

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

**AN ASSESSMENT OF INTERNAL CONTROL OVER CASH
(IN THE CASE OF UNITED BANK S.C.)**

BY

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**JULY, 2014
SMU
ADDIS ABABA**

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**A SENIOR ESSAY SUBMITTED
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ACRONYMS

COSO - Committee of sponsoring organization

ATM - Automatic Teller Machine

BLMT - Broad band local money transfer

ICOC - Internal Control over cash

ICS -Internal Control system

UB- United Bank (S.C)

AIS - Accounting information system

DECLARATION

ADVISEE'S DECLARATION

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

Name: _____ Signature: _____

Place of Submission: St. Mary's University

Date of Submission: July, 2014

ADVISOR'S DECLARATION

This senior essay has been submitted for examination with my approval as the advisor.

Name: _____
Signature: _____
Date: _____

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Internal control is a process, effected by the entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.(O. Ray& Kurt Pany,2010:244)

We all are aware of reports and experiences involving theft and fraud. These occurrences affect us in several ways: we lock doors, chain bikes, review sales receipts, and acquire alarm systems. A company also takes actions to safeguard, control and manage what it owns. Experience tells us that small companies are most vulnerable, usually due to weak internal controls. It is management's responsibility to set up policies and procedures to safeguard a company's assets, especially cash. (Jhon, J. Wild; 2010:238)

As we know cash is the most important current asset for the operation of a business and it is the basic input needed to keeps the business running on continuous basis. Cash is the most liquid asset because it is the medium of exchange which a bank will accept for deposit and immediate credit to the depositor's account; cash include currency and other items that are payable on demand such as check, Money order, bank draft and certain saving accounts. Sometime near cash items, such as marketable security or bank time deposit, negotiable instrument (money order, certifies checks and bank draft), are also include in cash. The basic characteristic of near-cash asset is that they can readily be converted to cash.(Pandey; 1999:911)

The term cash control refers to planning, controlling and accounting for cash transactions and cash balances. To do these financial managers of company try to develop cash management strategies, their strategies aim at:-

- Cash is needed to meet Company's payment.
- Minimizing the amount of idle cash.

The above two goals are in constant conflict each other, reducing the level of cash in order to eliminate idle cash produce shortage in the amount of cash available to make payment. As result firms should optimize the two goals to obtainsustainable existence in business world. (C.Paramasivan; 2009: 173)

United Bank was established as a Share Company September 1998. Currently, the Bank has 95 branch offices and out of which 54 branch offices are located in Addis Ababa and the other 41 branches are in major towns of the country.(United Bank Manual; 2004:3)

Today, United Bank is a full service Bank that offers its customers a full range of Commercial Banking Services with a network that includes 95 branches (Ibid). Up on formation it declared to have an authorized share capital of 100m Birr of which 20,863,100 Birr was paid in cash. As a bank, United Bank Share Company has its own cash policies, procedure and strategies and it is incorporated in one book called Cash Operation Manual. (United Bank Manual; 2004:3)

All these policies, procedure and strategies are implemented on all branches of the bank including the head office. But in some area of the practical cash control system of the bank is far from the actual theoretical principles. This study is intended to assess internal control over cash in the case of United Bank S.C.

1.2 Statement of the problem

If internal control was well designed and appeared to be effective, the detailed checking task could be limited to making sure that the control was properly applied in practice. Assessing the design of internal controls & their implementation allowed the auditors to reduce the amount of detailed checks on transactions and account balances. (Emile Woof, 2011:174)

According to Emile Woof (2011:177) internal control failure occurs when internal controls do not work and do not prevent a loss or adverse event from happening. Although there are controls in place, they fail to prevent the loss that they were intended to prevent: there are two main reasons for failure: Weakness in the design of controls and also weakness in the application of controls. Internal control has been the most important issue for the company operation, especially in an environment like Ethiopia where the internal control cultures are not yet developed over cash.

Now days, in every business the issue of managing & safe guarding of the stakeholder investment is so problematic, at the job of our country banking industries, especially when we come to the United Bank S.C operation of cash counted (existed) many challenges. These studies try to address the problem:

- ✓ Identify the real practice of internal control over cash and
- ✓ Measure in the proper application of the given accounting principles in implementation of internal control over cash (ICOC), as well as to evaluate the understanding level of individual professionals who work in the area of cash.

Thus, by taking the above problems and facts into consideration this research paper will try to give some insight on the cause of the above mentioned problems and will recommend some possible solutions in order to solve (reduce) the problem.

1.3 Research Question

This study assesses and answers the following question related to the Internal Control over cash by raising the following research question.

- 1) What does internal control over cash look like in the bank?
- 2) What are the problems under the internal control over cash of the bank?
- 3) What does segregation of duties and responsibility look like in the bank?

1.4 Objective of the study

1.4.1 General objective

The main objective of this study was to assess internal control over cash in the case of United Bank S.C, particularly in Bole and Yoseph Branch including the main Head Office.

1.4.2 Specific objective

The specific objectives of the study were the following:

- To assess the performance of cash control system of the bank.
- To identify the problems of the company regarding to internal control system.
- To point out segregation of duties and responsibilities of the employees.
- To forward feasible recommendations.

1.5 Significant of the study

The researchers believe that the research paper will have its own contribution on the following points:-

- The research result will contribute to the company to solve problems in improving its internal control over cash.
- It will help other researchers to use as the base in conducting further research on this area.
- It will also be significant for the student research to implement and analyze theoretical application in real world.

1.6 Scope of the Study

The study was limited on the internal control over cash practices in United Bank S.C. The researcher has selected Bole, Yoseph Branch including main Head office-Finance and Account department. Therefore, the study was reviewed the past two years (From 2011 G.C to 2013 G.C).

1.7 Research Design and Methodologies

1.7.1 Research Design

In order to assess the internal control over cash of the company the researchers has applied descriptive research method. This is because it helps to describe the problem trends to internal control over cash practices of the company.

1.7.2 Population and Sampling Technique

The target population for this study was the employees of the selected branch and Head Office of United Bank S.C.

In order to gather appropriate information relevant to this study the student researchers determine its sample by considering the composition of staff delegation and segregation especially who has relation in the cash activity.

Thus, the research took its sample size from Bole, Yoseph Branch and Treasury Section at Head office-Finance and Account department (52 employees in number) and apply census method. This is because it provides many advantages among those; Selecting the whole population mean, biased at the time of selecting the sample fully avoided and also accuracy of the research increased.

1.7.3 Type of Data Collected

The researchers collected both primary data and secondary data. Primary data was obtained from managers and employees. Secondary data was obtained from the company cash operation manual, different books, which are related to internal control system and other reference materials.

1.7.4 Method of Data Collected

In order to obtain information which has qualitative and quantitative data gathering there are two instruments, questionnaires and interview. Hence, the researchers used questionnaire. It was distributed to the Managers and employees of the United Bank S.C.

1.7.5 Methods of Data Analysis

After collecting necessary information the researchers were used analysis by using tabulation, expressing the result through percentage.

1.8 Limitation of the Study

In conducting this study the student researcher experienced some limitations:

- Unwillingness of the concerned body to give the required data.
- Work load of the responsible body.

1.9 Organization of the Study

This study was categorized into four chapters. The first chapter is an introduction, which provides the overall information. The second chapter deals with literature review. Data presentation, analysis and interpretation were presented on chapter three. The last chapter, chapter four will provide summery, conclusion and recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Internal Control over Cash overview

2.1.1. Definition of Internal Control

Internal control is a process affected by an entity's board of directors, management, and others personnel that are designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations. (William F. Messier, Jr. 2000:187)

The definition embodies four key concepts. First, internal control is a process (not a single event) integrated with in (not added on to) another process: the process management uses to plan to execute transactions & events, and to monitor results. An auditor considers internal control in every financial statement audit, but the responsibility to establish & maintain control is management's, not the independent auditors. (David N. Ricchiute, 2001:270)

Second, internal control is accomplished by people at every level of the organization, including the board of directors, management, and staffs. As a result, the effectiveness of internal control can be diminished by the inherent limitations of people. For Example, even the most logically designed & carefully implemented internal controls may be under mined by employee errors, by management's intentional acts to circumvent the controls, by mistakes in judgment, and by misunderstandings. Third, rather than an end in itself, internal control is a means to achieving an entity's objectives. (David N. Ricchiute, 2001:270)

Fourth, internal controls can be expected to provide reasonable, but not absolute, assurance that objectives will be accomplished, since the benefits

expected from some controls (for example, reduced risk of employee petty theft) may not be worth the cost of implementation.(David N. Ricchiute, 2001:270)

Internal control as the process affected by an entity's board of directors, management, and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories.

- **Operations controls:-** relating to the effective and efficient use of the entity's resources;
- **Financial reporting controls:** relating to the preparation of reliable published financial statements; and
- **Compliance controls:-** relating to the entity's compliance with applicable laws and regulations.

This is a broad definition and pervades all activities of an organization. In as much as the auditor's primary concern is with those controls impacting the reliability of the published financial statements. Internal control provides reasonable assurance (not absolute assurance) as to the achievement of control objectives. (Larry F. Konrath;1999:204)

2.1.2. Objective of Internal Control

Internal control system objective is to provide reasonable assurance that the organizations objective will be achieved. The fundamental objectives of internal control are to safeguard the asset of the organization against losses and to avoid fraud, errors, waste and inefficiency. It helps the management or others in measuring the implementation of the organization policies, as well as ensuring maximum accuracy of all data and statement. (D.P.Jain, 1993: 106)

Internal controls aim to achieve the following objectives:

- 1) That all transactions are carried out with specific sanction and authorization of the management.

- 2) That the transactions are accounted in the related books of accounts, regularly, correctly and systematically according to the accounting policies and procedures.
- 3) That there is complete accountability for all assets.
- 4) That use and access towards assets are made only with proper authorization.
- 5) That there is periodical verification and comparison of assets in existence with accounting records and appropriate action is taken with regard to any difference.
- 6) That adequate accounting system appropriate to size and nature of business is in existence. (D.P.Jain, 1993: 106)

Specific internal control procedure could be designed to achieve the aforesaid activities. That could include:

- Checking the arithmetical accuracy of the records;
- Maintenance of reconciliation;
- Auditing of routines, control accounts & trial balances;
- Approval and control of documents;
- Comparing the results of cash, security and inventories with accounting records;

2.1.3. Importance of Internal Control

The reason a company establishes a system of control is to help achieve performance and profitability goals and prevent loss of resources by fraud and other means. Internal control can also help ensure reliable financial reporting and compliance with laws and regulations. The entity's internal control consists of many specific policies and procedure designed to prove management with reasonable assurance that the goals and objective it believe important to the company will be met. (Rick Hayes and Arnold schilder; 1999:196)

Internal control system means all the policy and procedures (internal control) adopted by the management of an entity to assist in achieving management's objective of its ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safe guarding of assets, the prevention of fraud and error, the completeness of accounting records and the timely preparation of reliable financial information. (Rick Hayes and Arnold schilder; 1999:196)

2.2 Components of Internal control

The effectiveness of an internal control system is measured by the effectiveness of its component which makes up the overall control system. Internal control has five components: control environment, risk assessment, control activities, information and communication, and monitoring. (Warren Reeve Fess, 2002:238)

A. Control Environment

The core of any business is its people their individual attributes, including integrity, ethical values and competence and the environment in which they operate , the control environment means the overall attitude, awareness and actions of directors and management regarding the internal control system and its importance in the entity. It is internal control system the foundation for all other components of internal control, providing discipline and structure.

B. Risk Assessment

Risk assessment, the second component of internal control, is management's process of identifying and analyzing the risk that might prevent the organization from achieving its objectives. Internal control that is effective under one set of conditions may be ineffective under another as part of its risk assessment; an organization need significantly affect the organizations ability to achieve its objectives. (Warren Reeve Fess, 2002:238)

C. Control Activities

The third internal control component, are the policies and procedures must be established and executed to help ensure that the actions identified by management as necessary to address risks to achievement of the entity's objectives are effectively carried out, sometimes referred to as control activities and procedures which management has established to achieve the entity's specific objectives. They include arrange of activities including apparatus, authorizations, verifications, reconciliations, reviews, checking arithmetical accuracy, and controlling application and environment of computer information systems. There are potentially many control activities but the generally fall in to five categories. (Bulverde E. Needles, Jr., Marian powers, 2001:294)

- ✓ Adequate separation of duties:-
- ✓ Proper authorization of transactions and activities.
- ✓ Adequate documents and records.
- ✓ Physical control of over assess and records and
- ✓ Independent checks on performance

D. Information and communication

Related to the accounting system established by management to identify, assemble, analyze, classify, record, and report accompany transaction. Management should established clear communication of individual responsibility in achievement these function.

E. Monitoring

It involved management regular assessment of the quality of internal control including periodic review of compliance with all policies and procedure. (Bulverde E. Needles, Jr., Marian powers, 2001:294).

2.3 Classification of Internal Control

The concepts of internal control and management control are broad in scope, aimed at describing entire control systems. The specific control procedures used in these systems may be classified using the following four internal control classifications. (Bulverde E. Needles, Jr., Marian powers, 2001:294)

A) Preventive, Detective and corrective

Preventive controls deter problems before they arise. Hiring highly qualified accounting personnel, appropriately segregating employee duties and effectively controlling physical access to assets, facilities, and information are effective preventive controls. Because not all control problems can be prevented, detective controls are needed to discover control problems as soon as they arise. Corrective controls remedy problems discovered with detective controls. They include procedures taken to:

- Identify the cause of a problem
- Correct resulting errors or difficulties, and
- Modify the system so that future problems are minimized or eliminated.

B) General and application

General Controls are designed to ensure that an organization's control environment is stable and well managed to enhance the effectiveness of application controls. Application controls are used to prevent, detect, and correct errors and irregularities in transactions as they are processed.

C) Administrative and accounting

Administrative controls help ensure operational efficiency and adherence to managerial policies. In contrast, accounting controls help safeguard assets and ensure the reliability of financial records. (Marshal B.Romney and J.steinbart; 2000:253)

2.4 Key Principles of Evaluating and Improving Internal Control

The principles below represent good practice for evaluating and improving internal control systems. These principles are not formulated to design and implement an internal control system, but to facilitate the evaluation and improvement of existing internal control systems by highlighting a number of areas where the practical application of such guidelines often fails in many organizations. (Marshal B.Romney and J.steinbart; 2000:253)

A. Supporting the Organization's Objectives

Internal control should be used to support the organization in achieving its objectives by managing its risks, while complying with rules, regulations, and organizational policies. The organization should therefore make internal control part of risk management and integrate both in its overall governance system.

B. Determining Roles and Responsibilities

The organization should determine the various roles and responsibilities with respect to internal control, including the governing body, management at all levels, employees, and internal and external assurance providers, as well as coordinate the collaboration among participants.

C. Fostering a Motivational Culture

The governing body and management should foster an organizational culture that motivates members of the organization to act in line with risk management strategy and policies on internal control set by the governing body to achieve the organization's objectives. The tone and action at the top are critical in this respect.

D. Linking to Individual Performance

The governing body and management should link achievement of the organization's internal control objectives to individual performance objectives. Each person within the organization should be held accountable for the achievement of assigned internal control objectives.

E. Ensuring Sufficient Competency

The governing body, management, and other participants in the organization's governance system should be sufficiently competent to fulfill the internal control responsibilities associated with their roles.

F. Responding to Risk

Controls should always be designed, implemented, and applied as a response to specific risks and their causes and consequences.

G. Communicating Regularly

Management should ensure that regular communication regarding the internal control system, as well as the outcomes, takes place at all levels within the organization to make sure that the internal control principles are fully understood and correctly applied by all.

H. Monitoring and Evaluating

Both individual controls as well as the internal control system as a whole should be regularly monitored and evaluated. Identification of unacceptably high levels of risk, control failures, or events that are outside the limits for risk taking could be a sign that an individual control or the internal control system is ineffective and needs to be improved.

I. Providing for Transparency and Accountability

The governing body, together with management, should periodically report to stakeholders the organization's risk profile as well as the structure and factual performance of the organization's internal control system. (Marshal B.Romney and J.steinbart; 2000:253-255)

2.5 Effective internal control of cash

It should include the following: (Ibid)

1. Separation of duties

- a. Complete separation of the jobs of receiving cash and disbursing cash.
- b. Complete separation of the procedures of accounting for cash receipt and cash disbursements.
- c. Complete separation of the physical handling of cash and all phases of the accounting function.

2. Prescribed policies and Procedures

- a. Required that all cash receipt be deposited in a bank daily keep any cash on hand under strict control.
- b. Required separate approval of the purchase and the actual cash payment. Pre-numbered checks should be used special care must be taken with payment by electronic funds transfers since they involve no controlled document (Checks).
- c. Assign the responsibility for cash payment approval and checks signing or electronic funds transfer transmitted to different individuals.
- d. Require monthly reconciliation of bank account with the cash account on the company's book.

The separation of duties and the use of prescribed policy and procedures are important element of control of cash. Separation of duties deters theft because it requires the collusion of two or more person to steal cash and then conceal the theft in the accounting records. Prescribe procedures are designed so that work done by one individual is checked against the result reported by the other individual. (Marshal B.Romney and J.steinbart; 2000:256)

2.6 Principles of Internal Control

To safeguard it's enhance the accuracy and reliability of its accounting records a company follow specific control principle of course, internal control measures vary with the size and nature of business and with management's control philosophy.(Kimmel, Weygandt, Kieso;2004: 317).

There are six internal control principles;

1. Establishment of responsibility;

An essential characteristic internal controls the assignment responsibility to specific individuals. Control is most effective when only one person is responsibility for a given task.

Establishment of responsibility includes the authorization and approval of transactions. The vice president of sales should have the authority to establish policies for making credit sales these policies ordinarily will require written credit department approval of credit source.

2. Safeguarding of duties;

The principle also identified as separation of functions or division of work is in dispositive in a system of internal control. There are two common applications of these principles.

- i. The responsible for related activities should be assigned to different individuals.
- ii. The responsibility for establishing the accountability (keeping the secret) for an asset should be separate from the physical custody of that asset.

The rationale for segregation of duties is that the work of one employee should, without duplication of effort, provide reliable bases for evaluating the work of another employee.

3. Documentation procedure;

Documentation provides evidence that transaction and events have occurred. Several procedures should be established for documents. First whenever possible, documents should be numbered and all documents should be accounted for pre-numbering helps to prevent a transaction from being recorded more than once or conversely to prevent the transaction from not being recorded. Thus, the control measure contributes directly to accuracy and reliability of the accounting records.

4. Physical, Mechanical and Electric control;

Physicals relate primarily to the safeguarding of assets. Mechanical and electric control safeguard assets and enhance the accuracy and reliability of accounting records. (Kimmel, Weygandt, Keiso; 2004: 319).

5. Independent internal verification

Most systems of internal control provide for independent internal verification. This principle involves the review, comparison, and reconciliation of data prepared by one or several employees. To obtain maximum benefit from independent internal verification;

- a) The verification should be made periodically or on surprise bases.
- b) The verification should be done by an employee who is independent of the personnel responsible for the information.
- c) Discrepancies and exceptions should be reported to management level that can take appropriate corrective action.

Independent internal verification is especially useful in comparing recorded accountability with existing assets. The reconciliation of the cash register tape with the cash in the register is an example.

6. Other controls: Measures including the following:

- i. **Bonding of employees who handle cash:** bonding involves obtaining insurance protection against misappropriation of assets by dishonest employees. This measure contributes to the safeguarding of cash into two ways: First the insurance company carefully screens all individuals before adding to them to the policy and may reject risky applicants. Second, bonded employees know that the insurance company will vigorously persecute all offenders.
- ii. **Rotating employees' duties requiring employees to take vacations.** These measures are designed to deter employees from attempting. (Kimmel, Weygandt, Kieso; 2004: 321).

2.7 Definition of Cash

Cash is a medium of exchange that a bank will accept for deposit and immediate credit to the depositor's account. Cash includes currency, coin, personal checks, bank drafts, money orders, credit card, sales drafts, and cashiers' checkers, as well as money on deposit with bank. (A.N Mosich, 1998:293)

Cash is the one asset that is readily convertible in to any other type of asset, it is easily concealed and transported, and it is highly desired. Because of these characteristics, cash is the asset most susceptible to improper diversion and use. Cash consists of coins, currency (paper money), checks, money orders, and money on hand or deposit in a bank or similar depository. (A.N Mosich, 1989:293)

2.8 Internal control over cash payments

All payment should be made by check, except for payment of minor items from petty cash funds. A principal advantage is the obtaining of a receipt from the payee in the form of an endorsement on the check. To secure in full the

internal control benefits implicit in the use of checks, it is essential that all checks be renumbered and all numbers in the series be counted for uninsured pre-numbered checks should be adequately safe guarded against theft or miss use voided checks should be defaced to eliminate any possibility of further use and filed in the regular sequence of paid checks. Dollar amounts should be printed on all checks by the computer or a check protecting machine. This practice prevents any one from altering a check by raising its amount. (Warren, Reeve, Fees; 2004:283).

A. Control Features of a voucher System

A voucher system is made up of records methods and procedures used in providing and recording liabilities and in making and recording cash payments. Avouched system is one method of achieving strong internal control over cash payments by providing assurance that all disbursements are properly authorized reviewed before a check is issued. In typical voucher system the accounting department is responsible for assembling the appropriate documentation to support every cash disbursement. A voucher, in this usage, is an authorization sheet that provides space for the initials of the employees performing various authorization functions. Authorization function includes procedures as extending and fouling the vender's invoice, determining the agreement of the invoice purchase order and receiving are recorded in avouched register, by an entry debiting the appropriate asset, liability, or expense accounts and crediting vouchers payable.

On the payment date, the voucher and supporting documents are removed from the tickler file. A check is prepared but not signed. The voucher supporting papers and the check (complete except for signature) are for awarded to the finance department. The treasurer reviews the voucher before signing the check the check is the mailed directly to the payee, and the voucher and all supporting documents are perforated to prevent reuse. The cancelled vouchers are returned to the accounting department, where an entry is made to record the cash disbursement (a debit to vouchers payable and credit to

cash). Paid vouchers usually are filed by voucher number in a paid voucher file. (Warren, Reeve, Fees, 2004:283).

B. Internal Control Aspects of Petty Cash funds

Internal control over payments from an imprested petty cash fund is achieved at the time the fund is replenished to its fixed balance, rather, than at the time of handing out small amount of cash. When the custodian of petty cash fund requests replenishment of the fund, the documents supporting each payment should be reviewed for completeness and authenticity, and perforated to prevent use. Petty cash funds are sometimes kept in the form of separate bank account. The bank should be instructed in writing not to accept for deposit in such an account any checks payable to the company.

The deposits will be limited to check to replenish the fund and drawn payable to the bank or to the custodian of the fund. The prohibition against deposit of checks payable to the company is designed to prevent the routing of cash receipts in to petty cash, since this would violate the basic assumption of limited disbursements and review at time of replenishing the fund. (Warren, Reeve, fees; 2004, 292)

2.9 Cash Controls

Cash is the important current assets for the operation of the business. It is usually the starting point for a company's system of internal control. Cash is the one asset that is really convertible into any other types of asset: it is easily concealed and transported and it is highly desired because of these characteristics, cash is the asset most susceptible to improper diversion and use.

Moreover, because of the large volume of cash transaction numerals errors may occur in executing and recording cash transaction. To safeguard cash and ensure the accuracy of the accounting records for cash, effective internal control over cash is imperative. (Kimmel, Weygandt, Keiso; 2004:323)

2.10 Control Activities

Control activities are policies and procedures that help ensure that management directives are carried out these policies and procedures promote actions that address the risks that face the organization. (O.Ray& Kurt Pany,2010:277)

Control activities (also called procedures). In practice, control activities take various forms and have various objectives depending on the entity's business and industry. (David N.Rocchiute; 1998: 230)

Generally to safeguard a company assets and ensure the reliability of accounting record these control activities include following.

1. **Proper Authorization of transaction and activities:** All transaction and activities should be properly authorized by management.
2. **Segregation of duties:** the organizational plan should separate function responsibilities.
3. **Recording transaction:** To facilitate preparation of financial statement and to establish accountability for asset all transaction should be recorded.
4. **Design and use of adequate documents:** the design and use of adequate document help ensure the proper recording of transaction.
5. **Physical controls:** physical control permits access to assess only with management authorization.
6. **Periodic check:** the record should be checked against the asset by someone other than the personal responsible for these record and asset.
7. **Sound personal procedure:** sound practice should be followed in managing the people who carry out the function of each department.
(Bulverde, E.Needles, Jr., Marian Powers; 2001:294 – 295)

2.11 Internal Audit's Responsibility

Internal Control audit's provided an independent evaluation of the adequacy of internal controls and reports the result to organization administration and the board of directors. Auditors look at how the internal control, within an operation, work together with the internal control structure.

The auditor gather information about the mission process of the unit, discusses the major objective with the manager and internal control point within each process where an error, irregularity, or inefficiency occur. The auditor document existing control at each signification control point, adequacy of the control to ensure achievement of the objective, and the control to verity they are working as described. The auditor's evaluation includes an examination of the following internal control element:

Authorization procedures- should include a thorough review of supporting to verify the propriety and validity of transaction. Approval authority should be commensurate with the nature and significant of the transaction.

- ✓ Time period should be signed by the employee and supervisor with knowledge the employee's work schedule.
- ✓ An account manager of fiscal officer may delegate signature authority exempt employee or an appointed biweekly employee.

Segregation of duties- should reduce the likelihood of errors and irregularity individual should not have responsibility for more than once of the three transaction components: Authorization, Custody and Record keeping. Authorization for the assessment of class fees (Registrar) is segregate collection of those fees. (Bulverde E. Needles, Jr., Marian powers, 2001:294).

CHAPTER THREE

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter of the paper intends to show and clearly forward the various findings of the study. It deals with data collection through the questionnaire, analyzed using tables and interpreted based on the data available.

The questionnaire is prepared and distributed to 52 employees of the United Bank. Out of these, 19 employees responded from Bole Branch, 13 employees from Yoseph Branch and 9 employees from Head office-Finance and account Department respectively.

From the total 52 employees 41(78.85%) give response for all the questionnaires properly filled and returned back. The Data is presented in simple analytic and descriptive methods of tabulation, percentage for the user of the research. For the clear presentation of data the classified inter-related topics. Therefore, the data present organized under each table.

3.1. General Characteristics of the Respondent

The background of the respondents is based on Gender, Educational level, Field of study and Work experience are summarized and presented below in the following table.

Table 1. General Characteristics of the respondents

Item	Employee	Number of Respondents	Percentage %
1.1	Gender <ul style="list-style-type: none"> o Male o Female 	25 16	61% 39%
	Total	41	100%
1.2	Age <ul style="list-style-type: none"> o Under 20 o 20-30 o 31-40 o Above 40 	0 20 14 7	0% 49% 34% 17%
	Total	41	100%
1.3	Education Background <ul style="list-style-type: none"> o Diploma o BA Degree o Above BA Degree 	13 28 0	32% 68% 0%
	Total	41	100%
1.4	Field of Study <ul style="list-style-type: none"> o Accounting o Management o Other 	23 13 5	56% 32% 12%
	Total	41	100%
1.5	Work experience <ul style="list-style-type: none"> o Below 1 year o 1-5 year o 6-10 years o Above 10 year 	3 21 13 4	7% 51% 32% 10%
	Total	41	100%

(Source: Primary Data)

Table 1, illustrates that, from the total respondents 61%(25) of them were male and the rest 39%(16) were female. It indicates that most of respondents were male in the bank. Above 49%(20) of respondents are at the age between 20-30, 34%(14) of respondents are at the age between 31-40 and the rest above 40 are 17%(7). This implies that most employees are in between 20-30 age.

When we came to educational background, 32%(13) of the respondents were diploma holders, 68%(28) of the respondents were BA Degree holders. There were no respondents who have above BA Degree. This shows that the

employees were capable to fill the questioner. In the field of study 56%(23) employees were accounting graduates and 32%(3) of the respondents were management graduates. Those respondents from economics and statistics account for 12%(5). From this we can understand that majority of respondents were from business field of specialization.

As indicated in the above table, item 1.5, 7%(3) of respondents have below 1 year work experience, 51%(21) of the respondents have 1-5 year work experience, 32%(13) and 10%(4) of the respondents have 6-10 and Above 10 year work experience respectively. This shows that most of respondents of United Bank (S.C) have 1-5 year work experience.

Therefore, factors like the age, educational qualification, work experiences and field of study of the employees have a great impact on the accomplishment of the bank's objectives.

3.2 Analysis of the Major Finding of the Study

3.2.1 Control Environment

A particular company's control environment is representative of its management's and director's attitude, awareness and action in relation to the overall internal control system of the company.(Warren Reeve Fess, 2002:238)

3.2.1.1 Procedural Manual

Under this session of data presentation, the researchers focused on the existence of procedural manual in the bank. As per the understanding of each bank has a guideline to control their activities. Hence, the following items forwarded to respondent to measure and present the existence and staff understanding towards to the United Bank manuals in case of cash operation.

Table 2. Existence of procedural Manuel

Item	Questions	Response		Percent %	
		Yes	No		
1	Does your branch have an up to date accounting policies and procedural Manuel?	41	-	100%	-
Total		41		100%	
2	Do you think cash operational Manuel effectively applied in your branch?	36	5	87%	13%
Total		41		100%	
3	Do you properly read and understand the operational cash manual?	15	26	36.58%	63.41%
Total		41		100%	

(Source: Primary Data)

As it can be seen from Item 1, 100%(41) replied that there is an up to date accounting policies and procedure manual. It shows that, the United Bank (S.C) has up to date accounting policies and procedural Manuel. This implies that United Bank updates its accounting policies and procedural manual that can help to control the whole financial activities. United Bank amended its manuals and policies to control subsequent effect to maintain its internal control objective.

As item 2 indicates, 87%(36) of respondents confirm that there is effective application of cash operation manuals and the rest 13%(5) response shows that the operation manual did not effectively applied. This shows that United Bank has establish and executed policies and procedures to ensure the effective application of cash operational manual.

Item 3 of the above table shows that, 63%(26) of respondents didn't read the cash manual and only 36.58%(15) respondents read the manual. This refers that there is no common understanding regarding to cash manual.

3.2.1.2 Formal Meetings

In any business organization, it is imperative that top level management members ought to plan and direct operations of the business to bring about a strong internal control system, and in order to do so, there ought to be a periodical formal meeting among the management members. (Kimmel, Weygandt, Keiso; 2004:323)

Table 3. Existence of Formal meeting

Item	Questions	Description	Number of response	Percentage %
1	Is there formal meeting to discuss about internal control issue?	Yes	41	100%
		No	-	-
Total			41	100%
2	Did all concerned staff participate in the discussion?	Strongly agree	13	32%
		Agree	28	68%
		Neutral	-	-
		Disagree	-	-
		Strongly disagree	-	-
Total			41	100%

(Source: Primary Data)

As indicated in the above table, Item 1, 100%(41) of respondents confirmed the existence of formal meeting in United Bank. This implies that, there is a formal meeting to discuss about internal control issue. On the other hand, for Item 2 on the same table 68%(28) respondent agreed and the rest 32%(13) strongly agreed with a participation of concerned staff. Therefore, it can be seen that there is a formal meeting within the bank that participates the concerned staff.

3.2.1.3 Training of staffs

The Human resource management department is an indispensable part of management, which contributes a lion share to the successful execution of business activities. Based on this fact each organization needs to get a well qualified and skillful person in order to meet such kind of vision organization invests their time and money in empowering their staff through training.

As an internal control over cash demands system and competent person, United Bank frequently provide training for its staffs. The following tables try to demonstrate the impact and role of training in assuring internal control over cash application in United Bank (S.C).

Table 4. Respondents for training of staffs

Items	Questions	Description	Number of response	Percentage %
1	Does your company provide training for staffs specially who works in operation area?	Yes	41	100%
		No	-	-
Total			41	100%
2	How do you explain the role of training in providing skill for internal control over cash application?	High	21	51.21%
		Medium	17	41.46%
		Low	3	7.31%
Total			41	100%

(Source: Primary Data)

As item 1 of the above table refers, 100%(41) of respondents confirmed that the bank is committed to provide training for employees who work in the area of operation.

Item 2 presents the employees response towards the role of training in providing skill for internal control over cash application and 51.21%(21) of respondents state that it has a high role whereas 41.46%(17) proclaim it has a

medium role. The rest 7.31%(3) respondents found its role with low status in achieving skill. Based on the gathered data, it can be said that the bank accomplished its objectives of providing effective training for its employees to enhance their skill of internal control over cash operation.

3.2.1.4 Improvement of Internal Control Over Cash

Table 5. Improvement in relation with ICOC in the past two years

Item	Question	Number of Response		Percentage %	
		Yes	No		
1	Does your bank show improvement in relation with internal control over cash in the past two years?	33	8	80%	20%
	Total	41		100%	

(Source: Primary Data)

The above table shows that 80%(33) of respondents confirm that United Bank (S.C) had a progress in the past two years in different cases of internal control over cash. Whereas 20%(8) shows no progress within two years.

This implies United Bank S.C evaluating and improving internal control system, to facilitate the evaluation and improvement of existing internal control systems by highlighting a number of areas.

Table 6. Area of improvement

Item	Number of Respondent				Percentage %			
	Very Good	Good	Excellent	Poor	Very Good	Good	Excellent	Poor
Can you explain the degree of improvement for each specification area?								
1) Is there progress in the Cash disbursement and collection process?	39	-	2	-	95%	-	5%	-
Total	41				100%			
2) In segregation duties and responsibilities?	41	-	-	-	100%	-	-	-
Total	41				100%			
3) In revising cash operation manual?	41	-	-	-	100%	-	-	-
Total	41				100%			
4) In providing Accounting information System (AIS) for cash operation.	34	-	7	-	83%	-	17%	-
Total	41				100%			

(Source: Primary Data)

The above table illustrates the degree of improvement for each specification area related with internal control. In this regard, item one depicts, 95%(39) of respondents replied there is a very good progress in cash disbursement and cash collection process of the bank. The rest, 5%(2) found its progress with excellent status.

As item two depicts, respondents were requested about the progress of segregation of duties and responsibilities of the bank and all 100%(41) of respondents found its progress with very good status.

Item three illustrates, employees response towards the revision of the cash operation manual and all 100%(41) of respondents proclaim its revision with very good status.

For fourth Items 83%(34) of respondents agreed of AIS (Accounting information system) application in United Bank. They raise some examples such as the modern application of flex cube software at wide range, introduce of ATM (Automatic Teller Machine) to the customers; which is used to transfer and take money) 24/7 days and also Electronic cash transfer Broad band local money transfer (BLMT) through branches to customer for such experience. United Bank (S.C) is pioneer in practice such mechanism to facility cash transfer through all branches.

These signify that the internal control improvement had brought benefits and provide reasonable assurance to meet the objective of internal control.

3.2.2 Monitoring

Any company having a safe and sound internal control system has strong monitoring system over performance. Monitoring is the process of assessing the quality of internal control structure over time. According to the statements issued by committee of sponsoring organization (COSO), key method of monitoring performance include effective supervision, responsibility reporting, and internal auditing. (Marshal B. Romney and Paul John, 2000:274).

The researcher evaluated the performance of monitoring activities and come up with the data presented and analyzed hereunder.

3.2.2.1 Internal control Application Review

Table 7. Review on Internal Control Application in United Bank S.C

Item	Question	Response	Number of Response	Percentage %
1	How often is the Internal control application reviewed in your bank?	Monthly	-	-
		Semi Annually	-	-
		Quarterly	-	-
		Annually	-	-
		When it is needed	41	100%
		Other (Please specify it)	-	-
Total			41	100%

(Source: Primary Data)

The above table Shows that, from the total respondents 100%(41) of them answered that the internal control is reviewed when it is needed and when there is a factor of changing cash operation methods (manual and operation system).

Beside this, review of Internal control application depends on the external and internal factor after conducting and recording the demand of change or review in work activities in competing banking industry and its done by Head Office Department not by branch level.

3.2.2.2 Implementation of Internal control system

Implementation of Internal control system of United Bank (S.C) is expressed in term of number and percentage in the table below.

Table 8. Implementation of internal control system

Item	Questions	Response	Number of response	Percentage %
1	How do you define the implementation of ICS of the bank? In comparing to the known principles of ICS?	Very strong	14	34%
		Strong	27	66%
		Poor	-	-
Total			41	100%
2	Do you think there is gap between implementation ICS and Manual of UB?	Yes	30	73%
		No	11	27%
Total			41	100%

(Source: Primary Data)

The above table, item 1 indicates, 66%(27) of respondents infer that there is very strong implementation of ICS whereas the rest 34%(14) confirm it slightly strong implementation comparing to the known principles of internal control over cash. This implies that United Bank has very good practice in applying the principles of ICS.

On the second Item, 73%(30) respondents shows the conformity between the guideline of operational manual and the implementation of ICS. Yet, still 27%(11) respondents confirm the gap between implementation of ICS and the operational manual. This indicates there is a huge gap between implementation of internal control over cash and Manual of United Bank (S.C).

3.2.3 Control Activities

Control activities of a particular organization provide reasonable assurance to the achievement of managements` internal control objectives.

3.2.3.1 Authorization of Control activities

The data gathered about the authorization of United Bank control activities over cash is presented as follows:

Table 9. Authorization of control activities

Item	Question	Response		Percentage %	
		Yes	No		
1	Are there any payments made without authorization of supervisor?	-	41	100%	-
Total		41		100%	
2	Do you think authorization of payments is effectively communicated with the manual?	30	11	73%	27%
Total		41		100%	

(Source: Primary Data)

Table 10, item 1 shows that, 100%(41) of the respondents confirmed that United Bank (S.C) possessed strong control activities in every payments which relates with authorization and supervision of cash transactions. The second item of the above table presents the employees response towards the conformity of the authorization with the manual and procedures of the bank. In this regard, 73%(30) of respondents proclaim its conformity with the manuals and procedures of the bank in contrast with those 27%(11) of respondents who said the reverse.

Therefore, it can be said that there is a strong control over processing cash related transactions and its respective authorizations in the bank. On the other hand, the gathered data refers that there are some transactions and authorizations which are not compatible with the manuals and procedures of the bank that the bank need to identify and address them as fast as possible.

3.2.3.2 Duty Segregation

The data gathered on the duty segregation of United Bank S.C is presented below.

Table 10. Duty segregation

Item	Question	Response		Percentage %	
		Yes	No		
1	Does your company use separation of duties and responsibilities especially in internal control over cash?	22	19	53.65%	46.34%
	Total	41		100%	

(Source: Primary Data)

The above table contains the employees' response towards the segregation of duties and responsibilities especially in cash related positions. In this regard, 53.65%(22) of respondents proclaim the existence of segregation of duties and responsibilities over cash. Whereas others 46.34(19), confirmed that there are inadequate segregation of duties and responsibilities in the bank.

Therefore, if we take the majority into consideration, it can be said that there is adequate segregation of duties and responsibilities especially on cash related transactions and positions.

3.2.4 Risk Assessment

Not a single business firms on the face of the globe is totally immune from risk. Risk by its very nature is state of the world and it is hard for business firms to install control for every possible thereat. Hence, risk assessment enables business firms to identify organizational risks, analyze the devastation of risks in terms of cost, and likelihood of occurrence.

Risk assessment also assists companies to come up with control mechanisms whose benefits overweight their costs. The researcher will attempt to gather

data on the following concepts from the risk assessment point view. (warren Reeve Fees, 2002:238)

3.2.4.1 Internal Control System of cash which helps to solve the problem of cash discrepancy.

The data gathered regarding to internal control system of cash efficient to solve in United Bank is presented in the following table:-

Table 11. Internal control system to solve the problem

Item	Question	Response		Percentage %	
		Yes	No		
1	Is there Internal control system of cash which helps to solve the problem of cash discrepancy in your branch?	28	13	69%	31%
Total		41		100%	

(Source: Primary Data)

The above table contains the employees' response towards the internal control system which helps to solve the problem of cash discrepancy and 69% (28) of respondents replied that there is efficient controlling system which eliminates cash discrepancy during cash operations. In contrast, 31%(13) of respondents disagree with the existence of adequate internal control system over cash.

CHAPTER FOUR

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

4.1. Summary

To make the research findings more valuable, the researchers utilized questioner and their own personal observation as means of data collection. The researchers analyzed and interpreted the responses secured from respondents and came up with the following summarization of findings, conclusions and recommendations.

The following finding has been selected from each discussion of analysis in the previous chapter.

- To sum up, the general characteristics of the respondents included both genders. The male employees exceed the female employees nearly two times as 61%(25) are male and the rest 39%(16) are female. The majority of employee's age is between 20-30. Looking at the educational profile, it depicts that 68%(28) of employees are first degree holders and the rest are diploma holders. Regarding experience, 51%(21) of the employees responded that they have below five years of experience in the bank.
- The other major aspect of this study was focused on the existence of procedural manual that aid employees in practicing ICOC. All the employees agreed that there is an up-to-date accounting policies and procedural manual in United Bank. But employees' response varies as to the effective application of cash operation manual.
- The majority 87%(36) responded that the manual is effectively being applied. Though few 13%(5) said the operation is not effectively applied. In line with this, many of the employees 63%(26) of the respondents did not read the cash manual provided by the company for such purpose.

- The use of formal meetings as a tool for giving information and communication by top management is indispensable. With this regard all respondents 100%(41) agreed that top level manager conduct formal meeting to discuss about internal control issues. And all concerned members of the top level management make themselves present on such important meeting.
- Providing training to employees of an organization is indispensable especially in the face of competitive environment and changing situations. In this regard,100%(41) of respondents agreed that united bank provide training for staff especially who works in the operation area. And employees find the training in providing additional skill for internal control over cash application.
- Concerning the progress/improvements of ICOC in the past two years, majority of respondents 80%(33) replied that United Bank has shown improvement in terms of cash disbursement and collection process, in segregation of duties and responsibilities, in revising cash operation manual, and in providing accounting information system for cash operation.
- Any company having a safe and sound internal control system has strong monitoring system over performance. As such united bank reviews it internal control application when there is a factor of change in cash operation methods based on the majority respondents 100%(41) reflection.
- Regarding the implementation of ICOC in United Bank as compared to known principles of ICOC, 66%(27) of respondents revealed their degree of agreement and the rest 34%(14) of respondents strongly agree with the same. But 73%(30) of respondents said that there is a gap between the implementation of ICOC and manual of the bank.

- Generally to safeguard company assets and ensure the reliability of accounting record control activities such as segregation of duty is compulsory. With this respect 54%(22) of the respondents agreed that united bank uses separation of duties and responsibilities especially in internal control over cash.
- Policies and procedures must be established and executed to ensure that actions identified by management as necessary to address risks to achieve the entity's objectives effectively. With this regard united bank has an internal control system of cash efficient to solve the problem of cash discrepancy.

4.2 Conclusions

- Based on the findings, we can conclude that the major problems of internal control over cash in the bank are the transparency and accountability of internal control over cash and other controlling activities relating with electronic transfers of transactions which are not performed manually. Such transactions need frequent and adequate control as they are highly exposed to fraud and deception.
- Except some findings which need corrective action for transparency and accountability of ICOC implementation, internal control over cash reaches at satisfactory level yet it needs to proceed to the next level to keep up the best performance in cash control.
- Being it has a number of stake holders who has an interest on activities of the bank; United Bank has the best practice and principles of ICOC which can bring it to exemplarily position of ICOC in the banking industry. Such practices with other progress helped to be expanded thoroughly and have made very good progress in the past two years.

- As effective internal control over cash primarily represented by segregation of duties and responsibilities, we can conclude that United Bank has an effective internal control over cash as it has complete segregation of duties on handling cash related transactions, its record keeping and their respective authorizations. In this regard, the prevalence of such segregation of duties and responsibilities are a good ground for achieving the goals of the bank.

4.3 Recommendations

It is apparent that any organization engaged in any business sector should have an effective and efficient internal control system to achieve its goal. To meet such demand the student researchers forwards the following recommendations:

- United Bank must unceasingly create awareness and introduce the updated principles of ICOC for the staffs in different level that may help them to have solid understanding in the area of implementation, such as in orientation operational cash manual.
- It is important to empower the staffs properly in training that can add value in the ICOC and the training must be target oriented in creating impact for the staffs involves in the implementation.
- United Bank must prepare periodical review on internal control over cash application to fill the gap. Each practice of Internal control over cash need to be align with the bank's guideline.

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St. MARY'S UNIVERSITY
FACULTY OF BUSINESS
DEPARTMENT OF ACCOUNTING

This questionnaire is prepared to fulfill partial requirements for BA degree in Accounting. The study will conduct on **“An Assessment of Internal control over cash” in United Bank S.C.**

The objective of the student researcher is to identify the problems and consequences associated with internal control practice of United Bank S.C and indicate the possible solution. Hence, you're kindly requested to spend a few minute from your precious time to fill this questionnaire. The researchers thank you very much in advance for your kindly corporation.

Instruction

- ✚ No need of writing your name.
- ✚ You are kindly requested to make a check mark in the box provided.
- ✚ If you have any personal opinion comment on the space provided.

Thank you!

Part -1-

1. Personal Data

1.1. Your Job Title: _____

1.2. Gender: Male Female

1.3. Age:

Under 20 31-40

20-30 Above 41

1.4. Educational Background

BA Degree Diploma

Above BA Degree

1.5. Field of study

Accounting Management

Other _____

1.6. Years of work experience in United Bank S.C?

Below 1 year 6-10 years

1-5 years Above 11 years

PART -2-

1. Does your branch have an up to date accounting policies and procedural Manuel?

Yes No

2. Do you think cash operational Manuel effectively applied in your branch?

Yes No

3. Do properly read and understand the operational cash manual?

Yes No

4. Is there formal meeting to discuss about internal control issue?

Yes No

5. Did all concerned staff participate in the discussion?

Strongly agree Agree

Neutral Disagree

Strongly Disagree

6. Does your company provide training for staffs specially who works in operation area?

Yes No

7. How do you explain the role of training in providing skill for internal control over cash application?

High Medium Low

8. Does your bank show improvement in relation with Internal control over cash in the past two years?

Yes No

9. If your answer for question No. 8 is "YES".Specify the area of improvement below.

a) Is there progress in the Cash disbursement and Cash collection process?

Very Good Good Excellent Poor

b) In segregation duties and responsibilities?

Very Good Good Excellent Poor

c) In revising cash operation manual?

Very Good Good Excellent Poor

d) In providing Accounting information System (AIS) for cash operation.

Very Good Good Excellent Poor

10. How often is the internal control application reviewed in your bank?

Monthly

Quarterly

Semi Annually

Annually

When it is needed Other (Please specify it _____)

11. How do you define the implementation of internal control system of the bank? In comparing to the known principles of internal control system?

Very Strong

Strong

Poor

12. Do you think there is gap between implementation internal control system and Manual of United Bank S.C?

Yes

No

13. Are there any payments made without authorization of supervisor?

Yes

No

14. Do you think authorization of payments is effectively communicated with the manual?

Yes

No

15. Does your company use separation of duties and responsibilities especially in internal control over cash?

Yes

No

16. Is the Internal control system of cash which helps to solve the problem of cash discrepancy in your branch?

Yes

No

APPENDIX