









around cash operation have high degree of integrity, the other 8 (42 percent) said employees have somewhat integrity i.e. they have no full integrity. While 21 percent of the respondents said not always to mean sometimes they have no integrity, and the remaining 5 percent of the respondents said employees have no integrity totally.

Response for question related to management attitudes, out of 8 management respondents, 5(62 percent) said all managements have positive and supportive attitudes towards internal control systems. The other 3 (38 percent) said management have somewhat positive and supportive attitudes towards internal control systems in the bank and no response for the remaining options of the question. Out of 8 respondents, 3 (38 percent) said employees working around cash perform their duties with care and understanding. The other 5(62 percent) said sometimes the employees perform their duties without care and understanding i.e. not always to perform their duties with care and understand, and no responses for the remaining options of the question.

For responses related to job descriptions, out of 26 respondents, 18 (69 percent) said there are job descriptions on file for each employee to handle cash operations. The other 2 (8 percent) and 3(12 percent) said somewhat and not always respectively to imply sometimes job descriptions are not present on files for each employees working around cash operations, and the remaining 2(8 percent) and 1(3%) said I don't know and no respectively.

As per responses, Out of 19 respondents, four (21 percent) said managers and other supervisors in the bank have personal and professional integrity. The other 5 (26 percent) said managers and other supervisors somewhat have personal and professional integrity and 6 respondents constituting 32% said not always to mean managers and other supervisors sometimes do not have personal and professional integrity. Lastly, 2 (10.5 percent) said I don't know and no for each options of the question.

For Questions related with knowledge and competence of managers and supervisors, out of 8 respondents, two (25 percent) said managers and other supervisors in the bank have personal and professional competence and knowledge and the remaining 6(75 percent) said some what they have knowledge and competence i.e. they have no full knowledge and competence.

### **Internal Audit Functions over Cash Operation**

Employee response in relation with frequency of internal audit, integrity of internal auditors; contribution of internal audit for effective internal controls; independence of internal audit function; experience, quality, competence of internal auditors selected by the management.

As per the responses, out of 11 respondents, 10 (91 percent) said audit functions over cash operation are carried out frequently. The remaining 1 (9 percent) said audit functions are somewhat frequent and no response for other options of the questions. For question related to frequency of audit reports and their submissions, as most

of them respond, cash balance are checked daily and over all cash balance are counted monthly and reported monthly, semiannually, and annually to concerned organs. These reports are reported to branch manager and a copy of the report to the control department of the bank and branch operation. As it can be supported by interview with internal auditors, in the bank internal audits are made monthly, quarterly, semiannually and annually and also the interview show internal auditors review and evaluate internal controls and made recommendations for improvement.

Out of 11 respondents, three (27 percent) said internal auditors have high integrity; other three (27 percent) said internal auditors somewhat have high integrity. While the other 4(30 percent) said that internal auditors sometimes do not have integrity and the remaining 1 (10 percent) said internal auditors have no integrity.

As per the responses, out of 11 respondents, 8(73 percent) said internal audit function's contribute to effective and efficient internal control systems, 1 (9 percent) said somewhat it contribute to effective and efficient internal control systems, and the remaining 2 (18 percent) said not always and no one responds for other options. For questions in relation with how internal audit function contribute to effective and efficient internal control system, most of the respondent explain in such that, as internal auditor check each business day transactions and found any irregularities and error, they report to concerned organ and corrective measures are taken immediately. So, by doing so, internal auditors contribute to effective and efficient internal control system. This can be proved by data from the bank's manual and internal audit policy which states that the control department shall conduct an on-site audit of all material information, accounts and records, documents kept with the bank and all other factor that could affect the safety of personnel and of the bank.

Responses for question related to independence of internal audit function, out of 11 respondents, two (18 percent) said management promotes independence of internal audit function, similarly the other two (18 percent) said somewhat management promotes independence of internal audit function. While four of the respondent which is 36 percent said not always to mean sometimes management do not promote the independence of internal audit functions; 1(10 percent) said I don't know and 2(18 percent) said no.

As per the responses, out of 11 respondents, two (18 percent) said managements selects an experienced, well qualified and competent auditors and provide necessary resources to carry out their functions, four (36 percent) said management somewhat selects an experienced, well-qualified and competent person and provide adequate resources to carry out audit functions; two (18 percent) said not always and no for each options and 1 (10 percent) said I don't know.

To generalize, management of Cooperative bank of Oromia, somewhat selects an experienced, well qualified and competent person and provide adequate resources to

carry out audit function. Therefore, with such unqualified, inexperienced and less competitive internal auditors, and inadequate resources, the quality of internal audit function may be affected and effectiveness and efficiency of the bank's operation. Besides, the overall operations of the bank and internal control system may be ineffective and inefficient.

## **5. Findings, Conclusions and Recommendations**

### **1. Findings and Conclusion**

#### **Operating and Financial controls (over cash operations)**

The survey shows that:

- There are some personal relationships among some employees which might lead to collusion. As a result of these, there may be probability of fraud and likelihood of unintentional errors in the accounting data in the bank for cash operations. Besides, as they have personal relationships, they may hide irregularities made by each other in achieving their duties and responsibilities.
- Different functions of authorization, signature, approval and verification of cash receipt transactions are distinctly separate in the bank. So, if this is so in actual way, it reduces the possibility of error and omissions of recording transactions and permit segregation of functions which will contribute to the overall efficiency of operations of the bank. In my opinion, this may also increase controls of one employee over the others which may enhance overall efficiency of operations in the bank.
- The bank seems to have good access controls.
- Summaries of cash receipts and payments sometimes are not prepared and reported regularly in the bank. So, in the bank critical and reliable monthly and year-end information that should be delivered from branch operations to decision making organ such as managers, internal control department and the board may not be reported as required which may bring communication barrier in the bank. In addition, the board and senior management may not receive information of sufficient quality to make good business decisions, meet their regulatory obligations and take corrective action for any deviations from these cash operation principles and rules.
- Sometimes cash operating functions such as authorization, record keeping, and custody of cash are not separate. But, these may give employees potential for irregularity and frauds and additionally it may lead to misappropriation of cash by employees working around cash operations which may be one of the implications for weak internal control system in the bank.
- In the bank cash are counted, verified and compared to amounts on records periodically by assistant managers, tellers and internal auditors. Moreover, the overall cash balances are compared monthly. Therefore, this may reduce errors and omissions by employees of the bank that are working around cash operations. Besides, this

also indicates as there are continuous follow up and daily pre-audit tests in the bank which may reduce possibility of fraud by employees working around cash operations.

- The results of the survey show that some branches of the bank have no trustful guards.

#### **Personnel Policies and Procedures**

- As there are diploma holders even in senior positions and most of the employees have less than two years' experience, this may indicate a problem in personal qualification and experience considering the bank is new and most employees are young with the age of 25-30.
- Some employees of the bank working around cash operations have no required knowledge of established policies and procedures. Besides, the survey also shows some of them are incompetent and have no full integrity on their duties and responsibilities to carry out their activities. Therefore, this indicates that some employees of the bank may have no skills and knowledge to analyze the risks on cash operations of the bank. Besides, employees of the bank may not perform their duties with care and understanding, and the whole aspects of the system of internal control may not be operating effectively and efficiently.
- Employees who perform cash operation did not receive adequate training in the bank. Besides, trainings were not provided continually and all trainings were given only by external parties. Therefore, employee development and numbers of persons who are available to assume greater responsibility would not be accelerated through training in the bank. Additionally, employees working around cash operations will not perform their duties and responsibilities with care and understanding and internal control system rendered would be inoperative; consequently, inefficiency error, and fraud would occur in the bank.
- To assure that qualified people are employed, prospective employees are carefully screened in the bank.
- All managements of the bank have positive and supportive attitudes towards internal control system. So, this may contributes to adequate and effective internal control systems and all managements of the bank could ensure that a proper internal control structure is instituted, reviewed, and updated to keep it effective.

#### **Internal Audit Functions (Over Cash Operations)**

- Audit reports are frequent, and prepared and reported semiannually and annually in the bank. The reports are reported to branch managers and copies of the reports are submitted to internal control department and other branch operations.
- Some internal auditors have not that much integrity in achieving their duties and responsibilities effectively. As a result, internal auditors may perform their duties without care and understanding which will be resulted in inefficiency of the bank's operations and it may also enhance fraud and irregularities in the bank. Thus, all aspects of the system of internal control are operating ineffectively and inefficiently. On the other hand, with

such dishonest members of internal auditors, the internal controls may be rendered inoperative; consequently, inefficiency error, and fraud will occur in the bank.

- As a result of the survey for questions related to whether internal audit functions contribute to effective and efficient internal control or not and, in what ways it so shows, all of them said that it contributes to effective and efficient internal control systems by engaging in daily business transactions that may help them as a pre-audit test to simplify the audit works and reporting any irregularities and errors immediately in the bank.
- Internal auditors have no full freedom to exercise their duties and responsibilities, the functions of internal audit may not operating in accordance with audit rules and principles which may affect the effective and efficient system of internal control. Additionally, managements do not promote independent audit functions as a key part of the internal control structure.

They also place some restrictions on auditors in meeting established objectives.

Generally, these research findings are concluded based on different factors or principles that should be available and applied as per COSO frameworks for effective and efficient internal control systems to exist. So, as findings from questions related to principles of operating and financial controls; personnel policies and procedures and internal audit functions over cash operations indicate there is a problem or deficiency in applicability of these principles in practice in cooperative bank of Oromia. As it was implied by opinions of the respondents, although some of these principles are applied in the bank, the overall results of the survey shows that most of them are inapplicable. Additionally, most of the findings in the above section are based on opinions to COSO principles and their applicability in cooperative bank of Oromia.

As to this, it can be generalized that effectiveness and efficiency of internal control systems over cash operations are not maintained as required in cooperative bank of oromia as it is measured by these principles. Moreover, as it can be observed from findings the current status of internal control in the bank could be rated as somewhat moderate as there are some encouraging activities in relation with internal control systems.

Lastly, as to the accomplishments of objectives of this research and questions to be answered, although the objectives of this paper is to examine effectiveness and efficiency of overall internal control systems and to answer how it is influenced by different factors or principles of internal control and reviewing its current states in the bank, the paper could concentrate on only two of the internal control components, namely control environment and control activities, due to time and impossibility of covering all components in a single research.

## 6. Recommendations

To improve the effective and efficient internal control system over cash in the bank, problems and deficiencies

that were observed here above in the finding should be looked carefully. Thus, some recommendations are forwarded to modify or alleviate them here under: - Separating employees functions such as authorization, signature, approval and verifications of cash operation transactions should be continued to maintain the overall efficiency of operations in the bank. On the other hand, to reduce probability of fraud and likelihood of unintentional errors in the accounting data for cash operations, it is advisable to the management of the bank to follow up and take corrective actions on employees' combination of functions and unnecessary personal relationships.

- To increase the analyzing skills and knowledge of the employees, the bank should have specific characteristics for such competence and screen new employees based on the criteria already set. Besides, to develop competence of the existing employees, the bank should also provide its staff with educational opportunities and continuous training and orientation on new technologies and other procedures.
- To maintain effective and efficient internal control system in the bank, management of the bank should select experienced, well-qualified and competent persons to internal audit and should not also put unnecessary restrictions on their activities to carry out audit functions. In addition, it is better if the bank provides internal auditors with necessary resources that are required to carry out audit functions.
- In order to reduce misappropriations through theft and altering accounting records in the bank, necessary warning and training should be given on cash management to employees. On the other hand, managements, especially branch managers should have regular and surprise follow up and visits in the area of cash operations and take corrective actions for any deviations. Besides, it is better if control department make surprise inspections in addition to the regular ones and it is advisable to the board to establish necessary access control procedures and make available to each employees to read.
- To increase integrity of its employees, first of all, it is good if the bank provides its employees with attractive salaries and compensation.
- Lastly, it is recommended that further research is required by using the outcomes of this research as inputs. This is because the other components of internal control namely, risk assessments, information and communication, and monitoring which also used to measure effective and efficient internal control system are not covered and even some issues from the two components are not included. Besides, some of the findings depend on opinions of the respondents. So, looking in to some points for actual implementation of those principles through further research is important. For example, internal auditors' independence and related issues need further study for their actual implementation through personal observation, interview and further observations.

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