St. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF INTERNAL CONTROL: IN THE CASE OF COMMERCIAL BANK OF ETHIOPIA

BY EMEBET GEREMEW

MAY 2024

Addis Ababa

SMU

ASSESSMENT OF INTERNAL CONTROL: IN THE CASE OF COMMERCIAL BANK OF ETHIOPIA

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A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY IN PARTIAL FULFILLMENT OF DEGREE OF BUSINESS ADMINISTRATION IN ACCOUNTING AND FINANCE

ADVISOR: MOHAMMED SEID (ASST. PROF.)

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Declaration

By signing this document, I certify that the paper named "ASSESSMENT OF INTERNAL CONTROL: IN THE CASE OF COMMERCIAL BANK OF ETHIOPIA" is my own original work that I developed with the help of my advisor Mohammed Seid (Asst. Prof.). This paper has not previously been submitted to any diploma or degree at any college or university and is being presented in partial fulfillment of the requirement for the award of a Master of Business Administration Degree in Accounting and Finance. Additionally, I would like to reaffirm that all informational sources used in this study have been properly cited.

By: EMEBET GEREMEW

_____ _____

Signature Date

Letter of Certification

This is to certify that EmebetGeremew carried out her study on the topic entitled "ASSESSMENT OF INTERNAL CONTROL: IN THE CASE OF COMMERCIAL BANK OF ETHIOPIA". This work is original in nature and suitable for submission for the award of the Business Administration Degree in Accounting and Finance.

Mohammed Seid (Asst. Prof.)_____ _____

(The research advisor) Signature Date

Acknowledgements

I want to start by sincerely thanking and appreciating my advisor, Mohammed Seid (Asst. Prof.), for his insightful criticism and expert guidance during the writing of this thesis.

Next, I would like to take this chance to extend my sincere gratitude to all individuals for his invaluable assistance in a variety of ways that helped to ensure the successful conclusion of this study. Godspeed, I pray for you! I also want to express my gratitude to the CBE staff members who took the initiative to create this document and willingly conduct the questionnaire on my behalf.

Above all, I praise the Almighty God for giving me the stamina, fortitude, insight, and inspiration throughout my study period.

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List Of Acronyms And Abbreviations

CBE	Commercial Bank of Ethiopia
CE	Control Environment
CA	Control Activity
RA	Risk Assessment
MA	Monitoring Activity
EIC	Effective internal control
IC	Internal Controller
ICE	Internal Control Expert
SPSS	Statistical Package for Social Science

Abstract

For any organization to succeed, good internal control is essential. In today's competitive market, the banking industry needs effective and efficient internal control systems to stay afloat. Thus, understanding the factors influencing internal control effectiveness can help in building this capital. In light of this, this study aims to provide empirical data on the evaluation of the Commercial Bank of Ethiopia's internal controversy. Employers of Commercial Bank of Ethiopia provided data, and the data was collected using quantitative research methods. The Commercial Bank of Ethiopia workers designated to the Internal Control Experts and Internal Controller regions, where there is Using the Kerjecie and Morgan (1970) technique, the bank's staff of 130 internal controllers and internal control expert personnel were identified. Their input was then gathered using a standardized five-scale Likert scale questionnaire. Descriptive analysis was utilized to assess the internal Control system components and internal Contro. From the research result it is concluded that all the except some minor exceptions five internal control elements mean of near to four which can be intre-prited as the bank as good interna control system. The research indicates bank need to work on the area of Risk Assessement and Monitering Activity because they have the lowest coefficient which indicate there is a gap between the Actual and the recommended practices..

Key Words: *Effectiveness, internal, Control, Environment, Risk, Assessment, Information, Communication,Monitoring*

CHAPTER ONE

Introduction

1.1BackgroundOf The Study

Internal controls included measures to ensure that the company's financial statements are accurate and compliant with International Financial Reporting Standards (IFRS). The International Accounting Standards (IAS) classify internal controls as follows: organizational structure, staff competency, accounting and arithmetic controls, document control, job segregation and rotation, asset protection, recording and record keeping, supervision, authorization and approvals, cost viability, routine and automatic checks. According to the (Jill, &Houmes, 2014), internal control is the "process affected by an entity's Board of Directors, Management, and other personnel intended to provide reasonable assurance regarding the realization of objectives related to operation, reporting, and compliance."

The Basel banking oversight Committee published a framework for evaluating internal control systems. It emphasized how crucial strong internal controls are to the financial system's stability and responsible bank management. When evaluating a bank's internal control systems, banking regulatory agencies should follow the thirteen principles established by the Basel committee. These guidelines were based on the COSO framework and fell into five main categories: information sharing, risk awareness and assessment, management oversight and the control environment, and monitoring tasks and fixing errors (Umar et al., 2018).

An organization's internal control system is made up of practices, policies, and procedures that work toward four main objectives: protecting the company's assets, improving operational effectiveness, guaranteeing the reliability and accuracy of accounting records and information, and keeping an eye on compliance with management-mandated policies and procedures. The five components of the COSO internal control framework are the control environment, monitoring, information and communication and control actions, and risk assessment, according to James (2011) .

When there is sufficient internal control, financial data is expected to be more reliable. Internal control over financial reporting is defined as a procedure to provide reasonable assurance

over the reliability of financial reporting. Internal controls are designed to prevent and/or identify fraud or mistakes that could result in the financial statements being falsified.

In the banking industry, where fraud threats are more prevalent than in other business sectors, internal control is crucial and should be minimized to the greatest extent feasible to ensure efficiency and financial success. Studies conducted over the past 20 years have shown that sub-Saharan African commercial banks are more profitable, with an average return on assets of 2%, and that effective internal controls improve bank performance (Kiganda, 2014). Internal controls are crucial components of an organization that enable management to successfully serve stakeholders, guarantee the truth of financial statements, and adhere to legal and regulatory requirements (COSO, 1992/2004).

Melese's (2021) research investigates the impact of ERP systems on the effectiveness of internal controls in Ethiopia's private commercial banks. It selected 66 respondents from two purposively selected banks using an explanatory and descriptive research approach. The findings demonstrated that the effectiveness of internal control was positively and significantly impacted by the information system attributes, service qualities, internal control qualities, and internal control implementation under ERP. The study suggested that financial institutions focus on particular tasks related to information system quality, service quality, internal control quality, and ERP internal control implementation. Organizations can enhance their efficiency in providing value and accomplishing their strategic goals by implementing control environments that are effective.

Ethiopia has dealt with internal auditing in the past, and the researcher has learned how this has affected profitability and other financial performance indicators. Even though internal control is crucial to the overall success of commercial banks, little thought has been paid to the variables influencing internal control in Ethiopian commercial banks. In this study, the commercial bank of Ethiopia's internal control system is examined, internal control elements are identified, and the extent and direction of the dependent variable's influence on the internal control variables are determined. According to me, prospective banks can minimize the loss incurred by commercial banks due to an inadequate internal control system by using the study's conclusions to evaluate themselves in light of the requirements (Isaac, 2020).

1.2 Statement Of The Problem

Effective internal controls, according to Kirsty (2008), provide an organization confidence in its capacity to carry out or execute a specific task and prevent errors and losses by monitoring and improving organizational and financial reporting processes and guaranteeing compliance with pertinent laws and regulations. Effective internal control design and implementation will always improve sustainability and financial performance, claims Mawanda (2008). Fraud and scandals have a history of flourishing in environments with inadequate internal control mechanisms. This was the case with this decade's financial scandals involving Enron and WorldCom. For the purposes of creating accountability, ensuring sound financial management, facilitating audit preparation, and preventing fraud, institutions require effective internal control (Charles, 2010, pp. 6-7).

Contracting should be used by both the principals and the agents to increase their wealth, according to Jensen and Meckling's agency theory. Agents may find themselves forced to choose between serving their principals' interests and their own. Internal control should be implemented as a fallback to handle this agency issue (Jensen & Payne, 2003). They haven't, however, received the attention they demand outside of meeting legal and social responsibility obligations.

Numerous studies, both domestically and globally, have been carried out to examine how internal control systems affect the productivity and financial success of different types of businesses. For example, Wittayapoom's (2011) research has demonstrated a relationship between a company's financial performance and the efficacy of its internal controls. While some of these studies have concentrated on a range of listed businesses in their respective locations, the majority of these research have concentrated on different industries. Finding the deterinantes of internal control effectiveness is the primary goal of the study, as strong internal control is essential to the productivity, profitability, and long-term viability of commercial banks.

Effective internal controls, according to Kirsty (2008), provide an organization confidence in its capacity to carry out or execute a specific task and prevent errors and losses by monitoring and improving organizational and financial reporting processes and guaranteeing compliance with pertinent laws and regulations. Effective internal control design and implementation will always improve sustainability and financial performance, claims Mawanda (2008). According to Njui's (2012) analysis of the role internal control plays in fostering good governance in Kenya's public sector, internal control has the biggest influence on corporate governance within Kenyan government ministries, followed by risk management, compliance, and consulting. In contrast to the public sector, the private sector has a strong internal control system, according to Ngugi's (2012)

analysis of internal control systems across Kenya's publicly listed commercial firms and public sector organizations.

Worku (2018); Getachewe (2021) state that fraud prevention and detection in the Ethiopian banking sector are significantly correlated with the internal control system (control environment, risk assessment, information and communication, and monitoring). There isn't much data on the variables influencing the efficacy of internal control, despite the fact that internal audit has been the subject of numerous research in the banking industry. According to Onuonga (2014), performance factors for banks have an unclear effect.

As far as the researcher concernam unable fo find any empirical research on assessment of internal control at commercial bank of Ethiopia. Therefore, by offering actual data on the assessment of internal control at the Commercial Bank of Ethiopia, the research article closes this gap. By talking about what variables affect internal control at the Commercial Bank of Ethiopia, as well as how much and in which direction they affect it.

1.3Objective Of The Study

1.3.1 General Objective

This study's main goal is toassessinternal control inCommercial Bank of Ethiopia's (CBE).

1.3.2 Specific Objectives

- To assess control environment
- To assess risk assessment
- To assesscontrol activity
- To assess control over information system
- To assess monitoring activities

1.4 Research Question

In view of the problems, the central question of this study is:

1. How does control environment affect internal control of CBE?
2. How does risk assessment affect internal of CBE?

3. How doescontrol activity affect internal of CBE?
4. How does control over information sysstem affect internal control of CBE?
5. How doesMonitering Activity affect internal control of CBE?

1.5Significance OfThe Study

There is no denying that internal audit, a subset of internal control, has been the subject of several studies; on the other hand, the variables influencing the efficacy of internal control in Ethiopia's commercial banks have not gotten as much attention. This research project made a significant contribution to the Commercial Bank of Ethiopia's detailed examination of the types and range of factors influencing internal control effectiveness. It presented new issues to up-and-coming academics, opened up a new field for study, and demonstrated the elements that influence the efficiency of internal control in Ethiopia's commercial banks. It was also beneficial to scholars, students, lecturers, and other interested parties.

1.6 Scope Of The Study

Factor-wise, the study is limited to analyzing the impact of the five factors mentioned. Based on the findings of this research, more studies may be conducted. Coverage-wise, the study is limited to the Commercial Bank of Ethiopia head office, special and grade 4, grade 3 branches located in Addis Ababa, with a specific focus on internal control officers working in those branches. This is because it makes sense that not all branches can be studied.

1.7 Limitation Of The Study

The research study has limitations in terms of the number of banks participating and the area covered because it is restricted to Commercial Bank Ethiopia and its Addis Ababa district office. Furthermore, a larger study of the number of banks engaged and the number of districts outside Addis Ababa must be added in order to establish generalizations for the Ethiopian environment.

1.8 OrganizationOf The study

There are five chapters that make up this section. Chapter 1's opening section helps the reader comprehend the goals of the study. The section of the literature review in the second chapter that deals with the study's related materials is looked at. This section looked at the numerous contributions writers have made to the body of knowledge regarding internal control effectiveness

and the parameters used to measure it. The part on research design and technique is found in Chapter 3. Data from sources that were contacted via questionnaires were analyzed and presented in the fourth chapter, "Result and discussion of the research." The research's conclusions and suggestions are included in the last chapter.

CHAPTER TWO

Literature Review

2.1 Internal Control

It is legally essential of organization management to create and maintain a sufficient internal control system. Take a look at the Securities and Exchange Commission's statement below regarding this issue: An essential management responsibility is the creation and upkeep of an internal control system. Ensuring that the firm is adequately controlled is a core component of management's stewardship role. This involves giving reasonable confidence to shareholders. Furthermore, it is the duty of management to promptly provide dependable financial data to current and prospective investors.

2.2 A Synopsis of Internal Control Law History

Accountants have a major role in maintaining control adequacy since a large portion of the internal control system is directly related to transaction processing. This section gives a conceptual overview of internal control after giving a brief history of internal controls. Finally, the COSO control structure is presented.

2.2.1 SEC Acts of 1933 and 1934

The United States government introduced two measures to bolster confidence in the capital market after the 1929 stock market crash and the global financial fraud perpetrated by IvarKruegar. The first was the Securities Act of 1933, whose principal goals were to: (1) make financial and other important information about securities offered for public sale available to investors; and (2) outlaw fraud, deception, and other forms of deception in the selling of securities. The Securities and Exchange Commission (SEC) was established by the second act, the Securities Exchange Act of 1934, which also gave it extensive control over auditing standards and other areas of the securities business. Publicly traded corporations were also mandated by the SEC statutes to have their audits conducted by independent auditors, or CPAs. However, maintaining an internal control system that is assessed as part of the yearly external audit is also necessary for all businesses that file reports with the SEC. Rarely has that part of the Act been put into effect. With the passing of the Sarbanes-Oxley Act in 2002 (mentioned below), that leniency was altered.

2.2.2 Copyright Law

This 1976 law, which has undergone numerous revisions, added software and other intellectual property to the existing copyright protection laws. IT auditors are concerned about this law because, in the event that management is "raided" by the software police—a U.S. marshal accompanied by representatives of software vendors' associations—and sufficient evidence of impropriety is found, management could be held personally liable for violations (such as software piracy).

2.2.3 The Act on Foreign Corrupt Practices

Internal control accountability has not always been met by corporate management. After it was discovered that American corporate executives were bribing foreign politicians with the money from their companies, internal control issues that had previously not been of much concern to stockholders swiftly gained attention from the general public. This problem led to the Foreign Corrupt Practices Act (FCPA) being passed in 1977. The FCPA mandates that businesses that are SEC-registered do the following, among other things: Maintain documentation that accurately and fairly depicts the company's financial situation and transactions. Keep an internal control system in place that offers a fair level of assurance regarding the accomplishment of the organization's goals.

2.3 Objective Of Internal Control

As stated by An organization is set up to produce particular, observable outcomes. The purpose of internal control is to help the company accomplish its goals, which fall into three areas as per the COSO model:

Operations objectives are closely related to an entity's mission and vision, and they deal with the efficacy and efficiency of the entity's operations. Operational goals can include enhanced productivity and quality, protecting assets from loss, enhancing customer satisfaction, and improving operational and financial performance, depending on the type of activities carried out by the organization. The goals-setting process descends to subsidiary, division, unit, and group goals from the entity-wide level.

Reporting objectives can include timeliness, dependability, transparency, or other words specified by regulators, established standards-setters, or the entity's policies. They apply to both internal and external financial and nonfinancial reporting. Three categories comprise reporting objectives:

External financial reporting goals are those that organizations work to meet in order to give their stakeholders accurate financial data about the things they are doing. Companies release financial statements, which analysts, stakeholders, and regulators use to evaluate how well their operations are performing. Laws, established frameworks, and accounting standards all specify the structure for external financial reporting.

External nonfinancial: Reporting goals pertaining to nonfinancial information that organizations can be required to publish in order to comply with legal requirements or carry out their external communication strategy.

Internal financial and nonfinancial reporting goals that are essential for managing the company. To implement, evaluate, and make decisions regarding the strategy and operations of the entities they represent, staff members, management teams, and boards of directors require many kinds of information. Based on internal requirements and goals, entities choose the format and content of various kinds of reports.

The goals of compliance are related to following applicable rules and regulations. Adherence to recognized standards in a particular industry or nation is another aspect of compliance objectives for a company. The COSO model categorizes internal compliance as a component of operations objectives, even while compliance in a broader sense also refers to adhering to the entity's internal policies (Charles, 2010, pages 10-11).

2.4 The PDC Model

2.4.1 Preventive Controls

The control structure's first line of defense is prevention. Passive methods known as preventive controls are used to lessen the likelihood that unwanted things may happen. By requiring adherence to recommended or desired behaviors, preventive measures weed out anomalous occurrences. An ounce of prevention is definitely worth a pound of cure when it comes to internal control system design. It is significantly less expensive to prevent mistakes and fraud than it is to identify and fix issues after they arise. At this initial stage, the great majority of unwanted events can be prevented. An example of a preventive control would be a well-designed data entering screen. The screen's logical arrangement into zones that only allow particular kinds of data—like the customer's name, address, the items sold, and the quantity—forces the data entry clerk to input the information that is required and keeps it from being left out.

2.4.2 Detective Controls

The second level of protection is trouble detection. Devices, methods, and processes known as detective controls are intended to locate and reveal undesired occurrences that evade preventive measures. Detective controls identify particular kinds of mistakes by contrasting real-world events with predetermined benchmarks. The detective control sounds an alarm to draw attention to the issue when it detects a deviation from the norm. A detective control should use the price and quantity to recalculate the total value before to executing this transaction and posting it to the accounts. As a result, the aforesaid error would be found.

2.4.3 Corrective Controls

To undo the impact of errors that have been found, corrective action must be done. The difference between detective controls and corrective controls is significant. While corrective controls truly address the issue, detective controls only highlight unwanted occurrences and call attention to it. There may be more than one practical corrective measure for any identified issue, but the optimum course of action isn't always clear-cut.

2.5Empirical Studies

2.5.1 The Determinantes of Effectiveness of Internal Control Systems

2.5.1.1 Risk Assessment

The goal of risk management during a transformation process should be to eliminate or reduce risk. Managers should inform responsible staff members directly of any suggested changes to risk management. In today's dynamic market, where competition is becoming more tough and internal controls are becoming more important, an enterprise's ability to succeed depends on its ability to manage risks effectively. When evaluating risks, one must also consider the impact of potential modifications to the management's own business model and the external environment, both of which have the potential to compromise internal control (Rokeya, 2011). It also assesses the risks that the organization has to bear in order to achieve its objectives. Appropriate risk responses are created based on this assessment. monitoring management's assessment, fraud, and management overriding internal control are just a few of the risks that could keep goals from being achieved. Other risks include the potential for significant changes to have a negative impact. (COSO, 2009). Furthermore, as per Rokeya et al. (2011), risk assessment mandates that management take into account the possible ramifications of alterations to the external environment and the business model

that may lead to the inefficiency of internal control.An evaluation of the possible effects of supply chain failure owing to unjustified delays on operational activities, the potential risk exposure that may arise from price changes, and the potential risk the entity may face owing to errors in financial records or the absence of financial records are just a few examples of the variety of activities that may be included in risk assessment within an organization (Isaac, 2014).

Because of the organizations the way an organization views risk determines how manageable it is, and tight adherence to the ICSs set in place is one of the primary processes or criteria for guaranteeing proper risk management. According to research (Taiwoet al., 2016), business goals and the environment in which institutions function are both continually changing in the modern world. Because of this, organizations are constantly confronting new risks, and an effective IC system must be able to adapt to these changes. A regular assessment of the nature and magnitude of risk is therefore necessary for effective risk management and IC (Asiligwa, 2017).

The process of identifying and assessing threats to the accomplishment of an organization's goals is known as risk assessment. The risk assessment process is one of the internal control components (Giovanis, 2011). Kaplan (2013) asserts that risk assessment must be systematic and included into an entity's everyday operations and procedures. Sayior (2010) asserts that an effective risk assessment procedure has a direct effect on performance since it forms the basis for determining which areas call for internal control actions. An organization can focus on the risks that will affect the overall success of the company by using the risk assessment.

Risk assessment includes setting priorities, identifying hazards, and assessing their impact and likelihood (Jones, 2007). Amudo and Inanga (2009) state that every entity has a variety of hazards from both internal and external sources that should be assessed. Risk assessment requires the establishment of objectives that are related at different levels and internally consistent. Risk assessment requires that agency goals and objectives be established in a clear, consistent manner. The agency must then determine which risks, at the entity and activity levels, could prevent those goals from being achieved effectively and efficiently.

2.5.1.2 Control Environment

Factors include leadership philosophy and style, operating style, integrity and ethical standards, institutional competency, management's devolution of responsibility, and workforce development. Organizational values are only as good as the people who create, oversee, and manage them, claim Subramaniam et al. (2006).

According to Rae &Subramaniam, people are the company's heart and soul and its main source of advancement (2006). Moreover, they argue that the success of the institution is determined by both the environment in which they operate and the individual qualities (competence, moral character, and integrity; www.ccsenet.org/ibr International Business Research Vol. 9, No. 7; 2016 competence). It has been established that the quality of organizational control activity and the extent to which it is applied at all levels are determined by the control environment, which is the top-level ICS foundation. Furthermore, research has demonstrated that the control environment and the structure of organizational activities are significantly influenced by the organizational culture (Ngudu, 2013). It is claimed that the administration of the organization sets the tone for the institution and influences the control consciousness of its members. The reasoning behind this is that for a company to achieve its objectives, its senior management needs to establish and maintain the highest standards of integrity (Kaplan, 2013).

Jhon K. et al. (2015) found a strong correlation between the financial performance of firms listed on the Nairobi Securities Exchange and the internal control environment. They suggest improving the internal control environment to further improve the financial performance of these companies. This part IC element, which is normally governed by the organization's top hierarchy, refers to both the degree of control awareness inside the organization and its very top level (Gao and Zhang, 2019). The control environment usually includes the moral guidelines that upper management establishes and enforces to impact different levels of the organizations (Gao and Zhang, 2019).

Control environments are a part of internal control that influence the overall efficacy of internal control systems and offer the environment as well as the structure and guidelines for accomplishing the main objectives of internal control systems (Whittington et al. 2006). In a similar vein, Jokipii (2006) states that the morale, competency, and integrity of the organization's members, together with their mannerisms, philosophies, and supporting demeanor, all contribute to the control environment. Thus, for a business to succeed, its leadership, the board of directors, and other key figures must maintain high moral standards and integrity (Kaplan, 2013).

Beneish et al. (2008) define the control environment as an organization's mindset and practices. 15 He goes on to argue that it has to do with establishing an atmosphere in which people can effectively complete their work and meet their control commitments. The organizational structure, methods of imposing control, authority and responsibility delegation, and management philosophy and style are important elements of the control environment (Jones, 2007).

2.5.1.3 Monitoring Activity

Since it influences how well the system performs over time, monitoring internal control systems is essential. This is accomplished by means of ongoing observational protocols, impartial evaluations, or a combination of the two. Continuous monitoring is carried out during operations. Included are routine management and oversight responsibilities as well as extra activities staff members do while performing their jobs. According to Muhota (2005), monitoring is an ongoing activity that necessitates doing operations on a regular basis and verifying bank records to make sure that all necessary procedures have been completed.

Monitoring is one of the most important aspects of internal control in any company. According to Springer (2004), assessments of the effectiveness of the internal control system over time might be either discrete or continuous. Determining if the internal control was applied accurately, fully, and successfully across all five components is the aim of the monitoring. One of the most crucial components of internal control in any firm is monitoring. According to Springer (2004), evaluations of the internal control system's effectiveness were conducted on a continuous or discontinuous basis across time. Determining if the internal control was applied accurately, fully, and successfully across all five components is the aim of the monitoring. The identification of anomalies and ongoing monitoring of the internal control system are necessary to accomplish the above specified objectives. And this is what companies' internal audit divisions or departments do (Aysel, 2014).

According to Di Napoli (2007), in order to guarantee efficient internal control monitoring and achieve performance targets, staff members need to be aware of and comprehend the organization's objectives, mission, degree of risk tolerance, as well as their own specific responsibilities. Monitoring controls, according to DiNapoli (2007), is the process of looking at how an organization operates and transacts in order to assess performance quality over time and evaluate the effectiveness of controls. Furthermore, according to Saiyor (2010), monitoring comprises a process for evaluating internal control systems' efficacy over time.

Monitoring operations, which can be continuous or discrete assessments, are essential in the complex and dynamic environments in which most firms operate (Henle 2005). It tries to ensure that everything is running according to plan. However, this is accomplished through ongoing monitoring activities, periodic assessments, or a mix of the two (COSO, 2004). Henle (2005) goes on to say that these acts have an impact on all organizational levels and functions.

2.5.1.4 Control Over Information System

Issues pertaining to finances, operations, or compliance could be the focus of bank reviews. As per the findings of Ramos et al. (2004), several control processes had to be executed in order to confirm the accuracy and completeness of data in addition to the legitimacy of transactions. Controlling the development of new systems and the modification of existing ones is crucial. Restrictions should also be placed on data and program access.

Studies have shown that communication and information are crucial components in determining how well Internal Control systems operate (Hevesi, 2005). Information from both inside and outside the organization must be precisely determined in order for individuals who have roles to be informed and handled in a timely manner by those who have those jobs. To perform its functions, the board and staff must explicitly approve the distribution of media material. Thanks to information and communication systems, all employees are able to understand their roles in the control system and the individuals involved. Like internal communications, external communications have two functions: they allow critical external information to be sent inbound and they provide external organizations with information in response to expectations and demand (COSO, 2009).

Information and communication make up another component of the COSO paradigm (Treadway, 2014). The information technology (IT) component of COSO includes business applications of IT as crucial business instruments (COSO, 2013, Taiwo, Agwu, Edwin, 2016). Research indicates that in order to provide effective activity management, the information and communication process requires the design of an information system that generates operational, financial, and compliance-related data (Ahmed &Muhammed, 2018). Information must be communicated in a clear and systematic way to guarantee that staff members at all organizational levels are aware of their responsibilities with regard to internal control (Taiwo, Agwu, Edwin, 2016). Put differently, employees who generate knowledge about everyday operations must communicate it with others who need it within the company.

Noel (2010) states that information and communication systems encircle the activities of the control environment, allowing the staff of the company to access and exchange the data required to oversee, manage, and conduct its operations. Achieving the organization's objectives requires information and communication because they make the other Internal Control System components function more easily. On the other hand, poor information and communication can waste money, cause inefficiencies in the other components, and leave customers dissatisfied (COSO, 2011)

According to Lamoye (2005), in order for the control system to be successful and reliable, pertinent and reliable data needs to be gathered, communicated with management, and utilized in decision-making processes for other staff members. The timely and accurate delivery of information to the appropriate individuals in the appropriate format is essential for the successful completion of internal control and operational duties. Every employee knows what their roles are inside the control system, how those roles relate to each other, and how they are held accountable by the information and communication systems.

2.5.1.5 Control Activity

Control operations include things like authorizations, approvals, reconciliations, verifications, assessments of operational performance, asset security, and role separation. According to Ahmed and Muhammad (2018), control policies and procedures need to be created and implemented in order for the institution to properly accomplish its goals. The observance of management directives is facilitated by these policies and procedures. It is important to compare the actual performance to projections, past performance, and performance from previous periods. Assessments of specific roles or activities should also be conducted in a consistent way. Patrick and Ndifon (2014) The study's other findings indicate that there is no meaningful correlation between Cross River College of Education's financial performance and its internal control practices. The core duties and protocols that an organization employs in its day-to-day activities comprise the control activities of an ICS.

Thus, the actions made by management to create policies, processes, and procedures to ensure that the risks identified are minimized, if not completely eliminated, constitute one of the control activities. The delegation of work to staff members and the division of responsibility are crucial elements of control operations. It has been stressed that the control activities must permeate every level of the organization, from top to bottom, in order to guarantee that all actions and procedures are documented (COSO, 2013, Arham, 2014). The organization must choose and create control activities that aid in lowering risk to a level that is acceptable to the organization in order to accomplish this. After choosing and creating technology-related control actions to support the achievement of goals, the organization must next execute these activities in line with expectations (Arham, 2014). After choosing and creating technology-related control actions to support the achievement of goals, the organization must next execute these activities in line with expectations (Arham, 2014).

Control activities, according to Kaplan (2008), are made up of policies, guidelines, and frameworks that ensure that management directives and financial reporting controls are carried out. Furthermore, COSO (2013) clarified that control activities are conducted across the technology environment, at all organizational levels, and during all stages of business processes. Control operations include things like asset security, role separation, operating performance assessments, authorizations, verifications, and reconciliations, to name a few.

Control activities, as defined by Norvee (2004), are the guidelines and procedures that support the observance of management directives. Control activities, which are actions supported by policies and procedures, aid in making sure that management instructions to address risks are carried out accurately and on time. COSO's 1994 definition of control activities includes the tasks associated with asset security and job segregation, as well as approvals, authorizations, verifications, reconciliation, and operating performance assessments. Beasley (2007) lists the following as control activities: maintaining correct record-keeping and documentation, performing independent performance audits, approving transactions and activities, and establishing appropriate job separation. An organization's claim control operations include information processing, job segregation, physical controls, and performance reviews, according to Munene (2013).

2.5.2 Empirical Studies In Ethiopia

The audit committee needs to be independent, financially savvy, and diligent in order to improve internal control (Kekron, 2020). According to Ashenafi (2017), the institution has sufficient internal control, comprising elements for information and communication, monitoring, control activities, and a suitable control environment. The final finding of the study indicates a significant correlation between fraud and the elements of the internal control system (monitoring, information and communication, control activity, risk assessment, and control environment). One of the findings was that while internal control techniques used by banks to stop fraud have showed some potential, they still need to be improved. The researcher has consequently provided some guidance to help with control areas that require greater attention because successful internal control is a continual activity (Fikru, 2018).

The primary findings indicate that the prevention of fraud in Ethiopian commercial banks is significantly influenced by risk assessment, control operations, information and communication, and monitoring activities. They add that one important factor in reducing fraud in Ethiopian commercial banks is the control environment. For each unit increase in the predictor variables, the

corresponding regression coefficient values of all the predictor variables increased the probability that Ethiopian Commercial Banks have a high level of fraud prevention, while the other variables in the model stayed constant (Gedion, 2021).

Internal control systems could only account for 31% of the variation in financial performance, according to Rahel (2017). The descriptive outcome demonstrates how insufficient the internal control architecture of the company is. According to the study, in order to enhance organizational performance, management should devote more time to monitoring internal control systems and to enhancing their effectiveness. Internal controls at universities are insufficient. Specifically, organizations don't use the risk assessment aspect of internal control. Although monitoring at universities has improved, Tsedale (2015) notes that there is still a lack of an appropriate control environment, control activities, and an adequate information and communication flow. comparing the internal controls of the business with those of the public firms that are the subject of the investigation, which have inadequate internal control. Tekalegne (2011) asserts that the likelihood of accounting fraud is essentially zero.

According to Tsedale (2015), the results demonstrate the inadequacy of university internal control. In particular, universities do not apply the internal control feature of risk assessment. Universities have excellent monitoring procedures, but they also don't have enough channels for communication and information sharing, a suitable control environment, or suitable control activities.

2.6 Summary Of Literature Review

Internal control is the procedure developed by or implemented under the supervision of the entity's primary financial officers and carried out by the management, governing board, and other employees. Its objective is to give a fair amount of assurance about the accuracy of financial reporting and the use of generally accepted accounting standards in the compilation of financial statements for external use. It improves the predictability of outcomes and reduces the unpredictability of operations. It is an essential part of the Foreign Corrupt Practices Act (FCPA) and the Sarbanes-Oxley Act (2002).Preventive and investigative internal controls are the two main types. While detective controls are intended to identify faults or issues after the transaction has occurred, preventive controls seek to reduce the likelihood of errors and fraud before they happen.

The purpose of internal control is to help a company accomplish its goals, which fall into three areas based on the COSO model: compliance, reporting, and operations objectives. Operational objectives include achieving goals for both operational and financial performance, enhancing quality and productivity, ensuring customer satisfaction, and protecting assets from theft. Compliance objectives include following rules and regulations, whereas reporting objectives entail financial and nonfinancial reporting both internally and externally. Internal compliance is categorized as an aim of operations in the COSO model.

The variables influencing internal control system efficacy are the most crucial information in this work. The systematic process of combining potentially dangerous events and conditions and estimating the possible harm is known as risk assessment. Risk management considerations, frequency reviews, risk analysis, risk estimation, and risk identification are examples of internal controls. The control environment, which comprises integrity and ethical standards, institutional competency, leadership philosophy and operational style, management's delegation of authority, and workforce development, serves as the foundation for all other internal control system components.

To the best of the researcher's knowledge, no empirical data regarding the variables influencing Ethiopia's internal control efficacy was discovered during the literature review. In order to find empirical evidence for a research topic that lacks empirical data, the researcher employed the Empirical Gap approach. As a result, the researcher attempted to close the empirical gap regarding the topic of factors influencing Ethiopia's commercial bank's internal control efficacy.

CHAPTER THREE

Materials and Methods

Internal control play significant role in the success of commercial banks. It is one of the very important tools in the hand of commercial bank of Ethiopia which enables bank to carry out their day to day activity properly and achieve their goals. The study looked in to the factors that affect effectiveness of internal control in commercial bank of Ethiopia.

3.1Research Approach

Qualitative approach is systematically describe a population, situation or phenomenon. It can answer what, where, when and how questions. Descriptive research method because it designed to describes the relation between assessment of internal control and it five internal control elemenets.

3.2Research Design

Research design refers to the strategy for achieving research objectives and answering research questions (John et al., 2007). The researcher utilized descriptive research design to explore the phenomenon and determine what,were, when and how in the research because she felt that internal control had not been effectively studied. The study focuses on the internal control procedures used at the Addis Ababa-based Commercial Bank of Ethiopia's special, grade 4 and grade 3 branches. at the study, the researcher discussed how to achieve efficient internal control at the branches and headquarters by applying aspects like the control environment, control activity, risk assessment, information and communication, and monitoring activity.

3.3Target Population

Internal Controllers and Internal Control Experts at the individual commercial bank of Ethiopia are the study's target group. Due to the nature of their respective duties, the two sorts of bank professionals were chosen. Both engage in direct contact with internal controllers and audits, visit the respective employee place of work, and examine various controlling software’s, which enables the two roles to have access to the internal control information. The total number of special, grade 4 and grade 3 branches in Addis Ababa is 160 and ICE in the head office and district is 20. Hence, the total population from which a sample were derived is will be 180 IC and ICE.

3.4Sampling and Sampling Techniques

3.4.1 Sampling Frame

Because all of the Commercial bank branches across the country implement the same service delivery, policy development and distribution, and human resource strategy, the sample frame was limited to head office, special branches, grade 4 and grade 3 branches in Addis Ababa.

3.4.2 Sampling Technique

The researcher wants to ensure that every Internal Controllers and Internal Control Experts has an equal probability of getting chosen since it wants to generalize from the outcomes. As a result, the study employed a straightforward random sample methodology (probability sampling technique). Research used systematic random sampling by assigning number to respective IC and ICE employees.

3.4.3 Sample size

To draw sample size from identified finite population, Krejcie and Morgan (1970) sample size formula was used. Most commonly the formula is computed based on 95% confidence interval of the accuracy of the sample size.

$$S = \frac{x^2 N p (1-p)}{d^2 N (N-1) + x^2 p (1-p)}$$

Where; S = required sample size.

2= table value of chi - square for one degree of freedom at the desired confidence level

(3.841 for 0.95 confidence interval).

N = the given population

= population proportion (assumed to be 0.5 since this would provide the maximum sample size)

d= the degree of accuracy set at 0.05.

3.4.3.1 Sample size determination

The researcher used Stratified Random Sampling by dividing population in two strata.And then using proportion which is total population divided by the number of ICE and IC in CBE.

theproportion of staff members to be included in the research from the respectivestrata was determined.

Table 3.1: Departments and their respective contribution to the total sample

No.	Banks name	Internal control expert or Internal controller	Percentage from Total (A)	Contribution to total sample (A*130)
1.	Head office (ICE)	20	9	18
2.	Grade 3, 4 and Special Branches (IC)	160	91	162
	Total	180	100	180

Source: Computation from survey data (2024)

To have reasonable representation of both IC and ICE and to implement simple random sampling principle, after the sample to be drawn from each kind of employee determined using the proportion of the total population, systematic random was employed to draw the finial sample fill the questioner.

The respondents who were included in the questioner survey were chosen from CBE. using systematic random sampling in order to adhere to the random sample technique, which is a requirement for performing parametric statistics. The researcher chooses a starting number at random, draws respondents from CBE using the internal systematic sample, which is created by taking a sample of the entire population and includes it in the respondent list individually.

Formula K=N/n

Where k is systematic sample interval N= population size,

n= Sample size

The following respondents were chosen to answer the question: 12 respondents are ICE and 118 respondents are IC.

3.5 Data Source

The study used primary sources of data. Primary data collected through well designed questionnaire adopted from previous study. It was completed by respondents (Bankers) was

willingly filled and returned the questionnaire. Besides, Data Gathering Instruments variety of books, websites, research journals, thesis and articles were reviewed to make the study fruitful.

3.6 Data Collection Instruments

Closed/structured questioners are frequently used to collect data, especially for large inquiries (Kothari, 2004). Therefore, information from the banks' internal controllers and control experts was gathered using a standardized questionnaire. On a five point Likert scale, the respondents asked to score their level of perception of the factors. Additionally, each respondent's demographic information was gathered.

Table 3.2: Source of the research question

No.	Construct	Source	Number of Items
1	Control Environment	Subramaniam et al. (2006)	6
2	Risk Assessment	Rokeya et al., (2011)	6
3	Control Activity	Jenkinson (2008)	6
4	Information and Communication	Ramos (2004)	6
5	Monitoring Activity	Muhota (2005)	5

3.7 Method of Data Presentation And Analysis

Five independent and one dependent variables were employed in the research, hence Utilizing SPSS version 20.0, the information gathered through self-administered surveys will be processed. Only returned and fully filled questionnaires are considered valid and will be used in the analysis; incomplete or non-returned questionnaires are judged invalid. Using descriptive and inferential analysis, the processed data are further transformed in order to look for patterns and relationships between and/or among data sets.

3.7.1 Descriptive Analysis

Sekaran (2000) claims that using inferential statistics enables one to draw conclusions about the relationship between two or more variables and how various independent variables may

contribute to the variance in a dependent variable. The following are the inferential statistics that were used in this study:

3.8 Reliability test

The pilot survey has proved the questioners designed to collect the desired data was reliable. Moreover, for the reliability test of the all data Cornbrash's alpha was calculated using SPSS and the result is presented in Table 3.3 below. The alpha values for all constructs in the study are greater than the guideline of 0.70, so it can be concluded that the measurements can be applied for analyses with acceptable reliability.

Table 3.3: Measurement of Reliability

Constructs	Cronbach's Alpha	Number of Items
Control Environment	.735	6
Risk Assessment	.781	6
Control Activity	.701	6
Control over Information System	.785	6
Monitoring Activity	.758	5
Reliability of total scale		

Source: *Computation from survey data (2023)*

3.8 Construct Validity Test

To evaluate the questionnaire's construct validity, factor analysis was done. The items measuring the constructs are only deemed validated if they have factor loadings of 0.4 or more (Field, 2009). Prior to factor analysis, the KMO measure of sample adequacy and Bartlett's test of sphericity were used to confirm the data's eligibility for factor analysis. $P<0.05$ for Bartlett's test of sphericity and a KMO larger than 0.6 are required (Pallant, 2005).

3.8.1 Control Environment

As indicated in Table 3.4, the KMO score is 0.802 and the Bartlett's score is equally good at Sig. value of 0.000. Bartlett's test of sphericity and KMO criteria were satisfied by the data, suggesting that factor analysis for the Control Environment construct could be performed.

Table 3.4: KMO and Bartlett Test – Control Environment		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.802
Bartlett's Test of Sphericity	Approx. Chi-Square	158.585
	Df	15
	Sig.	.000

***Source**: Computation from survey data (2024)*

Descriptive analysis could be carried out following the evaluation of factor analysis suitability. The Control Environment construct's factor analysis shows that every question is loaded onto a single factor. Only the questions with factor loadings of 0.4 were taken into consideration while deciding which variables to extract from this Control Environment scale.

3.8.2 Risk Assessment

The KMO score is 0.801 and the Bartlett's score is equally acceptable with Sig. value of 0.000, as can be shown in Table 3.5 below. Bartlett's test of sphericity and KMO criteria were satisfied by the data, suggesting that factor analysis for the Risk Assessment construct could be performed.

Table 3.5: KMO and Bartlett Test – Risk Assessment		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.801
Bartlett's Test of Sphericity	Approx. Chi-Square	235.998
	Df	15
	Sig.	.000

***Source**: Computation from survey data (2024)*

Descriptive analysis might begin when the Risk Assessment's factor analysis suitability was evaluated. The Risk Assessment's factor analysis shows that every question is loaded into a single

factor. Only the questions with factor loadings of 0.4 were taken into consideration when deciding which factors to extract from this Risk Assessment scale. All of the questions have favorable factor loadings that are greater than

3.8.3 Control Activity

Table 3.6 below demonstrates that the Bartlett's score is as excellent at Sig. value of 0.000 and the KMO score is 0.668. Bartlett's test of sphericity and KMO were satisfied by the data, suggesting that component analysis for the Control Activity construct may be conducted.

Table 3.6: KMO and Bartlett Test – Control Activity

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.668
Bartlett's Test of Sphericity	Approx. Chi-Square	131.152
	Df	15
	Sig.	.000

Descriptive analysis might begin after the Control Activity construct's eligibility for factor analysis had been determined. The Control Activity construct's factor analysis shows that every question is loaded onto a single factor. Only the questions with factor loadings of 0.4 were taken into consideration when deciding which variables to extract from this Control Activity scale. None of the questions should be eliminated since, all of the questions have favorable factor loadings that are greater than 0.40. This suggests that the five questions given above provide an adequate measure of Control Activity.

3.8.4 Control Over Information System

As indicated in Table 3.7 below, the KMO score is 0.787 and the Bartlett's score is equally good at Sig. value of 0.000. Bartlett's test of sphericity and KMO were satisfied by the data, suggesting that factor analysis for the Control over Information System construct could be conducted.

Table 3.7: KMO and Bartlett Test – Control over Information System

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.787
Bartlett's Test of Sphericity	Approx. Chi-Square	207.712
	Df	15
	Sig.	.000

Descriptive analysis might begin after the Control over Information System construct's appropriateness for factor analysis had been determined. The Control over Information System's factor analysis shows that every query is loaded into a single factor. Only items with factor loadings of 0.4 were taken into consideration when deciding which factors to extract from this Control over Information System scale. None of the questions should be eliminated since, as Table 4.8 above demonstrates, all of the questions have favorable factor loadings that are greater than 0.40. This suggests that the five questions listed above provide a sufficient amount of control over the information system.

3.8.5 Monitoring Activity

As indicated in Table 3.8 below, the KMO score is 0.743 and the Bartlett's score is equally good at Sig. value of 0.000. Bartlett's test of sphericity and KMO were satisfied by the data, suggesting that factor analysis for the Monitoring Activity construct could be conducted.

Table 3.8: KMO and Bartlett Test – Monitering activity

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.743
Bartlett's Test of Sphericity	Approx. Chi-Square	180.239
	Df	10
	Sig.	.000

Descriptive analysis could begin if the Monitoring Activity construct's eligibility for factor analysis was determined. The Monitoring Activity's factor analysis shows that every query is loaded

into a single factor. Only the questions with factor loadings of 0.4 were taken into consideration when deciding which variables to extract from this Monitoring Activity scale

3.9 Ethical Considerations

All the research participants included in this study was appropriately informed about the purpose of the research and their willingness and consent was secured before the commencement of distributing questionnaire. Respondent were informed their full right to fill the questions or to withdraw from the study at any time without any unfavorable consequences, and they are not harmed as a result of their participation or non-participation. Moreover, no information was modified or changed, therefore information was presented as collected and all the literatures collected for the purpose of this research.

CHAPTER FOUR

Result And Discussion

4.1Introduction

In general, the structure of this chapter is as follows: It includes an analysis and presentation of the respondents' demographic profile as well as tests of the measures' validity and reliability. In order to make doing the empirical analysis easier, the findings of the descriptive analyses were reported. In addition, descriptive analyses wereanalysis were used to assess the mean difference between and among the demographic profiles.

4.2 SamplesAnd ResponseRate

The chosen frontline staff members received the surveys by mail and in person. The chosen staff members were notified over the phone and in person to return the questionnaires for pickup. 180questioners were distributed in total, and 145 were returned. A total of 130 valid questionnaires—or a response percentage of 89.6.%—were approved after 15 invalid ones were eliminated.

4.3 Demographic ProfileOfRespondents

Based on four demographic background information acquired by a questionnaire survey, the study's samples have been categorized. The goal of this study's demographic analysis is to characterize the sample's attributes, including the number of respondents, their gender distribution, age range, level of education, and years of employment as internal control staff. Table 4.1 below provides an overview of the respondents' demographic makeup.

The data makes it clear that most CBE internal control staff members (55.30%) are between the ages of 21 and 25. Sixty-four percent of the participants were men, and thirty-six percent were women. Additionally, the respondents' educational backgrounds comprise 35% first degree and 65 masters degrees,. 65.80% of those surveyed had three to five years of service.

Insummary,themajorityoftherespondentsweremaleswithintheagegroup21-25 having predominantly masters degree and. 3-5 work experiences.

Table4.1:DemographicinformationforCBEinternal controlemployees

Items	Description	Frequency	Percentage	CumulativePercent
Age	21-25	72	55.30	55.30
	26-35	40	30.50	85.80
	36-45	15	11.50	97.30
	46-55	3	2.70	100.00
	Total	130	100.00	
Gender	Male	81	62.40	62.40
	Female	49	37.60	100.00
	Total	130	100.00	
Academic qualification	First degree	46	35	35
	Masters	84	65	100.00
	Total	130	100.00	
Serviceyears	1-2	38	28.50	28.50
	3-5	85	65.80	94.20
	6-10	6	4.70	99.00
	11-20	1	1.00	100.00
	Total	130	100.00	

***Source**:SurveyData(2024)*

The mean average was applied to compare the mean score of the two gender groups (male and female). In this case, the mean difference between male and female subjects with assessment of internal control. Male respondent had mean average of 4.05 and female respondent have mean average of 3.9 CBE internal control employees. The result can be interpreted as the both male and female respondent have choseareed to the internal control construct.

The mean average was applied to compare the mean score of the three academic qualification groups (degree,masters and phd). In this case, the mean difference between deree and masters subjects with assessment internal control. Degree respondent had mean average of 4.17 and masters respondent have mean average of 4.05 CBE internal control employees. The result can be interpreted as both respondent have choseareed to the internal control construct.

The mean average was applied to compare the mean score of the four Service Year groups (letthan 2, 3-5, 6-10, morethan 10 years). In this case, the mean difference between Service Year subjects with assessment of internal control. first respondent had mean average of 4.07, second respondent have mean average of 3.97, third respondent have mean of 4.02 andlast respondent have mean average of

4.19 CBE internal control employees, respectively. The result can be interpreted as all respondent have choseareed to the internal control construct.

4.4 Descriptive statistics

According to the consumer orientation factor analysis, every question loaded onto a single factor. Ten of the twelve questions had favorable factor loadings greater than 0.40. However, the two questions, "I know how to treat a customer well" and "I am able to consider the customers' perspective," received a score of less than 0.4. This demonstrates that the factor loadings less than 0.40 led to the removal of these questions from the study. This suggests that the 10 questions listed above are the only ones that can measure consumer orientation and have factor loading greater than 0.40.

4.4.1 Control Environment

The attitude and opinions of CBE internal control employees regarding Control Environment were assessed in this section of the questionnaire. Respondents were asked to rank their degree of agreement with each of four statements that were presented to them. The mean and standard deviation for every item are shown in Table 4.2.

The Control Environment perception construct's standard deviation ranged between 0.679 and 0.85, indicating some degree of variance, whereas the empowerment items construct's means ranged between 3.87 and 4.2 (1 being strongly disagree and 5 being highly agree). "There is active effort to ensure compliance with the letter and intent of laws and regulations " is the statement that respondents agree with the most (mean=4.2 and standard deviation= 0.761). "Exceptions to policy of internal control are infrequent. " was the statement with the lowest level of agreement (mean = 3.92, standard deviation = 0.850). With an overall mean of 4.07 for the perception of Control Environment, most respondents are in the middle range of agreement with the study's stated findings.

The finding in the control environment section of the questioner, the result from respondent clearly indicate that there is good control environment in the bank which can be seen from the total average mean of the respondent which tend to incline to “Agree” in the likert scale. However, in the areas like “Delegation of authority and assignment of responsibility is clearly defined. Individuals are held accountable for results” and “Exceptions to policy of internal control are infrequent” need to be

looked carefully by the bank control experts.

Table 4.2: Descriptive statistics for attitude of CBE internal control employees about Control Environment

Questions	Mean	Std. Deviation
Unit/Branch management understands the banks policies regarding potential conflicts of interest	4.16	0.805
Unit management is aware of competency levels, and is not involved in training and increased supervision when competency is low.	4.13	0.679
There is active effort to ensure compliance with the letter and intent of laws and regulations.	4.20	0.730
Delegation of authority and assignment of responsibility is clearly defined. Individuals are held accountable for results.	3.87	0.761
Exceptions to policy of internal control are infrequent.	3.92	0.850
Internal Control Documentation exists and is up to date.	4.19	0.788

Source:*Computationfromsurveydata(2024)*

4.4.2 Risk Assessment

This portion of the survey assessed internal control CBE employees' attitudes and opinions regarding Risk Assessment. Respondents were asked to rank their degree of agreement with each of six statements that were presented to them. The mean and standard deviation for every item are shown in 4.3.

Table4.3:DescriptivestatisticsforattitudeofCBEinternal controlemployeesaboutRisk Assessment

Questions	Mean	Std. Deviation
Factors that are critical to achievement of minimizing risk are identified.	3.85	1.04
Long and short- range risk mitigation plans are developed and written in to document.	4.22	0.747
A process exists to identify and consider the implications of external risk factors (economic changes, changing government)	4.05	0.815
A process exists to identify and consider the implications of internal risk factors	4.03	0.893
A risk management program is in place to monitor and help mitigate exposures.	3.98	0.857
Mechanisms exist to identify and react to technological changes and changes in the functional requirements of the unit.	4.04	0.810

Source:*Computationfromsurveydata(2024)*

There was some variation in the Risk Assessment construct, with means ranging from 3.85 to 4.22 (1 being strongly disagree and 5 being extremely agree), while the training perception construct's standard deviation was between 0.747 and 1.04. "Long and short- range risk mitigation plans are developed and written in to document " is the statement that respondents agree with the most (mean = 4.22 and standard deviation = 0.747). The claim that "Factors that are critical to achievement of minimizing risk are identified " (mean= 3.85 and standard deviation= 1.04) showed the least amount of agreement. The study's claims are viewed as having a medium level of agreement by most respondents, as evidenced by the overall mean of 4.03 for the perception of Risk Assessment.

The finding in the risk assessment section of the questioner, the result from respondent clearly indicate that there is good control environment in the bank which can be seen from the total average mean of the respondent which tend to incline to “Agree” in the likert scale. However, in the areas like “Factors that are critical to achievement of minimizing risk are identified need to be looked carefully by the bank control experts.

4.4.3 Control Activity

The attitude and opinions of CBE internal control employees regarding Control Activity were assessed in this section of the questionnaire. Respondents were asked to rank their degree of agreement with each of five statements that were presented to them. The mean and standard deviation for every item are shown in Table 4.4.

Table 4.4: Descriptive statistics for attitude of CBE internal control employees about Control Activity

Questions	**Mean**	**Std. Deviation**
Unit staffs lack up to date bank's policy and procedures and know how to use them.	3.97	0.897
Reviews are made of actual performance compared to objectives and previous periods for all major initiatives	3.80	0.892
Reviews are made of actual performance versus budgets, forecasts, and performance in prior periods for all major initiatives.	3.89	0.925
Accounting statements and key reconciliations are completed timely.	4.134	0.765
Inventory, cash and other assets are physically secured and periodically counted and compared to the amounts shown on control records.	4.24	0.683
Financial duties are divided among different people (authorizing transactions, recording them and handling the asset are separated).	4.05	0.760

Source:*Computationfromsurveydata(2024)*

There was some diversity seen in the means for the Control activity items construct, which varied from 3.80 to 4.24 (1 being strongly disagree and 5 being highly agree), and the standard deviation for the internal communication perception construct, which ranged from 0.63 to 0.925. The most frequently agreed upon statement among the respondents (mean = 4.24 and standard deviation = 0.683) was "Inventory, cash and other assets are physically secured and periodically counted and compared to the amounts shown on control records.." "Reviews are made of actual performance compared to objectives and previous periods for all major initiatives " was the statement with the lowest degree of agreement (mean = 3.80 and standard deviation = 0.892). The study's claims are viewed as having a medium level of agreement by most respondents, as indicated by the overall mean of 4.014 for the perception of Control activity.

The finding in the control activity section of the questioner, the result from respondent clearly indicate that there is good control environment in the bank which can be seen from the total average

mean of the respondent which tend to incline to “Agree” in the likert scale. However, in the areas like “Reviews are made of actual performance compared to objectives and previous periods for all major initiatives” and “Reviews are made of actual performance versus budgets, forecasts, and performance in prior periods for all major initiatives.” need to be looked carefully by the bank control experts.

4.4.4 Control Over Information System

The attitude and opinions of CBE internal control employees on Control Over Information Systemwere assessed in this section of the questionnaire. Respondents were asked to rank their degree of agreement with each of five statements that were presented to them. The mean and standard deviation for every item are shown in Table 4.5.

Table4.5:DescriptivestatisticsforattitudeofCBEinternal controlemployeesaboutControl Over Information System

Questions	**Mean**	**Std. Deviation**
The system is maintained in a secure environment	3.907	0.792
The unit controls its computer applications by diligent and timely response to edit lists, rejected transactions Sand other control and balancing reports.	4.071	0.868
Individuals with access to information are trained to understand their responsibilities related to the information.	4.015	0.853
Employees who violate an important policy are disciplined.	4.00	0.923
Formal methods are used to communicate unit policies and procedures (e.g., manuals, training programs, written codes of conduct).	4.12	0.906
Policies are defined for developing new systems or changes to existing systems	3.99	0.884

Source:*Computationfromsurveydata(2024)*

There was some diversity evident in the means for the Control Over Information System items construct, which ranged from 3.907 to 4.12 (1 being strongly disagree and 5 being highly agree), and the standard deviation for the reward perception construct, which ranged from 0.792 to 0.923. The majority of respondents (mean = 4.12 and standard deviation = 0.906) agreed with the statement that "Formal methods are used to communicate unit policies and procedures." "The system is maintained in a secure environment " was the statement with the lowest level of agreement (mean = 3.907, standard deviation = 0.792). With an overall mean of 4.017 for the sense

of Control Over Information System, most respondents were in the middle range of agreement with the study's stated findings.

The finding in the control over information system section of the questioner, the result from respondent clearly indicate that there is good control environment in the bank which can be seen from the total average mean of the respondent which tend to incline to “Agree” in the likert scale.

4.4.5 Monitoring Activities

The attitude and opinions of CBE internsl control employees on Monitoring Activities were assessed in this section of the questionnaire. Respondents were asked to rank their degree of agreement with each of five statements that were presented to them. The mean and standard deviation for every item are shown in Table 4.6.

Table4.6:DescriptivestatisticsforattitudeofCBEinternal controlemployeesaboutMonitoring Activities

Questions	Mean	Std. Deviation
Management routinely spot- checks transactions, records and reconciliations to ensure expectations are met.	4.034	0.918
Corrective action is taken Timely.	4.039	0.875
Management periodically evaluates the appropriateness of policies and procedures.	3.98	0.897
Internal controls are subject to a formal and continuous internal assessment process.	3.900	0.861
Management periodically evaluates the accuracy, timeliness and relevance of its information and communication systems.	3.761	0.861

Source:*Computationfromsurveydata(2024)*

There was some diversity evident in the means for the Monitoring Activities items construct, which ranged from 3.76 to 4.03 (1 being strongly disagree and 5 being highly agree), and the standard deviation for the reward perception construct, which ranged from 0.861 to 0.918. The majority of respondents (mean = 4.039 and standard deviation = 0.875) agreed with the statement that "Corrective action is taken Timely." "Management periodically evaluates the accuracy, timeliness and relevance of its information and communication systems. " was the statement with the lowest level of agreement (mean = 3.761, standard deviation = 0.861). With an overall mean of 3.942 for the sense of Monitoring Activities, most respondents were in the middle range of agreement with the study's stated findings.

The finding in the control over information system section of the questioner, the result from respondent clearly indicate that there is good control environment in the bank which can be seen from the total average mean of the respondent which tend to incline to “Agree” in the likert scale. However, in the ares like “Management periodically evaluates the accuracy, timeliness and relevance of its information and communication systems.” Need to be looked carefully.

4.4.6 Comparison Of CBE Internal ControlEmployees’ Perception

The total means of each item in the assessment of internalcontrol structures for the level of perception of CBE internal control are displayed in Table 4.7 below. In comparison to other constructs, CBE internal control staff likely to agree with statements linked to the Control Environment construct (1= strongly disagree and 5= strongly agree), as indicated by the means empowerment represented the highest overall mean score (mean= 4.07). Risk Assessment came next, receiving a mean score of 4.03 overall. The Control Over Information System came next (mean= 4.02) followed by Control Activity, overall mean score (mean= 4.01). The Monitoring Activities had the lowest degree of agreement (mean = 3.94).

Table4.7:Overallmeanandstandarddeviationscoresfortheeffectiveness of internal control

Construct	**Mean score**	**Standard deviation**	**Rank**
Control Environment	4.07	0.768	1st
Risk Assessment	4.03	0.860	2nd
Control Over Information System	4.02	0.871	3rd
Control Activity	4.01	0.820	4th
Monitoring Activities	3.94	0.882	5th

Source:*Computationfromsurveydata(2024)*

CHAPTER FIVE

Summary, Conclusion And Recommendations

5.1Summary

This chapter offers a synopsis, recommendations, and findings of the study's research. To ensure clarity, the conclusions are grounded in the study's research aims. The research's broad explanations of the findings were reviewed, and suggestions were made based on the findings to increase internal control efficacy by enhancing the five characteristics that make internal control effective..

5.2 Conclusion

A fair degree of certainty regarding the achievement of goals, the efficacy and efficiency of operations, the dependability of financial reporting, and compliance with relevant laws and regulations is what internal control is meant to give. The entity's board of directors, management, and other employees are responsible for enforcing internal control. Every commercial bank needs to ensure that their internal control systems are adequate to achieve these goals.

The research's control environment portion yielded results that, when viewed through the lens of the respondent's overall average mean, which leans toward "Agree," it is evident that the bank has a solid control environment.The results of the risk assessment portion of the questionnaire, as well as the overall average mean of the respondents, which leans toward "Agree" on the likert scale, amply demonstrate that the bank has a sound control environment.

In the questioner's control activity part, the respondents' answers unequivocally indicate that the bank has a good control environment, as evidenced by the average mean score across the board, which leans toward "Agree" on the likert scale.The findings in the questioner's control over information system part plainly show that the bank has a solid control environment, as evidenced by the respondents' overall average mean, which leans toward "Agree" on the likert scale.

The finding in the control over information system section of the questioner, the result from respondent clearly indicate that there is good control environment in the bank which can be seen from the total average mean of the respondent which tend to incline to “Agree” in the likert scale.

5.3Recommendations

Although the overall finding of the research suggests good internal control system in CBE, Management of CBE needed to consider the following points to further improve internal control system:

- Delegation of authority and assignment of responsibility and Exceptions to policy of internal control need to be looked carefully by the bank control experts.
- Factors that are critical to achievement of minimizing risk are need to be looked carefully by the bank control experts.
- Reviews need to be made actual performance compared to objectives and previous periods for all major initiativesneed to be looked carefully by the bank control experts.
- Management need to focus on periodically evaluates the accuracy, timeliness and relevance of its information and communication systems.

Additionally, studies indicate that managers should grant ICE and IC greater authority because their involvement in decision-making greatly increases the efficacy of internal control. Furthermore, CBE should regularly assess new trends and create guidelines and protocols for them in relation to internal control.

5.4 Directions For Future Researches

Given the promising outcomes and the previously mentioned inherent constraints of the study, there are several avenues for future research that could be investigated. Subsequent research endeavors ought to juxtapose the results of implementing the notion of this study over a more extensive array of private banks, as well as additional service and industrial sectors. Furthermore, it is possible that other factors related to internal control exist that could improve the predictive power of an entire model.

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Annex I

St. Mary's University

Dear Respondents:

First, I want to express my gratefulness for agreeing to fill this questionnaire despite your incredibly stressful and busy job schedule. I am a graduate student at St. Mary's University. The aim of my study is solely academic, and I am only interested in thoroughly investigating the quality of Commercial Bank of Ethiopia internal control system with thesis title"ASSESSMENT OF INTERNAL CONTROL: IN THE CASE OF COMMERCIAL BANK OF ETHIOPIA". Please be assured that all information provided in this questionnaire will be kept exclusively confidential, and your personal information will not appear in any of the appraisal or presentation sections. Your bank has been chosen as one of the subjects for this assessment, and you have been carefully picked as one of the experts who can provide useful knowledge as well as share his/her wealth of expert-based opinion as a valuable insight for this study. With due consideration, I insist that you have a truthful response to the questions because it has a significant impact on the results of the evaluation. Finally, I appreciate your patience in filling out the answers to this questionnaire, which is expected to last 20 to 25 minutes. I greatly respect and use your response and professional opinion as input for this research.

General Instructions

✓In all cases where answer options are available please tick (√) in the appropriate box.

✓ for question that demands your opinion, please try to honestly describe as per the question on the space provided.

Researcher: EmebetGeremew

Contact Address: +251-911-12-80-10

Part One: Personal Profile

1. Gender Male ☐ Female ☐

2. What are your educational credentials?

Diploma ☐ Degree ☐ Masters ☐ PHD ☐

3. How long have you been in the bank?

Less than 5 years ☐ 5 to 10 year's ☐ 10 to 15 years ☐ 15 to 20 years ☐

4. How long have you been in the current position?

Less than 2 years ☐ 2 to 5 year's ☐ 6 to 10 year's ☐ More than 10 years ☐

Part Two: Effectiveness internal Control

Please mark the box referring to a number from 1 to 5 scale to show the degree of your agreement or disagreement with each statement in relation to your bank's Internal Control System.

Where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, 5 = strongly agree

NO	**A. Control Environment**	1	2	3	4	5
1.	Unit/Branch management understands the banks policies regarding potential conflicts of interest					
2.	Unit management is aware of competency levels, and is not involved in training and increased supervision when competency is low.					
3.	There is active effort to ensure compliance with the letter and intent of laws and regulations.					
4.	Delegation of authority and assignment of responsibility is clearly defined. Individuals are held accountable for results.					
5.	Exceptions to policy of internal control are infrequent.					
6.	Internal Control Documentation exists and is up to date.					
B.	**Risk Assessment**	**1**	**2**	**3**	**4**	**5**
1.	Factors that are critical to achievement of minimizing risk are identified.					
2.	Long and short- range risk mitigation plans are developed and written in to document.					
3.	A process exists to identify and consider the implications of external risk factors (economic changes, changing government)					
4.	A process exists to identify and consider the implications of internal risk factors					
5.	A risk management program is in place to monitor and help mitigate exposures**.**					
6.	Mechanisms exist to identify and react to technological changes and changes in the functional requirements of the unit.					
C.	**Control Activities**					
1.	Unit staffs lacks up to date bank's policy and procedures and know how to use them.					
2.	Reviews are made of actual performance compared to objectives and previous periods for all major initiatives					
3.	Reviews are made of actual performance versus budgets, forecasts, and					

	performance in prior periods for all major initiatives.					
4.	Accounting statements and key reconciliations are completed timely.					
5.	Inventory, cash and other assets are physically secured and periodically counted and compared to the amounts shown on control records.					
6.	Financial duties are dividedamong different people (authorizing transactions, recording them and handling the asset are separated).					
D.	**Information and Communication**	**1**	**2**	**3**	**4**	**5**
1.	The system is maintained in a secure environment					
2.	The unit controls its computer applications by diligent and timely response to edit lists, rejected transactions and other control and balancing reports.					
3.	Individuals with access to information are trained to understand their responsibilities related to the information.					
4.	Employees who violate an important policy are disciplined.					
5.	Formal methods are used to communicate unit policies and procedures (e.g., manuals, training programs, written codes of conduct).					
6.	`Policies are defined for developing new systems or changes to existing systems					
E.	**Monitoring Activities**					
1.	Management routinely spot- checks transactions, records and reconciliations to ensure expectations are met.					
2.	Corrective action is taken Timely.					
3.	Management periodically evaluates the appropriateness of policies and procedures.					
4.	Internal controls are subject to a formal and continuous internal assessment process.					
5.	Management periodically evaluates the accuracy, timeliness and relevance of its information and communication systems.					