earth easy and comfortable. Though was being the case, to their existence. There was no commerce with other groups. What the community could not provide for itself, it went without like alone individual living in the wilderness and catering for his own needs without assistance, such societies have not need or use for money. As a result, the primitive men were used to get what they themselves did not produce or possess either forcefully or through theft. However, they gradually realized that such methods were

no longer effective and desirable to social stability and order. Men, being a rational animal, instead began to seek other peaceful ways of getting what they need for their survival or existence. Barter was the first and the crude method they have invented as a solution to the problem. It is a simple exchange of goods. People began restoring to primitive money because of obvious disadvantage of barter. In our country the Maria Theresa known as “sete” birr made of silver and “wonde” birr of Menilik birr is the first Ethiopian paper money was introduced by bank of Abyssinia-1941E.C.

Now a day, it is not paper money that people carry around most of the time in highly developed countries use checks, credit cards, ATM (Automated Teller Machine or Payment card) were introduced in most developed countries. Having enough amounts of capital in the form of cash is the most important source for every aspects of investment. To improve the performance of the business as well as to introduce new business opportunity in the organization cash is very important.

Due to this cash is the most powerful working capital. So, the collection and payment of cash must be managed carefully.

Based on this, the research try to assess ways on how cash is controlled and managed in Abyssinia Bank in selected branches. After completion of the study, there may be possibilities of recommendations that could be assumed to find out the problems related with cash control.

Background of the Organization

The agreement that was reached in 1905 E.C between Emperor Menilik II and Mr. Ma Gillivry, representative of the British owned National Bank of Egypt marked the introduction of modern banking in Ethiopia. Following the agreement, the first bank called Bank of Abyssinia was inaugurated in Feb.16, 1906 by the emperor. The Bank was totally managed by Egyptian national Bank (BOA, 2006).

Within the first years fifteen of its operation, Bank of Abyssinia opened branches in different areas of the country. In 1906 E.C a branch in Harar (Eastern Ethiopia) was opened at the same time of the inauguration of Bank of Abyssinia in Addis Ababa, Another at Dire Dawa was opened two years later and Gore in 1912 E.C and at Dessie and Djibouti in 1920 E.C. Mac, Gillivary then representative and negotiator of Bank of Egypt was appointed to be the governor of new bank and he was succeeded by H Goldie, Miles Backhouse and C.S. Collier were in charge from 1911E.C until the Bank's liquidation in 1931 E.C., Thus by 1931E.C Bank of Abyssinia was legally replaced by Bank of Ethiopia shortly after Emperor Haile Selassie I came to power (Ibid).

On 15 February 1996 G.C ninety years to the day following the establishment of the first Bank of Abyssinia, a new privately owned bank with a subscribed capital of Birr 25 million and authorized capital Birr of 50 Million, with 131 shareholders all Ethiopian with this historic name, the new Bank of Abyssinia (BOA) not connected with the older bank came into existence.

Currently Bank of Abyssinia has 1,309 share holders, all private individuals or institution on private sectors. The bank authorize capital is 630 million, its subscribed capital is Birr 315 million and paid up capital is 422 million (including special and legal reserves). The bank currently has 1,721 employees, over 225,660 customers and birr 2.71 Billion as outstanding loans and advance with total of 46 branches (BOA, 2009).

1.2. Statement of the Problem

Because of easiness to transfer, fraud, cheat and in its usage out of its intended target, cash need safeguard and good controlling mechanism

especially in financial institutions like banks. Transactions in banks either directly or indirectly affect receipt or payment of cash. Due to considering internal control over cash as secondary and/or being less concerned about the required system, Bank of Abyssinia, Ragual and Gottera branches were exposed for improper use of cash by their own employees (BOA, quarterly publication, 2008). Because of such and the like factors internal control over cash need to be studied. So, this research tries to assess the existing internal control over cash in the bank and help to strengthen the controlling system over cash through assessment of problem areas and suggestion of solutions.

1.3 Basic Research Question

More specially, the research was tried to answer the following basic research questions:

1. What are the Bank's policies and procedures regarding cash management?
2. How the Bank personnel follow the cash procedures and manuals set by the organization?
3. Are sequentially, pre-numbered or computer generated receipt forms being used to establish accountability for each cash collection transaction regardless of its source?
4. What are the practice of the bank on separation (division) of duties and responsibilities of work in the area of cash and cash related activities?
5. How does the bank control and manage its cash?

1.4 Objective of the Study

1.4.1. General Objective

In financial institutions there are composed of different departments, particularly the cash department is taken as a core department that needs special control. Therefore, the general objective of this study was to assess the internal control of cash in Abyssinia Bank selected branches.

1.4.2. Specific Objective

The specific objectives of this study were:

- To assess the bank's control and management of cash.
- To investigate whether there is written policy and procedure regarding control over cash & to examine its implementation by the bank's personnel.
- To check the existence of sequentially pre-numbered vouchers or computer generated receipt forms for the sake of accountability in each cash collection and payment transaction.
- To assess the existence of division of duties and responsibilities in the area of cash and cash related activities.
- To identify the level of cash control and to suggest on an issue that can help in making the system more dependable.

1.5 Significance of the Study

It is known that the impact of cash, especially paper money in an organization like banks is vital. So as to keep things in a well manner studying the control of cash receipt and disbursement needed. In this regard the researcher was tried to investigate the internal control over cash in three branches of Abyssinia Bank.

Therefore, the significance of the study set upon the following fundamental reasons.

- The study helps to increase the focuses in the area of internal control over cash in Bank of Abyssinia.
- The study helps to create awareness, among employees, managers & other members of the bank about the need of internal control over cash.
- The researchers also hope that the findings of this research provide a support to other researchers who are interested to conduct further study in the area.

1.6 Scope of the Study

For the reason that a research on large population needs much time, fund, human and other resources, the study was delimited to focus on three branches of Bank of Abyssinia, i.e. Guenet, Negadras and Bole which are found in Addis Ababa. It was believed that in all branches, systems and procedures are more likely the same. The study assessed only the last three years policies and manuals regarding internal control over cash.

1.7 Limitation of the Study

The major problems of the study, among others were findings the selected BOA, officials for an interview due to their willingness and short of time, the second problem of the study was delay of respondents to reply distributed questioners. And the other problem which was faced by the student researcher was lack of experience in how to deal with research paper.

1.8 Research Design and Methodology

The type of research design which was used on this study was a descriptive research, the design enabled to assess and identify the status of internal control over cash in the case of Abyssinia Bank.

1.8.1. Population and Sampling Technique

Because of difficulties to take all branches for conducting a research, using judgment sampling technique into consideration for selecting branches and the researcher took three branches of the bank. The basis used to select the branches for conducting the research were number of depositors and the amount of cash that the branches transact.

The whole staffs of cash department in these three branches; i.e. branch managers, assistant branch managers, journal keepers and auditors were considered as population of the study. Beside this due to easiness to conduct

the research, the study used the whole population and hence a census was used.

Table 1: Number of respondents

No.	Department	Guenet	Bole	Negadras	Data collection Method
1	Branch managers	1	1	1	Interview
2	Assistant branch managers	1	1	1	Interview
3	Auditors	2	2	2	Questionnaire
4	Accountants	1	1	1	\$
5	Tellers and Cashers	8	10	13	\$
6	Journal Keepers	1	1	1	\$
Total		14	16	19	
Total Number of Respondents				49	

Source: primary data

1.8.2. Data Collected

The study used both primary and secondary data. As primary data interview and questionnaire was used. Books, magazines, journals, websites and other similar researches were used as secondary data.

1.8.3. Data Collection Method

During the study questionnaire and interview were used. Questionnaires were distributed to collect relevant data from selected employees; that are cashers, tellers, auditors, accountants and journal keepers. Interview was conducted with concerned officials, including branch managers and assistant managers who have direct contact to the subject matter of the study.

1.8.4. Data Analysis Method

The collected data was tabulated before data analysis which was responded in the form of interview and questionnaire and then analyzed and summarized. Finally generation presented based on the result of the study.

1.9. Organization of the Study

The study is organized into four chapters. The first chapter is an introductory chapter, which deals with the problem and its approach. The second chapter is

concerned with representing the review of related literature review. The third chapter deals with the analysis of the data collected and general view of the company profile, and organization structure of the company under the study. Finally, the last chapter, which is chapter four, provides the summary, conclusions and recommendations for the problem encountered by Bank of Abyssinia; Bole, Negaderas and Guenet Branches.

Chapter Two

Literature Review

Cash handling and the control of cash balances tend to be critical in designing financial operating and accounting systems and developing adequate internal controls for those systems. The problem is the attractiveness of cash with its power to command economic goods of all types, its portability in terms of the relationship of bulk to value and its accessibility through orders to pay and transfer authorizations even though it has been deposited with a financial institution. It is important that the auditor gives close attention to cash, and extensive audit is further warranted by the fact that cash is essentially the “eye of the needle,” with practically all business transactions involving the receipt or disbursement of cash at some point in time (Howard F. settler, 1982, 400).

2.1 Definition of Cash and Cash Management

Cash is the important current asset for the operations of the business. Cash is the basic input needed to keep the business. Running on a continuous basis, it is also ultimate output expected to be realized by selling the service or product manufactured by the firm. The firm should keep sufficient cash, neither more nor less. Cash shortage will disrupt the firm's manufacturing operations while excessive cash will simply remain idle, without contributing anything towards the firm's profitability. Thus, a major function of the financial manager is to maintain a sound cash position.

Cash is the money which a firm can disburse immediately without any restriction. The term cash includes coins, currency and checks held by the firm, and balances in its bank accounts. Sometimes near-cash items such as marketable securities or bank time's deposits are also included in cash. The basic characteristics of near-cash assets is that they can readily be converted in to cash. Generally when a firm has excess cash in marketable securities this kind of investment contributes some profit to the firm (Pandey, 1999, 911).

Cash Management

Cash management is concerned with the managing of:-

- i. Cash flow into and out of the firm.
- ii. Cash flows within the firm
- iii. Cash balances held by the firm at the point of time by financing deficit or investing surplus cash.

Motives for Holding Cash

The firm's need to hold cash may be attributed to the following three motives:-

- The transaction motive
- The precautionary motive
- The speculative motive

Transaction Motive

- Requires a firm to hold cash to conduct its business in the ordinary course.

The firm needs cash primarily to make payment for purchase, wages and salaries. Other operating expenses taxes, dividend etc. The need to hold cash would not arise if there were perfect synchronization between cash receipts and cash payment, i.e. enough cash is received when the payment has to be made. But cash receipts and payments are not perfectly synchronized, for those periods, when cash payments exceed cash receipts; the firm should maintain some cash balance to be able to make required payment.

Precautionary Motive

- The need to hold cash to contingencies in the future. It provides a cushion or buffer to with stand some unexpected emergency. The precautionary amount of cash depends upon the predictability of cash flows. If cash flows can be predicted with accuracy, less cash will be maintained for an emergency.

Speculative Motive

- Relates to the holding of cash for investing in profit-making opportunities as and when they arise, the opportunity to make profit may arise when the security prices change. The firm will hold cash. When it is expected that interest rate will rise and security price will fall. Security can be purchased when the interest rate is expected to fall; the firm may also speculate on material price.[ibid]

2.2. The Meaning of Internal Control

Many people interpret the term internal control as the steps taken by a business to prevent employee fraud. Actually, such measures are a part of

Internal Control (IC). In the broadest sense, an organization's IC structure (also referred to as internal control system) consists of the policies and procedures established to provide reasonable assurance that the organization's objectives will be achieved. Internal control consists of all measures taken to assure management that everything is functioning as it should (Meigs, 1989:145-149).

The Need for Internal Control

Business decisions of almost every kind are based at least in part on accounting data. These decisions range from such minor matters as authorizing overtime work and purchasing office supplies to such major issues as a shift from one product to another or making a choice between leasing or buying a new plant. The internal control structure provides assurance to management of the dependability of the accounting data used in making decisions.

Business decisions made by management become company policy. To be effective, this policy must be communicated throughout the company and consistently followed. Internal control aids in securing compliance with company policy. Management also has the direct responsibility of maintaining accounting records and producing financial statements that are adequate and reliable. Internal control provides assurance that this responsibility is being met (Ibid).

2.3 Meaning and Definition of Control

Control is universal and important function of management it is to guide somebody or something in the direction in which it is intended to go. In this sense, control means the proper or authority to direct, order or restrain. It also implies a standard of comparison for the result of any operation. In terms of managerial functions, control consists of the steps taken to ensure that the performance of the organization conforms to the plans. Haimann defines control as the process of checking to determine whether or not, proper progress is being made towards the objectives and goals and acting if necessary to correct any deviation (Gupta, Sharma and Bhalla. 1988: 238).

Essentials of an effective control system

An ideal system of control is that which makes the controlling function easy, effective and smooth. The following are the essential or basic requirements or principles or characteristics of an ideal control system:

- **Suitability:** The controlling system should be appropriate to the needs, kind of activity and circumstances of an enterprise.
- **Simplicity:** To be effective, control system must clear, easy to understand and operate.
- **Objective:** The fixation of standards, measurement of performance and corrective action must be objective and impersonal.
- **Economical:** The system of control must be worth their costs. They must justify the expenses involved.
- **Flexibility:** The system of control must be flexible, workable even if the plans have to be changed.
- **Quick Reporting:** Time is an important element enforcing a control system.
- Subordinates should inform their superiors quickly with actual results all deviations from standards.
- **Suggestive:** a controlling system should not only measure performance and detect deviations, it should suggest remedial measures as well in other words, and goods control system should be self-correcting.
- **Forward-looking:** The controlling system should to be directed towards future.
- **Individual Responsibility:** Control can be effective when it focuses on individual rather than on jobs or works.
- **Strategic point control:** All deviations from standards are not of equal importance.

- **Self-control:** Deferent departments in units may be planned to control themselves.
- **Feedback:** It means information previous performance [ibid]

2.4 The Purpose of Internal Control System over Cash

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

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

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

One of the most important controls for cash is separating the handling of cash from the recording of cash. The purpose of this separation of duties is to make it difficult for theft or errors to occur unless two or more people are involved. If the cash records are maintained by an employee who also has access to the cash itself. Cash can be stolen and the employee can cover up the shortage by falsifying the accounting records (Diamond, Stice, 2000: 338).

2.4.1 Administrative Control: Includes, but is not limited to, the plan organization and the procedures and records that are concerned with the decisions process leading to management's authorization of transactions. Such

authorization is a management function directly associated with the responsibility for achieving the objectives of the organization and it's the starting point for establishing accounting control of transaction.

2.4.2 Accounting Control: - Comprise the plan of organization and the procedures and records that are concerned with the safeguarding of assets and the consequently are designed to provider reasonable assurance that:

- A. Transactions and executed in accordance with management's general or specific authorization.
- B. Transaction is recorded as necessary:
 - 1. To permit preparation of financial statement in conformity with generally accepted accounting principles (GAAP) or any other criteria applicable to such statements, and
 - 2. To maintain accountability for assets.
- C. Access to assets is permitted only on accordance with management's authorization.
- D. The recorded accountability for assets is compared with the existing assets are reasonable intervals and appropriate action taken respect to any differences.

A system of internal control is not designed primarily to detect errors but rather to reduce the opportunity for errors or dishonesty to occur. In an effective system internal control, no one person should carry out all phases of a business transaction from beginning to end.

The system of internal controls frequently may be improved by physical safeguards. Computer help to improve the efficiency and accuracy of record keeping function. Cash register, safes, and pre- numbered business forms are very helpful in safeguard cash and establishing reasonability for it. Any system of internal control must be supervised with care if it is to function effectively.

If an attempt is make to design a "full proof" system of internal controls, it should be remembered that management's primary responsibility is profitable

operation of the business enterprise. The cost of the system of internal controls must be balanced against the benefit to be derived in preventing errors and losses.

2.5 Internal Control Standards

The integrity of cash management activity depends on the application of control principle and standards. The attainment of these principles and standards in the cash management can be achieved by pursuing the following guidelines:

- The time value of money shall recognize as a part of each cash management decision.
- Cash related transactions shall occur only after the approval of an individual with delegated authority to make approvals.
- Cash related transactions shall be fully documented so that undisputed audit trail exists.
- Cash related transaction shall be recorded promptly during each step of the handling function.
- Serially numbered forms shall be used to document cash related transactions to enhance reconciliation and accountability.
- Documents used in cash related transactions shall be safeguarded against re-use, tampering or unauthorized disposal.
- Provision shall be made for the regular review and comparison of transaction documentation to detect errors and payments.
- The approval of adjustments to each related transaction shall be administratively controlled.
- Supervision of each management activities shall be strictly and continually administered.
- Cash related duties, such as maintenance of A/R, cashiering accounting; disbursing and collecting funds shall segregate.
- Cash related accounts shall be frequently reviewed and reconciled with subsidiary records.
- The accessibility to funds and found records shall be restricted and administratively controlled.

- Only properly designated employees shall handle impress funds, disbursement certifications and collection duties.
- Employee's assigned cash related duties shall be trained and must accept their responsibilities.
- Unnecessary clerical routines and handling of cash or cash related documentation shall be eliminated to lessen the risk of loss and exposure to errors.
- Electronic funds transfer and direct deposit shall be used where feasible and advantageous.
- Computer edit programs shall be used to the maximum extent possible to disclose or reduce the incidence error on cash related transaction.
- Cash derived from collections and cash for disbursements shall not commingle.
- Cash transactions shall not be used to substitute or circumvent, prescribed procurement approvals and procedures.
- Checks received in collection shall be endorsed up on receipt and collections shall be safeguarded until deposit is accomplished.
- Deposit shall be processed within prescribed intervals and reconciled against records of funds received.
- Prompt responses shall be made to reviews performed by the office of inspector general and the general accounting office on cash management activities to correct cited deficiencies.
- Cash disbursement transaction shall be processed promptly and cash shall be reconciled daily.
- Cash held outside the treasury shall be maintained at the minimum amount needed to cover currently transaction.
- Credit shall be extended only when authorized by a designed official who is aware of the department's debt management policies.
- Approved price lists shall be published to ensure a control over income for goods and service.

This list of guidelines is by no means all inclusive cash handling techniques methods change as programs change and as new collection and disbursement technologies evolve overtime. However, similar economically feasible standards should be established to fit these new collection and payment processes (BOA, 2008).

2.6 Cash Handling Procedures in Bank of Abyssinia

Cash operation of the Bank should be handled carefully and promptly under properly secured cash operations environment. The responsibility for ensuring that these objectives are rests on the Bank's management and control organs in general, and branch managers and cash operations personnel in particular. The cash handling procedures defined here under should always be strictly observed by all involved in cash operations and management and auditors of branches should ensure that the procedures are always observed (BOA, 2008).

2.6.1 Cash Payment Procedure

The paying teller should follow the following procedures:

1. All tellers/cashier should have updated list checks on which "stop payment" instruction are issued by drawers.
2. Obtain checks, cash withdrawal slop cash payment voucher (payment instruments) signet by authorized signatures of the bank of token.
3. Double check the no "Stop payment" instruction is issued by the drawer on the checks presented for payment even though it might have already by counter clerks. A "stop payment" instruction had been issued return the checks to the branch supervisor.
4. Check that taken number written on the payment and the number on the token are the same to ensure that payment is made to the right person.
5. Check that the checks are valid by checking the data of the checks. Check that the data account number and the amount in words and figures are correctly and legibly written on the payment instrument and the signature (s) on the payment instrument is/are verified. If there are

any discrepancies, refer the payment instrument to the branch's supervisors.

6. Whether posting is made to drawer's account before efficiency payment.
7. Organize cash notes and coins to be paid in denomination required by the client. Count each denomination carefully. Record the amount to be paid by denomination on the back of the payment instrument and check that the total agrees with amount shown on the face of the payment instrument.
8. Ensure payee's signature on the back of the payment instrument and that they payee is properly identified put "cash paid" stamp on the payment instrument, sign the payment instrument and deliver the cash to the payee. Advise the payee to count the cash before leaving the teller's counter record payment made on the daily blotter without fail (Ibid).

2.6.2 Cash Receiving Procedure

The receiving teller shall:

1. Receives cash "received stamp" and blotter from the chief cashier.
2. Receive the deposit tickets and check the name, account number, the amount in words and figures and other particulars.
3. Call the customer and receive the cash.
4. Impress the cash-receiving stamp on the deposit voucher and put his/her initial.
5. Deliver copy of the deposit voucher (advise) to the customer.
6. Register the particular and the deposit amount on the cash blotter.
7. Deliver the cash to chief cashier against signature when the received cash is accumulated beyond a certain limit.

8. Forwarded the deposit voucher in branches to the journal keeper or accountant after taking run up and recording the tickets on the cash blotter sheet.
9. Taken run-ups of all deposit vouchers, close the blotter and balance against journal records.
10. Check the balance of the blotter against the total cash count received from customer.
11. Record all the denomination on the cash delivery book and surrender the received cash to the chief cashier against signature of the teller (Ibid).

2.6.3 Sorting Tables

1. The teller in charge of sorting tables must keep a detailed record of cash received.
2. All notes regarding of demonstrations must be sorted out (deteriorated from good ones) counted, wrapped, verified, impressed with crossing and date stamps and by the respective tellers and/or cashiers.
3. Ensure that the total of cash surrender by the teller as recorded in their books agree with the total of cash held by the sorting table. The teller in charge of sorting table shall deliver the cash to the chief cashier in the name of each cash teller against signature on the bound book kept by the teller for this purpose; the respective denominations should be carefully recorded (Ibid).

2.6.4 Cash Consolidation Procedure at the end of the day.

- The left over amount of cash from the paying teller and cash collected from the receiving teller at the end of the day shall be delivered to the chief cashier up on writing details on the separate cash deliver book of the teller and signed by the chief cashier.
- The chief cashier amalgamators at the cash surrender to him/her from the paying and receiving teller at the end of the day plus any balance on the register book agrees with that of the general ledger position.

The chief cashier ensures that:

1. Bricks contain 10 packets of 100 not's each.
2. Packets are properly verified and initiated.
3. Not's of birr 50 and 100 shall be checked and verified.
4. Any alteration, cancelation or addition shall be accounted (signed) by the respective teller.
5. Whenever cash balance is made, it has to be checked against journal records at a time.
6. After the total cash is recorded in the registry book according to their denominations. The branch manager or assistant branch manager and chief cashier sign on the cash register book against checking of all the details.
7. The cash is lodged to the vault in the strong room and kept under dual control by the branch manager or assistant branch manager and the chief cashier at all times (Ibid).

2.6.5 Exchange Procedure

1. The teller for exchanger will receive from the chief cashier fixed amount of cash (not's and coins) in different denomination against signature in a bound book.
2. If additional amount are needed for exchange the chief cashier should provide the cash against signature. The coins shall be verified by counting.
3. The exchange teller will exchange big not's from the public into not's of smaller denominations and coins as registered. Exchange from small to big not's is completely prohibited.
4. Requests for exchange of birr 200 and above from a customer must be recorded.

5. At the end of the day the teller closes cash window to the public, balances the cash and surrendered to chief cashier in not's and coins but obviously it must be same amount that was received by teller during the day (Ibid).

2.6.6 Cash Shortage Procedure

1. Cash shortage for amount less than or equal to birr 200.00
 - The teller settles the difference amount out of his/her pocket or
 - Deduct the amount from cash indemnity account of the respective teller and settle the shortage accordingly
 - Report to the internal auditor of the branch.
2. Cash shortage for amounts greater than birr 200.00 and less than or equal to birr 1,000.00
 - Deduct the amount from the cash indemnity account of the respective teller and settle the difference accordingly
 - If the balance of the indemnity account dose not suffices to cover the shortage, the remaining balance should be settled out of the pocket of the respective teller.
 - After recurring written undertaking letter from the teller, the branch could resort to debit receiving amount after report authority is obtained from the branch operations department.
 - Report to Head-Auditor Division by copy to branch operations department and internal auditor of the branch.
3. Cash shortage for amount greater than birr 1,000.00 and less than or equal to 5,000.00

- Apply those points in the above and
 - Report to control department by copy to branch operation department and internal auditor of the branch.
4. Cash shortage for amounts greater than birr 5,000.00 and less than or equal to birr 10,000.00
- Apply those points notify under number two and
 - After security written under taking from the letter the branch shall report to debit receivable account to settle any outstanding amount after proper authority is obtained from vice president operation and strategic planning.
5. Cash shortage for amount greater than birr 10,000.00
- Apply those points notify under number two and three above and
 - With hold the benefit of the respective teller for ultimate settlement of shortage since the employment contract will be terminated as per the staff regulations of the bank
 - Report to vice president operations and strategic planning by copy to office of the president control department, branch operations department and internal auditor of the branch (Ibid).

2.6.7 Excess Cash Procedures

- Credit any excess cash amount to “Adjustment and refund account”
- If the claimant does not show up for 30 consecutive days. The excess amount shall be credited to other income-sundries

- If the claimant appears on the counter after the stipulated date (30days) refund shall be made by obtaining written approval in the recommendation given by control department for amounts greater than birr 1,000.00 and written justification along with the necessary documents is presented by the branch manager.
- Up to birr 5,000.00 shall be approved by the branch manager and recommendation should be obtained from the branch auditor for amount less than or equal to birr 1,000.00
- From birr 5,001.00 to 10,000.00 shall be approved by manager branch operations department.
- Above birr 10,000.00 approvals shall be made by vice president operations strategic planning.
- All the procedures for excess cash shall be applied as per the reporting procedure laid down for cash shortage above.
- Any cash discrepancy involving birr 200.00 and above shall be immediately reported to administration and human resources department having the following details at the end of each month.
 - A. Amount involved
 - B. Name of the teller or cashier
 - C. Any other relevant information
- A special register book is to be maintained in the cash section showing all cash shortage or excess committed by each teller, the record should be completed with details such as:-
 - A. Date of shortage or excess
deterred

- B. Name of the teller
- C. Amount involved
- D. The search made to detect the difference
- E. Date of the amount returned to the customer or passed to "Adjustment and Refund Account" (Ibid).

2.6.8 Proper Keeping of Daily Blotter

1. The daily blotter is a detail record of all cash receipt and payments made by each teller.

Therefore, every entry in the blotter should be recorded by the teller neatly and legibly.

2. In addition to cash payment to and cash receipts from customer, cash receipts from the vault/chief cashier and cash delivery to the vault/chief cashier during a given day should also be recorded in the bound book prepared for the purpose (Ibid).

2.6.9 Inter-Bank Cash Transfer (Cash in Transit)

When an outlying branch carries cash beyond the limit it is permitted, it has to deposit same in the C/A maintained with CBE in the name of NBE, in the event cash balance dwindles and needs replenishment or when large withdrawals are anticipated, withdrawals may be made by checks from the account maintained with CBE, head office should be immediately advised of these transaction in order to up-date its books.

Movement cash from one place to another should not be known to people outside or inside the bank except those employees concerned. Also such in transit should be covered by insurance. All cash insuring function is carried out by Head office and accounts department (BOA, 2006).

2.7. Cash Planning

Cash flows are inseparable parts of the business operation of firms. A firm needs cash to invest in inventory, receivable and fixed assets payment for

operating expenses in order to maintain growth in sales and earnings. It is possible that a firm may be getting adequate profit but may suffer from the shortage of cash as its growing needs may be consuming cash very fast. The cash-poor position of the firm can be corrected if its cash needs are planned in advance.

Cash planning is a technique to plan and control the use of cash. It protects the financial condition of the firm by developing a projected cash statement from a forecast of expected cash inflows and outflows for a given period. The forecast may be based on the present operations or the anticipated future operations. Cash planning may be done on a daily, weekly, or monthly basis. The period and frequency of cash planning generally depend upon the size of the firm and the philosophy of management. Large firms prepare weekly and monthly forecasts. Small-size firms may not prepare formal cash forecasts because of the non-availability of information and small-scale types of operations (Ibid).

2.7.1 Receipt and Disbursement Method

Cash flows in and out of a process in most companies on a continuous basis. The prime aim of receipts and disbursement forecasts is to summarize these flows during a predetermined period. In case of those companies where each item of income and expense involves a flow of cash, this method is favored to keep a close control over cash.

2.8. Internal Control of Cash on Hand

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

According to John W. Cook and others, the procedures applied for controlling cash on hand are:

- **Counting:** - When controlling cash on hand by counting, one must exercise simultaneous counting over cash and other negotiable assets in

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

- **Examination of Item:** - After cash on hand has been counted, the totals of the petty cash and un-deposited receipts should be traced to cash receipts records. Ambiguous documents like checks, draft, disbursement voucher and any other item questionable should be investigated further. On the balance sheet data all petty cash funds should be cleared of vouchers by replenishing so that cash and expenses will be stated properly on the financial statement.
- **Observing Deposit:** - To assure the validity of checks, the controller should determine if the checks included in the cash on hand are deposited in the bank. If the checks are not deposited when the controller examines cash, there will not be a way for the controller to assure that worthless checks was not previously placed if the bank returned the checks as worthless or fraudulent. At the end of the year, checks of related companies and transferred checks are included on the cash on hand; they must be deducted as outstanding in the bank reconciliation.
- **The Element of Surprise:** - In controlling cash the controller must exercise a surprise count. In order to make internal control adequate surprise count of cash must be given a high priority. In verification of cash, the controller must not exercise always at the year end. He may make two verifications dates one on a surprise and the other at year end (John W.cook, 1980:419-421).

2.9 Internal Control over Cash

Good and desirable internal control measures that ideally may be considered to segregate duties and function are

- Handling or sales transaction
- Cash receiving and keeping
- Cash mail receiving
- Depositing of Cash
- Comparison of cash receipts and deposits
- General ledger entries and records (summery control records, sales, accounts receivable).
- Preparation of bank reconciliation
- Custody of petty cash fund
- Handling of purchase transaction
- Payment voucher preparation
- Check preparation
- Check signing and issuing
- Check custody
- Vouchers register (entries)
- Advances payments-purchase and travel and other advances
- Budgeting
- Payroll
- Inventory control (storing and issuing)
- Pre-numbered forms like cash receipt, checks, vouchers and other receipts.

2.10. Internal Control over Cash and the Computer

Computer processing of cash transactions can contribute to strong internal control over cash. Remittance advices or mail room listings of customers' payments can be processed by computer. Many companies use computers to issue checks and subsequently, to prepare bank reconciliations. The daily computer processing of cash receipts and checks can provide management with a continually up-to-date cash receipts journal, check register, customer's accounts' ledger, and cash balance. In addition to this, the computer can prepare reliable bank reconciliations even when thousands of checks are

outstanding and can provide current information for cash planning and forecasting (Meigs, 1989:385).

Chapter Three

Data Presentation, Analysis and Interpretations

This chapter deals with the data presentation, analysis and interpretation of the collected data. Based on the methodology stated, the selection of branches is made on non statistical sampling method; judgment sampling is also taking in to consideration. The data presented on “Descriptive” approach. While the analysis is done through the data collected using questionnaire from selected employees of Bank of Abyssinia Guenet, Bole and Negadras branches. As indicated in the first chapter of this senior essay also included interview with concerned staffs.

The researcher selected a total of 49 respondents and out of this 43 questionnaires were distributed to selected branch employees. Out of which 43(100%) of the questionnaires were returned. On the other hand out of the total respondent 6(12%) of the respondents made interview with the researcher which was conducted with managers and assistant managers who have direct relation with internal control over cash.

The following table shows the summary of this analysis.

Table 2- Response Rate

Respondents	Plan		Actual		%
Managers and Assistant Branch Managers	6	Interview	6	Interview	100%
Selected staff members	43	Questioner	43	Questioner	100%
Total	49		49		100%

Source: Primary data

3.1 Characteristics of Respondents

In order to understand the nature of respondents, this section will discuss the general characteristics of respondents as summarized below.

Table-3 Characteristics of respondents

S. No	Item	Respondents	
		Number	Percentage
1	Sex		
	a. Male	28	57%
	b. Female	21	43%
	Total	49	100%
2	Educational level		
	a. College diploma	20	40%
	b. B.A. Degree	22	45%
	c. Post graduate and above	7	15%
	Total	49	100%
3	Position (Occupation)		
	a. Manager	3	6%
	b. Assistant Manager	3	6%
	c. Accountant	3	6%
	d. Auditor	6	12%
	e. Cashier	3	6%
	f. Journal Keeper	3	6%
	g. Teller	28	58%

	Total	49	100%
4	Year of service		
	a. Below 3 years	22	45%
	b. Between 3-5 years	12	25%
	c. Between 6-10 years	12	25%
	d. Above 10 years	3	5%
	Total	49	100%

Source: Primary data

As shown from the above table 3 item 1, out of the total respondent 57 % (28) were male and the rest 43% (21) were female this clearly indicates in Bank of Abyssinia the number of male employees is more than female employees. Item 2 same tables regarding their educational level about 40% of the respondents are diploma holders, 45% of the other respondents are B.A. degree holders and the rest of respondents which is 15% of the total are post graduates and above, so this shows that the respondent can provide reliable data.

Out of the total respondent 58% (28) of the respondents are tellers, 12% (6) of them are auditors, 6% (3) of the respondents are branch managers, 6% (3) of the respondents are assistant branch managers, 6% (3) of them are cashiers and the rest 6% (3) of them are journal keepers. This shows that majority of the respondents are tellers. As shown in table 3 item 4 out of 49 respondents 45% (22) of them are below 3 years of service, about 25% (12) of the total respondents are between 3-5 years of service, while 25% (12) of the respondent are between 6-10 years of service and the other 5% (3) of them are above 10 years service period.

In general this implies that since the establishment of Bank of Abyssinia much of its employees are youngsters and some others are assumed to be the first establisher of the bank.

3.2 Analysis of Basic Variables

3.2.1 Internal Procedures and Manuals

Table-4 Internal Control Review

No	Item	Frequency of respondents	
		Number	Percentage
1	Does the bank update its work procedures and manuals in regard to internal cash controlling system		
	a. Yes	9	20%
	b. No	34	80%
	Total	43	100%
2	Is there continuous evaluation to revise internal policies and manuals		
	a. Yes	2	5%
	b. No	41	95%
	Total	43	100%
3	If your answer is yes for question number 2 how often		
	a. Weekly		
	b. Monthly		
	c. semi annually		
	d. annually		
	e. any other time	2	100%
Total	2	100%	

Source: primary data

As it shown in item 1 of table 4, 80% (34) of the respondents reported that manuals and procedures are not revised at all, but 20% (9) of them stated that,

there is up to date work procedure and manual regarding cash. As shown in item 2 and 3 of the same table 5% (2) of the respondents reply that the internal control is reviewed any other time; whereas 95 % (41) of them stated that the Bank do not conduct a continuous evaluation of internal policies and manuals. The general overview on internal control procedures and manuals of the Bank has a certain problem. From this analysis the manuals and procedures available in the Bank of Abyssinia, the management should review in order to maintain more effective and efficient internal control system currently in practice.

3.2.2 Cash Control Procedures and Practices

Table-5 Personnel's follow up and implementation of procedures.

№	Item	Respondent	
		Number	Percentage
1	How do you get the implementation of internal control of cash system		
	a. excellent	4	10%
	b. very good	4	10%
	c. average	35	80%
	d. bad		
	e. very bad		
	Total	43	100%
2	Do the personnel follow the procedure and policies set by the bank		
	a. Yes	40	92%
	b. No	3	8%
	Total	43	100%

Source: primary data

As shown in item 1 of table 5, 10% (4) of the respondents have stated that there is implementation of internal control, 10% (4) of the respondent reply that there is very good implementation and 80% (35) of the respondent have stated average implementation of internal control over cash system. As it can be observed in item 2 of the same table 92% (40) of the respondent were stated that the personnel follow procedures and policies set by the bank, while the

rest 8% (3) of the respondents were stated that they do not follow procedures and policies set by the bank.

Also from conducting interviewee of the branch managers and assistant branch managers respond that the top management is not stable and changing very frequently. However, continuous follow up on internal procedures and manual should be done in order to perform the objectives of the bank. This problem has a significant contribution to the overall system of internal control in general and internal control over cash in particular. While management officials of the bank also stated that money is easily accessible either in the bank or in the business and it is also a highly liquid asset. So the bank should strictly follow the procedures stated on the cash operation manual. In general the respondents from questionnaires and interview the implementation and follow up of internal control system is under take in the Bank of Abyssinia; even though, rapidly changing management has its own impact on internal controlling system.

3.2.3 Cash Custody and Dual Control Practice

Table-6 Cash custody and dual control

No	Item	Respondent	
		Number	Percentage
1	Are the cash safes under dual control?		
	a. Yes	43	100%
	b. No		
	Total	43	100%
2	Are cash and cash related items kept in secured storage vault?		
	a. Yes	43	100%
	b. No		
	Total	43	100%

Source: primary data

The above table 6 shows that 100% (43) of respondents stated that cash safes are under dual control. As it can also be observed in item 2 of the same table 100% (43) of the respondent stated that there is secured storage vault for cash and cash related items.

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

3.2.4 Duty segregation in the bank

Table-7 Duties and responsibility

No	Item	Respondent	
		Number	Percentage
1	Does the bank have a practice of segregation of duties?		
	a. Yes	39	90%
	b. No	4	10%
	Total	43	100%
2	How is segregation of duty in the bank in regard to internal control procedure?		
	a. Sufficient	4	10%
	b. Insufficient	4	10%
	c. Average	35	80%
	d. Non-existence		
	Total	43	100%

Source: primary data

As indicated in table 7, from the total respondent 90% (39) believed that there is segregation of duty in Bank of Abyssinia, and the rest 10% (4) stated that there is no duty segregation in relation with cash. So this implies that there is segregation of duty in the bank even though sometimes there might be certainties.

As stated in the same table item 2, 10% (4) of the respondent were stated that there is sufficient duty segregation in regard to internal control, whereas, 10% (4) of the respondents were stated insufficient duty segregation, on the other hand 80% (35) of the respondents clearly notice that there is an average duty

segregation of internal control in Bank of Abyssinia. This in general implies that there is average duty segregation in Bank of Abyssinia.

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

3.2.5 Deposit and Withdrawal Voucher System

Table-8 Existence of Pre-numbered Voucher System

No	Item	Respondent	
		Number	Percentage
1	Is there a voucher system with regard to cash transaction?		
	a. Yes	43	100%
	b. No		
	Total	43	100%
2	Are the vouchers pre-numbered for each cash collection transaction?		
	a. Yes	4	10%
	b. No	39	90%
	Total	43	100%
3	Are the vouchers pre-numbered for each cash payment transaction		
	a. Yes	39	90%
	b. No	4	10%
	Total	43	100%

Source: primary data

As presented in table 8, 100% (43) of the respondents answered that there is voucher system in the Bank of Abyssinia. Whereas, in the same table in item 2, 10% (4) of the respondents stated that the vouchers are pre-numbered, the rest

of the respondents 90% (39) of them stated about the non existence of pre-numbered vouchers specially cash receipt voucher are not pre-numbered. As shown in item 3 of the same table above 90% (39) of the respondent were stated that there is pre-numbered voucher for each cash payment transaction, whereas the rest 10% (4) of the respondents were reply some payment vouchers are not pre-numbered such as Telegram Transfer, Certified Payment Order and Checks. In general the pre-numbered cash receipt and payment vouchers are more vital to facilitate the working condition. So Bank of Abyssinia should have to maintain all cash receipt and payment vouchers with serial number.

While from the interview made with branch managers and assistant branch managers responded that the cash receipt voucher of the bank are not pre-numbered except Telegraphic Transfer, Certified Payment Order and Checks. Based on the above evidence, some cash receipt vouchers are not pre-numbered. Due to this, it is almost impossible to figure out any misused tickets. And it is difficult to prevent from theft and error that might have occurred.

3.2.6 Controlling environment and authorization of cash

Table-9 Cash control system

Nº	Item	Respondent	
		Number	Percentage
1	Is there surprise cash count?		

	a. Yes	39	90%
	b. No	4	10%
	Total	43	100%
2	Is there strong control activities that check authorization of cash?		
	a. Yes	24	55%
	b. No	19	45%
	Total	43	100%

Source: primary data

As shown in table 9, 90% (39) of the total respondent stated that there is surprise cash count and 10% (4) of them have replied there is no surprised cash count. Whereas, in item 2 of the same table 55% (24) of the respondents replied “yes” for authorization of cash in Bank of Abyssinia, while the rest 45% (19) of them answered “no” for strong control activity that check authorization of cash over internal control system. This implies that there is a presence of surprise cash count as well as a strong control activity that check authorization of cash undertaken in Bank of Abyssinia.

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

3.2.7 Status of the Current System

Table-10 Level of internal control procedure and effectiveness

		Respondent
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Nº	Item	Number	Percentage
1	Is the internal control over cash efficient to handle service transaction?		
	a. Yes	9	20%
	b. No	34	80%
	Total	43	100%
2	Do you think “Bank of Abyssinia” has generally a sound internal control over cash?		
	a. Yes	17	40%
	b. No	26	60%
	Total	43	100%
3	What do you suggest to improve current internal control over cash system?		
	a. It should be revised	22	50%
	b. It must be supported by computerized system	19	45%
	c. Keeping as it is	2	5%
	Total	43	100%

Source: primary data

On the top of the open-ended questions the respondents were asked to forward some specifications on the overall cash procedures and manuals. From the respondent point of view 80% (34) respondents stated that the internal control system is not efficient to handle service transaction, but the rest of the respondents 20% (9) replied that there is efficient service transaction in regard to cash control. This indicates that there is a need for amendment on the internal control system.

In the same table item 2, 40% (17) of the total respondent reply that there is a sound control over cash procedure and manual, whereas 60% (26) of them stated that there is not a sound internal control system in Bank of Abyssinia. Accordingly, item number 3 shows 50% (22) of the total respondents suggested internal control over cash system should be revised, while 45% (19) of them suggested that it must be supported by computerized system, and the rest 5% (2) of the respondents recommended that they support the manuals and procedures currently in practice.

From this context, procedures and manuals with regard to cash controlling system in the bank of Abyssinia seems out dated, and this indicates there is an old fashion working environment which leads to dissatisfaction on customer service area and decline on employees' initiative to work. So, it needs revision of working environment with the current up to date technologies including computerized banking system for the satisfaction of customers in general and for the initiation of employees in particular.

Chapter Four

Summary, Conclusion and Recommendation

This research was conducted to assess the internal control over cash system currently in practices in Bank of Abyssinia; Guenet, Negadras and Bole branches. To successfully meet the objective, as explained in the methodology part of the study, for a total number of 49 respondents, that was the sample size. Questionnaire were distributed and collected and interview with the selected officials was held. The researcher has tried to see the internal control over cash systems in perspective of employees and managers response to the case under study.

4.1 Summary

- Employees were asked about internal control review, their responses were, 80% of the total respondent stated that the bank internal control procedures and manuals are not revised at all.
- Regarding personnel follow up and implementation, 80% of the response shows that there is average implementation. And there is also personnel follow up on the procedures and manuals set by the bank with regard to internal control over cash.
- Furthermore, 100% of the employees were stated that cash and cash related items kept in secured storage.
- 90% of them are stated that there is average segregation of duty in bank of Abyssinia.
- 100% of the response shows that there is voucher system in the bank of Abyssinia, but 90% of the respondent stated that the cash receipt and payment vouchers are not pre-numbered, except, Certified Payment Order (CPO), Checks and Telegraphic Transfer (TT).
- 80% of the response shows that the internal control system is not efficient to handle service transactions.
- The selected officials were asked on different areas, about cash in transit, they replied that the branch when needs cash supply directs it requisition to the “treasury” at head office specifying denomination by using fax.

4.2 Conclusions

According to the analysis and findings of the study the following conclusions were drawn.

- A number of problems have been investigated on the analysis of employee comment, the major one includes: the manuals and procedures not reviewed at all and lack systematic approach to its work environment.
- Employees had complaint in personnel follow up and implementation with regard to internal control over cash system and also top

management rapidly changing in the bank. This situation may create there might not be effectiveness enough with regard to implementation of procedures and manuals set by the bank.

- Most of the respondents are satisfied with cash custody and dual control systems of the bank. So, cash in any way should not be left to a single individual custody.
- Cash can be stolen and the employee can cover up the shortage by falsifying the accounting record. So, the level of voucher system of the bank is weak to protect the risk.
- Setting the minimum cash requirement to meet the day to day operations and the maximum cash holding limit up to the amount of the sum insured is essential part of cash movement. Holding cash carries opportunity cost of profit which could be made if the cash was invested elsewhere. The bank has to balance the advantage of liquidity as a security against insolvency on one hand and profitability on the other hand.

Therefore, concerned with optimizing the amount of cash available to the bank and maximizing the interest on any excess fund not required immediately to the National Bank of Ethiopia's debit advice;

- Cash in transit are possible, the way Abyssinia bank administers the cash gap that is the limit or excess have some problems. Using telephone message and letter are not adequate enough to overcome the problem. Trip with cash may expose and will affect the operation of the bank.
- Abyssinia bank's another strongest area on the application of internal control can be attributed to cash receipts and cash payment activities. Thus the bank must have to deal with the cross checking methods.
- As the result of this study indicated that the branch manager, assistant branch manager and chief cashier use separate keys for closing and opening of the safe vault. But there is a possibility for the branch manager, assistant branch manager and the cashier to conspire and

commit fraud. So, the bank must have to control such conspiracy to protect unpredictable mischiefs.

- The researcher also identified that the teller marked “counterfeit” forged notes presented to it by customer and found to be counterfeit. According to the researcher, this activity appears to have impact on the efficiency of the tellers as they do. To give safe guard for the teller, the bank should implement a modern technology that identifies forgery notes.

The researcher also disclosed that bank of Abyssinia uses internal control over cash in order to safeguard cash from waste, fraud and inefficient use. In addition, the researcher also provide that the internal control structure currently in use by the bank is fairly sufficient in terms of achieving the Bank’s objective but the researcher also finds the backward technological advancement in comparison to other private and government banks which they are currently run in Ethiopia.

4.3 Recommendation

The following recommendations are made on the basis of the research findings and literature reviewed.

- Remove over reliance on one individual, do not delegate significant authority to one person to establish, implement, monitor and enforce any single function of the bank as it is now. The system permits the branch manager, assistant manager and cashier to collaborate and steal the safe vault. The fact that collusion is one of the limitations of internal control, rotating workers shall be considered. In addition to this, Continuous assessment on the implementation of internal control should be done in order to improve the quality of internal control system of the bank.
- The problem of accessing on-cash staff to cash area can easily be seen. The bank (branches) should strictly follow the procedures stated on the cash operation manuals. Since an unqualified audit report do not

guaranteed that internal controls are effective organizations should continuously monitor the effectiveness of the internal controls.

- Training should be given timely to update the employees by control department. And it is advisable to conduct back ground checks on all potential employees before hiring. Carefully screen them to make certain they are qualified and have no record of fraud.

- The voucher system i.e. all deposit and withdrawal voucher must be serial or pre-numbered for the checking and verification that can enable healthy operation.

- The whole cash including the vault shall be re-checked and properly investigated periodically further tellers who regularly experience shortage shall be identified, so that management can take necessary measures.

- In order to investigate forged notes Bank of Abyssinia must have to use automated detector machine.

- Collect the token from the beneficiary and ascertain that the number written on the paying tickets is the same with that of the token presented by the customer and knowing the customer is very advisable for tellers.

- Whenever cash balance is made, it has to be checked against journal records at all times. And to be more accurate the bank should have also use the automated techniques that accelerate the system too.

- As stated in the conclusion part the problem of treasury management in internal control of cash gap is not effective. As much as possible the function should sent to the head office as the cash limit is above its pick point in every branch of Bank of Abyssinia, otherwise the bank may not get insurance coverage. And this also due to National Bank of Ethiopia that has not perform its responsibility on cash limit and excess. So, the National Bank must take its responsibility on treasury management of banks. In order to prevent problems that can be arising when there is cash in transit telephone communication must be in-coded and can be used in a given time.