

# Examining Effectiveness of Internal Control and Internal Audit Function over Cash Operation in Bank - The Case of Cooperative Bank of Oromia

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**Abstract:** *The major objectives of this research is to examine effective and efficient internal control system over cash operations in Cooperative Bank of Oromia and reviewing its current states, by such factors, as operating and financial control, custody of asset, and record keeping, personal policies and procedures, and internal audit function in some branches of the bank. The study has employed the descriptive research methods in order to describe factors that affect effective and efficient internal control system in CBO. Analysis of the data collected shows that combination of cash operation functions and some personal relationships; lack of integrity, competence, knowledge and experience by employees working around cash operations; inadequate communication of proper information for decision making; misappropriation of cash; unsatisfactory verifications and weak internal audit functions in the bank which affects effective and efficient internal control systems in the bank. To improve the effectiveness and efficiency of internal control systems in Cooperative Bank of Oromia, the following measures are recommended. Establishing encouragement bonus, disciplinary actions, chained follow-up where all employees monitor each other, diverse and continues training and orientation, surprise audit and verification, serious regular Reporting periods and maintaining independence of internal auditor.*

**Keywords:** Effectiveness, Efficiency, Internal Audit function, Internal Control

## 1. Introduction

Of all company's assets, cash is the most liquid and, hence, potentially the most attractive to defaulters. Because of its high liquidity, the cash account balance should always receive the auditor's careful consideration. It also needs a continuous follow up through a system of effective and efficient internal control. The internal control process which historically has been a mechanism for reducing instances of fraud, misappropriation, and errors has recently more become extensive, addressing all the various risks by any organization. It is now recognized that internal control is critical to organization's ability to meet its established goals and objectives, and to maintain its financial viability (Basle committee, 1998). The problem is accentuated by the attractiveness of cash with its power to command economic goods of all types, its portability, and its accessibility through orders to pay and transfer authorizations, even though it is deposited with a financial institution (Walter B et al., 1987).

Even though the internal control systems of Cooperative Bank of Oromia are well designed and documented, there are many problems within the bank mainly related with monitoring and proper implementation by the responsible parties. For this paper, the study was limited only to problems in cash operation. These include activities such as withdrawals, deposits, money transfer among the Bank's Branches and related activities carried out by internal control department. As it is indicated by head of internal department of the bank, and observed by the researcher, the bank faced the following problems in areas under the study: Lack of integrity, and questionable competence, knowledge and experience of the staffs, inadequate communication of proper information for decision making, Misappropriation of assets, especially cash and errors made by employees in record keeping, Withdrawal by wrong person and unsatisfactory

Verifications which reduce the quality of services to its customers, Delay in collection of loans disbursed to customers.

The overall objective of this study was to examine effectiveness and efficiency of internal control system over cash in Cooperative bank of Oromia and reviewing its current states, by such factors, as operating and financial control, personal policies and procedures, and internal audit function in some branches of the bank.

This research paper tries to answer the following basic questions.

- ✓ How do effectiveness and efficiency of internal control over cash operations is influenced by operating and financial controls; personal policies and internal audit functions in the bank's branches.
- ✓ What are the current status of internal control and internal audit function over cash operation in the bank?

## 2. Research Methodology

The study uses case study method. The justification is that the study investigates the details of real life phenomena using multiple sources of evidences (Angela and Eno L., 2009). Thus, since this study examines whether internal control system established in cooperative bank of Oromia, particularly internal control over cash, are effective and efficient, the case study is used. Based upon a case study of cash operations (cash deposits, withdrawals, interbank transfer), in some branches of the bank at current time, the paper examines effectiveness and efficiency of internal control system over cash. To do so, it first review the current state of internal control in some branches of the bank by seeing into their manuals and other documents, and using factors such as operating and financial controls; personnel policies and procedures; and internal audit

functions, as a measures, to examine the effective and efficient internal control over cash operations in the bank.

In this study both primary and secondary source of data was used. As primary data collection instrument questionnaires and observation were used. Questionnaires were distributed to staffs (management, tellers, cashiers, clerks, accountants and loan officers) in four branches of the bank those located in Addis Ababa, to assess how interplay among the operating and financial controls; personnel policies and procedures; custody of assets, and record keeping; and internal audit functions, shape effectiveness and efficiency of internal control system. Observations by the researcher at any visits were also used as data collection instruments. As source of information the researcher also used secondary data such as manuals, procedures, internet, books, journals, and other related references and reading materials.

The study employed descriptive type of research method and designed to describe the extent of internal control over cash operation in the bank and examine effectiveness and efficiency of internal control system over deposits, withdrawals, and interbank transfers.

In the study both qualitative and quantitative or mixed methods were applied. First, the data Collected through questionnaires were analyzed by the quantitative tools such as tables and percentages. To analyze the data obtained or collected through open questions and observations, qualitative method of data analyses were applied.

Oromia Cooperative Bank has 38 branches that already start its operation. The researcher selected 4 branches that located in Addis Ababa. These are Qarsa (main branch), Finfine, Merkato, Sheger. There are total of 94 employees in these four branches. From the total of 94 employees in the selected branches of the bank, the researcher selects 34 employees as a sample which is around 36% of the total population.

### 3. Theoretical Framework

Recently, the diverse definition of IC were reviewed and the major elements by synthesized by the committee of sponsoring organization of the tread way commission (COSO, 1992). The COSO (1992) definition has since emerged as the most frequently cited in the IC literatures. As a result, it is adopted in this study. Internal control is not solely a promise or policy that is performed at a certain point in time. Rather it is continually operating, integrated system at all levels within an organization. So, COSO definition provides some insights into the fundamental concepts of internal controls, in particular:

According to COSO, 1992 internal control system is defined as consisting of five interrelated components:

- a. Control environment
- b. Monitoring
- c. Risk Assessment
- d. Information and Communication and

e. Control Activities

Although internal control systems are composed of all the above components, this study concentrates on only two of them, namely, control environment and control activities. This is because the study is on internal control over cash operations in Cooperative Bank of Oromia which is mostly deals with these elements. Besides, it is difficult to cover all the components due to time and other constraints. So, the two elements i.e. control environment and control activities will be used for this study and discussed in detail in the following sections.

### 4. Data Presentation and Analysis

**Personal profile of sample Respondents:** In the following section demographic information of sample respondents were presented and analyzed. These include sex, age category, educational back ground, and work experience and job descriptions of sample respondents.

Out of 34 sample respondents, 23 (67.6%) are male and the remaining 11 (32.4%) are female. When we see the age group of respondents, out of 34 respondents, five (14.7%) are under 25 years, twenty (58.8%) are under category of 25-34, four (11.8) are under 35-44 category, five (14.7%) are under age group of 45-54 and no respondents are above 55 years old.

Out of 34 respondents, eight (23.5%) are managers, four (11.8%) are accountants, loan officers and cashiers for each and five (14.7%) are tellers and clerks for each. Concerning Information about Educational background of respondents, out of 34 respondents, sixteen (47%) have diploma, and the remaining all i.e. eighteen (53%) have BA degree.

When we see job experience of sample respondents, out of 34 respondents, seventeen (50%) have an experience of 1-2 years, eleven (32.3%) have 2-4 years, one (2.9%) has 4-6 years, one (2.9%) has 6-8 years and the remaining four (11.9%) have an experience of 8 and above years. 38.

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. Perhaps this is deliberate to provide opportunity to the young to grow up with the bank.

#### Characteristics of Effective and Efficient Internal Control System over Cash Operation

Effective and efficient ICS are shaped by many factors or principles. These principles cover operating and financial control, personal policies and procedures and internal audit function for this paper. These principles were applied over cash operations i.e. responses of questions related to cash receipt, payment and transfer are analyzed.

### **Financial and Operating Control over Cash Receipts**

The following section shows, employees' responses for questions related to segregation of responsibility, authorization, authorizing and recording transactions, documentation, access control and financial reporting over cash receipts.

Out of 19 managements, auditors, loan officers, and accountant respondents, 11 which constitute 57 percent said in the bank functions of authorization, signature, approval and verification of cash receipts are separate. Whereas, 4 respondents who constitute 21% and 3 respondents who constitute 16% said somewhat and not always that these functions are separate respectively. The remaining 1 employee who constitutes 6% of the respondents said I don't know. Besides, as it is presented in internal audit policy, internal control part of the bank, some of major activities of internal control process that are carried out by general manager includes, cross-verification as well as signature procedures, defining different responsibilities and separation of system of authorization and approval.

Besides, out of 15 cashiers, tellers and clerk respondents, 9 which constitute 60 percent said different peoples or employees in the bank combine their functions. Whereas, 2 respondents which constitute 13% said somewhat there is combination of employee functions and the remaining 4 respondents constituting 27 percent said that employees' functions are sometimes not combined. Out of 15 cashiers, tellers, and clerk sample respondents, 5 (33 percent) and 3 (20 percent) said that they think there is some relationships among employees which lead to collusion. One respondent constituting 7 percent also agreed that there are such relationships that lead to employee collusion. Whereas, the remaining 4 respondents constituting 27 percent and 2 respondents constituting 13 percent said I don't know and no respectively. Moreover, out of 34 sample managements, cashier, teller, clerk, accountant, loan officer, and auditor respondents, 31 of them which constitute 91 percent agreed that there are adequate policies, procedures, directives and other documents in the bank for cash receipt. The remaining 3 respondents which constitute 9 percent somewhat agreed for adequacy of such documents. And no response for remaining options of the question. As of the response more than 60 percent of cash receipt documents are internally generated. Among these documents current account, deposit recorder, saving accounts, current voucher, demand voucher, CK deposit receipt, and loan collection voucher.

Concerning report preparation and reporting, out of 25 sample respondents, 11 which constitute 44 percent agreed that summaries of cash receipts are prepared and reported regularly in cooperative bank of Oromia. The other 3 respondent which constitute 13 percent somewhat agreed that cash receipt summaries are prepared and reported regularly. The remaining 11 (44 percent) of the respondent said not always to mean sometimes summaries of cash receipt are not prepared and reported regularly, and there is no response for the remaining options of the question.

Out of 34 sample respondents, 11 of them which constitute 32 percent said that only authorized person have access to cash, whereas, other 12 which constitutes 35 percent said not only authorized person have access to cash and cash receipt documents in the bank. The remaining 12% and 21% said somewhat and not always respectively to mean sometimes there are unauthorized person that have access to cash and cash receipt documents. From personal observation of the researcher, it is proved that there is unauthorized access to cash in the bank. For example, in kersa main branch it is observed that there is unauthorized person in cash areas such as front side clerks. Out of 15 respondents, the whole 15 (100 percent) agreed that cash drawers or cash box of the bank's branch have keys. As it replied by many respondents, there are three keys for each cash drawers. The responses also show these keys are kept by assistant manager and main cashier of the bank.

As the response shows, 53 percent of the respondents agreed that cash are periodically counted, verified, and compared to amounts shown on records. While the remaining 47 percent said not always that cash are periodically counted, verified and compared to amounts on records. There is no response for other options of the question. The response also shows that cash are counted, verified and compared to records on books daily by tellers, internal auditors and assistant managers. About 37% of the respondents agreed that cash receipt functions such as authorization, record keeping, and custody of cash are distinctly separate. The other 37 % somewhat agreed that these functions are separate. The remaining 26 percent argued that not always that the functions of authorizing, record keeping and custody of cash receipt separate.

### **Financial and Operating Control over Cash Payments**

Employees' responses for questions related to segregation of responsibility, authorization and recording transactions, documentation, access control and financial reporting over cash payments.

So, out of 26 sample respondents, twenty (76.9%) agreed that functions of authorization, signature, and verification over cash payments are separate and the other 2 (7.7 percent) somewhat agreed that these functions are separate. The remaining 3 (11.5%) and 1 (3.9%) said not always these functions separate and I don't know respectively. Out of 15 respondents, 9 (60%) said that employees working around cash payments combine their functions, 2 (13%) said somewhat employees combine their functions. Similarly, 4 (27%) said not always employees combine their functions, and no one said I don't know and no. for questions related to whether employees' relationship leads to collusion, out of 15 respondents, 1 (7 percent) said yes and 5 respondents constituting 33 percent said somewhat to mean there are employees' personal relationships which lead to collusion in cooperative bank of Oromia. Whereas, 3 (20 percent) said not always that employees have personal relationships. 4 (27 percent) said I don't know and 2 (13 percent) said that there are no personal relationships which lead to collusions in the bank.

Concerning the adequacy of documentations for cash payment, the result of the response show, out of 34 respondents, 30 (88 percent) strongly agree that there are adequate policies, procedures, directives and other documents for cash payments, and similarly, 3(9 percent) somewhat agree on adequacy of these documents. The remaining 3 percent of the respondents said not always. This is proved by the researcher's personal observation for existence of different documents such as manuals, policies, procedures of internal control department and branches and other documents internally generated such as checks, cash payment voucher, another cash payment forms in kersa and finfinne branches during my field observation. Concerning report of regularity of summary of cash payment, out of 26 respondents, 10 (38 percent) agreed that in the bank, summaries of cash payments are prepared and reported regularly like daily, monthly, quarterly, semiannually, and annually. While the other 2 (3 percent) said somewhat these summaries are prepared and reported regularly, and the remaining 14 constituting 59 percent said not always that summaries of cash payments are prepared and reported regularly.

Out of 34 respondents, 20 (59 percent) agreed that there are unauthorized people that have access to checks and other cash payment documents. The other 5 which constitutes 15 percent said somewhat unauthorized people have access to cash and cash payment documents, and the remaining 9 (26 percent) said sometimes unauthorized people have access to cash and cash payment documents, and no respondents said I don't know and no.

### **Operating and Financial Control over Money Transfers**

Employee response for questions related to segregation of responsibility, authorization and recording transactions, documentation, access control, and financial reporting over money transfer among the bank branch.

Concerning separation of functions such as authorization, signature and verifying, out of 26 respondents, 19 (73 percent) said functions of authorization, signature and verification over cash transfers are separate and similarly 2 respondents constituting 8 percent said somewhat this functions are separate. While the other 4 (15 percent) said not always these functions are separate and the remaining 1 (4 percent) said I don't know. out of 34 respondents from managements, auditors, clerks, loan officers, tellers and cashiers, 12 (35 a percent) said that only authorized employee have access to cash and other cash transfer documents, similarly 4 which constitutes 11.8 percent said somewhat to mean there are some people or sometimes unauthorized people have access to cash and cash transfer documents in the bank. The remaining 8 respondents (23.5 percent) said not always to mean there are peoples that have unauthorized access to cash and money transfer documents, and no respondent said I don't know and lastly, 29 % of the respondents agreed that access to cash and other cash transfer documents are allowed for unauthorized person in the bank.out of 15 respondents (cashier, teller, clerk), 5 which constitutes 33 percent of total respondents agreed that cashes are counted, verified

and compared to records on the book for cash transfer daily, monthly and annually in the bank, and the other four (27 percent) said some what it is counted verified, and compared to records periodically. The remaining 6 respondents constituting 40 percent said not always that cash periodically counted, verified and compared to amounts on records.

The responses in relation with attempt of theft on the bank, out of 8 respondents (management), 5 (62.5 percent) said there is an attempt of theft on the bank, and the remaining 3 (37.5 percent) said there is not any attempt of theft on their branch. For the questions in relation with amounts of theft and how much the bank's image are affected by such theft, most of them said the amounts of theft ranges between br. 45,000 and br. 50,000. As to the response by most management, this theft has not that much significant effect on image or goodwill of the bank.

### **Personnel Policies and Procedures over Cash Operation**

Employee responses in relation with competence, integrity, training, job description, compensation, qualification, knowledge, attitude of management, and understanding of established policies and procedures by different staffs of the bank.

The responses concerning knowledge of established policies and procedures, out of 19 respondents, five (26 percent) said the employees have good knowledge of established policies and procedures, ten (53 percent) said the employees have somewhat knowledge of established policies and procedures; two (10.5 percent) said not always that employees of the bank have knowledge of established policies and procedures, and the other two (10.5%) said that employees have no knowledge of established policies and procedures. This can also be proved from personal information of the respondents, which indicates low educational qualification and mostly below 2 years working experience in current position. This can be strengthen by personal observation also, as it observed by the researcher employees working around cash operation has low confidence on what they do and sometimes confused on what they should do also.

Concerning employee screening, out of 19 respondents, seven (37 percent), agreed that prospective employees are carefully screened to assume only qualified people are employed in the bank. The other 6(32.1 percent) said somewhat prospective employees are screened carefully in the bank and 2 respondents constituting 10.2 percent said not always, I don't know and no for each of the options. out of 11 respondents, 3 (16 percent) said employees working around cash operation are competent enough, 9(47 percent) said employees are somewhat competent i.e. they are not fully competent, 6(32 percent) said not always to mean sometimes employees are not competent enough, and 1 respondent (5 percent) said employees are not competent and no response for I don't know option.

For question related to employee integrity, out of 19 respondents, 6 (32 percent) said employees working



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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