



**ASSESSMENT OF THE EFFECTIVENESS OF INTERNAL CONTROL SYSTEM IN COMMERCIAL BANK OF ETHIOPIA (A CASE STUDY IN GUBRE BRANCH).**

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**SINER RESEARCH SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE IN PARTIAL FULFILLMENT FOR THE REQUIREMENTS OF BACHELOR (BA) OF ARTS (BA) DEGREE IN ACCOUNTING AND FINANCE.**

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## **ADVISORS' APPROVAL SHEET**

This is to certify that a thesis on the topic entitled “**Effectiveness of Internal Control System Commercial Bank of Ethiopia (A Case Study on Commercial Bank of Ethiopia in Gubre)**” submitted Partial Fulfillment of the Requirements for the BA Degree in Accounting and Finance; the undergraduate program has been carried out by Amanu Gashaw, under my supervision. Therefore, I recommend that the student has fulfilled the requirements and hence hereby can submit the thesis.

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## **EXAMINERS' APPROVAL SHEET**

We, the undersigned, members of the Board of Examiners of the final open defense by Amanu Gashaw have read and his thesis entitled Assessment of Effectiveness of Internal Control (A case Study on Commercial Bank of Ethiopia In Gubre Branch) and examined the candidate. This is, therefore, to certify that the thesis has been accepted in partial fulfillment of the requirements for the BA degree in Accounting and Finance.

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## **ABSTRACT**

For every organization, establishing and maintaining proper internal control is unquestionable. Therefore, this research, which is undertaken on the topic of “assessment of the effectiveness of internal control system of CBE”. The organization is located in wolkite town in central Ethiopia. This study examines whether the organization uses an effective internal control system in relation to assets and pinpointed the problem related with the internal control system set in the organization. For obtaining information regarding the internal control system of the organization, both primary data, which is gathered through interview and questioners, and secondary data, which is gathered by referring to the organization’s procedure manuals were used. The data collected are qualitative in nature. The sample technique used in selecting the organization is cense survey method In order to achieve the organization’s objectives, the board of directors gives much emphasis to control environment and monitoring elements of internal control. Further, the organization has its own cash and fixed asset controlling mechanism. In this study all elements of the internal control system of the organization have been discussed and conclusions drawn. Finally, based on the results of the study possible recommendations have been forwarded.

***Keyword : accounting, segregation , control***

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## TABLE CONTENT

ADVISORS' APPROVAL SHEET .....	I
EXAMINERS' APPROVAL SHEET .....	II
ABSTRACT .....	III
ACKNOWLEDGMENT .....	IV
TABLE CONTENT .....	V
LIST OF TABLES AND FIGURES .....	VII
LIST OF ACRONYMS .....	VIII
CHAPTER ONE .....	1
1 INTRODUCTION .....	1
1.1. Background of the Study .....	1
1.2 Background of the Organization .....	2
1.3. Statement of the Problem .....	4
1.4 Research questions .....	5
1.5. Objective of the Study .....	5
1.5.1. General Objectives of the Study .....	5
1.5.2. Specific Objectives .....	5
1.6. Significance of the Study .....	5
1.8. Limitations of the Study .....	6
1.9. Organization of the Paper .....	6
CHAPTER TWO .....	7
2. REVIEW OF RELATED LITERATURE .....	7
2.1 Definition of internal control system .....	7
2.2.1Control environment .....	8
2.2.2 Risk assessment .....	10
2.2.3. Control activities .....	10
2.2.4 Information and Communication system .....	12
2.2.5 Monitoring Performance .....	12
2.4.1. Depreciating a Fixed Asset .....	14
2.5.1 Internal Control over Cash Receipts and cash Disbursements .....	14
CHAPTER THREE .....	17

3. RESEARCH METHODOLOGY .....	17
3.1 Research Design .....	17
3.2 Type of Data and Method of Data Collection .....	17
3.3 Target Population .....	17
CHAPTER FOUR .....	18
4. RESULTS AND DISCUSSION .....	18
4.1. The Results of Qualitative Evaluation .....	18
4.2 Personal characteristics of respondents .....	18
4.2. The Result of the Components of Internal Control Systems .....	20
4.2.3 Risk Assessment .....	25
4.2.4. Information and Communication .....	26
4.2.5. Monitoring .....	27
4.3. Factors affecting the existence of risk in the organizations .....	28
CHAPTER FIVE .....	31
5. CONCLUSIONS AND RECOMMENDATIONS .....	31
5.1 Conclusions .....	31
5.2. Recommendations .....	33
REFERENCES .....	35
Appendix .....	36
Appendix A: Questionnaires Prepared for Employees of the Organization .....	36

## LIST OF TABLES AND FIGURES

Table 1 Personal characteristics of respondents.....	19
Table 2 The Evaluation of the Aspects of Control Environment.....	20
Table 3 Management establish HRP&P demonstrate to commitment integrity, ethical behavior, andcompetences.....	20
Table 4 Management support employees by providing access to tools and training needed roles.....	21
Table 5 Factors affecting internal control system.....	22
Table 6 Elements of organizations internal control system to be effective.....	22
Table 7 Evaluation of the control activities component in the observed organization.....	23
Table 8 Responsibilities and reporting lines in organizational chart.....	24
Table 9 Evaluation of risk assessment in the observed organization.....	25
Table 10 Evaluation of the Information and Communication Component in the Observed Organization.....	26
Table 11 Evaluation of the Monitoring in the Observed Organization.....	27
Table 12 the Organization’s risk Assessment.....	28
Table 13 Depreciation rate used by CBE in Gubre branch.....	29
Table 14 The Strengths and Weaknesses of Internal Control Systems in the Observed Organization (CBE, Gubret Branch).....	30

## **LIST OF ACRONYMS**

ATM	Automated teller machine
CBE	Commercial Bank of Ethiopia
CoSO	Committee of Sponsoring Organization
COS	Customer Office Service
CEO	Chief Executive Office

# CHAPTER ONE

## 1 INTRODUCTION

### 1.1. Background of the Study

The major reason for establishing system for a control is to help companies meet their own goals. The system consists of many specific policies and procedures designed to provide management with reasonable assurance that the goals and objectives its believes important to the entity will be met. The policies and procedures are often called “controls”.

Internal controls are processes designed by management to provide reasonable assurance that an institute win achieve its objectives. They are tools used by managers, from support staff level to the general manager, every day to assure that their organization is operating according to plan (Mosich A.N, 1998).

The internal control system also facilitates the effectiveness and efficiency of company operations and also ensure the reliability of financial information and compliance with laws and regulations. In particular, the accounting control system is an important element of the internal control system as it helps ensure that the company is not exposed to excessive financial risks and that financial internal control and external reporting is available, as it is the plan of organization, the procedures and records that are concerned with and directly related to the safeguarding of assets and reliability of financial records (Arens and Luebbeck, 1997).

Important part of effectiveness and efficiency is safeguarding assets and records. The physical assets of a company can be stolen, misused or accidentally destroyed unless they are protected by adequate internal controls; the same is true for non-physical assets (Kurtpany, 1997).

Internal control is the process affected by an entity’s board of directors, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives inoperational control (relating to effective and efficient use of entities resources. Financial reporting control (relating to the preparation of reliable published financial statements) and compliance controls (relating to entity’s compliance with applicable laws and regulations Jenesen 2003).

Internal control also includes the program for preparing; verifying and distributing the various level of management those current reports and analysis that enable executive to maintain control over the variety of activities and function that are performed in a large organization.

The effectiveness of an internal control system is measured by the effectiveness of its components which make up the overall control system, namely the control environment which is the foundation for another components of internal control providing discipline and structure; risk assessment which are the policies and procedures that help to ensure management directives are carried out; information and communication and monitoring, which are a process that assess the quality of the system's performance over time (Coso. Org).

The internal control standards define the minimum level of quality acceptable for internal control systems in operation. The standards set the criteria for evaluation of systems. There are three different kinds of standards; general standards, specific standards and audit resolution standards. The general standards provide the atmosphere of good internal control. They reflect the overall attitude of the state that good internal is necessary in organizations. The specific standards are more direct in how agencies should develop a plan of action providing good control. The audit resolution standard requires agencies to resolve audit findings and recommendations quickly and efficiently (AlvinaArens, 1996).

Internal control system is useful to profit organization like Commercial Bank of Ethiopia in many ways related to the above mentioned. Therefore, the company endeavors have been made to find out, the system that exists in the organization. Provides reasonable assurance in doing so, various procedures followed by the organization in assets internal control systems are studied and compared with theories in related areas (AlvinaArens, 1996).

The method to ascertain these procedures is maintaining an effective internal control that is used to ensure efficiency of operating activities, safeguarding asset and adhere to the country rules and other regulations. This study is thus aimed to assess how effective the internal control systems are in these commercial banks are; particularly Gubre branch.

## **1.2 Background of the Organization**

The history of banking in Ethiopia dates back to in 1905, the bank of Abyssinia was established in Addis Ababa, under the reign of Meneleck II, later under Emperor Haile Selassie I, close the bank of Abyssinia and established the bank of Ethiopia in 1932. In 1943, the state bank of Ethiopia become the central bank and was active until 1963. In 1963, the state bank of Ethiopia split in to the national bank of Ethiopia and commercial bank Ethiopia (CBE). Make CBE the sole commercial bank in the country early in 2009, the CBE received a regulatory approval allowing them to open up another branch in southern Sudan, juba.

The commercial bank of Ethiopia (CBE) has been playing a conspicuous role in economic development of the country for 70 years now. Today more than ever before, the CBE has aggressively expanded its presence in all direction of the country.

Despite the flourishing of private commercial bank, CBE remind in the lead in terms of asset, deposit, capital and customer base and branch network. Currently it has many branches spanning the entire breadth and width of the country. Now a day, it have a total deposit stood over birr114 billion. CBE plays catalytic role in economic progress and development of the country. CBE is the first bank in Ethiopia to introduce ATMs service for all local users. Currently CBE has more than 2 million account holders.. CBE combines a wide capital base with more than 10,000 talented and committed employees. CBE Pioneer to introduce western union money transfer service in relationship with money internationally acclaimed banks throughout the world. When we assess commercial bank of Ethiopia at Gubre branch it is one of CBE, which is located SSNN region in Gurge zone Gubre town administration far from AddisAbeba about 153 kilometer. It is founded as a branch of CBE in 2009Ethiopiancalendar. Now a day it has 1manager,2auditor and 16 employees,total of 19 internal employees or active workers and many ATM card holders.

**Vision:**

To become a world class commercial bank by the year 2025.

**Mission:**

The bank committed to best realize stock holders needs through enhanced financial intermediation globally and supporting national development priorities, by deploying highly motivated, skilled and disciplined employee's as well as state- of the art technology. The banks strongly believe that winning the public confidence is the basis for its success.

**Value:**

1. Corporate citizenship

CBE value the importance of role in national development endeavor and step- up for Commitment.

CBE abide by the laws of Ethiopia and other countries in which do business.

2. Customer satisfaction

Strive to excel in our business and satisfy our customers.

3. Quality service

CBE committed to offer quality service to customers and aspire to be branded with quality in the minds of our customer and the general public.

4. Innovation

CBE encourage new ideas that can improve customers and bank performance.

5. Team work

CBE recognize the importance of team work for our success.

6. Integrity

CBE committed to the highest idea of honor and integrity.

7. Employees

CBE recognize employees as voluble organizational resource.

8. Public confidence

CBE understand that the sustainability of our business depends on our ability to maintain and build up the public's confidence.

([www.combanketh.et](http://www.combanketh.et))

### **1.3. Statement of the Problem**

All kinds of organizations manufacturing firms, merchandise, service giving enterprises, profit and non-profit organizations need strong internal control system to achieve their objective (Whittington and Pany, 1998).

Internal control system affected due to:- change in the regulatory or operating environment can result in changes in competitive pressures; change of new personnel may have a different focus on understanding of internal control, significance and rapid changes in information systems, rapid expansion of operation can strain the controls, entering into business areas; corporate restructuring by staff reduction and changes in supervision, adoption of new accounting principles affect the internal control system. And also lack of internal control causes misuse, embezzlements, and misappropriation of organization's assets. Because of changing conditions, organizations need to determine whether the internal control system continues to be relevant by evaluating their internal control system regularly (Arens and Loebbeck, 1997).

Due to these, an organization, to achieve its objectives and to undertake its operations effectively and efficiently need sound internal control system. However, in developing countries like Ethiopia, most organizations do not give due consideration to the development and

implementation of proper internal control system and lack of consistency ( Johannes and Engida:2009). Due to this, the study is undertaking to fill this gap by taking appropriate variables.

## **1.4 Research questions**

1. What are the means of internal control system?
2. What components of internal control systems are currently in use?
3. How internal control system to become effective?
4. What are the factors that affect the effectiveness of internal control system?

## **1.5. Objective of the Study**

### **1.5.1. General Objectives of the Study**

The general objective of the study was to assess effectiveness of internal control system of commercial bank of Ethiopia in gubre branch.

### **1.5.2. Specific Objectives**

- ✓ To examine the means of internal control systems in gubre branch.
- ✓ To investigate the elements that helps the organization's internal control systems to become effective.
- ✓ To examine the component of internal control system that is currently applied in the organization.
- ✓ To examine the variable that affect the organization internal control systems

## **1.6. Significance of the Study**

In general the purpose of internal control system was to ensure the efficient operation of a business, enabling the business to effectively achieve its goals. The content of business organizations systemized internal control enhanced.

Internal control are significant economic consequences on the organization, on its owners and its creditors and all other parts who have economic stake its financial reports timely. Therefore, this study on the assessment of the internal control system of commercial bank of Ethiopia in gubre would benefit Governments, banks, Employees, Managements and suppliers.

Specifically,

- The study would provide a clear understanding about internal control system and how they should be developed to achieve organizational objectives.

- Also used as a source of material for other parties who are interested to make similar studies.
- The study would help the organization to detect the existing problems in their internal controlling systems.

### **1.7. Scope of the Study**

The areas of coverage of this study were limited to commercial bank of Ethiopia in Gubre branch. Particularly this study would focus on how reliable and accurate information being obtained by using effective internal control system. In its body, this study would incorporate some facts in relation with the effective use of internal control system.

### **1.8. Limitations of the Study**

The following were constraints that limited researchers work:

- ✓ Lack of reference material and source on related topics.
- ✓ Lack of experience.
- ✓ Unwillingness of interviewees

### **1.9. Organization of the Paper**

The research paper would have five separate chapters. The first chapter contains the introduction part which includes background of the study, background of the organization, statement of the problem, objective of the study, significance of the study, scope and limitation of the study. Second chapter is literature review which is the general explanation about the topic. Third chapter is research design and methodology. The fourth chapter is data analysis and interpretation which is the core of the research in which the data collected would be presented and analyzed. The fifth and last chapter is the summary, conclusion and recommendation.

## CHAPTER TWO

### 2. REVIEW OF RELATED LITERATURE

#### 2.1 Definition of internal control system

Internal control system refers to the various methods and procedures for the control of production, description, and the whole system (financial and non-financial) of the enterprise (S. K. Basu, 2006)

In other words, internal control system, the whole system of controls, financial otherwise, established by the management in order to carry on the business of the enterprise in the orderly and efficient manner-ensures adherence to management policy, safeguards the assets and secures as far as possible the completeness and accuracy of the records, (S. K. Basu, 2006).

Internal control is defined by AICPA as all coordinate methods and measures within an organization or within a system adapted to safeguard assets, check accuracy and reliability of accounting data, promote operational efficiency and encourage adherence to prescribed managerial policy (Kinful & Bayou, 2009)

Overall, internal control is also defined as an operational check and balance that prevents loss due to fraud, waste, abuse, and mismanagement to run a business effectively and efficiently, permitting control over the organization's resources. Resources include personnel, information, and capital (Kinful & Bayou, 2009)

The value of goods records extends beyond simply using them to generate financial statements. Records allow management to run a business effectively and efficiently, permitting control over the organization's resources, (S. Jim, 2008).

Record keeping, meeting decision-making needs, physical protection of assets, insurance coverage, and proper supervision of staffs are all elements of what is termed internal control. Internal control is a responsibility of management (S. Jim, 2008).

Internal control is the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives and mission. (<http://www.osc.state>).

## **2.2. Components of Internal Control**

Internal control varies significantly from one organization to the other, depending on such factors as their size, nature of operations and objectives yet certain features are essential to satisfactory internal control in almost any large scale organization. Internal control consists of give interrelated components. There are control investments, risk assessment control activities, information and communication system and monitoring (Johannes and Engida, 2009).

### **2.2.1 Control environment**

It is the basic for all the other components of internal control environment factors include integrity and ethical values. Commitment to competence board of directors and audit committee participation, management's philosophy and operating style, organization structure, assignment of authority and responsibility and human resource policy and practices (Johannes and Engida:2009)

#### **I. Integrity and Ethical Value**

The staffs play a dual role: on one hand, they are the subjects of internal control in the organization and control the implementation of their assignment; on the other hand, they are the objects of internal control in the organization and supervised and controlled by the other. Any item of internal control system shall not go beyond the staffs' integrity and Ethical value that creates, manages, implements and supervises the system. The organization's objectives and how they are achieved are based on preference and value judgments, that when translate into standards of behaviors, reflect management integrated and communicate and commitment to ethical values (Johannes and Engida:2009).

#### **II. Commitment to Competence**

Competence means that employees have knowledge and skills they need to perform their task, managed decides well these tasks need to be performed and whether obtaining competence performance is worth the costs of hiring peoples with the necessary skills.

Management must also evaluate the tradeoff between employee's skills levels and the amount of supervision required. But when management has a commitment to competence, the system of internal control is more likely to achieve its objectives (Johannes and Engida:2009).

#### **III. Board of Directors and Audit Committee Participation**

If the auditor committee takes an active role in overseeing policy and practice, the internal control system is more effective in achieving the organizational objectives. The audit committee can alter the entire board of directors too problems before they become serious. An active and involved board of directors who have an appropriate amount of technical and management knowledge is critical to effective internal control (Alvina, Arens).

### **I. Management Philosophy and Operating Style**

The manager's management style and management Philosophy influence the way of managing of the enterprises, especially the manager individual glamour and the ability to make decision .Managers control the enterprise mainly by designing the organization and management mechanism, authorizing and designing the system (Johannes and Engida:2009:39).

### **II. Organizational Structure**

Organization structure including organization structure settings, responsibilities allocation, what position of the person in the organization is and what power and responsibility he have. Organization structure is the grantee for the enterprise to achieve overall goal and enterprises should plan, execute, control and supervise based on the structure of the organization (Johannes and Engida:2009).

Management assigns authority and responsibility for operating activities and established reporting relationships and methods of authorization often management wants to push authority downward in the organization and give decision making authority to lower level personnel. This decentralization is intended to encourage creativity, imitate and the ability to react quickly to competition. Management's critic's challenges are to a high authority with accountability and to delegates only to the extent required to achieve objectives. The control environment is influenced by the extent to which employees recognize that they will held accountable (O. Ray, 1983 ).

### **I. Assigning Assignment of Authority and Responsibility**

Management assigns authority and responsibility for operating activities and established reporting relationships and methods of authorization often management wants to push authority downward in the organization and give decision making authority to lower level personnel. This decentralization is intended to encourage creativity, imitate and the ability to react quickly to competition. Management's critic's challenges are to a high authority with accountability and to delegates only to the extent required to achieve objectives. The control environment is influenced by the extent to which employees recognize that they will held accountable (O. Ray, 1983 ).

## **II. Human Resource Policies and Practice**

The most important aspect of internal control is personnel. If employees are computer and trustworthy, other controls can be absent and reliable financial statements will still result. Honest, efficient people are able to perform at a high level even when there are few other controls to support them. Even if there are numerous other controls, incompetent or dishonest people can reduce the system to a shambles. Because of the importance of competent, trustworthy personnel in providing effective control, the methods by which persons are hired, evaluated, trained, promoted and compensated are an important part of internal control (Johannes and Engida.2009).

### **2.2.2 Risk assessment**

It involves identification and analysis of relevant risks and determining how to manage those risks, which is relevant to the preparation of the financial statements. Risk relevant to financial statements include internal and external events and circumstances that may occur and adversely affect an entity's ability to initiate record process and report financial data consistent with the assertion of management (Johannes and Engida.2009)

### **2.2.3. Control activities**

Control activities address the problem and make a choice and share corresponding responsibility (Alvina, Arens).

This refers to define the authority and responsibility according to the principle of combining functions of department and its characteristic. Business process and operation procedures. Business process is the procedure of all the business. An operation procedure is to say how to operate of every matter in detail and also it is a policy and procedures put in place to facilitate implementation of management directives performance review, information processing, physical controls and segregation of duties are included under control activities (Johannes and Engida. 2009).

Although there are several such control activities in an entity, they fall into the following Categories.

- I. Adequate separation of duties
- II. Proper authorization of transactions and activities
- III. Adequate documents and records

- IV. Physical control over assets and records
- V. Independent check on performance

I. **Adequate separation of duties**

Separation of authorization of transactions from the custody of related assets. It is desirable to prevent persons who authorize transactions from having control over the related assets. For instance, the same person should not authorize the payment of vendor's invoice and sign checks in payment of the bill as this situation increases the possibility of defalcations in the organization. Separation of operational responsibility from record keeping responsibility If each department or divisions in an organization are responsible for preparing its reported performance, in order to ensure unbiased information, record keeping is typically included in a separate department under the controller ( Johannes and Engida. 2009).

II. **Proper Authorization of Transactions and Activities**

Every transaction should be appropriately authorized if controls are to be satisfactory. If any person in an organization acquires expends assets at will, would result in complete chaos. Authorization can be either general or specific and is different from approval. Authorization is a policy decision for either a general class of transactions or specific transactions. Approval is the implementation of management's general authorization decisions. For instance, assume that management sets a policy authorizing ordering of raw materials when there is less than one month's supply on hand (i.e. general authorization). When the responsible department orders raw materials, the clerk responsible for maintaining the perpetual record approves the order to indicate that the authorization policy has been met (Fess and Waren, ).

III. **Adequate Documents and Record**

Documents and records are the physical objects upon which transactions are entered and summarized. Documents perform the function of transmitting information throughout the client's organization and between different organizations. The documents must be adequate to reasonable assurance that an assets are properly controlled and all transactions correctly recorded (Alvina, Arens).

**Iv. Physical Control over assets and Records**

Activities that safeguard assets include maintaining control at times over unissued pre-numbered documents, as well as other journals and ledgers, and restricting access to computer programmers and data file. To maintain adequate internal control, it is essential to protect assets and records. If assets left unprotected, they can be stolen. If records are not adequately protected, they can be stolen, damaged or lost. In the event of such an occurrence, the accounting process and normal operations could be seriously disrupted. The most important types of protective measures safeguarding assets and records are the use of physical precautions. An example is the storerooms for inventory to guard against theft ( Johannes and Engida. 2009).

#### I. **Independent Check of Performance**

The last category of control activities is the careful and continuous review of other four often called independent checks or internal verification. The need for independent checks arises because internal control tends to change over time unless there is a mechanism for frequent review. An essential characteristic of the persons performing internal verification procedures is independence from the individuals originally responsible for preparing data ( Johannes and Engida. 2009).

#### **2.2.4 Information and Communication system**

Pertains to the process of identifying, capturing and exchanging of information in a timely manner with a view to facilitate others to discharge their responsibilities and consists of the records and methods used to imitate, identify, analyze, classify and records the organization's transactions and account for the related assets and liabilities (Johannes and Engida , 2009). An effective accounting information will identify and record all valid financial transactions, It provide timely information about transaction in sufficient detail to permit proper classification and financial reporting and Accurately measure the financial values of transactions their effect can be rescored in financial statements (S. k Basu, 2006).

#### **2.2.5 Monitoring Performance**

Monitoring and used to evaluate the quality of enterprise internal control performance by tracking and monitoring the internal control frame and operational status and take the necessary actions to ensure that internal control can operate effectively. Monitoring can be divided into continuous monitoring and individual assessment. Continuous monitoring activities usually are that the management department and each staff at various levels inspect, analyze and evaluate

the effectiveness and efficiency of production and operating activities of their respective during execution of the internal control system. It is a kind of self-control mode. The higher the level is, the less individual evaluation need. Individual assessment is to evaluate the internal controlsystem regularly and is usually done by the relatively independent internal audit department (Johannes and Engida.2009).

### **2.3 Internal Auditing**

Internal audit is part of the internal control system in the organization and it involves reviewing the reliability and integrity of financial and operating information and providing an appraisal for internal control effectiveness. It also involves assessing employee compliance with management policies and procedures and applicable laws and regulations, and evaluating the efficiency of the management ( Marshall B.)

#### **Internal control activities and best practices**

Internal control activities are the policies and procedures as well as the daily activities that occur within an internal control system. A good internal control system should include the control activities listed below.

1. Preventive- preventive control activities aim to deter the instance of errors or fraud. It includes through documentation and authorization practices. It also prevent undesirable “activities” from happening thus require well thought out processes and risk identification
2. Detective- detective control activities identify undesirable “occurrences” after the fact. The most obvious detective control activity is reconciliation.

### **2.4. Fixed Asset**

Fixed assets, also known as a non-current asset or as property, plant, and equipment, is a term used in accounting for assets and property which cannot easily be converted into cash. This can be compared with current assets such as cash, which are described as liquid assets. Moreover, a fixed (non-current) asset can also be defined as an asset not directly sold to a firm’s consumers or end users. As an example a banking firm’s current assets would be its inventory (in this case, flour, yeast, etc.), the value of sales owed to the firm via credit (i.e. debtors or accounts receivable), cash held in the bank, etc. its noncurrent assets would be the oven used to bake bread, motor vehicle used to transport deliveries, cash registers used to handle cash payments, etc. (Business dictionary.com)

### **2.4.1. Depreciating a Fixed Asset**

Depreciation is, simply put, the expense generated by the uses of an asset. Further to this, it is the cost of the asset less any salvage value over its estimated useful life. It is an expense because it is matched against the revenue generated through the use of the asset. The method of depreciation to be adopted is best left for the management to decide in consideration to the peculiarity of the business, prevailing economic condition of the assets and existing accounting guideline and principles as implied in the organizational policies ((Business dictionary.com).

### **2.5. Internal Control over Cash**

As cash is the most liquid of all assets a well-designed and functioning system of internal control must surround on all cash transactions. Separation of duties is critical .In well managed business. There are internal control procedures for handling and recording cash receipts and cash payment. Accountants play a vital role in designing, establishing, and monitoring the cash control system and Cash registers, safes, and pre numbered businesses forms are very helpful in safeguarding cash (Fees and Warren ).

#### **2.5.1 Internal Control over Cash Receipts and cash Disbursements**

To protect cash from theft and misuse, a bank must control cash from the time it is received until it is deposited. Such procedures are called preventive controls and procedures that are designed to detect theft or misuse of cash are called detective control. Internal control of cash disbursement should provide reasonable assurance that payment are made for only authorized transactions. In addition, controls should in ensure that cash is used efficiently. In small business, an owner or manager may sine all checks, based upon personal knowledge of goods and services purchased. However, in a large business checks are often prepared by employs that do not have such a complete knowledge of the transaction (Fees and Warren).

##### **a. Voucher System**

It is an extensive network of approvals by authorized individuals acting independently to ensure that all disbursements by check are proper. It is an authorization for prepared for each expenditure in a voucher system. Vouchers are required for all types of cash disbursements except those from petty cash (TERRY, 1998).

##### **b. Electronic Fund Transfer (EFT) System**

It is an instrument used to transfer funds among parties without the use of paper (deposit, tickets and checks). With rapidly changing technology, new systems are being devised to more efficiently record and transfer cash among companies ,such systems often use electronic funds (Alvin,Arens).

## **2.6 Empirical Studies**

Despite rare studies on internal control in Ethiopia, several investigations were made in world to evaluate internal control of businesses and governmental institutions. Accordingly Ronald (2011) evaluated internal Control Weaknesses in Local Government. Towns and villages account for more than 1,400 municipal government entities in New York State constituted in the study. The study focused on the internal control issues identified in an extensive, ongoing series of audits of towns and villages undertaken by the New York State Comptroller's Office. All towns and villages audit reports issued by the office were examined. These general internal control audits were used to identify towns and villages with internal control weaknesses. The budgets of the towns reviewed were limited to an examination of the annual budget for the following year, reviewing the reasonableness of projected revenues and expenditures, the proper use of accumulated fund balance, and general financial condition of the municipality (especially deficit issues).

A review of the findings of more than 300 town and village audits conducted for four years showed that all but a handful of these public entities exhibited numerous governance and control deficiencies. The results also showed that there is much room for improvement. In addition, the study revealed that Small towns and villages have several inherent control limitations; small size limits the number and quality of personnel, and the extent and quality of oversight which are the components of internal control. The limitations were found evident in several of the weaknesses discovered.

Mahdi, Mahmoud, Shiri and Fatemeh (2011) investigated the effectiveness of internal control in the Iranian banking sector with special reference to Bank Mellat. The study used questions that needed to be answered in the study are: (1) Does an internal control system in Bank Mellat has proper power in preventing fraud and error? (2) Is there a significant relationship between the weakness of internal control system components (control environment, risk assessment, information and communication, control activities and monitoring) and the occurrence of error and fraud? To test the validity of the questions, hypotheses are postulated relating frequency of

fraud reported as failure of internal control with the questionnaire answered on the relationship between the fraud and components of internal control. The paper evaluated the effect of control environment, control activities, risk assessment, information and communication and continuous monitoring on failure of internal control quantified as reported errors and fraud. The empirical evaluation found out that all the elements of the internal control have significant effect on occurrence of errors and fraud, though the magnitudes are different. Accordingly, Weakness of control environment, control activities, risk assessment, information and communication and monitoring as a component of internal control system in an incident of error and fraud is effective. Therefore, the more the increase in the weakness of a control environment, control activities, risk assessment, information and communication and monitoring in Bank Mellat, the more is the incident of error and fraud. However, statistically control environment is found to have the highest effect for the failure of internal control.

## **CHAPTER THREE**

### **3. RESEARCH METHODOLOGY**

#### **3.1 Research Design**

The research design employed for the purpose of this research was descriptive in nature. Because the researchers would not level any control or effect on the variable of the study. It is intended only to describe the state of the affairs that affecting the product cost as existing currently. Therefore, descriptive research design and qualitative approach would be employed in the study.

#### **3.2 Type of Data and Method of Data Collection**

In order to collect the data, the researcher's use both primary and secondary data. The primary data would be obtained by distributing questionnaires (both open and closed end) to selected personnel of the organization. To understand the internal control system, questionnaires in a method of collecting data in which select participants was asked questions in order to find out what they do, think or feel, so questionnaire paper is design and modify to serve the purpose of this research. In addition to the questionnaire, the structured interview would be undertake concerning the various method of controlling which are not include, in the questionnaires. And the secondary data required for this research would be obtained from written documents of commercial bank of Ethiopia related to internal control system.

#### **3.3 Target Population**

The researchers would use census survey method. A census survey method occurs if the entire population is very small or it is reasonable to include the entire population. Since, the numbers of total population of the organization were (19), which are not allowed the researchers to take a sample. Because of this, the researchers use censuses survey method which allows the researchers to gathered on every member of the population that get full information that need to make the research complete.

#### **3.4 Method of Data Analysis**

After the relevant data was collected, descriptive analysis would be carry out which was prefer for assessment purposes. The findings would be summarized by using appropriate percentages, tables and conclusions are made by considering the practical setting of the organization in terms of internal control procedure and policies of the bank

## CHAPTER FOUR

### 4. RESULTS AND DISCUSSION

The purpose of this research was to assess whether the internal control system is properly applied or not in the organization. The proper application of this system is believed to prevent loss of resources, provide information about how the business is performing and help guide it in planned direction. Since significant part of the data is mainly collected from primary sources, a secondary source was used for confirmation. In order to assess the internal control system of the organization, the student has developed structured interview questionnaires and collected information from 19 respondents in the organization, commercial bank of Ethiopia in gubre branch.

The results obtained and the analysis is somehow tied up with the elements of internal control system together with the discussion would be presented here under.

#### 4.1. The Results of Qualitative Evaluation

##### *Internal Control System in Commercial Bank of Ethiopia in gubre Branch*

In assessing the internal control system of Commercial Bank of Ethiopia in gubre branch, the researcher has stated some activities. As the finance manager said, the management of the organization has followed general accounting procedure manual. Accounting procedures manual has been prepared by the United Nations Technical Assistance Project Financial Management (UNTAPFM) in the ministry of industry, in the light of the practical experience gained from the accounting system reviews carried out at all corporations. This manual is one part of the overall internal control systems used as a basis for the organization. The manual describes the basic system and procedures suitable for most organizations.

The system indicated would not, however, be appropriate for all organizations and the procedures, register formats and accounts codes were adapted to the circumstances of the organization.

#### 4.2 Personal characteristics of respondents

The personal characteristics of the respondents are given below.

*Table 1 Personal characteristics of respondents*

	<b>Respondents</b>	
	<b>Number</b>	<b>Percentage %</b>
Sex		
Male	16	84.2
Female	3	15.789
Total	19	100%
Age		
21-30 years	8	42.1
31-40 years	6	31.75
41-50 years	4	21
Above 50 years	1	5.26
Total	19	100%
Service times (years in time)		
< 5 years	7	36.84
6-10 years	8	42.1
11-15 years	3	15.789
Total	19	100%
Educational level		
Diploma	1	5.26
First degree	9	47.36
12 complete	3	15.789
Certificate	0	0
Master	4	21
Total	19	100%
Position/Department		
Branch manager	1	5.26
Customer office service (COS)	6	31.5789
Clerk	3	15.789
Accountant	9	47.36
Total	19	100%

Source: Survey data, 2019

As we observe from above table, out of the total 19 respondents 13 (68.42%) are males whereas 6(31.5789%) are females. This implies that the number of employees between males and females are not balance in the bank. As shown from the item 2 in the same table (4.1), out of the total respondents 8 (42.1%) are between 20-30 years, 6(31.5789%) are between 31-40 years, 6 (31.5789%) are between 41-50 and 1(5.26%) above 50 years.

In the same table item 3, concerning the service or experience of employees in the bank, among 19 respondents 7 (36.84%) are less than 5 years, 8 (42.1%) are between 6-10 years and 3

(15.789%) are between 11-15 years. The above result shows most of the bank workers are experience in their work.

With respect to educational qualification of respondents, it is indicated in table 4.1 that out of the total 19 respondents, 12 complete 3(15.789%), and masters are 4(21%) 1 (5.26%) are diploma holders and the rest, 9 (47.36%) are first degree holders. totally there is no certificate respondents in the survey. This implies the educational qualifications among respondents are not balanced.

As shown from the last item of table 4.1 above, concerning the position/department of employees in the bank, among 19 respondents, 6 (31.5789%) are customer office services (COS), 3(15.789%), are clerks, 1 (5.26%) is manager, 9 (47.36%) is accountant,

## 4.2. The Result of the Components of Internal Control Systems

### 4.2.1. Control Environment

This assessment is based on the detailed evaluation contained in the questionnaire.

*Table 2 The Evaluation of the Aspects of Control Environment.*

Serial number	Accurate internal reporting responsibilities	Number of respondent	Percentage%
1	Yes	15	79
2	No	4	21
Total		19	100%

**Source:** distributed Questionaries'

In the cense survey above table shows that to establishes accurate internal reporting responsibilities for each functional areas and business unit that the management is establish from the respondents that are 15(79%) are yes and the rest 4(21%)of the respondents are no. Totally the management to establish accurate internal reporting responsibilities are that are in better or that are effective control environment.

*Table 3 Management establish HRP&P demonstrate to commitment integrity, ethical behavior, and competences*

Serial number	Does management establish HRP&P demonstrate to commitment integrity, ethical behavior, and competences	Number of respondents	Percentage %
1	Yes	14	73.68
2	No	5	26.31
Total		19	100

**Source:** distributed Questionaries'

In the cense survey above table shows that to establishes accurate internal reporting responsibilities for each functional areas and business unit that the management is establish from the respondents that are 14(73.68%) are yes and the rest 5(26.31%)of the respondents are no.

Promotion of integrity and ethical values is informal, the organization adapted some general principles and guidelines for conduct which are pooled on organization’s internal website. The violations of procedures or behavior are strictly dealt with, normally personally by CEO.

The current set up of the control environment highlights a vertical structure, mainly under the control of chief executive officer (CEO), with a limited participative environment. In particular, the oversight of the supervisory board, one of the main elements of control environment, cannot be fully effective supervisory board responsibilities include planning the activities, organizing the management and control over the management, taking decisions of loans and other mtters outside the core business activities.

**Table 4 Management support employees by providing access to tools and training needed roles**

Serial number	Does management support employees by providing access to tools and training needed roles	Number of respondents	Percentage %
1	Yes	14	73.68
2	No	5	26.31
Total		19	100

Source: distributed Questionnaires’

In the cense survey from the above table the management is supporting the employees to providing access to tools and training. Sample14(73.68%) respondents are yes and the res 5(26.31%) respondents are no the managements support employees to providing access tools and training needed to perform their activities. totally in the sample survey the number of the management support employees to providing access tools and training to perform activities greeter than the reverse of this.

**Table 5 Factors affecting internal control system**

Serial number	Factors affecting internal control system	Number of respondent	Percentage%
1	Yes	16	84.21
2	No	3	15.789
Total		19	100
1	Authorization and approval procedures	4	21
2	Human resource policies and practices	7	36.84
3	Segregations of duties	4	21
4	Control over access	2	10.52
5	Presence of internal audit	2	10.52
Total		19	100

Source: distributed Questionaries'

In the above cense survey from the table of 5 the number of respondents that are said that factors affecting internal control system are 16(84.21%).and the rest 3(15.789%) of the respondents are there is not factories that affecting internal control system. Totally in the sample survey the number of respondents that are factories that affecting internal control system is greater than factories that are not affecting internal control.

In the above cense survey sampled information's from the total 19 respondents 4(21%)of the respondents are Authorization and approval procedures ,from the total respondents of 19 of the 7(36.84%) are human resources policies and practices and 4(21%) of the respondents are segregation of duties and the rest one are from the total respondents 2(10.52%) are presence of internal audits. Totally from the sample survey the number of respondents for factors affecting the internal control system is approximately the same. So that indicates of factories of are different that is so difficult to solve the problems.

**Table 6 Elements of organizations internal control system to be effective**

Serial number	Elements of organizations internal	Number of respondent	Percentage
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	control system to be effective		
1	Reviewing appropriate documentation	6	31.5789
2	Directing relevant questions to employees	5	26.31
3	Observing the process and underlining control techniques	8	42.1
Total		19	100

Source: distributed Questionaries'

From the above sample survey from the total number of respondents of 19 are reviewing appropriate documentations are 6(31.5789%) and from the total sample survey of 19 respondent 5(26.31%) are directing relevant questions to employee. and the remaining 8(42.1%) are observing the process and underlining control techniques. from the above sample survey result totally the number of observing the process underlining control techniques are effective than the two. and the remaining two internal controlling system are less effective than the first one .then the company would be more attention for the internal control system b/c internal control system is more effective the company will more profitable and competitor.

**Table 7 Evaluation of the control activities component in the observed organization**

SERIAL NUMBER	Appropriate segregations of duties	Number of the respondent	Percentage %
1	Yes	14	66.6
2	No	5	33.4
Total		19	100
1	Separations of custody of asset from accounting	4	21
2	Separation of authorization of transaction from the custody related asset	4	21
3	Separations of operational responsibilities from record keeping responsibility	5	26.31
4	Separation of duties within electronic data	6	31.5789

	processing		
Total		19	100

Source: distributed Questionaries'

From the sample survey above table7 there are 19 total number of respondents from those 14(73.68%) of respondents are there is appropriate segregations of duties in the department and the rest one that 5(26.31%) are said that there is no segregation of duties in the department.so from the total number of 19 respondents appropriate segregation of duties are greater than there is no appropriate segregations of duties.

And from the above sample survey result from total of 19 respondents 4(21%) are separations of custody of asset from accounting department,4(21%) are separations of authorization of transaction from the custody of related asset and 5(26.31%) are separations of operational responsibilities from record keeping responsibilities and the rest 736.84%) are separations of duties within electronic data processing. totally from the above survey result there is large number of respondents that is separations of duties within electronic data processing and the least number of respondents that is separation of authorizations of transaction's from the custody of related

***Table 8 Responsibilities and reporting lines in organizational chart***

SERIAL NUMBER	Responsibilities and reporting lines	Number of respondents	Percentage%
1	Yes	14	73.68
2	No	5	26.31
Total		19	100
1	To respect the banks rule and regulations	3	15.789
2	To be safeguarding banks asset	4	21
3	To be give equal services to the customer	6	31.5789
4	There is no responsibility and report lines	6	31.5789
Total		19	100

Source: distributed Questionaries'

From the sample survey result above table from the total number of respondents of 19 are 14(73.68%) of the respondents are that is have responsibilities and report lines and the rest 5(26.31%) are that is no responsibilities and reporting lines. and from the sample survey result of the above table 3(15.789%) of the respondents are to be respect banks rule and regulations,4(21%) of the respondents are to be safeguarding banks asset and 6(31.5789%) of

the respondent are to be giving equal services to the customer. And the remaining 6(31.5789%) of respondents are there is no responsibilities and reporting lines in the bank of gubre branch.so there is drawbacks in the company b/c of there is some customers that is not have responsibilities and reporting lines.

### 4.2.3 Risk Assessment

*Table 9 Evaluation of risk assessment in the observed organization*

SERIAL NUMBER	Common language, ,analysis and monitoring	Number of respondent	Percentage%
1	Yes	14	73.68
2	No	5	26.31
Total		19	100
Company established risk management practices			
1	Yes	14	73.68
2	No	5	26.31
Total		19	100
Organization provide internal information personnel about risk factors management system and current actions			
1	Yes	15	79
2	No	4	21
Total		19	100

Source: distributed Questionnaires'

Form the above sample survey from the total number of 19 respondents of 14(73.68%) are organizations have common language for dealing with risk and the remaining 5(26.31%) are there is no common language dealing with risk. From the above sample survey table 14(73.68%) are companies established risk management objectives and the rest 5(26.31%) are companies not have established risk management objectives.

Finally from the sample survey or from the total 19 respondents 15(79%) are organizations provide internal information to the personal about risk factors ,risk management system and current actions. and the remaining 4(21%) are organizations not have provide internal information to the personal about risk factors ,risk management system and current actions.

As per the results from the figure, the score for risk assessment activities is quite low, mainly due to the lack of formal assessment and re-assessment procedures, risk documentation and consideration in everyday activities.

#### 4.2.4. Information and Communication

*Table 10 Evaluation of the Information and Communication Component in the Observed Organization.*

Serial number	Updated information systems to support the identification and management of risk to reliable financial reporting.	Number of respondents	Percentage %
1	Yes	13	68.4
2	No	6	31.5789
Total		19	100
open communication channel exist between management and the supervisory board	Yes	11	57.89
	No	8	42.1
Total		19	100

Source: distributed Questionnaires'

From the above cense survey from the total number of 19 respondents of 13(68.4%) are organizations updated information systems to support the identification and management of risk to reliable financial reporting and the rest 6(31.5789%) are not updated information systems to support the identification and management of risk to reliable financial reporting

From the above cense survey table1 11(57.89%) are open communication channel exist between management and the supervisory board and the rest 8(42.1%) areopen communication channel does not exist between management and the supervisory board.

Generally, from the above cense survey; the majority of respondents represent the organizations updated information systems to support the identification and management of risk to reliable financial reporting as well as existence of open communication channel between management and the supervisory board. It shows that how information reaches the management, gathering and relevance of information, degree of formality, consistency of information and reporting reasonable financial documents.

#### 4.2.5. Monitoring

*Table 11 Evaluation of the Monitoring in the Observed Organization*

Serial number	1. Separate evaluations used to provide feedback on the effectiveness of ongoing monitoring procedures	Number of respondents	Percentage %
1	Yes	12	63.157
2	No	7	36,84
Total		19	100
2. Ongoing monitoring serve as a primary indicator of both control operating effectiveness and other risk conditions.	Yes	13	68.42
	No	6	31.5789
Total		19	100

Source: distributed Questionnaires'

From the above cense survey from the total number of 19 respondents, 12(63.15%) are separate evaluations used to provide feedback on the effectiveness of ongoing monitoring procedures and the rest 7(36.84%) are not Separate evaluations used to provide feedback on the effectiveness of ongoing monitoring procedures.

From the above cense survey from the total number of 19 respondents, 13 (68.42%) are ongoing monitoring serve as a primary indicator of both control operating effectiveness and other risk conditions and the rest 6(31.5789%) are ongoing monitoring cannot serve as a primary indicator of both control operating effectiveness and other risk conditions..

Generally, from the above cense survey; the majority of respondents represent separate evaluations used to provide feedback on the effectiveness of ongoing monitoring procedures and ongoing monitoring serve as a primary indicator of both control operating effectiveness and other risk conditions. It shows that Monitoring activities were evaluated in the organization mentioned in ongoing monitoring process, separate evaluations and reporting deficiencies as well as lack of separate evaluations in the organization can be partly offset by effective ongoing monitoring, but the employment of some separate assessment activity should be considered (e.g. controller or internal audit).

### 4.3. Factors affecting the existence of risk in the organizations

Table 12 the Organization's risk Assessment

No	Risks
1	Risk related to the instability of the legal environment and economy
2	High completion in market, occasional price wars
3	Lack of qualified work force
4	Risk of personnel, including fraud
5	Lack of labor force due to fast growth and organization's location

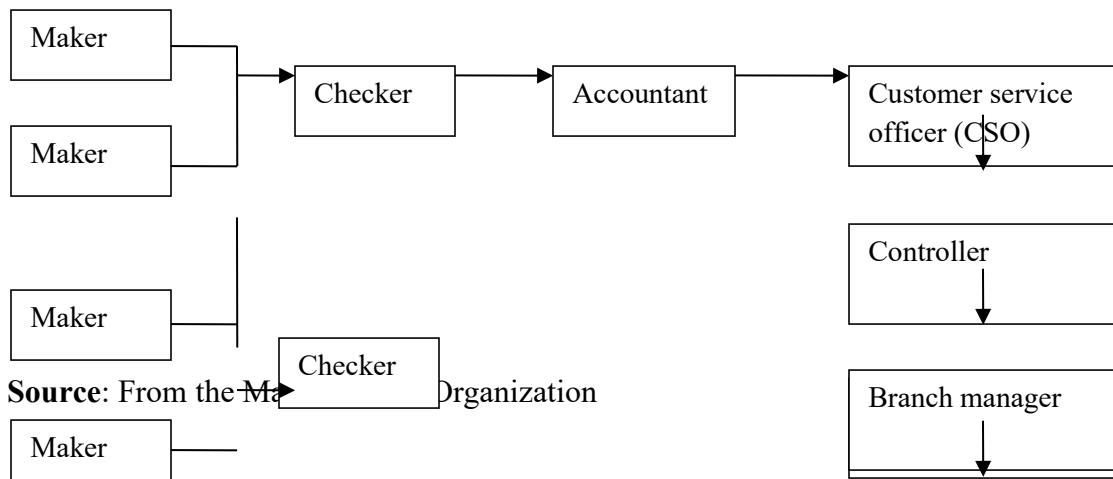
Source: Based on Interviews with the General Manager

As can be observed in the table above the organization consider both external (market position, competition, economical fluctuation) and internal factors (lack of qualified personnel, fraud). In conclusion, the organization seek to be aware of the common risks in the organization, but risks are not documented or formalized, periodical re-assessments are not made, and formal or informal risk policies are lacking.

#### I. Internal Control Procedures on Cash

As the manager said the cash control procedure is the organization's income is generated from the receipt and payment of cash. The following figure explains the cash control mechanism of the organization.

Table 4.4: Evaluation of Cash Control Procedure and their responsibilities



Source: From the Ma Organization

As shown in the above figure, the cash control mechanism of the organization starts from the maker then to checker, accountant, customer service office, controller, cash supervisory and branch manager, respectively. The function of each employee is different from the other, i.e. maker is an employee who pays and receives cash to/from customers. But his payment of cash is limited i.e., limited amount of birr is given to him to pay to the customer. If the customer asks

him to take birr above his limit, he/she asks a checker man for approval. If the checker approves him, then he will pay to the customer. This permission asks by a computer.

II. **Checker:** is an employee who controls maker. At least two makers are controlled by him.

III. **Accountant:** is an employee who approves cash for the checker above his/her limit. And makes cash related to the bank like financial statement.

IV. **Customer service officer:** is an employee who gives an advice for the customer about the service of the bank.

**Controller:** is an employee who controls the cash procedure of the bank. He does not approves the cash. His responsibility is only controlling.

**Cash supervisor:** is an employee who supervises the employee on cash.

**Manager:** the manager of the organization.

For a better cash control mechanism, the organization uses recycling method i.e, an employee who is a maker becomes a checker after two or three days. And also the place of their work place is changed.

### I. Internal Control Procedure on Fixed Assets

Fixed assets are used in the normal business operations. They are owned by the business and are not held for sale in normal operations. CBE in gubre branch has fixed assets such as machinery, vehicles, furniture and equipment. There is a list of fixed assets in the register and it has helped to identify serial number of the equipment, kinds of equipment and where the equipment is found. The frequency of check is depending upon the assets, such as furniture, office equipment and vehicle checked once a year. These furniture and office equipments are signed for by the head of the department possessing these furniture and office equipments. In the organization fixed assets are stated at cost less accumulated depreciation and done by cost and budget department. Depreciation is charged on the straight line basis at the following rates per annum.

*Table 13 Depreciation rate used by CBE in Gubre branch*

Fixed assets	% percentage
Buildings	8
Machinery	16 first year 12 there after
Vehicles	20
Furniture and office equipment	10

**Source:** From the document of fixed asset of the organization

## The strengths and weaknesses of the organization's internal control systems

Table 14 The Strengths and Weaknesses of Internal Control Systems in the Observed Organization (CBE, Gubret Branch)

Strengths	Weaknesses
Budgeting and reporting process to parent organization	Lack of the supervisory board's involvement
Compulsory training for the personnel	Responsibility for internal control not defined
Swift application of external auditors' recommendations	Fraud risk not perceived
Well documented processes within the organization	Lack of understanding of the objectives and risks on financial reporting level
Existence of a code of conduct	
Appropriate segregation of authority and responsibility within the organization	
Emphasis on interaction with clients	
Separate evaluations internal auditor, application of recommendations	

**Source: Interview with general the manager**

An analysis of the strengths and weaknesses also gives an insight into the possibilities of conducting fraud.

### Internal control activities for risk assessment, fraud, unintentional, error and others

Ways of Internal control activities for risk assessment, fraud, unintentional, error and others inside the bank

1. By reviewing each financial transaction activity of the bank .
2. By control quality of accounting information system in the bank.
3. By supervising the day today activity of the employees work.
4. Assessing the timelines of each financial transaction for intended to voucher.
5. To ensure the achievement of the development strategies and business goals of the bank.

### How effective is the internal control system of this organization

Protect the employees itself from theft.

To evaluate how well employees are doing their job, the organa zation used internal auditing staff, internal auditing assessment of investigating employee compliance with the organization police and procedures .

## **CHAPTER FIVE**

### **5. CONCLUSIONS AND RECOMMENDATIONS**

The study which was conducted at commercial bank of Ethiopia in Gubre branch focused on the assessment of the effectiveness of internal control system, which is discussed in the results and discussion section. Therefore, based on the major findings of the study the following conclusions and recommendations were made:

The need for an effective internal control framework to help companies and organizations to achieve their objectives has grown. This results also from the difficulties experienced in mature economies, where weaknesses, wrong doings or frauds seriously undermined the capacity of the organization to reach their objectives.

#### **5.1 Conclusions**

In this context, the most known and common framework is presented in the Committee of Sponsoring Organizations (CoSO) report. The CoSO report defined internal control as a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

A company can benefit of effective internal control several ways. Through enhanced structure of internal control, the possibility of error and fraudulence and illegal conduct can be diminished to a minimum. In highly competitive market, a well managed internal control system helps to improve the competitiveness and improve employees' understanding of organization's objectives. internal control system has its inherent limitations that explain why internal control, no matter how well designed and operated, can provide only reasonable assurance regarding the achievement of the organizations objectives mistakes in judgment, breakdowns, collusions or management override can all contribute to the failure of a control system.

In the present thesis, internal control system is divided into five components following the Committee of Sponsoring Organizations (CoSO) approach.

Control environment sets the tone of the organization, thus influencing the control consciousness. It is the foundation of all other components of internal control, providing discipline and structure and has become more and more important in the last decades. The control environment starts

with the supervisory board and management, who set the tone of the organization through policies, conduct and effective governance.

- ✓ Risk assessment means identification and analysis of relevant risks which can undermine the achievement of the objectives, forming a basis for determining how risks should be managed. As the internal control system established in order to have reasonable assurance to achieve the organization's objectives in the broader sense, thus the risk assessment component helps to establish a link between objectives and controls. No control activities are needed, unless management has decided to reduce the risks identified.
- ✓ Control activities are the policies and procedures that help ensure management directives are carried out and necessary actions are taken to address risks. Control activities should be built rather into, than onto the organization's processes.
- ✓ Information and communication involves information systems which produce reports containing operational, financial and compliance related information that make it possible to run and monitor the business. Internal communication involves sharing the information throughout the organization; external communication includes open channels with important external stakeholders (customers).

Monitoring is a process that assesses the quality of the system's performance overtime, which is accomplished through ongoing monitoring activities and separate evaluations. Effective monitoring would not be possible without adequate reporting of deficiencies and necessary actions. The overall assessment of the organization's internal control should give a comprehensive However, every evaluation of the effectiveness of the internal control system.

To assess the applicability of the Committee of Sponsoring Organizations (CoSO) framework in CBE in gubre branch and contribute in helping the organization's to improve its internal control systems, an empirical study was conducted. The study involved cash and fixed asset. With regard to the internal control procedures on cash, there are maker, checker, accountant, customer service officer (CSO), controller, cash supervisor and manager. From these employees, makers are payer and receiver of cash. But their payment of cash is limited; so they will ask the next employee, checkers, for approval. For efficient work, the organization uses recycling method.

Further, pre-numbered vouchers are prepared and used for cash receipts and cash payments. The cashier record cash receipts and bank deposited slips in numerical sequences on daily cash collection.

With regard to fixed asset, the organization has machine, building, equipment and furniture and vehicles. For these assets the organization uses a fixed asset register and makes a physical verification once a year. The organization uses straight line depreciation method for the fixed assets with different rates.

Each component has a relatively different importance inside the internal control system, control environment and monitoring being with the highest weight. This relation, proposed by the academic literature, is aligned with the result of the study, as the organization reached the highest results in the categories mentioned. This implies that also CBE in Gubre branch is, perhaps subconsciously, emphasizing the most important aspects of internal control. The importance of control environment component was also supported with the finding that the organization's with more effective control environment gained higher score in the overall assessment.

The weaknesses across the organization were low level of risk assessment and lack of definition for the responsibility for internal control in the organization. The organization had no risk assessment or re-assessment in place, although the managers had relatively good overview of general risks influencing their organization.

## **5.2. Recommendations**

In light of the findings of the study the researcher forwarded the following possible recommendations in order to come up with the problem being observed from the assessment of the effectiveness of internal control system of commercial bank of Ethiopia in Gubre branch.

- **Standardize Internal Control Documentation:** Ensure that all internal control procedures and practices (e.g., for cash, fixed assets) are consistently documented, accessible, and updated. This helps prevent operational inconsistencies and strengthens audit trails.
- **Invest in Employee Training and Role Clarity:** Offer regular training on internal control principles and ethics. Reinforce role clarity through updated job descriptions and organizational charts to prevent overlaps and inefficiencies.
- **Strengthen IT Support Systems:** Implement or improve internal digital systems that support real-time transaction monitoring and flag irregularities automatically.

- **Regular Component Evaluation:** Establish a scheduled self-assessment checklist (based on the COSO framework: Control Environment, Risk Assessment, Control Activities, Information & Communication, Monitoring) to periodically review and rate each component's performance.
- **Introduce Internal Control Scorecards:** Use department-level scorecards to track adherence to control policies and address weak areas early.
- **Mitigate Key Risk Factors:** Address human resource policy gaps (e.g., staff rotation, incentive alignment), segregation of duties, and lack of audit independence by formalizing HR controls and assigning oversight to impartial bodies (e.g., internal audit).
- **Establish a Risk Management Unit:** Create a unit responsible for identifying, assessing, and mitigating emerging operational and financial risks.
- **Upgrade Internal Audit Functions:** Empower internal audit teams to independently assess control breakdowns and report directly to top management or the audit committee.
- **Fraud Risk Awareness Programs:** Launch organization-wide fraud awareness and whistleblowing mechanisms to proactively deter misconduct.
- **Leverage Technology:** Adopt automated controls like transaction limits, login verifications, and audit trail logs, particularly in cash management and fixed asset handling.
- **Upgrade Information and Communication Systems:** Update the bank's information systems to support timely, accurate, and relevant reporting. Improve communication channels between departments and with upper management to ensure transparency and responsiveness.

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# Appendix

## WOLKITE UNIVERISTY

### College of Business and Economics

### Department of Accounting and Finance

#### Appendix A: Questionnaires Prepared for Employees of the Organization

##### Research Questionnaire

This questionnaire is prepared by the student of wolkiteUniversity Business and Economics College department of Accounting and finance who is working on the research topic “Assessment of the Effectiveness of Internal Control System of Commercial Bank of Ethiopia in Gubre Branch. We prepared this questionnaire for the partial fulfillment of BA degree in Accounting and finance. We humbly request your cooperation to respond for the questionnaire given below.

##### Notice

- ⇒ No need of writing your name
- ⇒ Make tick ( ) for questions that has an alternative
- ⇒ Write brief answers for those questions that has no choices.

1. Age:            20-30     31-40     41-50     above 50
2. Sex:            Male     Female
3. Level of Education   
                    12 comp                       Certificate                       Diploma   
                    Degree                      Master
4. Service time in year   
                    <5                       6-10                       above 11 years
5. Position/Department \_\_\_\_\_

## I. Questionnaire

### A. Control Environment

1. Does management establish accurate internal reporting responsibilities for each functional area and business unit in the organization?

Yes  No

2. If your answer in question no1 is no, Justify your answer
- 
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3. Does management establish human resource policies and procedures that demonstrate its commitment to integrity, ethical behavior and competence?

Yes  No

4. Does management support employees by providing access to the tools and training needed to perform their activities (roles)?

Yes  No

5. Is there any factor that affects the organization's internal control system?

Yes  No

6. If your answer in question 5 is yes, what types of variables? (you can select more than one)

a. Authorization and approval procedures

b. Human resource policies and practices

c. Segregation of duties

d. Control over access to resources

e. Presence of internal auditors

7. What types of elements help the organization's internal control system to become effective? (you can select more than one)

a. Reviewing appropriate documentation

b. Directing relevant questions to employees

c. Observing the process and underlying control techniques

**B. Control Activities**

- 1. Is there appropriate segregation of duties in the department you would found?  
Yes  No
- 2. If your answer in question 1 is yes, what types of segregation of duties' in the department you would found?(you can select more than one)
  - A. Separation of custody of assets from accounting.
  - B. Separation of authorization of transaction from the custody of related assets.
  - C. Separation of operational responsibilities from record keeping responsibilities.
  - D. Separation of duties within electronic data processing.
- 3. Are the responsibilities and reporting lines in organizational chart clearly defined?  
Yes  No
- 4. If your answer in question no 3 is yes, list the responsibilities and reporting lines in organizational chart clearly defined?

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**C. Risk Assessment**

- 1. Does the organization have “a common “language” for dealing with risk (uniform definitions, criteria for risk identification, an analysis and monitoring, etc)?  
Yes  No
- 2. Has the company established risk management objective?  
Yes  No
- 3. Does the organization provide internal information to the personnel about risk factors, risk management systems and current actions?  
Yes  No

**D. Information communication**

- 1. Are information systems updated to support the identification and management of risk to reliable financial reporting?  
Yes                      No
- 2. Does an open communications channel exist between management and the supervisory board?  
Yes                      No

**E. Monitoring**

- 1. Are separate evaluations used to provide feedback on the effectiveness of ongoing monitoring procedures?  
Yes                       No
- 2. Does ongoing monitoring serve as a primary indicator of both control operating effectiveness and other risk conditions.  
Yes                       No

**For cash Department**

- 1. Does the bank use control mechanisms and procedures in order to verify strong internal control over cash?  
Yes                       No
- 2. If your answer in question 1 is yes, justify your answer?  

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- 3. Who are the responsibilities of controlling cash in order to minimize cash theft and fraud?( you can select more than one )
  - a. Accountant
  - b. Chief customer office

- c. Chief executive officer
  - d. Branch manager
  - e. other
- 
- 

### **For fixed asset Department**

1. What types of fixed asset are there? (you can select more than one)

- Machine       Furniture       Vehicles   
Equipment       Building

2. How many times physical verification made?

- Once a year      twice a year      above twice a year

3. What type of depreciation method is used?

- Straight line method       Double declining method   
Sum of the years digit method      others \_\_\_\_\_

### **Appendix B: Structured Interview Prepared for the Management of the Organization**

#### **Structured interview Interview for the Manager**

1. What is the strength and weakness of internal control system of the bank?
2. What are factors affecting the existence of risk in the organizations
3. What are the ways of Internal control activities for risk assessment, fraud, unintentional, error and others inside the bank

#### **How effective is the internal control system of this organization**