

**ST. MARY'S UNIVERSITY
BUSINESS FACULTY
DEPARTMENT OF ACCOUNTING**

ASSESSMENT OF INTERNAL CONTROL SYSTEM

THE CASE OF AWASH TANNERY

BY

TINEBEB TESFAYE

AMSALE MENGISTU

HANNA W/MEDHIN

JUNE 2014

ADISS ABABA

**ASSESSMENT OF INTERNAL CONTROL SYSTEM THE
CASE OF AWASH TANNERY**

**A SENIOR ESSAY SUBMITTED TO THE
DEPARTMENT OF ACCOUNTING**

**BUSINESS FACULTY
ST.MARY'S UNIVERSITY**

BY

TINEBEB TEFAYE

AMSALE MENGISTU

HANNA W/MEDHIN

JUNE 2014

ADISS ABABA

ST.MARY'S UNIVERSITY

**ASSESSMENT OF INTERNAL CONTROL SYSTEM THE
CASE OF AWASH TANNERY**

BY

TINEBEB TESFAYE

AMSALE MENGISTU

HANNA W/MEDHIN

BUSINESS FACULTY

ST.MARY'S UNIVERSITY

APPROVED BY THE COMMITTEE OF EXAMINERS

Department Head

Signature

Advisor

Signature

Internal Examiner

Signature

External Examiner

Signature

Table of Contents

<i>Table of Contents</i>	i
<i>List of Tables</i>	iii
<i>Acronyms</i>	iv
<i>Acknowledgement</i>	v
CHAPTER ONE	1
1.1 Back ground of the study.....	1
1.1 Back ground of the organization.....	2
1.2 Statement of the problem	3
1.3 Research question.....	4
1.4 Objectives of the study.....	4
1.4.1-General objectives	4
1.4.2-Specific objectives.....	4
1.5 Significance of the study	5
1.6 Scope of the study	5
1.7 Research design and methodology.....	5
1.7.1- Research Design	5
1.7.2- Population and Sampling	5
1.7.3- Sources of Data	6
1.7.4- Data Collection Instrument.....	6
1.7.5- Method of Data Analysis.....	6
1.8 limutation of the study.....	6
1.9 organization of the study.....	7

CHAPTER TWO.....	8
LITERATURE REVIEW.....	8
2.1 Introduction.....	8
2.2 Actual Review of related Literature.....	8
2.2.1 Internal Controls systems and financial performance.....	8
2.2.2 Internal Control Systems (ICS).....	11
2.2.2.1 control enviroment.....	13
2.2.2.2 internal audit and financial performance.....	15
2.2.2.3 control activity.....	19
2.3 Financial performance.....	20
2.3.1 Liquidity.....	21
2.3.2 Accountability.....	21
2.3.3 Reporting.....	22
CHAPTER THREE.....	24
DATA PERESNTATION ANALYASIS AND INTERPRETATION.....	24
3.1. General Information.....	24
3.2 Findings on the internal control system of Awash Tannery.....	26
CHAPTER FOUR.....	32
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	32
4.1. Summary.....	32
4.2. Conclusions.....	33
4.3. Recommendations.....	34
Bibliography.....	35
Appendices	
<i>Questionnaeirs</i>	a
<i>Interview Question</i>	b

List of Tables	Page
Table 1: Ssex of Respondent	26
Table 2: Age of Respondent	26
Table 3: Education level of Respondent	27
Table 4: Experience of Respondent	27
Table 5: Internal control system of awash tannery	28
Table: 6 Independency of internal audit.....	28
Table: 7 Awash Tannery internal control system.....	29
Table: 8 Reliability fair and sensitivity of the internal control system.....	29
Table: 9 Periodic risk assessment.....	30
Table: 10 Clarity of the control system.....	30
Table: 11 Segregation of duties.....	31
Table: 12 Involvements of audit staffs.....	31
Table: 13 Intact deposits.....	32
Table: 14 Organizational structures.....	32
Table: 15 Documentation of Guidelines.....	32

Acronyms

ELICO-----Ethiopian Leather Industry Company

ICS.....Internal Control Systems

ACKNOWLEDGEMENTS

First of all we are grateful to our advisor, Ato Ahmed Mohammed for his committed and motivated guidance to successfully complete this research project.

Also our deepest gratitude goes to the Awash Tannery management and employees for their cooperation in giving responses and providing the necessary documents.

Finally, we would like to thank all St. Mary's University Accounting Department staffs who have taken part in educating us.

Introduction

Chapter one

1.1 Back ground of the study

Internal control system includes all the policies and procedures adopted by the Head of the public body to assist in achieving its objective and ensuring, as far as practicable, the orderly, economical, efficient, and effective conduct of its operation, including adherence to internal policies, government's policies, rules and regulations, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial and management information and fairly disclosing that data in a timely report. It is a responsibility of the Head of the public body to determine the internal control system, which is appropriate to the public body. The nature and extent of controls will vary between public bodies and also from one part of a public body to another. (Hayes et al, 2005).

The controls used will depend on the nature, size and volume of the activities, the degree of control which management is able to exercise personally, geographical distribution, and many other factors. The choice of controls may reflect a comparison of the cost of operating individual controls against the benefits expected to be derived there from. Internal control system comprises the control environment and control procedure. (Hayes et al, 2005).

Control environment means the overall attitude, awareness and actions of the management regarding internal control and their importance in the public body. The control environment encompasses the management style and culture, and values shared by all employees. It provides the background against which the various controls are carried out. However, a strong control environment does not, by itself, ensure the effectiveness of the overall internal control system. Factors reflected in the environment include: -

- The philosophy and operating style of the management;
- The public body's organizational structure and methods of assigning authority and responsibility (including segregation of duties and supervision controls); and

- The management's method of imposing control, including the internal audit function, personnel policies and procedures, in particular the competence and integrity of internal auditors. Control procedures are those policies and procedures in addition to the control environment, which are established to achieve the public body's specific objectives. (Hayes et al, 2005). This study basically tries to assess the internal control system in respect to the standards.

1.1 Background of the Organization

Ethio-Leather Industry Plc (ELICO) was established in August 1997 with a total registered capital of Birr 51,705,000 (USD 7,673,640). The Company's current total capital is Birr 239,082,417. It is the only leather industry to produce finished sheepskin and goat skin leather in Ethiopia and has provided about 1,300 employment opportunities, 40% of whom are women including 74 degree graduates and 272 semi professionals. The Company has a capacity of producing around 25 square feet of leather on average from each bovine hide manufacturing unit, 4.5 square-feet from sheepskins and about five square-feet from goat. Awash Tannery, currently one of Ethio-Leather Industries Plc.'s (ELICO) tanneries, was one of the 12 tanneries and footwear producers in public ownership for decades under the National Leather Corporation. (Annual bulletin volume III, 2001)

It is a 54-years old company that started manufacturing shoes as Darmar Tannery in Addis Ababa in 1957. It was the brainchild of Armenian tanners who fled to Africa after World War II and won the approval of Emperor Haile Selassie I, who presided over the official opening ceremony. The commemorative plaque still stands at the entrance of one of the main production units. Awash Tannery was nationalized in 1975 by the former government and then privatized again and took its current name under Ethio- Leather Industries Plc. (ELICO) after having been acquired by MIDROCE Ethiopia. (Annual bulletin volume III, 2001)

Awash Tannery is the largest and perhaps the second oldest factory in Ethiopia; that produces finished leather products from sheep skin and bovine hide. It is specialized in the manufacture of the finest and world-class leather and leather products. The unit produces finished shoe upper leather, different leather articles and upholstery from hides for the local and international leather markets. Garments and lining leather from pickled sheep skin are also processed in Awash Tannery. (Annual bulletin volume III, 2001)

1.2 Statement of the Problem

To maintain an internal control structure that would eliminate the risk of loss is not realistic and would probably cost more than is warranted by the benefit derived. Because any internal control structure depends on the human factor, it is subject to flaws in design, errors of judgment or interpretation, misunderstanding, carelessness, fatigue, or distraction.

In spite of the Awash tannery investing large sums of money under the Production process of leather products for the purchase of raw martial, skins, chemicals, After dyeing and fat-liquoring, the stock is stretched for drying. Workers paste the stock on frames made of glass or ceramics or “toggle” it on perforated metal frames. The frames are then conveyed through drying tunnels with controlled heat and humidity, but the output in terms of quality do not in most cases match with such expenditures and are not up to the desired levels. The external Auditor reports highlight cases of weak and / or ineffective Internal Control Systems in Awash tannery; where expenditures lack receipts, supporting documents, activity reports and some funds are not signed for by the intended recipients. There are cases of incomplete and workshops built which are rendering poor quality not to be used to the maximum benefit of the intended uses. This makes one doubt whether the various Internal Controls set up Awash tannery are effective to achieve Value for Money in most of the Awash tannery production activities.

1.3 Research question

In order to find solution for the existing problems, the following basic questions will be treated.

- ✓ What are the problems in executing the internal control system?
- ✓ How the techniques implemented by the company for measuring the internal control system are reliable, fair or sensitive?
- ✓ How the internal control system implemented?
- ✓ How often does internal control system reviewed?
- ✓ How far the internal control system process is clear for understanding and implementation?

1.4 Objectives of the study

1.4.1 General objective

The general objective of this study is to assess the internal control system in respect to the standards. And to evaluate management and employee proper understanding of internal control process,

1.4.2 Specific objectives are:-

Specifically This study tries to assess;

- ✓ The Problems in executing the internal control system.
- ✓ The techniques implemented by the company for measuring the internal control system are reliable, faire or sensitive.
- ✓ How the internal control system implemented.
- ✓ How often internal control system does reviewed.

- ✓ How far the internal control system process is clear for understanding and implementation.

1.5 Significance of the study

This study helps the organization to see its strength and weakness on internal control system and helps the company to overcome its weakness. The concerned personnel's of the institute can make corrections which are going to be identified and dealt in order to improve the efficiency of their internal control system. It also serves as bench mark for other researchers who are interested for further study.

1.6 Scope of the study

This study has been conduct on internal control system of Awash tannery. The study is limited in evaluating and assessing the overall internal control system of the company by taking three consecutive years i.e. from 2003 to 2005 E.C audit and operational performance reports of the company. The study has carried out in head office located at Addis Ababa namely Akaki KalitiSubCity.

1.7 Research design and methodology

1.7.1- Research Design

A general plan or strategy for conducting the research study to examine specific testable research questions of interest in order to perform this research were used descriptive research design for the reason that it makes the entire survey more flexible, efficient and economical and at same time descriptive type.

1.7.2- Population and Sampling Techniques

The total population and who directly related to the operational activities are 30 employees. The student research decides to apply census as sample size due to the manageable size of the population.

1.7.3- Sources of Data

The research has used both primary & secondary data. Primary data holds first hand information through interview and questionnaires. Secondary data incorporated all type of internally generated documents from the internal & supplementary sources.

1.7.4- Data Collection Instrument

In order to get primary data closed ended questionnaires has used for selected employee and conducting exclusive interview with the concerned personnel. The major reason why questionnaire and interview will be uses is that both allow to gather sufficient and relevant information which are directly related to the study. In addition Secondary data gathered from like audit and performance reports, internet, books and other materials available in the library.

1.7.5- Method of Data Analysis

Subsequent to data collection from both sources the responses of respondents to each question is arranged qualitatively through tally techniques for farther Processing, which consist editing and classifying the collected data. The raw examined to detect errors and omission to correct them if necessary again put responses in a limited number of categories symbols where assigned to answer. Finally the raw data were organized in groups on the bases of common characteristics. The processed data is analyzed using quantitative method which is referred as descriptive statistics. Statistical tool like Percentiles tables are used. Finally a reasonable explanation and the final tasks of interpretation were accomplished after considering the entire relevant factor.

1.8 Limitations of the Study

This study has a number of its own limitations. Lack of awareness- affects the accuracy and dependability of the information gathered from the respondents to some extent. The shortage of adequate reference materials and previously done studies; unwillingness to fill and return questionnaires on time were the major limitations of this study. As the result of these limitations, the outcome of the study was not as complete as it was initially expected.

1.9 Organization of the study

This paper includes four chapters. The first chapter will discuss the introduction which incorporates; background of the study, statement of the problem, objectives of the study, the scope of the study and data analysis and presentation and chapter two literature review chapter three data analysis and chapter four deal about data presentation with appropriate recommendations

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The research was intended to assess internal controls on financial performance of awash tannery. The review of available literature therefore attempted to establish whether there is a correlation between Internal Control systems and financial performance. The review particularly focused on Control environment, Internal Audit and Control activities as the main components of Internal Control. The other components of internal control were ignored for purposes of this research. The review also examined financial performance and in particular focusing on Liquidity, Accountability and Reporting. All other financial performance measures were ignored for purposes of the study. The review examined the common systems of internal controls employed by organizations. The review also tried to determine the main objectives systems of internal control are normally intended to achieve. The ultimate objective of this review was therefore to examine the relationship between internal controls systems and financial performance. The review examined the theory surrounding systems of internal control and the methods used by previous researchers in dealing with internal control systems.

2.2 Actual Review of related Literature

2.2.1 Internal Controls systems and financial performance

According to Hayes et al, 2005 internal control comprises five components; the control environment, the entity's risk assessment process, the information and communication systems, control activities and the monitoring of controls. However, for purposes of this study, the research will narrow down to only three components of the internal control system. These are; the control environment, internal audit and control activities. The other components of the internal control systems will be held constant.

Gupta (2001) drawing from Statements of Standard Auditing Practices No. 6 (SAP 6) defines Internal control as “the plan of organization and all the methods and procedures adopted by the management of an entity to assist in achieving management objectives of ensuring as far

as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of accounting records and the timely preparation of reliable financial information". It is therefore worth noting from the above that; properly instituted systems of internal control will ensure; completeness of all transactions undertaken by an entity, that the entity's assets are safeguarded from theft and misuse, that transactions in the financial statements are stated at the appropriate amounts, that all assets in the company's financial statements do exist, that all the assets presented in the company's financial statements are recoverable and that the entity's transactions are presented in the appropriate manner according to the applicable reporting framework (ACCA- Audit and Assurance Services) Internal control is the term generally used to describe how management assures that an organization does meet its financial and other objectives. Internal control systems not only contribute to managerial effectiveness but are also important duties of corporate boards of directors. (Verschoor; 1999).

Hitt, Hoskisson, Johnson, and Moesel (1996) argued that there are two types of major internal controls associated with the management of large firms, particularly diversified firms, which have an important effect on firm innovation, these are; strategic controls and financial controls. Strategic controls entail the use of long-term and strategically relevant criteria for the evaluation of business-level managers' actions and performance. Strategic controls emphasize largely subjective and sometimes intuitive criteria for evaluation (Gupta, 1987). The use of strategic controls requires that corporate managers have a deep understanding of business-level operations and markets. Such controls also require a rich information exchange between corporate and divisional managers (Hoskisson, Hitt, & Ireland, 1994).

(Pandy, 2005) On the other hand states that, financial controls entail objective criteria such as return on investment (ROI) in the evaluation of business-level managers' performance. Thus, top-level managers establish financial targets for each business and measure the business-level managers' performance against those targets. Such an approach can be problematic

when the degree of interdependence among business units is high. Thus, emphasis on financial controls requires each division's performance to be largely independent. As a firm grows especially through acquisition, it also grows in complexity and the number of units that corporate executives must oversee and manage (thereby increasing their spans of control). Clearly, each acquisition increases corporate managers' need for information processing, sometimes dramatically so. These changes make it difficult for corporate managers to use strategic controls. To reduce information-processing demands, they may change their emphasis from strategic to financial controls.

According to (Michael A. Hitt, et al) the three major categories of management objectives comprise; effective operations, financial reporting and compliance (Hayes et al., 2005). Effective operations are about safeguarding the assets of the organization. The physical assets like cash, non physical assets like receivables, important documents and records of the company can be stolen, misused or accidentally destroyed unless they are protected by adequate controls. The goal of financial control requires accurate information for internal decision because management has a legal and professional responsibility to ensure that information is prepared fairly in accordance with applicable accounting standards. Organizations are equally required to comply with many laws and regulations including company laws, tax laws and environment protection laws.

The authoritative 1994 Principles of Corporate Governance of the American Law Institute recommends that “every large publicly held corporation should have an audit committee that would review on a periodic basis . . . the corporation’s internal controls . . .” According to Verschoor, (1999), approximately three-quarters of the 500 largest publicly held U.S. corporations voluntarily make a public assertion of management’s responsibilities for properly reporting financial results and also maintaining an effective system of internal control.

These management statements on internal control are contained in the company’s annual report to shareholders. He asserts that; virtually all of these companies report using the same strategies to execute management’s internal control responsibilities. These include references

to segregation of functions, programs of selection and training of personnel, the results of an internal auditing function, oversight from the audit committee of the board of directors, and the work of the company's external auditors. Verschoor believes that management declarations about internal controls represent a management commitment and are not just a promotional statement.

2.2.2 Internal Control Systems (ICS)

Internal control is a process, effected by an entity's board of directors (Council), management and other personnel, designed to provide reasonable assurance regarding the achievement of LG objectives in the effectiveness and efficiency of operations, reliability of financial and management reporting, compliance with applicable laws and regulations and protect the organization's reputation (Kaplan, 2008; Cunningham, 2004; INTOSAI, 2004; Committee of Sponsoring Organizations (COSO), 1992; Auditing Practices Board (APB), 1999).

According to Cunningham (2004), Internal Control Systems begin as internal processes with the positive goal of helping a corporation meet its set objectives. Management primarily provides oversight activity; it sets the entity's objectives and has overall responsibility over the ICS. Internal controls are an integral part of any organization's financial and business policies and procedures (Kaplan, 2008; Cunningham, 2004; INTOSAI, 2004). Internal controls consist of all the measures taken by the organization for the purpose of; protecting its resources against waste, fraud and inefficiency; ensuring accuracy and reliability of accounting and operating data; ensuring compliance with the policies of the organization; evaluating the level of performance in all organizational units of the organization, (Kaplan, 2008; Cunningham, 2004; INTOSAI, 2004).

ICS are applicable to each organization in relation to key risks and are embedded within the operations and not treated as a separate exercise. ICS should be able to respond to changing risks within and outside the company and they are a means to an end, not an end itself, (Cunningham, 2004). He further states that Internal controls are effected by people not merely policy manuals and forms, but people functioning at every level of the institution. Internal control only provides reasonable assurance to an institution's leaders regarding

achievement of operational, financial reporting and compliance objectives; promoting orderly, economical, efficient and effective operations; safeguarding resources against loss due to waste, abuse, mismanagement, errors and fraud, (Kaplan, 2008; Cunningham, 2004; INTOSAI, 2004). Internal controls lead to the promotion of adherence to laws, regulations, contracts and management directives and the development and maintenance of reliable financial and management data, and accurately present that data in timely reports, (Kaplan, 2008; Cunningham, 2004; INTOSAI, 2004). According to the Combined Code on Corporate Governance, (2005); Council should identify and manage all risks within the LG and should maintain a sound system of ICs to safeguard stakeholders' interests and the council assets.

According to Treba (2003), a system of internal control is a tool for ensuring that an organization realizes its mission and objectives. He further notes that much as internal controls are often thought to be the domain of accountants and auditors; it is actually management that has primary responsibility for proper controls. A critical element of any comprehensive Internal Control Systems is regular monitoring of the effectiveness of internal controls to determine whether they are well designed and functioning properly.

Treba (2003). Noted that weaknesses in internal control systems (control over the payroll, over expenditure commitments and over procurement processes) lead to failure to ensure that resources are allocated to defined priorities and to guarantee that there is value for money will be attained in public spending. ICS in organizations consist of five interrelated components; control environment, control activities, risk assessment, information and communication and monitoring (INTOSAI 2004). However, the COSO Framework of Internal Control recommends the ICS to comprise two substantive components; control environment and control activities. LGs should have well-designed ICS that can give reasonable assurance that irregularities can be detected, (Schaeffer, 2005).

Internal control is not one event or circumstance, but a series of actions that permeate an entity's activities and these actions occur throughout an entity's operations on an ongoing basis (INTOSAI, 2004). INTOSAI observes that an ICS is intertwined within an entity's

activities and is most effective when it is built into the entity's infrastructure and is an integral part of the LG system. INTOSAI further holds that public servants should serve the public interest with fairness and manage public resources

2.2.1.1 Control Environment

Whittington and Pany (2001) note that the control environment sets the tone of the organization by influencing the control consciousness of people. They further assert that control environment is viewed as the foundation for all the other components of internal control. Control environment factors include; integrity and ethical values of personnel responsible for creating, administering, and monitoring the controls, commitment and competence of persons performing assigned duties, board of directors or audit committees (especially the extent of their independence from management, experience & stature), management philosophy and operating style (in terms of their aggressiveness or conservativeness which may determine the level of risk they may take on), and Organizational structure (which may be a well organized structure that provides for proper planning, directing and controlling operations or a disorganized structure that may only serve to confuse the key players by creating unclear roles).

Control environment has several factors, however, for purposes of this research, the review will focus on Management philosophy and operating style, the integrity and ethical values of personnel that create and administer controls, and audit committees and board of directors. For purposes of the study, board of directors will be represented by the Governing council and the various committees of Council.

Whittington and Panny(2005), also believe that these factors set a basis upon which the other internal control components can be built. They also provide a framework within which the other components operate. However, these assertions have not always held true, since management in organizations has always overridden these controls, the lack of mentoring has always led to collapse of controls. The independence of audit committee has largely been theoretical in most organizations. Boards of directors have on several occasions had very

little time for company affairs, implying that their supervisory role has always been wanting. It is equally worth noting that most of the board members' selection is largely political and a reflection of the political allegiance. They most of the cases lack the experience and exposure to determine the strategic direction of the organization. Board of directors, ought to supervise the management of an entity, but it has always turned out that Board members merely implement recommendations of the management committee of an institution. The audit committee, as a subcommittee of the board of directors, plays a role in protecting the owners' interests by monitoring management's actions, in terms of financial reporting, risk management and internal control. On the other hand, an active audit committee could consider the internal audit function as a necessary source of information to execute its monitoring responsibilities (Hayes et al., 2001), thus the audit committee may push for better staffed internal audit functions.

According to Pannidy (2005) was among the first to demonstrate the importance of the control environment in explaining the existence of an internal audit function. More recently, provided evidence that the existence of an internal audit function is related to the level of commitment to risk management. Recent case studies on internal auditing in Belgium illustrate the importance of the control environment when studying internal auditing practices.

Bonsu, (1997) found that certain control environment characteristics (e.g., tone-at-the-top, level of risk and control awareness, extent to which responsibilities related to risk management and internal controls are clearly defined and communicated) are significantly related to the role of the internal audit function within an organization. The tone-at-the-top refers to a company's ethical values, management's philosophy and operating style (Cohen et al., 2002) which are reflected by the company's code of conduct or code of ethics.

Based on VanHorne (1994) we assume that when the company pursues integrity and clear ethical values reflected in a formal code of conduct/ethics, the internal audit function will take on greater importance. This is because the internal audit function is often seen as a way of translating and communicating the tone-at-the-top throughout the company. Therefore,

management is more likely to invest in a relatively larger internal audit function. The American Bar Association (ABA) directors' guidebook states that "an important aspect of the board's responsibility, often referred to the audit committee, is oversight of the corporation's policies and procedures regarding compliance with law and significant corporate policies."

Internal control systems not only contribute to managerial effectiveness but are also important duties of corporate boards of directors. Accounting literature likewise emphasizes the importance of an organization's integrity and ethical values in maintaining an effective control system (Verschoor, 1999).

A focus on integrity and ethical values was the principal contribution of Internal Control—Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission to trigger independence of auditors, the American Institute of Certified Public Accountants (AICPA) Auditing Standards Board issued Statement on Auditing Standards (SAS) No. 78. This statement requires auditors to perform procedures on every audit to enable them to understand their client's control environment including integrity and ethical values. In other words, auditors are specifically required to determine whether their clients' ethical controls are operating. SAS No. 78 points out that ethical values and other elements of the control environment permeate the culture of an organization and affect the strength of all other controls. (Verschoor, 1999).

2.2.1.2 Internal Audit and Financial performance.

Whittington & Pany (2001) suggest that internal auditing is performed as part of the monitoring activity of an organization. It involves investigating and appraising internal controls and the efficiency with which the various units of the organization are performing their assigned functions. An Internal Auditor is normally interested in determining whether a department has a clear understanding of its assignment, is adequately staffed, maintains good records, properly safeguarding cash, inventory & other assets and cooperates harmoniously with other departments. The internal auditor normally reports to the top management.

Gupta (2001) on the other hand asserts that “Internal audit is an independent appraisal function established within an Organization to examine and evaluate its activities as a service to the organization”. The objective of internal audit is to assist members of the organization in the effective discharge of their responsibilities. According to Gupta “the scope of internal audit is determined by management”. This may however, impair the internal auditor’s objectivity and hampers his independence, it is quite hard to report negatively on someone who determines the scope your work. Although at a Seminar organized by the Institute of Certified Public Accountants of Ethiopia annual bulletin, 2009 in his presentation “The role of Internal Audit function in Organizations”, states that “Independence is established by organizational and reporting structure” and that “Objectivity is achieved by an appropriate mindset”.

Annual bulletin, 2009 also defines “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes”. He further mentions the principles of Internal audit to include; Integrity, Objectivity, Confidentiality and Competency. However, given that Internal Auditors are appointed by management, report to management, and are employees of an organizations, their objectivity is usually highly compromised. In accordance to Institute of Internal Auditors, independence is applicable to all categories of auditors. This means the opportunity granted to the auditors to report directly to the top authority.

Woolf (1986), says, although an internal auditor is an employee of the enterprise and cannot therefore be independent of it, he should be able to plan and carryout his work as he wishes and have access to the highest level of management. However, effective internal audit should be carried out by an independent personnel though they are employees appointed by management, for them to work efficiently, they should have scope to arrange priorities and activities have un restricted access to records, assets and personnel, Internal Auditing is the review of operations and records sometimes undertaken within the business by especially assigned staff. It’s also an independent appraisal function established within an organization

to examine and evaluate the effectiveness, efficiency and economy of managements control system. Its objective is to provide management with re-assurance that their internal control systems are adequate for the need of the organization and are operating satisfactorily (Reid & Ashelby, 2002).

It is a component of the internal control system set-up by management of an enterprise to examine, evaluate and report operations of accounting and other controls. The quality and effectiveness of internal audit procedures in practice are necessary since internal auditors cover a wide variety of assignments, not all of which will relate to accounting areas in which the external auditor is interested. For example, it's common these days for internal audit to undertake the extensive and continuous task of setting management goals and monitoring its performance (Woolf, 1996).

The effectiveness of internal audit function partly depends on; legal and regulatory framework, placement of the function and its independence, existence of audit committees, resources allocated to the function and professionalism of internal audit staff'. It is however a bitter reality that internal audit departments are rarely adequately facilitated. Regarding the size and facilitation of the Internal Audit Function. Gerrit and Mohammad (2010), found evidence in support of the monitoring role of the Internal Audit Function. They specifically, found evidence that management ownership is positively related to the relative size of the Internal Audit Function, which is inconsistent with traditional agency theory arguments that predict a negative relationship, but more in line with recent studies on earnings management. This finding suggests that increased management ownership may influence the board of directors to support larger Internal Audit Functions to allow them to closely monitor managers' performance. It is also plausible that management with higher share ownership is motivated to invest in larger Internal Audit Function for better monitoring of earnings and for signaling to the board of directors that, despite their high stake in earnings, they are convinced that appropriate use of resources has to be assessed on a regular basis.

Gerrit and Mohammad also believe that the proportion of independent board members to have a negative effect on Internal Audit Function size. This finding may indicate a substitution effect, which means that independent board members may be considered as an alternative monitoring mechanism to the Internal Audit Function. They further assert that the control environment has a significant effect on the relative size of the Internal Audit Function. Specifically, a supportive control environment characterized by formalized integrity and clear ethical values, a high level of risk and control awareness, the perception that risk management is important and the fact that responsibilities with respect to risk management and internal control are clearly defined is associated with a relatively larger Internal Audit Function. Using a US sample, (Verschoor, 1999).found that companies with internal audit departments are observed to be significantly larger, more highly regulated, more competitive, more profitable, more liquid, more conservative in their accounting policies, more competent in their management and accounting personnel, and subject to better management controls.

Verschoor, 1999. found that agency variables do not explain the voluntary use of internal audit by Australian family firms. More recently, a study suggest that when management is aware of risks and control activities, they are more likely to understand the role of the Internal Audit Function in monitoring risk and control activities, thus it is more likely that they will support a relatively larger Internal Audit Function. Bonsu, (1998).holds that there must be a strong internal control system and the internal auditor must verify the operations of the system in much the same way, as the external auditor. It involves the investigation, recording, identification and review of compliance tests of control, they also argued that effective internal audit procedures provide sufficient relevant and reliable evidence in order to detect and prevent fraud. considers auditing procedures in one company and describes steps taken in implementing a quality assurance system, she discusses the use of internal audits as an essential part of ISO 9000 certification process.

Boakye-Bonsu (1999) asserts that internal audit procedures are seen as ends in themselves rather than a means towards a specific objective, with such an approach our rambler would

undoubtedly get lost. Internal audit procedure is a form and content manual that includes audits notes and responsibilities, documentation standards, local reporting standards and targets, training requirements and expectations and performance measures and indicators. Effectiveness is the achievement of goals and objectives using factor measures provided for in determining such achievement. However, it has been traditional in internal auditing that determination of internal auditing effectiveness can be accomplished by evaluating the quality and effectiveness of internal auditing procedures that result in determination by the internal auditors of the character and the quality of effectiveness of the auditee's control operations and if the auditing procedures are effectively carried out, then the evaluative results are positive.

Maitin (1994) says efficiency and effectiveness of internal audit procedures is not a simple task, successful operation is governed by the extent to which the element of internal audit procedures receive attention which include; expertise, independence, objectivity and totality. Effectiveness of internal audit procedures is a measure of the ability of the programme to produce a desired effect or a result that can be qualitatively measured.

Scholars argue that, there should be effective internal audit procedures to ensure reliability of financial statements, operational reports, safeguarding corporate assets and effective organizational controls. Further supplements that perception and ownership, organization and governance framework, legislation, improved professionalism and resources were identified as functions in the public sector derived from the effectiveness of the internal audit procedures. How far internal audit procedures succeed in their effort of effectiveness is mainly judged by three factors that include; frequency of irregularities committed by the staff in the organization in form of errors or fraud, the promptness with which such irregularities are detected by the authorities and the planning which makes possible repetition of such irregularities in future more difficult (Reid & Ashelby, 2002).

The work of the internal auditor should appear to be properly planned, controlled, recorded and reviewed. Examples of the due professional care by the internal auditor are the existence

of an adequate audit manual, general internal audit plans, procedures for controlling individual assignments and satisfactory arrangements for reporting and following up.

2.2.1.3 Control Activities

Ray and Pany (2001) also mention Control activities as another component of Internal controls. They note that control activities are policies and procedures that help ensure that management directives are carried out. Controls activities in an organization basically comprise; performance reviews (comparing actual performance with budgets, forecasts and prior period performance), information processing (necessary to check accuracy, completeness and authorization of transactions), physical controls (necessary to provide security over both records and other assets), and segregation of duties (where no one person should handle all aspects of a transaction from the beginning to the end).

The last component of internal control according to Ray and Pany is monitoring. This is aimed at ensuring that the internal controls continue to operate as intended. This can be achieved through ongoing monitoring or separate evaluations. Separate evaluations are non routine monitoring activities such as period audits by the internal auditors.

2.3 Financial performance

According to Hayes et al, (2005), performance refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. In agreement with this, asserts that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. It is the measure of attainment achieved by an individual, team, organization or process. Hayes et al, 2005 believes that many firms' low performance is the result of poorly performing assets (businesses). Low performance from poorly performing assets is often related to strategic errors made in the acquisition process in earlier years. For example, some firms acquire businesses with unrealistic expectations of achieving synergy between the acquired assets and their current sets of assets. A common reason for such errors is managerial hubris or overvaluation of managerial capability in the acquisition process.

Measures of financial performance

According to Gupta, (2001). appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. Verschoor. (1999) contends that, performance is measured by either subjective or objective criteria, arguments for subjective measures include difficulties with collecting qualitative performance data from small firms and with reliability of such data arising from differences in accounting methods used by firms. Verschoor found out that, objective performance measures include indicators such as profit growth, revenue growth, return on capital employed. Financial consultants Stern Stewart & Co. created Market Value Added (MVA), a measure of the excess value a company has provided to its shareholders over the total amount of their investments. This ranking is based on eight more traditional aspects of financial performance including: total return for one and three years, sales growth for one and three years, profit growth for one and three years, net margin, and return on equity.

Verschoor however, mentions other financial measures to include value of long-term investment, financial soundness, and use of corporate assets. He also talks of non financial performances measures to include; innovation, ability to attract, develop, and keep talented people, quality of management, quality of products or services, and community and environmental responsibility. Hitt, et al., (1996) mention accounting- based performance using three indicators: return on assets, return on equity, and return on sales. Each measure was calculated by dividing net income by total assets, total common equity, and total net sales, respectively.

Survival

According to Hitt, et al., (1996), strong performer firms are those that can stay in business for a good number of years. Also Hitt, found out that, the ability of a firm to survive in business is an indicator of good financial performance. John J. Morris (2011), found out that, 38 active British businesses went into liquidation in the third quarter of 1992 and in 1991 a total of 21,827 businesses failed compared to 15,051 in 1990. However in Ethiopia, about

90% of Ethiopian SMEs collapse within 3 years IMF report (2005). This is therefore an indicator of poor financial performance.

2.3.1 Liquidity

Hayes et al, (2005) mention current ratio (current assets/current liabilities) as a standard measure of liquidity in organisations. Baysinger, (1989) also emphasized the importance of current ratio as a measure of an organisation's liquidity. Other measures of Liquidity according to ACCA and Panday (1996) are; Acid test ratio (i.e. Current Assets less Inventory/Current Liabilities).

2.3.2 Accountability

According to Hayes, et al., (2005), Managers need regular financial reports so as to make informed decisions. Reporting (particularly financial reports) is one way through which managers make accountability for the resources entrusted to them. Emasu (2010) asserts that Accountability can be political, social or financial accountability.

2.3.3 Reporting

Whittington & Pany (2001), talk about the comprehensiveness of internal controls in addressing the achievement of objectives in the areas of financial reporting, operations and compliance with laws and regulations. They further note that "Internal control also includes the program for preparing, verifying and distributing to the various levels of management those current reports and analyses that enable executives to maintain control over the variety of activities and functions that are performed in a large organization" They mention internal control devices to include; use of budgetary techniques, production standards, inspection laboratories, employee training and time & motion studies among others.

According John J. Morris (2011), corporate law requires a divorce between ownership and management of an entity. Owners normally entrust their resources in the hands of managers. Managers are required to use the resources entrusted to them in the furtherance of the entity's objectives. Managers normally report to the owners on the results of their stewardship for the

resources entrusted to them through a medium called financial statements. It is these financial statements that reveal the financial performance of an entity. John J. Morris (2011) believes that Enterprise Resource Planning systems provide a mechanism to deliver fast, accurate financial reporting with built-in controls that are designed to ensure the accuracy and reliability of the financial information being reported to shareholders

CHAPTER THREE

DATA PERESENTATION ANALYASIS AND INTERPRITATION

This chapter presents empirical findings in reference to the research questions in chapter one. These findings were obtained from both primary and secondary sources. They were presented and analyzed using frequency tables and a percentage was used to assess the internal control system of Awash Tannery.

3.1. General Information

In this part of the questionnaire the demographic information of the participant employees of understudy, is presented for analysis. The analysis tries to provide information related to sex, age, educational background and years of service of respondent employees.

Table 1 Sex of Respondents

Item	Options	Respondent	
		No.	%
Sex	Male	21	70
	Female	9	30
	Total	30	100

From table 1, item 1 indicates sex of respondents. Regarding respondents sex 21 (70%) were males while 9 (30%) were females. This shows that Awash Tannery has more males than females in the bank. That seems there is unequal sex composition in Awash Tannery S.C.

Table 2 Ages of Respondents

Item	Options	Respondent	
		No.	%
Age	20-30	18	60
	31-40	10	33.3
	41-50	1	3.3
	Above 50	1	3.3
	Total	30	100

From table 1, item 2 indicates age of respondents. Regarding respondents age 18 (60%) were between 18 -30, 10 (33.3%) were between 31- 40, 1 (3.3%) were between 41-50 and also 1 (3.3%) were above 50 years. This implies that most of the employees of Awash Tannery are young. Also the data we gathered is fair representation of the population as almost all classes were represented and the data provided reflected the views of the entire population.

Table 3 Education Levels of Respondents

Item	Options	Respondent	
		No.	%
Level of education	Certificate	0	0
	Diploma	6	20
	1 st Degree	20	66.7
	2 nd Degree & above	4	13.3
	Total	30	100

From table 1, item 3 indicates level of education of respondents. Regarding respondents level of education 20 (66.7%) was registered on 1st Degree level, 6 (20%) was registered on Diploma level, and 4 (13.3%) was registered on 2nd Degree and above level with no response on certificate level. This implies that the majority of Awash Tannery workers are bachelor degree holders who have the potential to put in to practices what they get from policy document and the training.

Table 4 Experience of Respondents

Item	Options	Respondent	
		No.	%
Experience	Less than 2 year	8	26.7
	2-5	8	26.7
	Above 5year	14	46.7
	Total	30	100

From table 1, item 4 indicates length of service of respondents. Regarding respondents length of service 14 (46.7%) of the respondents had served in Awash Tannery for a period of above 5

year years, 8 (26.7%) for a period of 2-5 years, 8 (26.7%) for a period of below 2 years. This implies that almost all respondents had taken reasonably enough experience in credit policy and working culture of the bank.

3.2 Findings on the internal control system of Awash Tannery

The answers to the research objective, questionnaires on performance appraisal practice were addressed by the major parts of the analysis which is research specific questions were the questionnaire and the questions are designed to be filled by the respondents.

Table 5 Internal Control System of Awash Tannery

Item	Options	Respondent	
		No.	%
Do you agree that Awash Tannery have strong internal control system?	Yes	16	53.3
	Not Sure	4	13.3
	No	10	33.3
	Total	30	100

From table 2, item 1 indicates weather Awash Tannery have strong internal control system or not, regarding respondents 16 (53.3%) of the respondent agreed that Awash Tannery have strong internal control system, 4 (13.3%) neutral, and 10 (33.3%) do not agree. while this implies that Awash Tannery have strong internal control system. That is clear for understanding and implementation.

Table 6 Independency of Internal Audit

Item	Options	Respondent	
		No.	%
Do you think internal auditors of Awash Tannery are independent?	Yes	3	10
	Not Sure	18	60
	No	9	30
	Total	30	100

From table 2, item 2 indicates, weather Awash Tannery internal auditors are independent or not, regarding respondents 3 (10%) agreed that Awash Tannery internal auditors are independent 18 (60%) were neutral and 9 (30%) do not agree. This implies that Awash Tannery internal auditors are not independent in physical and in appearance.

Table 7 Awash Tannery Internal Control System

Item	Options	Respondent	
		No.	%
Do you agree that the internal control system of Awash Tannery provides tool for evaluating the control structure and general compliance?	Yes	9	30
	Not Sure	8	26.7
	No	13	43.3
	Total	30	100

From table 2, item 3 indicates, Awash Tannery internal control system provides tool for evaluating the control structure and general compliance. Regarding respondents 9 (30%) agreed that internal control system provides tool for evaluating the control structure and general compliance, 8 (26.7%) neutral, 13 (43.3%) do not agree. This reveals that Awash Tannery internal control system do not provides tool for evaluating the control structure and general compliance.

Table 8 Reliability Fair and Sensitivity of the Internal Control System

Item	Options	Respondent	
		No.	%
Is the internal control system are reliable fair and sensitive?	Yes	5	16.7
	Not Sure	10	33.3
	No	15	50
	Total	30	100

From table 2, item 4 indicates, weather Awash Tannery internal control system are reliable fair and sensitive Regarding respondents 5 (16.7%) agreed that internal control system are reliable fair and sensitive, 10 (33.3%) neutral,15 (50%) do not agree. This implies that Awash Tannery internal control systems are not reliable, fair and sensitive.

Table 9 Periodic Risk Assessment

Item	Options	Respondent	
		No.	%
Do you think risk assessment is periodically conducted and documented?	Yes	30	100
	Not Sure	0	0
	No	0	0
	Total	30	100

From table 2, item 5 indicates, weather risk assessment is periodically conducted and documented, regarding respondents 30 (100%) says that risk assessment is not periodically conducted and documented; This implies that the annual audit plan is not based on the major risk of the company.

Table 10 Clarity of the Control System

Item	Options	Respondent	
		No.	%
Do you think Awash Tannery internal control system processes are clear for understanding and implementation?	Yes	7	23.3
	Not Sure	6	20
	No	17	56.7
	Total	30	100

From table 2, item 6 indicates, Awash Tannery internal control system processes are clear for understanding and implementation Regarding respondents 7 (23.3%) agreed that Awash Tannery internal control system processes are clear for understanding and implementation, 6 (20%) neutral, 17 (56.7%) do not agree. This means that Awash Tannery internal control system processes are not clear for understanding and implementation.

Table 12 Segregation of Duties

Item	Options	Respondent	
		No.	%
Do you think Authorization, processing, cheque signing and accounting functions are clearly segregated in Awash Tannery?	Yes	25	83.3
	Not Sure	0	0
	No	5	16.7
	Total	30	100

From table 2, item 7 indicates that Authorization, processing, cheque signing and accounting functions are clearly segregated in Awash Tannery Regarding respondents 25 (83.3%) agreed Authorization, processing, cheque signing and accounting functions are clearly segregated in Awash Tannery' 5 (16.7%) were do not agree. This shows that there is strong internal control over cash.

Table 12 Involvements of Audit Staffs

Item	Options	Respondent	
		No.	%
Do you think Involvement of the Internal Audit staff during implementation reduces the occurrence of risk?	Yes	9	30
	Not Sure	8	26.7
	No	13	43.3
	Total	30	100

From table 2, item 8 indicates, Awash Tannery Internal Audit staff Involvement during implementation reduces the occurrence of risk. Regarding respondents 9 (30%) agreed that Internal Audit staff Involvement during implementation reduces the occurrence of risk 8(26.7%) neutral, 13 (43.3%) do not agree. This reveals that Awash Tannery internal audit conduct post audit.

Table 13 Intact Deposits

Item	Options	Respondent	
		No.	%
Cash receipts are directly transferred to Awash Tannery account intact.	Yes	5	16.7
	Not Sure	10	33.3
	No	15	50
	Total	30	100

From table 2, item 9 indicates, whether Cash receipts are directly transferred to Awash Tannery account intact, Regarding respondents 5 (16.7%) agreed that Cash receipts are intact daily, 10 (33.3%) neutral, 15 (50%) do not agree. This implies that Awash Tannery cash management systems are not reliable,

Table 14 Organizational Structures

Item	Options	Respondent	
		No.	%
Do you think Awash Tannery has a clear organizational structure?	Yes	28	93.33
	Not Sure	0	0
	No response	2	6.67
	Total	30	100

From table 2, item 10 indicates, whether risk assessment is periodically conducted and documented, regarding respondents 28(93.33%) says that Awash Tannery has a clear organizational structure; This implies that work flow is clearly known.

Table 15 Documentation of Guidelines

Item	Options	Respondent	
		No.	%
Do you think the policies, procedures and guidelines are documented?	Yes	7	23.3
	Not Sure	6	20
	No	17	56.7
	Total	30	100

From table 2, item 11 indicates, Awash Tannery regarding respondents 7 (23.3%) agreed that the policies, procedures and guidelines are documented 6 (20%) neutral, 17 (56.7%) do not agree. This means that Awash Tannery weak in documenting the policies, procedures and guideline.

For the open-ended question that 23(%) says that they do not know the interval the risk assessment activity is conducted. the rest 7 do not give any response. 12(%) says the management is responsible for setting the internal control system in Awash Tannery 18(%) says internal audit have the responsibility. 30 (100%) says they do not know any technique which is implemented to measure the reliability, fairness and sensitivity of the control system. In finance area and human resource area the control system are weak

The finance head the human resource heads of Awash Tannery says the major Problems in executing the internal control system are: employee less understanding on internal control system and the control environment, but majority of the employees says weak management and existence of weak audit department are the major problems in Awash Tannery in implementing the internal control system. The employee says that The internal control system is implemented by the will and consensus of the management, but the management order the audit department to make a risk assessment study then the audit team identify the major risk areas then the management prepare a draft control system and consult the audit team then based on the audit recommendation the management make some adjustment and the launch implementation. There is no stated time interval to review the control system. But the management members and the employees agree that the internal control system is clear for understanding and implementations.

CHAPTER FOUR

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

4.1. Summary

Our research paper entitled “Assessment of Awash Tannery Internal Control System” raise basic questions related to internal control system implementation practice and the major problems in executing the control system. To find an answer for the basic questions the student researcher disburse thirty questionnaires to Awash Tannery. The entire questionnaire are filled and returned back. In addition to this interview was conduct with the finance department head. The major findings and their implication cited in chapter three. This chapter is summarize the findings and contains recommendations and conclusions according to the objectives of the study

According to the analysis made in chapter three the major findings of the study are the following:

- respondent agreed that Awash Tannery have strong internal control system,
- Majority of the respondents do not agreed that Awash Tannery internal auditors
- Majority do not agreed that internal control system provides tool for evaluating the control structure and general compliance.
- Majority do not agreed that internal control system are reliable fair and sensitive
- 30 (100%) of the respondent says that risk assessment is not periodically conducted and documented;
- Majority agreed that Awash Tannery internal control system processes are not clear for understanding and implementation.
- Majority of the respondents agreed that Authorization, processing, cheque signing and accounting functions are clearly segregated in Awash Tannery’
- Majority do not agreed that Internal Audit staff Involvement during implementation reduces the occurrence of risk
- Majority do says Cash receipts are intact daily,
- Awash Tannery has a clear organizational structure

- Majority agreed that the policies, procedures and guidelines are not documented

4.2. Conclusions

Based on the summary of the findings the following conclusions are driven:

- Awash Tannery have strong internal control system and clear organizational structure. Authorization, processing, cheque signing and accounting functions are clearly segregated. Internal control system provides tool for evaluating the control structure and general compliance. The major Problems in executing the internal control system are: employee less understanding on internal control system and the control environment, unorganized documentation of policies, procedures and guidelines, weak management and existence of weak audit department are the major problems in Awash Tannery in implementing the internal control system. This shows that awash tannery have internal control system implementation problems.
- There is no clear and well communicated mechanism that Awash Tannery test reliability, fairness and sensitivity of internal control system.
- Audit department team identify the major risk areas then the management prepare a draft control system and consult the audit team then based on the audit recommendation the management make some adjustment and the launch implementation. But this process is not effected the daily Cash receipts are not intact daily. Which indicates that there is implementation problem in the control system
- In Awash Tannery risk assessment is not periodically conducted and documented, also there is no sated time interval to review the control system. These results the control system is not up-to-date.
- Awash Tannery internal control system processes are not clear for understanding and implementation.

4.3. Recommendations

From summary of the finding and conclusions, the student researcher forwarded the following recommendations:

- The Management of Awash Tannery should establish strong responsible internal audit department with duties to build the management and employee awareness about the control system, and develop a well organized procedural guideline.
- The Management of Awash Tannery should set a clear mechanism which insures reliability, fairness and sensitivity of the internal control system.
- The management should set the time interval that risk assessment is conducted. Also to minimize the implementation problem internal audit department should plan and conduct periodic follow up system.
- The management should review the current internal control system.
- The Management of Awash Tannery should assign strong independent external body to examine the clarity of the internal control system.

BIBLIOGRAPHY

- Boakye-Bonsu, V. (1997). **Developing internal Audit Approach**, Vol. 5, No. 6, India: Vikas Publishing House Pvt Ltd.New.
- Cunningham, L. A. (2004). **The Appeal and Limits of Internal Controls to Fight Fraud, Terrorism**, Uganda: Fountain Publishers.
- Curtis C. Verschoor. (1999) **Corporate Performance is Closely Linked to a Strong Ethical Commitment**: India. Fountain Publishers
- Gerrit Sarens and Mohammad J. (2010). **Monitoring Effects of the Internal**. India: Blackwell Publishing Ltd.
- Gupta .M. (2001). **The Complete Text of Professional Accountant**. UK: Kaplan Publishing
- John J. Morris .2011). **The Impact of Enterprise Resource Planning (ERP) Systems on the Effectiveness of Internal Controls over Financial Reporting**. India: Fountain Publishers.
- Michael A. Hitt, Robert E. Hoskisson, Richard A. (1996). **TheMarket for Corporate Control and Firm Innovation**. India: Vikas Publishing House Pvt Ltd.New.
- M. Pandey (1996). **Financial Management**. (7th Edition). India: Vikas Publishing House Pvt Ltd.New.
- Maitin, T.P. (1994). **Audit Management** (1st ed.). India: South Asia Publication.
- Ray Whittington & Kurt Pany (2001). **Principles of Auditing and Other Assurance Services**. New York: McGraw- Hill.
- Reid, K. & Ashelby, D. (2002). **The Swansea Internal Quality Audit Processes Quality Assurance in Education**. (6th ed.). India: Vikas Publishing House Pvt Ltd.New.
- Rick Hayes et al. (2005). **Principles of Auditing**. India: Pearson Education Limited.
- Treba L. M. (2003). **Evaluating internal controls: control self-assessment in government**. Uganda: Fountain Publishers.
- VanHorne, James (1994). **Financial Management and Policy** (12th edition) India: Prentice Hall Private Ltd.
- Woolf, E. (1992). **Auditing Today**. (3rd ed.). UK: Prentice Hall International Ltd.
- Awash Tannery. (2001). **Annual bulletin, volume III**.

St. Mary's University

Faculty of Business

Department of Accounting

**Questionnaire for Awash Tannery Employee
on internal control system**

This questionnaire prepared by under graduate students in order to collect data for the research entitled internal control system case study on Awash Tannery to be prepared for partial fulfillment of B.A Degree in Accounting. All information you give is invaluable only for the academic purpose and kept confidential. The validity of your response will highly contribute for the success of this research paper. We would like to ask with due respect for you to give your genuine response.

Thank you in advance for your cooperation

Basic rules

- *Writing your name is not needed*
- *Put the liker scale(√) in your appropriate response*
- *If you have additional idea to add please do not hesitate*

I. Personal information

Sex: Male Female

Age: 18-30 years 31-40 years 41-50 years Above 50 years

Level of education: Certificate Diploma 1st degree 2nd degree & above

Length of service: Below 2years 2-5 years Above 5 years

II. Specific information

1 Do you agree that Awash Tannery have strong internal control system?

Yes Not Sure No

2 Do you think internal auditors of Awash Tannery are independent?

Yes Not Sure No

3 Do you agree that the internal control system of Awash Tannery provides tool for evaluating the control structure and general compliance?

Yes Not Sure No

4 Do you think risk assessment is periodically conducted and documented?

Yes Not Sure No

5 At what interval the assessment is conducted?

6 Who is responsible for setting the internal control system in Awash Tannery?

7 Is the internal control system are reliable fair and sensitive?

Yes Not Sure No

8 What technique is implemented to masseur the reliablelity, fairness and sensitivity? -----

9 Do you think Awash Tannery internal control system processes are clear for understanding and implementation?

Yes Not Sure No

10 Do you think Authorization, processing, cheque signing and accounting functions are clearly segregated in Awash Tannery?

Yes Not Sure No

11 In which area do you think the control system is weak?
Finance General Service transport human resource audit any other
specify

12 What are The Problems in executing the internal control system

13 Do you think the internal control system processes are clear for understanding and implementation?

Yes Not Sure No

14 How the internal control system implemented?

15 Do you think the internal control system processes are clear for understanding and implementation?

Yes Not Sure No

16 How often internal control system does reviewed?

17 Do you think Involvement of the Internal Audit staff during implementation reduces the occurrence of risk?

Yes Not Sure No

18 Cash receipts are directly transferred to Awash Tannery account intact.

Yes Not Sure No

19 Do you think Awash Tannery has a clear organizational structure?

Yes Not Sure No

20 Do you think the policies, procedures and guidelines are documented?

Yes Not Sure No

St. Mary's University

Faculty of Business

Department of Accounting

Interview Questions

For Awash Tannery top Managers

On Internal control system

1. What are the Problems in executing the internal control system?
2. What are the techniques implemented by the company for measuring fairness of the internal control system?
3. How the internal control system implemented?
4. How often internal control system does reviewed?
5. How far the internal control system process is clear for understanding and implementation?

Declaration

The undersigned, declare that this senior essay is our original work, prepared under the guidance of Ato Ahmed Mohammed. All sources of materials used for the manuscript have been duly acknowledged.

Name: **Tinebeb Tesfaye**

Signature: _____

Name: **Amsale Mengistu**

Signature: _____

Name: **Hanna W/medhin**

Signature: _____

Place of Submissions: St. Mary's University

Faculty of Business

Department of Accounting

Addis Ababa

Date of Submission: _____

Submission Approval Sheet

This senior research paper has been submitted to the department of Accounting in partial fulfillment for the requirement of BA degree in Accounting with my approval as an advisor.

Name: Ato Ahmed Mohammed

Signature: _____

Date: _____