

**THE INTERNAL CONTROL OVER CASH IN FINANCE AND ECONOMIC  
DEVELOPMENT OFFICE (CASE STUDY IN WOLKITE TOWN)**



*WE STRIVE FOR WISDOM*

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## **ABSTRACT**

*This research has been conduct on the assessment of the internal control over cash in finance and economic development office at Wolkite town. The study is attempted to address the research questions based on the statement of the problem and objective of the study. In these papers both primary and secondary sources are used and censuses methods are available for data collection purpose. Also different tables are used for data analysis. The important findings of this study were summarized that is kept in touch of the office. Finally the researcher would like to recommend the following key points to the office. The office should be able to detect any possible loophole that may lead to misbehaving action in a regular basis. Train the employee about the principles of cash control more, review work with bank as weakly or biweekly as possible*

## **ACKNOWLEDGMENT**

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## **ACRONYM**

AICPA- American institute of certified accountant

BoFED -Bureau of Finance and Economic Development

CBO- Cooperative Bank of Oromia

NGO-Non-government Organization

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# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Internal control encompasses the policies and procedures that an organization establishes to ensure that it operates in accordance with management's intentions and that accountability is maintained for all transactions. This includes the methods adopted by the organization to safeguard its assets, to check the accuracy and reliability of its accounting data, to promote operational efficiency, and to encourage adherence to prescribed managerial policies. (Pandey, 2004).

As American institute of accountant first defined internal control 1949, followed by further clarification in 1958 and 1972. In 1977 public held companies come under legislation to adequately important control to protect their financial information. According to Sarbanes-Oxley internal control is defined as the procedure and process used by the company to safeguard its asset, to process information accurately, ensure companies with law and regulation (Reeve. Warren. Etal ---, 2009).

Sarbanes-Oxley act of 2002 is one of the most important laws affecting us companies in recent history. The purpose of Sarbanes-Oxley is to restore public confidence and trust in the financial reporting of companies also emphasis other importance of effective internal control. It is obvious that money is the crucial and backbone of human beings and it is the main root for social political and economic developments. It is also known that money is the life blood for profit and non-profit seeking organization without it, raw material, capital, any short- and long-term asset no social and economic development is achieved, because we human beings are immediate users of those listed asset's internal control over cash procedure varies from company to company and depends on such factors as the nature of business and its size. However, the principles of internal control applied are the same to all business companies (Wegandt, Kieso, etal --- 1990).

Internal control is a process designated to ensure that reliable financial reporting, effective and efficient operation and compliance with applicable low and regulation. Safeguarding asset

against theft and unauthorized use, acquisitions or deposit it also a part of internal control ([www.cliffnotes.com](http://www.cliffnotes.com)) .

Effective internal control is expected that cash are prevented or at last minimized from theft, fraud, misuse and personal errors. Also, these control mechanism enables to predict adequate not excessive cash balances. Natures of cash are considered; it is the most liquid asset, so is more be prone to embezzlement, theft, fraud and defalcation more than other asset. Cash helps more, it provides adequate liquidity position to business, individual and even government must maintain adequate cash for its need to pay an obligations as they come due. Their effective control of cash is very critical business issue.

Cash items include the paper money currency and coins, checks, bank draft, cashier checks and money in the checking account or demand deposit. Cash from its nature are expected to fulfill the above characteristics and elements. Cash is a medium of exchanges that any time negotiable and it have been free from any restriction for business proposes. It is a basic input needed to keep the business running on a continues basis and are the ultimate output expected to realized by selling the service or product by the firm (Pandey, 2004).

With this in mind, the office of finance and economic development at Wolkite town reaches a good performance through good internal control system. So, this office should be used the technique of internal control over cash to effectively utilize its liquid asset i.e. cash.

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

Many non-business and business organization receive or pay a large amount of cash from their customers and their suppliers and this shows that cash is the most liquid of all assets that involved directly or indirectly in almost all business transaction. Lack of effective internal control over cash and inability to convert excessive cash into earning asset will be a significant bearing on the performance of the organization under consideration.

According to internal security system Inc. (2004) safeguarding internal control and procedure for financial reporting as well as ensuring the confidentiality, integrity and availability of information is no longer just a best practice for business or organization.

An internal control is a set of rules that a department head establish to prevent losses that may result from fraud, error and technological malfunction ([www.ehow.com](http://www.ehow.com)).

This study planning will be conducted to assess the internal control over cash in addressing the problems (theft, fraud, embezzlement and misappropriation) of cash in the finances and economic development bureau at wolkite town. This research will be conducted to solve the problem of effective internal control over cash in finances and economic development office.

Recent studies will be undertaken to assess the reliability and soundness of internal controlling systems in government offices of Ethiopia; most of them will be concluded that the civil service offices will be operating with Loose-Fitting internal control systems established with in them. Therefore, the finance and economic development office at Wolkite town, being part of the national civil service office, will be identified with limited or least internal control over cash established in it. So, the investigator attempted to discover and asses the internal control in BoFED, wolkite town.

Cash can be a major part of many business operations. Cash is the lifeblood of any business – without receiving cash from sales, a business would not be able to pay their suppliers or employees. Therefore, one area where businesses should have strong internal controls is around the handling of cash – both coming into the business and going out.

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### **1.3 Research Questions**

These basic research questions are expected to be addressed to give same clue as to how to solve the problems:

1. What does internal control over cash look likes in finances and economic development office of Wolkite town?

2. What effective internal controls over cash techniques are to be used to achieve the main aim of cash management in wolkite town?
3. What are the factors that help to facilitate the internal control system of the office?
4. Does the organization work with bank to strength its control over cash in wolkite town?
5. What are the techniques used to control the cash loss from theft, fraud and misrepresentation in wolkite town?

## **1.4. Objectives the Study**

### **1.4.1. General Objective**

The general objective of the study was of assess the internal control over cash in finance and economic development office (BoFED7) of wolkite town. To be identify strength and weaknesses of internal control over cash.

### **1.4.2. Specific Objectives**

- To assess the compliances of cash management and controlling system in finance and economic development office of wolkite town with the established rule.
- To describe the technique of internal control over cash used in finance and economic development office.
- To assess whether the internal control over cash is efficient and effectiveness in the office.
- To investigate the role of internal control over cash in controlling theft, fraud and misappropriation in the office.
- To investigate different way of internal control over cash procedures used by the offices.

## **1.5 Significance of research**

This researcher believed that the study would contribute much to the satiability of the organization, studying on the internal control over cash is very important for any organization. As such, the outcome of the proposal would help the finance manager get important feedback up on the effectiveness of the organizations internal control practice. And this study would help to prevent cash from theft and misappropriation by applying the techniques of internal control over cash.

Moreover, the study is expected to serve as a basis for subsequent studies on the topic; to provide basic data about the problem, and get an important solution for the variables, to provide useful information about the internal control over cash and problem of the bureau of finance and economic development in wolkite town.

### **1.6. Scope of the Study**

Even though wolkite town bureau of finance and economic development is at its unsatisfactory level and have many factors to its slow down development in today's computerized technological development. This research would confine only to finance and economic development office at Wolkite Town.

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

A research is a function of sufficient amount of finance and time. As most researcher faces, this research is not exceptional to encounter these problem as well because the researcher are full time students. Other limitations that will faces are as follows:

- ❖ Absence of enough documents about internal control over cash in the office.
- ❖ Lack of sufficient information from the bureau.
- ❖ Lack of willingness and carelessness of employee in giving information by some respondents.

### **1.8. Organization of the research**

Organization of the research papers covers five chapter consists of background of the study, statement of the study and limitation of the study. Chapter two contains literature review. Chapter three shows the research design and methodology which is including research design, source of data, data collection techniques, target population and sampling methods. The fourth chapter deals with presented the data analysis and presentation of finding. Finally, the five chapters contains all point that are found the paper, draw conclusion and recommendation are given.

## **CHAPTER TWO**

### **RELATED LITERATURE REVIEW**

#### **INTRODUCTIONS TO INTERNAL CONTROL SYSTEM**

Internal control is the plan of organization and the methods a business use to sale guard assets, provide accurate and reliable information, promote end improve operational efficiency, and encourage adherence to prescribed managerial policies. Cash: cash is a medium of exchange that is any time negotiable and a bank will accept for deposit and immediate credit to all depositor account (Mosich, 1989).

#### **2.1 Theoretical literature review**

Cash is a medium of exchange that is any time negotiable and it has to be free from any restriction for business purpose. Cash is the basic input needed to keep the business running continuous basis, it also the ultimate output expected to be realized by selling the service or product manufactured by the firm (Pandey, 2004).

Cash is the money which a firm can disburse immediately without any restriction (Pandey, 2004). According to( Mosich, 1989) cash includes paper currency and coins, checks, bank drafts postages stamps cashier check, money is the checking account or current or demand deposit, money in some saving account cannot be with drown on short notice. Cash is also including medium of exchange that is accepted by any knowledgeable person in exchange for good and service and deposit by the bank. Deposit with trustee, for example a bond sinking fund that is no under the control of management of business enterprise shall not include in the cash (Mosich, 1989).

In summary, the general, criteria used to define cash are that the item being a medium of exchange be available immediate for the payment of current debt and free from contractual restriction that would prevent management of the business enterprises from using the item to pay its creditor. For the accounting purpose, the asset cash represent more than money in the form of paper currency and coins that are used in every day financial transaction. Cash may appropriately be able to be explained as: A current asset deposit in bank that can be withdrawn immediately

and used for any purpose and Current asset that a bank will accept for deposit importance of cash.

The reason why cash is so important is that it serve as a medium of exchange in any economic and involves directly or indirectly in almost all business transaction.

The other reason why cash is important is that individual, business and even government must maintain an adequate liquidity position. They must have sufficient amount of cash on hand to pay as they came due if they remain available in operating entities and serve measurement of values.

Cash is important it provides individual and families with liquidity. This means that you are able to pay off your obligation on time. Every organization requires cash in order to start it business. Cash is the blood vessels of every organization, whether profit or not for profit organization. In order to run the operation activity smoothly an efficient control over cash inflow and out flow in is needed. Because these with which money can be transferred, cash is an asset most lively to be deliver and subjected to be misused. Cash is transfer to one person to another person without its own ownership being questioned (financial high way come importance of cash).

## **2.2. Internal Control System**

According to Spicer and Pegler, a famous authority on auditing literature defines the system of internal controls “internal control is the best regard as the whole system of controls financial and other wise, establish by the management in the conduct of business including internal check audit and other form of control” This definition implies the following:

Internal control is a system of controls.

Controls are financial and non-financial area.

The mechanism of control may manifest itself in the form of internal checking or internal audit and other form (Kinfu and Bayou, 2009). Internal control is defined by American institute of certified accountant (AICPA) is all coordinating method and measure within an organization or with a system adopted to safeguard asset, check accurately and reliability of accounting data, promote operational efficiency, and encourages adherences to prescriqbed managerial policy. The purpose of internal control is to ensure asset belongs to the business enterprise received

when tendered are protected while in the study of administrative and accounting control administrative control includes but it is not limited to the plan of organization and procedure and records that are concerned with decision process leading to management authorizations transaction. Accounting control implies or comprises plan of organization and procedure and records that are concerned with the safeguarding asset and liability of financial records and consequently designated to provide reasonable assurances (Mosich, 1989).

In accounting and auditing, internal control is defined as a process affected by an organizational structure work and authority flow people and management information system designated to help the organization accomplish specific goals or objectives. It is the means by which an organization resources are directed, monitored, it plays an important role in preventing and detecting fraud protecting the organizational structure, both physical (Machinery and equipment) and intangible e.g. reputation or intellectual proprietary such as trade mark.

### **2.3. Internal Control for Cash**

The need to safeguard cash is a crucial in all most all business. Cash is easy to conceal and transport carries mark of ownership, and is universal valued. The risk of theft is directly related to the ability of individual to access the accounting system and obtain custody of cash firms address this problem through internal control system.

Internal control system is a set of policies and procedures designed to:Protect assets, Ensure complains with low and company policy, Provide accurate accounting records and Evaluate performance. A sound internal control system for cash increase the likely hood that the reported value for cash and cash equivalent are accurate and may be relied on by financial statement users.Internal control for cash should:

- Separate custody of and according for cash
- Account for all cash transaction
- Maintain only the minimum cash balances needed
- Provide for periodic test counts for cash balances
- Reconcile ledger and bank cash account balance

- Physically control cash.

## **2.4. Objectives of internal control over cash**

The objectives of internal control over cash expressed as:

- To provide accurate information about cash
- To avoid cash shortages
- To avoid excess/idle/ cash
- To protect cash from theft and misuse ([www.csulb.edu2pdf](http://www.csulb.edu2pdf))

## **2.5. Principles of Internal Control**

The following principles are applicable to in most enterprises.

Establishment of responsibility; an essential characteristic of internal control is the assignment of responsibility to specific individual it is also includes the authorization and approval of transaction. Segregation of duties: this principle also identified as separation of function or division of work is indispensable in system of internal control. Documentation procedure: provides evidences that transaction and events have occurred documentation of transaction and should be made when transaction occur. Physical, mechanical and electronic controls: this is related to primarily to the safeguard asset. Thus includes: Locked were house for inventories and Financing of company properties. (Weygandt,Kieso.Etal-- 1990).

Independent internal verification: when involves the comparison, and reconciliation of data prepared by one or several employees and other control includes: Bonding of employees, rotating employee's duties and requiring employee to take vacation (Wegandt, Kieso, etal 1990).

## **2.6. Cash Management**

Cash management includes planning, controlling and accounting transaction and cash balances since cash is the measure of values, it becomes less productive such as marketable securities and the like (Pandey, 2004).

## **2.7. Rational for Holding Cash**

Firm holds cash for three primary reasons:

### 2.7.1. Transaction motives

This motive refers to the demand for money by individual and business houses for conducting day to day transaction cash balance are necessary to conduct business. (Pandey, 1999).

### 2.7.2. Precautionary motives

Cash inflow and out flows are somewhat unpredictable with the degree of predictability varying among firms and industries. Therefore, just as firm holds safety stock of inventories, they also need to hold some cost in reserve for a random unforeseen fluctuation in flow and out flow this amount are defined as precaution motives. (Pandey, 1999).

### 2.7.3. Speculative motives

Some cash balance may be held to enable the firm to take advantages over speculative satiation. In general cash management is a broad term that covers a number of functions that help individual and business process receipts and payment in an organized and efficient manner (Pandey, 1999).

## 2.8. Cash Budget

Cash budget is basically is budget plan for business manager which is made in relation to get contain target. Therefore, cash budget is planning tools that help the management of Business Company is making important decision ([www.essayarcnive.com](http://www.essayarcnive.com)).

### **Effective method of internal control over cash**

The effectiveness of internal control over cash is varies from one company to another company, depending on the size, nature and complexity of the company's most company usually large firms follow the following general procedures so as to separate the function of authorization record keeping and custodianship of cash.

- Limit the number of people who have access to cash.
- Designate specified people who are responsible for holding cash.
- Record all cash payment
- Make payment by check i.e. by receipts
- Physically protect cash on hand by using cash register and safes.

Internal control over cash disbursement is more effective when payments are made by check, rather than by cash, except for incidences amount that are paid out of petty cash.

## **2.9. Internal Control over Cash Receipts**

Internal control over cash receipt ensures that all cash receipt is properly recorded and deposited. Cash receipt may result from variety of sources such as cash sales and collection on account from customer, the receipt of interest rents and dividend investment by owner bank loans and proceeds from the sale of non-current asset. The application of internal control principles to cash receipt is as follows principles and the applications to cash receipts. (Pandey, 1999).

Establishment of responsibility, only designated persons such as cashier and cashier department personal should be authorized to handle or access to cash receipts. Segregation duties: the duties of receiving cash receipts transaction and having custody of cash should be assigned to different individual. Documentation procedure: document should include remittance advice for mail receipt cash register tapes for over the counter receipts. (Pandey, 1999).

Physical, mechanical and electronic controls: company safe and bank vault should be used for storages of cash and access to shortage areas should be limited to authorized personnel, cash register should be used in executive over the counter receipts. Independent internal control verification: daily cash counts of register receipts should be made by cashier department, supervisor, daily comparison of total receipt and receipt deposits in the bank should be made by the treasury office. Other controls: all person who handle cash receipts should be handled and be required to take vacation, cash should be deposited in the bank in total daily (Weygandt, Kieso, etal --- 1990).

## **2.10. Over the Counter Receipts**

Over the counter receipt is entered on cash registers that are visible to the customer. When cash sale occur the sale running up on cash register with the amount clarity, visible to the customer. This procedure prevents the cashier from ringing up a lower amount and pocketing the differences (Weygandt, Kieso, etal 1990).

## **2.11. Cash short and over**

Cash actually received may not agree with the amount record in the cash register or sales ticket. The cases of cash short and over are either: Error is recording, error in making change fund and

theft, misuse of the cash. If there is excess cash the overage is treated as other income if there is shortage of cash is treated as other expense.

### **2.12. Internal control over cash disbursement**

Cash disbursement or payments are particularly vulnerable to fraud and embezzlement. To avoid these fraud and embezzlement cash should be paid only after the receipt of specific authorization supported by department document. It is generally that more effective internal control over cash disbursement result when payments are made by check. Except for individual, or incidental amount that are paid out of petty cash, these check should be authorized prepare and approved by independent individual and prepare voucher before payment are made. (Pandey 1999).

### **2.13. Voucher system**

The appropriate control procedure for cash disbursement called for use of voucher system. The voucher is an extensive series of prescribed control procedure designed to assure that every disbursement by check is proper payment. The internal control principles are essential to in the voucher system a voucher is an authorization from prepare for any expenditure in a voucher system (Weygandt, Kieso, etal. 1990).

The voucher system basically presumes principles: No payment will be made for any good or service acquired unless receipt or delivery of the good and service acquired is ensured beforehand. And no payment for any obligation except by the check and no settlement made and negotiate unless terms of agreement have been made.

### **2.14. Bank Reconciliation**

The bank reconciliation is an important of the system of internal control over cash because it is the means of comparing recorded cash, as shown by the accounting records, which the amount of cash reported by the bank. Bank reconciliation is the process of accounting for the different between the balance operating on the banks statement and the balance of cash according to the depositor report or process of creating agreement between cash per bank statement and cash balances as per depositor. It is good accounting practice to check the accuracy of the bank statement as soon as collected from the bank. When errors are made in bank statement the bank should be notified immediately. Bank reconciliation is prepared to account for the differences between the two balances. Both the balance per bank statement and the balance per the lager account are adjusted to the true balance of expendable cash, the document used are the bank

statement and any accompanied debit and credit memorandum returned checks, a list of check issued and a record of deposit made and after the reconciliation is prepared, an adjusting entry is prepared to record the previous unrecorded item. Apart from the errors made by depositor or the bank, there are different causes by the time factor. The element obtained in time factor is deposit in transit and check out standing. (Warren 2005).

**Outstanding check:** are checks that have been written and records in the company's cash account, but have not yet cleared the bank account. Check written in during the last few days of the month plus a few order checks are likely to among the outstanding checks. Therefore, outstanding check is listed on the bank reconciliation as decreased in the balance per bank. Bank service charge: are fees deducted from the bank statement for the bank processing of the checking account activity (accepting, depositing posting, checks mailing the bank statement etc.) other types of bank service charge include the fee charged when a company over draws its checking account and the bank fee for processing a top management order on a company check. Non-sufficient fund: Is check that was not honored by the bank of the person or company writing the check because that account did not have sufficient balances. Deposit in transit: deposits are that where mail order or taken to the bank but that were not received in times to be recorded on the bank balances before the preparation of monthly bank statement ([www.accountingcoach.com](http://www.accountingcoach.com))

## 2.15 Empirical literature review

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

the organization is safeguarding and reporting cash in the appropriate manner as cash has the highest risk and is difficult to control. It is now recognized that a sound internal control process is critical to organization's ability to meet its established goals and objectives and maintain its financial ability. The study was conducted by applying both descriptive and explanatory research designs. The research team has got the needed data from both primary and secondary sources. The study is a population study because, the target population consists only the Factory's Finance Staff Members Internal Auditor and General Manager. For the secondary data, that team has compiled the necessary data from the Factory's financial audit report, procedural manuals; guide lines etc. The team had taken a preliminary study and identified the existence of a researchable problem. That is the existence of cash related problem like cash shortage from daily cash sales and improper cash utilization. The firm doesn't have proper authorization, approval and record procedures for cash payments. Most of the respondents indicated that their Factory doesn't have those procedures. (Elisabeth et al., 2014)

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

Has done a study to achieve two objectives to determine whether the internal audit department of the companies listed in the Bursa Malaysia complies with the Standards for the Professional Practice of Internal Auditors IIA (2000)

The study evaluated the Internal Auditing Practices as independent variables and Quality of Internal Control System as dependent variable. As the quality of internal control system they

focused on control environment, risk assessment, information & communication system, control activities and monitoring. It was found that management of internal audit department; professional proficiency, objectivity and review significantly influence the monitoring aspect of the internal control system. Scope of work and performance of audit work significantly influences the information and communication aspect of the internal control system while performance of audit work, professional proficiency and objectivity significantly influence the control environment aspect of the internal control system. The study also shows that management of internal audit department, performance of audit work, audit program and audit reporting significantly influences the risk assessment aspect of the internal control system. Lastly, performance of audit work and audit reporting significantly influences the control activities aspect of the internal control system. (Fadzil et al, 2013)

Examine effective and efficient internal control system over cash operations in Cooperative Bank of Oromia and reviewing its current states, by such factors, as operating and financial control, custody of asset, and record keeping, personal policies and procedures, and internal audit function in four branches of the bank and select 34 employees as sample of the study in the bank. The study has employed the descriptive research methods in order to describe factors that affect effective and efficient internal control system in CBO. Analysis of the data collected shows that combination of cash operation functions and some personal relationships; lack of integrity, competence, knowledge and experience by employees working around cash operations; inadequate communication of proper information for decision making; misappropriation of cash; unsatisfactory verifications and weak internal audit functions in the bank which affects effective and efficient internal control systems in the bank. (Julius 2015).

This study was conducted to evaluate the internal controls system of cash in the management and growth of the small businesses in Nairobi. The study used stratified random sampling method to select the sample size. The businesses were selected depending on their location such as Nairobi North, Nairobi South and the Central Business District. The study found that only 12.5% of the businesses have responsibilities for collection and deposit preparation functions adequately segregated from those for recording cash receipts and general ledger entries. The remaining 87.5% did not segregate the duties. This was the same case for responsibilities for cash receipts functions adequately segregated from those for cash disbursements as well as for responsibilities for disbursement preparation and disbursement approval functions adequately

segregated from those for recording or entering cash disbursements information on the general ledger. The study found that the age of a business has a positive influence on internal control on cash. About 77% of the variation in internal controls on cash is as a result of age of the business. Thus, the older the business, the stronger it's internal control on cash and vice versa. This research is all about the problems associated with internal control systems over cash management in five compassion centers. The main reason for this research to be undertaken is due to the fact that some compassion centers were closed due to funds sabotage. Primary and secondary data has been used on this study to qualify the evaluation of the systems of internal control over cash. Data was collected through questionnaires, interviews and observations and documentary review. Through this research there are some areas which need more efforts in the internal control systems over cash particularly in professional abilities and capabilities of accountants and internal auditors. (Geoffrey, 2014)

In this study it was revealed that to some extent there was ineffectiveness on the operation systems of internal control over cash management due to poor operations or fund mismanagement and delayed of financial report to the donors. Also it was found that to some extent there was a lack of professional abilities to carry out the assigned duties as there was failure to keep account books in accordance and failure to conform the procurement procedures. There is a problem of accountants and auditors not adhering to professional standards hence use improper accounting books. (Geoffrey, 2014)

## **2.16. Summary and research gap**

From the forgoing review of relevant literature it is evident that resource in the area of internal control over cash has not been done in a more comprehensive approach. Five internal control components has been discussed by different studies but there focus in most study for over all controlling system of certain company so that these study differ by showing specific part of internal control that is cash which is the most liquid asset ever specially in financial industry there effect has been higher so it needs to discuss through those all components of internal control elements. Therefore, the study tries to conduct on the issue of internal control over cash on the Bank of Abay. The study research gap is demonstrated by the scarcity of empirical studies on determinants of internal control over cash, especially in the banking sector. Practical studies (William, 2013), Fadzil, Haron & Jantan, and (Charles, 2011) are inadequate as they concentrated on internal control the other is (Elisabeth el al., 2014) even if they show liquidity of

cash in internal control, none of these studies focus on internal control system on cash operation from the survey of relevant literature. (Dagnu, 2009) focuses the examination effects and efficiency of internal control system over cash in CBO using some branches employees' sample. Under this study, the research will conduct in order to know the constraints associated with internal control over cash in banking industry by using way of branch sample in the city. According to study of (Julius, 2015) and (Geoffrey, 2014) mainly focused out of banking industry. This study therefore intends to fill these pertinent gaps in literature by studying internal control over cash in Abbey bank.

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1 RESEARCH DESIGN**

In order to achieve the objective of this study the researcher would use descriptive research design it describes the situations, problems, phenomena and it describes what have happened and happening. Because of this, the method is used to transfer the data into understandable form by easy means. The type of data that would use by the researchers is qualitative. Qualitative data is data that approximates or characterizes but does not measure the attributes, characteristics, properties etc... of thing or phenomenon. by using qualitative method the researchers study reflect in to make sense or entrepreneur phenomena in terms of the money brings to them (john w creswell,2013)

#### **3.2 Population and sampling design**

The target population is as it is stated in the above section consists only the finance and economic development staff members 35, internal auditor 6 and general manager 1. The total population size is only 42 individuals; it is population size is greater than 30, so this censuses survey use sample size the study. Sample size = population size / (1+population size\*error term square).  $n = N / (1 + N * e^2)$ ;  $42 / (1 + 42 * 0.05^2) = 38$  so sample size is 38

#### **3.3. Data Collection Methods**

The student research study would be collected the needed data from both primary and secondary data sources. Primary data, prepared questionnaire which consists many close ended questions and some open ended questions. 42 copies of the questionnaire would be distributed and only 38 copies returned with responses. In addition to this the student research members would be observed the actual practice of the factory. For the secondary data case they would be compiled the necessary data from the factory financial audit report, procedural manuals, guidelines and regulations of financial activity

### **3.4. Data type and Source**

The researchers would be use both primary and secondary source of data. The primary is questionnaire to get possible response from different groups. Secondary sources of data are also reference books, related written materials that support to the research and organizations manual

### **3.5. Target Population and Method of Data Collection**

There are collecting employees in finance and economic development office in Wolkite town and the employees have been different work status. The studding used the censuses methods to increase the accuracy of the information would be needed for the study. The reason for using censuses method is the population is manageable.

### **3.6. Methods of Data Analysis and Presentation**

The data would be collected from primary and secondary sources have been analyzed through qualitative data analysis techniques that ensure the objective of the study.

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

In this chapter, data collected through questionnaires have been analyzed using tools like percentages and tables and interpreted accordingly. This data is collected from respondents by census methods and analyzed using qualitative data analysis techniques.

*Table 4.1: Educational status or level of employees in BoFED wolkite town*

Educational level	Number of respondents	Percentages
MA/MSc	2	5.25%
BA degree	21	55.25%
Diploma	11	29%
Certificate	4	10.5%
Total	38	100%

As shown from table 4.1, 5.25%, 55.25%, 29% and 10.5% of the respondents in BoFED have MSc/MA degree, BA degree, diploma and certificate respectively. From this majority of the employee in BoFED have BA degree. This indicates that the internal control system is acceptable, because employees having good educational level know much about how cash are collected in an organization. So, the organization should achieve its control objectives.

*Table 4.2: Work Experiences of employees in BoFED wolkite town*

Year	Number of respondents	Percentages
Less than one	3	7.9%
Between one and five	16	24.1%
Above five (5)	19	50%

Total	38	100%
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Table 4.2 shows that 7.9%, 42.1% and 50% of the employee in BoFED have a work experience less than one year, between one and five and above five year. This relates that the internal control over cash system is efficient, because the higher the work experience of employee have a greater advantages of working tasks efficiently without any difficulty and in a proper ways.

*Table 4.3: Existence of internal control over cash systems in BoFED wolkite town*

Response	Number of respondents	Percentages
Yes	38	100%
No	--	--
Total	38	100%

As clearly shown from table, 4.3100% of the respondents repaid that there exists internal control over cash in BoFED. This indicates that the office has been paying high attention towards the essences of internal control practice within itself.

To be more specific, the office has realized the relevance of internal control system as a constructive way for controlling acts as theft and misuse or unauthorized use. Moreover, the office has trade to establish internal controlling system to ensure the accuracy of accounting information being produced from within.

*Table 4.4: Perceived objective of internal control over cash in BoFED wolkite town*

Objective	Number of respondents	Percentages
To provide accurate report	14	36.84%
To avoid cash shortage	4	10.53%
To protect cash from theft and misuse	20	52.63%
Total	38	100%

Table 4.4 shows that 36.84% of the respondents says that objective of internal control over cash is to provide accurate report, 10.53% of them say that the objective of internal control over cash it to avoid cash shortages, and 52.63% of the respondent respond that the objective is to protect cash from theft, misuse and other employee errors. So, the main objective of internal control over cash in BoFED in wolkite town is principally revolving aground protecting cash from theft and misuse. This is an indicative that the office has got some experience about improper utilization of

its cash resource. The lesson that the office learn, in the past included that cash is prone to embezzlement and/or improper utilization that means, the office believes that protecting cash from theft and misuse can bring about the objective/avoidance of cash shortages and to provide accurate report.

*Table 4.5: Administrative and accounting control in BoFED wolkite town*

Response	Number of respondents	Percentages
Accounting control	--	--
Administrative control	--	--
Both accounting and administrative control	38	100%
Total	38	100%

As shown from table 4.5 all respondents of the office repaid that they apply both accounting and administrative control in BoFED. The reason for this is that if two types of control system is applied the accurate recording of different operation and activity is enabled.

*Table 4.6: The reliability of accounting control in BoFED wolkite town*

Response	Number of respondents	Percentages
Poor	1	2.63%
Acceptable	5	13.1%
Good	21	55.27%
Very good	11	29%
Total	38	100%

Table 4.6 indicated that 19% of the respondents answered that the reliability of accounting controls is are very good and 55.27% of the respondent say that the reliability of accounting control is good in the finance and economic development office and 13.16% of them say acceptable, and the remaining 2.63% of the respondent respond it is poor. So, the reliability of accounting control in finance and economic development office in financial records is good, because it creates good response in the accounting practice (transaction or records) and also accounting control is records business type activity so it measured its reliability through accounting records.

*Table 4.7: Strength of internal control system in BoFED wolkite town*

Response	Number of respondents	Percentages
Very poor	0	0%
Poor	3	7.9%
Medium	16	42.1%
Good	9	23.68%
Very good	10	26.32%
Total	38	100%

As shown from table 4.7, 26.32%, 23.68%, 42.1%, 7.9% and 0% (no respondent) of the respondents repaid that the strength of internal controls very good, good, medium, poor and none of the respondents say very poor respectively. This is an indicative of the existences of acceptable or medium level of internal control over cash in the office. However, there are some respondent who have got their doubt in the internal control system. They attribute this to the lack of knowhow about the system and/or absence of coordination between the employees.

*Table 4.8: Importance of clear organizational policy on internal control over cash in BoFED wolkite town*

Response	Number of respondents	Percentages
Very important	38	100%
Somewhat important	--	--
Not important	--	--
Total	38	100%

As clearly shown from table 4.8 all of the respondents replied that the existence of a clear organizational policy on internal control is very important. The reason is that a clear organizational policy has a great importance on internal control system to manage assets (equipment, machinery, and cash from misuse, theft, errors by employee and other forms of defalcation. Moreover, a clear organizational policy enables the system to provide accurate and reliable information about the operation.

*Table 4.9: Frequency of miss utilization of cash in BoFED wolkite town*

Response	Number of respondents	Percentages
Always	5	13%

Sometimes	6	16%
Never happen	27	71%
Total	38	100%

As indicated in table 4.9 71% of the respondents replied that miss utilization of cash has never happened in the office, and 16% of the respondents replied that miss utilization of cash has happened sometimes. So, the minimal misuse of cash and other assets is an indicative of strong internal control system, and day-today implementations of internal control activity are applied in the office. However, some respondents which is around 13% persons or respondents are protected to give answer.

In addition to this, every activity that takes place has been effectively worked, and if there is misuse of asset occurs, the employees take responsibility for this because; every payment is made by a check that supports its truthfulness.

*Table 4.10: Adequacy of salary or payment package of employees in BoFED wolkite town*

Response	Number of respondents	Percentages
Not at all	14	37%
Some extent	24	63%
Extremely well	--	--
Total	38	100%

As it is clearly shown table 4.10 63% of the respondent replied that the salary or payment package meet their need to some extent, and the remaining 37% of the respondents replied that the salary or payment to the employees. This implies that the employees that receive small amount of salary payment do not work effectively within the office, because they are less satisfied. And if the employee's personal interest is not satisfied, then, they don't work in the organization on their own full capability.

As a result, the internal control system is shattered to some extent by the carelessness of less satisfied works. In other words, smaller salary payment will create some loophole for employees to misbehave.

*Table 4.11: Source of fund for BoFED wolkite town*

Response	Number of respondents	Percentages
Government	✓	
Different source	✓	
International institution	✓	
NGO	✓	
Total	38	100%

According to table 4.11 the major sources of fund for the wolkite town finance and economic development office are government different offices. International institutions: UNICEF, WHO and NGOs. At the sometime, the government of Ethiopia also allocates budget for the budget for the bureau for its day-to day operations. Therefore, by the office secures it's from a combination of the above mentioned sources.

*Table 4.12: Collection of accounts receivable in BoFED wolkite town*

Response	Number of respondents	Percentages
Single accountant collects cash and records (prepare document)	38	100%
Single accountant prepares cash receipt in three and cashier collect cash	--	--
Total	38	100%

As shown from table 4.12 all the respondents replied that a single accountant prepares cash receipts in three copies and the cashier collects cash in the BoEFD at wolkite town. So this segregation of activity towards accounts receivable accounts between different individual in the accounting section (department) in three copies, and then cash is collected by another person (the cashier). Here, the cashier also records the amount of cash received immediately.

*Table 4.13: Working with voucher in the BoFED wolkite town*

Response	Number of respondents	Percentages
Yes	38	100%
No	--	--

Total	38	100%
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As shown from table 4.13 all the respondents replied that the office applies voucher system a voucher system is a system of internal control procedure that provides documentary evidence and authority for each obligation incurred. A voucher is a special form in which relevant data about a liability to be paid and the detail of its payment is recorded.

Voucher is evidence about the payment. So, the BoFED, town of wolkite makes use of vouchers that in turn, enable to strength its internal control effort typically, voucher involves several courses of action or procedure before it gets approved for payment.

This gives a favorable controlling endeavor toward the cash payment. Added to this, voucher gives remarkable proof that each payment by the office are in settlement of valid obligation (like from other sector in the town whose budgets are being by BoFED).

*Table 4.14: Mode of payment in the BoFED wolkite town*

Mode of payment	Number of respondents	Percentages
Direct payment	✓	
Check payment	✓	
Suspense payment	✓	
Total	38	100%

As shown from table 4.14 all the respondents replied that direct payment, check payment and suspense payment apply in the BoFED at wolkite town.

Direct payment is a payment on basis on disbursing cash for the day operation. These direct payments are made from the cash box of the bureau through the main cashier usually from the budget that is allocated by the government for different type's purpose, so it strengthens internal control system because it pays cash directly.

**Check payment:** is a written order on the bank to pay a specified amount of money to the party designated as payee, the party issuing the check. Every payment must be made by check in BoFED at wolkite town. Without check internal control over cash will not effective.

**Suspense payment:** are payments that are made by the main cashier of the bureau for employee who need money in advance before salary payment day. In the bureau, suspense payment are

affected only if the amount disbursed in cash is within the limits and the suspense is likely to be cleared within the prescribed period of time, it made by the accounting section.

*Table 4.15: Check in the BoFED wolkite town*

Response	Number of respondents	Percentages
Yes	38	100%
No	--	--
Total	38	100%

As shown from table 4.15 all the respondents replied that BoFED at wolkite town use check for different payment of the office. In BoFED wolkite town, the authorization to sign a check for the final payments is the responsibility of both finance as well as general manager of the bureau and deputy of finance manager of, but the authority to approve the invoice for payment or to make entries in the accounting records are the responsibility of both the treasury and accounting section at the office. Check are applied in the office it means it is the authorization to pay same payment, so check serve as the evidence to the disbursement, and this it strength internal control system.

*Table 4.16: Bank reconciliation in the BoFED wolkite town*

Response	Number of respondents	Percentages
Yes	38	100%
No	--	--
Total	38	100%

As indicated from table 4.16 all respondent replied that the review bank reconciliation. So, via working with the bank, the office people go periodically for accounting for difference between the balance appearing on the bank and the balance cash according to the depositor records. In the BoFED the employees reconcile with the bank monthly the amount recorded, because it facilitates the balance between them.

Bank reconciliation is the process of internal control over cash it records (reconcile) the bank statement and the depositor account so every account i.e. cash properly records so it strength the internal control system.

*Table 4.17: The seat of cashier in the BoFED wolkite town*

Response	Number of respondents	Percentages
It's separated from other employees	38	100%
It's with other employee	--	--
Total	38	100%

As shown from the above table 4.17 the cashier has restricted area that is separated from other employees so the researcher can said that the BoFED wolkite town the cashier has its own office this is important for facilitating the function of payment and receipt of in the bureau and this is important for the effective controlling the asset i.e. cash from theft or feud, embezzlement and other form of defalcation by other people.

*Table 4.18: Payroll transaction in the BoFED wolkite town*

Response	Number of respondents	Percentages
Yes	38	100%
No	--	--
Total	38	100%

As shown from table 4.18 all the respondents replied that they prepare payroll transaction to record the amount of payment of salary, gross earning, and overtime of the employees. This leads to the effective control over their salary to avoid any shortage and/or deficit in the office, as result internal control is strengthen.

*Table 4.19: Important principle of internal control over cash in the BoFED wolkite town*

Response	Number of respondents	Percentages
Segregation of duties	25	65.79%
Establishment of responsibility	13	34.21%
Total	38	100%

As shown from table 4.19 65.79% of respondent replied that they apply the principles of segregation of duties on internal control system in the BoFED wolkite town and 34.21% of the respondents replies that they apply the principle of establishment of responsibility in the BoFED.

Segregation of duties: the duties of receiving cash recording of cash receipts transaction, and having the custody of cash should be assigned to different individual.

Establishment of responsibility: only designated personal such as cashier and the cashier department personnel should be authorized to handle or have access to cash receipts in the BOFED. These principles have a great role in the internal control over cash.

## CHAPTER FIVE

### CONCLUSION AND RECOMMENDATION

This chapter presented the important finding of the research that presented in the analysis part of the study based on, finding, some possible solution are also given in the recommendation section which is important to improve the activity of the BOFED Wolkite town.

#### 5.1. Conclusion

Analysis of the internal control over cash practice in the finance and economic development office of wolkite town has been undertaken so thoroughly and, the following are the important findings:

- ✓ Internal control over cash is one of the major functions of any accounting system in every organization. The BOFED wolkite town applies an internal control over cash in the office. It is performed by following all the necessary procedure; it has high contribution s in the presentation of cash from theft or fraud.
- ✓ The BOFED wolkite town has the objective of protecting cash from theft or misuses, then avoid excess or idle cash, and provide accurate financial reports.
- ✓ In the office, there is a moderately viable internal control over cash which enables the office to secure its assets (and cash).
- ✓ The BOFED in Wolkite town has a clear organizational policy of internal control over cash and other assets (equipment, machinery and cash) effectively.
- ✓ Employees' salary payment in the office of BOFED, Wolkite town meets the need of employee only to same extents.
- ✓ The source of fund in the office comes from government, international institution, and non-governmental institution and from different source.
- ✓ In the office, a single accountant prepares cash receipts in the three copies and cashier collects cash.

- ✓ The office use voucher system based on the classification for summarizing cash transaction and three types of payments: direct payment, check payment and suspense payment.
- ✓ The office use check system, smaller payment or other payment by using check. In the office, the finance as well as general manager has the authorities to sign a check for the final payment and the authorities to approve the invoice for payment or to make in tries in the accounting records are responsibility of both the treasury and accounting section.
- ✓ In the office, there is a review of bank reconciliation statement on
- ✓ As per the office policy, the cashiers have restricted area for seating and no one is authorized to enter this restricted area, and the main cashier is the one who is responsible for any cash payment in the office.
- ✓ The office prepares payroll transaction of the employees.
- ✓ Segregation of duties, establishment of responsibility documentation and independent control are the principle that is applied in the office of finance and economic development office at Wolkite town to control cash and other asset.
- ✓ Educational level of the employee is one of the pelior of the organization that enables the employee to perform their tasks effectively. So employees in BOFED have good educational background and are expiated to perform their tasks effectively and solve problem easily in the office.
- ✓ Work experiences of employee area also one of the most important element to be considered in any organization that reflects, who many times employees are contacted to tasks or problems that enables them to solve problem or operate tasks efficiently. Therefore employees in BOFED have good work

## 5.2. Recommendation

Based on the findings of this research paper, which was conducted in the office of finance and economic development at wolkite town, the following suggestions (recommendations) concerning internal control over cash are forwarded by the researcher:

- ✓ Even if the office uses direct payments as one means of cash disbursement and this kinds of payment need a larger amount of money, there should be a limited amount of cash that is maintained in the main cashier box (drawer). Because of the more the amount in the cashier box, the more it will be used for personal interest.
- ✓ The office should be able to detect any possible loophole that may lead to misbehaving action in a regular basis:
- ✓ The employee of the office must be trended about the principle of control over cash more.
- ✓ The office should review work with bank as weekly or biweekly as possible.

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**Appendix I**  
Wolkite University

College of Business and Economics

Department of Accounting and Finance

Dear Sir/madam:

This questionnaire is prepared to collect information about the assessment of internal control over cash in finance and economic development office in Wolkite town. The researches have been conducted for the partical fulfillment of the requirement for the BA degree in accounting finance at Wolkite University. To succeed in obtaining the necessarily and accurate information, your honest cooperation is highly appreciated in answering all the questions. I would like to thank you in advance for your cooperation's.

Please fill the following questionnaire by putting "X" sign in box

**General customer, information**

- Educational level: MSc/MA  BA degree  Diploma  Certificate
- Work experience: less than one year  between one and five year   
Above five (s) year
- Does your organization apply internal control?  Yes  No
- If your answer for Q no 6 is 'yes', what is/are the objective of the internal control system in your organization?

To provide accurate financial report

To avoid cash shortage

To protect cash from theft and misuse

If there is any other objective specify it please \_\_\_\_\_

- If your answer to Q no 6 is 'yes' which of the following internal control system prevails in your organization?

Accounting control

Administrative control

Both accounting and administrative control

• If your answer for Q no 8 is accounting control, how do you see the reliability of financial records in your organization?

Poor  Acceptable  Good  Very good

• How do you describe the soundness of internal control system established in your organization?

Very poor  Poor  Medium  Good  Very good

• How important is to will be a clear organizational policy on internal control over cash?

Very important  somewhat important  Not important

• Since in your employment, how often will be improper utilization of cash (like cheating or fraud) will be observed in your organization?

Always  Sometimes  Never

• If your answer to Q no 12 is always or sometimes, please identify the reasons

---

• Does the salary or payment package given to you by the organization meet your need?

Not at all  to same extent  extremely well

• Do you think small payment package give to employees affect an organization internal control practice over cash?

Yes  No  I am not sure

• What are the major sources of fund to your finance and economic development office in Wolkite town?

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• When your office collects account receivable,

Single accountant collect cash and record (prepares document) made

One accountant prepares cash receipts in copies and cashier collects money

• Does your organization apply voucher system? Yes  No

• What are the different types of payment that the organization makes?

Direct payment  Suspense payment  check payment

• Does your organization uses check? Yes  No

• If your organization makes use of check, who is responsible to finally approve the check for payments?

It is finance manager's responsibility

Cashier's responsibility

- Is there any attempt work with bank in your operational environment?

Yes

No

- If your answer to Q no 22 is 'yes' how often does your office reconcile office accounts with bank accounts?

Weekly

Monthly

Quarterly

Seminally

Yearly

- Where the seat or place of the cashier in your organization?

The cashier will be their own office cashier office with employees

- Does your office prepare payroll transaction?

Yes

No

- What are the governing principles of internal control systems in your office?

Segregation of duties establishment of responsibility accountability if any please, specify

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