



Internal control system over cash: In the Case of Commercial Bank of  
Ethiopia Sebeta cluster branch.

A Thesis Submitted to St. Mary's University, School of Graduate  
Studies in Partial Fulfillment of the Requirements for Degree of MBA  
Accounting and Finance

By: Nedra Seid

February, 2023

Addis Ababa, Ethiopia

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**MBA ACCOUNTING AND FINANCE**

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**BY**  
Nedra Seid

**Approved by Board of Examiners**

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**ENDORSEMENT**

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a University advisor.

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Simon Tarekegn (Asst. Prof.)

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Signature & Date

## **DECLARATION**

I, Nedra Seid, do hereby, declare that this is my original work and that it has not been submitted partially; or in full, by any other person for an award of degree in any other person for an award of degree in any other university institution.

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## **ABSTRACT**

*This study's primary purpose was to assess the internal control over cash at Commercial Bank of Ethiopia (CBE) Sebeta cluster branches. For this study, the researcher used both quantitative and qualitative methods. In this study, both closed- and open-ended questionnaires were used, and a total of 117 samples were chosen. To select samples from the total staffs simple random sampling technique was used for the operational staffs and judgmental sampling techniques was considered for the middle and above staffs. These respondents were given the questionnaire, which was collected at a rate of 96.6 percent (113 respondents). Cronbach's alpha was used to determine the reliability of the questionnaire when utilizing five Likert scales. The alpha result of 0.83 indicates that the questionnaire was reliable. The empirical result based on the mean score indicates that the majority of respondents are in agreement that there is segregation of duties and responsibilities in the area of cash and cash-related activities, that transactions are recorded in a timely manner, that the current cash management system protects cash from misappropriation, and that CBE uses sequentially pre-numbered or computer-generated receipt forms to establish accountability for each cash transaction. There is division of tasks, there is a check and balance system of cash transactions, there is dual control of cash vaults, there is a trustworthy and robust internal control system, and each transaction is signed by the head cashier and the teller, according to the majority of respondents. The major deficiency in CBE's internal control over cash consists of cash shortages, non-continuous surprise checks, and a lack of controlling cash holding restrictions. The majority of respondents agree that the cash management procedure, which helps CBE control cash misuse, is relevant. Based on the empirical findings the researcher recommends that CBE better to develop surprise checks on regular basis on internal control over cash and better to reconsider the cash holding limits which may have negative implication on its day to day activities when cash shortage happens.*

Keywords; Cash, Internal Control, Commercial Bank of Ethiopia

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# CHAPTER ONE

## 1. INTRODUCTION

This chapter talks about the parts of the introduction. These parts include the background of the study, the statement of the problem, the goal of the study, the significance of the study, the scope of the study, the research questions, the limitations, and the organization of the paper.

### 1.1 Background of the Study

Cash is the most liquid asset and it is the lifeblood of every commercial firm; without it, the existence of a business is highly improbable, which indicates that a business can live for a certain period of time without profit but cannot continue without cash. The phrase "cash" comprises coins, money, checks, and bank account balances held by the company. Compared to other assets, cash is the most susceptible to loss or the most enticing to defaulters or fraud if it is not properly managed. Due to its high liquidity, the cash account balance is constantly examined by the auditor, and it requires continual monitoring via an effective and efficient internal control system (Atrill & McLaney, 2006).

In business, internal cash control refers to the methods, policies, and procedures used by a corporation to assure the accuracy of financial and accounting data, encourage cash management accountability, and prevent fraud. In addition to complying with laws and regulations and preventing employees from stealing cash or committing cash fraud, internal control includes the policies and procedures that an organization establishes to ensure that it operates in accordance with management's intentions and that cash transactions are accounted for. This comprises the procedures employed by the firm to safeguard its cash management, verify the correctness and dependability of its accounting data, enhance operational efficiency, and promote adherence to mandated managerial principles. Internal controls can help enhance operational efficiency by enhancing financial reporting accuracy and timeliness and regulatory compliance (Kenton et al., 2021).

Internal control assures adherence to management policies, i.e., that all transactions comply with management's general or specific authorization. An organization with effective internal control over cash can prevent and identify fraud and errors in cash management, and it is the responsibility of management to establish a well-designed internal control system over cash that assists management in meeting its financial requirements (Penne & Dan, 2004).

The internal control of cash management is the engine of any firm and must be managed with extreme care. Management must use considerable vigilance in this area to ensure that all applicable rules and regulations are strictly adhered to. Despite the significance of internal financial control to businesses, some do not adhere to it, and their audit results are deteriorating (Geofrey, 2014).

Internal control is a process implemented by an entity's board of directors, management, and other people to provide reasonable assurance that information is accurate and compliant with applicable laws, rules, contracts, policies, and procedures. Since cash is the lifeblood of any organization, internal controls are designed to avoid errors and irregularities, identify problems, and guarantee that remedial action is made to handle cash properly. The focus of this study was evaluating the internal control system over cash at the Commercial Bank of Ethiopia in light of its business function, with the objective of determining the system's efficacy and any shortcomings that may hinder the attainment of the organization's goals.

## **1.2 Background of the Organization**

In 1963, the Commercial Bank of Ethiopia (CBE) was set up as a share company. In 1974, CBE merged with the Addis Ababa Bank, which was owned by a private group. Since then, it has been very important to the growth of the country. CBE has more than 35 million account holders in its more than 1838 branches, and more than 5.5 million people use mobile and internet banking (with 24,000 partners). As of June 30, 2022, the number of transactions made each month is around 20 million. Since 1838, branches have been set up all over the country, and eight of them are in the Sebeta cluster. The Commercial Bank of Ethiopia (CBE) said that its gross profit for the fiscal year 2022-2021 was 27.5 billion birr. The bank had assets worth \$1.2 trillion, which made it one of the biggest businesses in Ethiopia. With 59.1 billion birr in

capital, the bank is the well-funded in Ethiopia. All of the capital of the private banks put together is less than the capital of CBE.

This study includes the internal control over cash in Commercial Bank of Ethiopia's Sebeta cluster branches which have eight branches. Those branches that are included in CBE sebeta cluster branches includes Mogele terara, Deden tuluma, and Sebeta branch, Ketneri branch, Kerabu branch, Mama Mesjid branch, Alemegena branch, and Melka Sebeta branch.

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

Cash is the only liquid assets that doesn't have a specific owner and can be moved right away. Its ability to be used right away and to be moved makes it vulnerable to embezzlement, misappropriation, falsification, fraud, losses, and theft if the company's cash management system is not well run. Cash is the lifeblood of a business, so it's important to have strong control over the cash management system. This keeps cash from being stolen or lost [ CITATION Sia22 \l 1033 ]

Dagnu (2013) looks at the effectiveness of internal control over cash operations in the cooperative bank of Oromia. He finds that employees who work with cash operations lack integrity, competence, knowledge, and experience. They also don't share the right information for making decisions, and they steal cash from the bank. All of these things hurt the effectiveness and efficiency of the bank's internal control systems for cash. Lastly, Dagnu found that the best ways to make internal control over cash more effective and efficient were to use incentives, punishments, chained follow-up where all employees watch each other, different and ongoing training and orientation, surprise audits and checks, serious regular reporting periods, and keeping the internal auditor's independence.

Geofrey (2014) and Gallagher (2000) say that an internal control system for cash management is the engine of any organization. Whether a company's cash control is strong or weak has an effect on all of its assets, including its liabilities, revenues, expenses, and every other part of how it works. Companies that have good internal control over their cash are good at running their businesses. Companies that don't have good internal control over their cash, on the other hand, run their businesses poorly and may even go bankrupt.

According to Atrill & McLaney (2006) cash is a very liquid asset for any organization and can be easily moved to another, so it needs a good system for keeping track of it. Because cash is easy to misuse and cheat with, you need an integrated control system with a planned implementation process to make sure cash is used correctly and the overall goal is met. Because of this, internal control over cash is a very important part of accounting for cash. It is used to protect cash from theft and other misuses. Even though many studies have made important contributions to internal cash control over cash, most of them don't focus on the banking industry specifically there is no prior research work that is done in the case of Commercial Bank of Ethiopia as far as the researcher's knowledge.

Due to this existing research gap in the Ethiopian banking industry the researcher selects an assessment of internal control over cash the case of Commercial Bank of Ethiopia Sebeta cluster branches. This study helps to assess the existing internal control over cash problems in the case of CBE and to recommend the best possible solutions as an organization and in general to the industry. In addition to assessing the company's internal control over cash, the paper tries to assess the strength and weakness of internal control over cash, the existence of problems with account recording, segregation of duties, timely review of cash transactions and deposits, etc.

#### **1.4 Research Questions**

Based on the problem description given above, this research attempted to address the following research questions:

1. What are CBE Sebeta cluster branch practices regarding the separation (division) of duties and responsibilities in the area of cash-related activities?
2. How does the current system prevent misappropriation of cash in CBE Sebeta branch offices?
3. What internal controls exist in CBE Sebeta cluster branches to monitor cash strength and weakness?
4. To establish accountability for each cash transaction, does CBE Sebeta cluster branches use sequentially numbered, pre-numbered, or computer-generated receipt forms?

5. Do CBE Sebeta cluster branches properly document and keep track of their cash transactions?

## **1.5 Objectives of the Study**

### **1.5.1 General objective**

The overall goal of this study is to assess internal cash control in the Commercial Bank of Ethiopia Sebeta cluster branches.

### **1.5.2 Specific objective**

The general objective of the study is met by achieving the following specific research goals.

1. To assess the existence of division of duties and responsibilities in the area of cash and cash related activities in CBE Sebeta cluster branches?
2. To assess the current system safeguard cash from misappropriation in CBE Sebeta cluster branches?
3. To assess the internal control over cash strength and weakness in CBE Sebeta cluster branches?
4. To assess how CBE Sebeta cluster branches use sequentially pre-numbered or computer generated receipt forms being used to establish accountability for each cash transaction.
5. To assess the documentation and record keeping of cash transaction in CBE Sebeta cluster branches.

## **1.6 Significance of the Study**

The banking sector is important for economic growth because it makes it easier for money to flow from having too much to not having enough. The top management of the CBE Sebeta cluster branches can get advice on how to improve their cash management system based on the results of an empirical study of the internal control over cash in those branches. The research will also help the bank figure out its strengths and weaknesses so that it can make changes. The results of this study will give managers a way to build a knowledge base that will help them

make decisions and spot problems with internal controls so that bad things don't happen. Lastly, the study will be helpful to other researchers as a point of reference and inspiration for those who want to do more research in the area. It is also a great chance to learn how the internal control system for cash works in real life.

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

This study focuses to assess the internal control over cash by assessing the existence of division of duties and responsibilities, safeguard system of cash from misappropriation and the strength and weakness of cash control system. The study covers assessment of the internal control over cash in Commercial Bank of Ethiopia's Sebeta cluster branches. To answer the research objectives, the professional staff of CBE's Sebeta (Mogele terara, Deden tuluma, and Sebeta branch) and Alemgena (Keteri branch, Kerabu branch, Mama Mesjid branch, Alemgena branch, and Melka Sebeta branch) branches was analyzed. A total of 165 individuals who are currently employed in the eight branches specified above served as the target audience for the questionnaire utilized to collect data pertinent to answering the stated research questions. Mogele terara, Seden tuluma, Keteri branch, Kerabu branch, Mama mesjid branch, Alemgena branch, Melka sebeta branch, and Sebeta branch have a combined total of 17, 11, 19, 17, 9, 32, 11, and 49 professional staff members.

### **1.8 Limitation of the study**

Due to time and financial limitations, this research paper on Commercial Bank of Ethiopia's internal control over cash focuses on CBE branches that are operated in sebeta clusters, including Mogele terara, seden tuluma, the Keteri branch, the Kerabu branch, the Mama mesjid branch, the Alemgena branch, the Melka sebeta branch, and the Sebeta branch's professional staff as target populations; it does not consider other branches from other and other limitation are Lack of previous research studies on the topic and Limited access to data Even though the research has the limitations outlined above, it includes samples that aid in identifying the internal control over cash because it comprises eight branches that are representative of the commercial bank of Ethiopia.

### **1.9 Organization of the paper**

This paper was organized in a manner that including five sections the first chapters discuss about the introduction part which includes background of the study, statement of the problem, objective of the study, significance of the study, scope of the study, limitation of



the study and others. The second section of the paper resents about literatures that have done by other researchers and developed theories. The third section is about methodology which deals about how to conduct the research and what procedures the researcher follows to realize the study which includes but not limited to data source, sample design, sampling technique and others. The fourth chapter was about empirical results which answer all questions raised at the statement of the problem and the objective of the study stated under section one. The final but not the least was section five which presents the conclusion and recommendation part which summarizes what the researcher follows and provides recommendations for policy makers.

## **CHAPTER TWO**

### **2. LITERATURE REVIEW**

The theoretical and empirical literature on cash internal control is reviewed in this section. This literature review offers the foundation for the current study and highlights the shortcomings of the prior studies, which in turn aids in defining the gap in the literature and developing the study's research questions.

#### **2.1. Theoretical review**

##### **2.1.1. Internal control system**

The term "internal control system" refers to the whole system of controls, both financial and non-financial, set up by management to run the organization's business in an orderly and efficient way, to make sure that management policies are followed, to protect assets, and to make sure that accounting records are as complete and accurate as possible (Woolf E., 1 986).

The main goal of putting in place internal control over cash in a business is to do the following: (1) making sure that companies don't waste, cheat, or use their resources inefficiently. (2) To make sure that accounting and operating data is correct and reliable. (3) Making sure that company policies are followed safely and well; (4) figuring out how well each part of the company is doing. An accounting system may use accounting manuals, accounting policies and procedures, flow charts, internal audit reports, financial regulations, and any other document that is important for control to do the things on the list (Geofrey, 2014).

Internal control is made up of the rules and procedures that an organization sets up to make sure it works the way management wants and that everyone is held accountable for all transactions. This includes the ways the organization protects its assets, checks the accuracy and reliability of its accounting data, improves operational efficiency, and gets people to follow the rules set by its management. This broad definition of internal control includes two different parts: administrative control and accounting control. Administrative (or operational) controls are usually meant to make operations more efficient or to keep the organization's activities under control in some

other way. Internal accounting controls, on the other hand, are mostly about making sure that financial reports are accurate (i.e., ensuring the accuracy and reliability of the financial data and safeguarding assets). Internal controls are usually made and put in place to stop mistakes from happening or to find them quickly if they do.

In 1963, the Commercial Bank of Ethiopia (CBE) was set up as a share company. In 1974, CBE merged with the Addis Ababa Bank, which was owned by a private group. Since then, it has been very important to the growth of the country. CBE has more than 35 million account holders in its more than 1838 branches, and more than 5.5 million people use mobile and internet banking (with 24,000 partners). As of June 30, 2022, the number of transactions made each month is around 20 million. Since 1838, branches have been set up all over the country, and eight of them are in the Sebeta cluster. The Commercial Bank of Ethiopia (CBE) said that its gross profit for the fiscal year 2022-2021 was 27.5 billion birr. The bank had assets worth \$1.2 trillion, which made it one of the biggest businesses in Ethiopia. With 59.1 billion birr in capital, the bank is the well-funded in Ethiopia. All of the capital of the private banks put together is less than the capital of CBE.

### **2.1.2. Types of Controls Definition**

Controls that try to find and fix problems before they happen are called preventive controls. They also stop mistakes, omissions, or bad things from happening. Preventive controls include using well-designed documents to avoid mistakes, setting up the right ways for transactions to be approved, hiring only qualified people, and separating tasks.

Detective Takes Charge Office of Internal Audit and Institutional Risk Management (2012) says that these are meant to find mistakes or problems after they have already happened. These are some examples of detective controls: (1) Reviews of Performance: Management compares information about current performance to budgets, forecasts, previous periods, or other benchmarks to see how well goals and objectives are being met and to find unusual results or situations that need to be looked into. (2) Reconciliations: An employee compares different sets of data to each other, finds and looks into differences, and takes corrective action when needed.

Corrective controls: These controls help to reduce the effects of a threat, figure out what caused a problem, and fix any mistakes that happened because of the problem. They also fix problems found by detective controls and change the processing system(s) to make it less likely that the problem will happen again. The IS handbook (2012) says that corrective controls return a system or process to the way it was before something bad happened. For example, a business might do a full restoration of a system from backup tapes if there is proof that someone changed the payment data in a bad way.

### 2.1.3. Internal control Theory

A theory is a "set of interconnected concepts, definitions, and propositions that give a systematic view of events or situations by defining the relationships between variables in order to explain and predict those events or situations" (Van Ryn & Heaney, 1992). The main focus of theoretical literature is on theories or hypotheses, not on how they can be used in real life. Theoretical literature starts with a formal model that tries to explain participation patterns in terms of an underlying theory (Heilbronn & Gray, 1993). Based on these models, we'll talk about the following ideas:

1. **Agency Theory** shows how to set up relationships in which one person decides what work needs to be done and another person does the work. In this kind of relationship, the principal hires an agent to do the work or do a task that the principal doesn't want to do or can't do. For example, the shareholders of a company are the principals, and they give tasks to the agent, which is the management of the company, to do on their behalf. Agency theory says that both the principal and the agent want what is best for themselves. This assumption of self-interest makes it impossible for agency theory to avoid conflicts. So, if both parties are looking out for themselves, agents are likely to pursue their own self-interested goals, which may be different from or even at odds with the goals of the principal. But agents are supposed to work only in their principals' best interests. Coase (1937) agreed with this point of view. He said that the controls help solve conflicts between the agent and the principal and that moral hazard and adverse selection affect the agent's output. Studies show that the agency theory has been used to explain why people want to keep an eye on things (Watts & Zimmerman, 1983). Organizations have built internal control systems into their policies, rules, and regulations to help them reach

their goals. This theory is important for the current study because it will show how the client and the agency work together for the organization's benefit. It will also help the organization's internal controls be evaluated. The fact that the principal gave the agent his power also gave the principal a role to watch over the agent.

**2. The idea behind the firm:** The theory of the firm is a microeconomic idea that comes from neoclassical economics. It says that businesses and corporations make decisions in order to make as much money as possible. Firms use the market to figure out prices and demand, and then they divide up their resources based on models that try to maximize their net profits. In the theory of the firm, it is said that a business's actions are driven by making the most money. This theory is used to make decisions about how to use resources, how to make things, how to set prices, and how many things to make. Modern versions of the theory of the firm take into account things like the fact that many people who make decisions don't own much equity. Some people think that chief executive officers (CEOs) of publicly traded companies are interested in maximizing profits as well as sales, PR, and market share. When a business only focuses on making as much money as possible, it runs the risk of being seen negatively by the public and losing goodwill with other people or businesses. When a business only uses one strategy in the market, it faces another risk. If a company or department within a company depends on the sale of one product for its overall success, and that product fails in the market, it can lead to the financial collapse of that company or department. Spulber (2009) says that the theory of the firm is made up of a number of economic theories that explain and predict the nature of the firm, company, or corporation, including its existence, behavior, structure, and relationship to the market. Magu and Kibati (2016) quote DePaula (1990), who said that risk assessment is important for the firm's survival. Millichamp (1999) backs this up by saying that monitoring a firm's activities decreases the chance that accounts will be manipulated on purpose and increases the checking element. This makes it harder to commit fraud and helps the company make the most money possible. This theory is important to the current research project because it shows how interactions with internal controls can help people get the most out of their money. It also helped people understand what controls should be put in place to help make more money.

#### **2.1.4. The Major Elements of an Internal Control Process**

According to Jacksonville (2000), the internal control process has grown more comprehensive over the years, taking into account the full range of risks that modern businesses must contend with. Historically, this procedure has been used to cut down on instances of fraud, misappropriation, and errors. It is now widely accepted that a well-established system of internal controls is essential to the achievement of the company's stated objectives. The five components of internal control and how they work together are outlined in this article as best practices for managers and executives to uphold. The aspects of these controls are as follows: management oversight and the control culture; risk recognition and assessment; control activities and segregation of roles; information and communication; monitoring activities and resolving inadequacies; and so on.

Several Types of Internal Controls Used by Businesses Several types of internal controls are used by businesses, as outlined by Sawyers' (2002) guide for internal auditors.

Documentation According to PCAOB release No. 2004-006, documentation is the process of keeping records that can be used to back up a claim, such as a decision, an action, a transaction, or a system. ISA 230 stipulates that every documentation must be comprehensive, precise, and recorded immediately. It should aid in accomplishing the organization's goals, provide direction to management, and facilitate operations. Lack of direction in documentation can be detrimental to an organization's productivity.

Verification Business dictionaries and academic research agree that verification is the investigation of the truthfulness, accuracy, authenticity, and validity of a deal, event, or piece of data. In other words, it's a type of control activity that helps management make sure tasks are being completed as planned. It is up to management to determine what levels of verification are necessary, taking into account the potential impact of not doing so on the business. Management has an obligation to make sure people conducting audits are aware of their decisions.

To provide someone with supervision is to aid them in developing their expertise and knowledge in their chosen field. Depending on the setting, the degree to which these factors are important may vary. Considering supervision in terms of both development (in the sense of lifelong learning) and clinical governance and standard setting can be useful. Help reduce mistakes and waste by giving your staff the direction and training they need to implement your company's policies and procedures. In accordance with Auditing Standard No. 10 and PCAOB release No. 2010-004, it is imperative that all assigned functions and responsibilities be communicated clearly to those responsible for carrying them out.

Protect Valuables Kendra James (2001) argues that limiting who has access to assets can assist prevent their misuse or loss. Assets, files, papers, and other resources that could be misused, damaged, or stolen should be effectively protected, and management is responsible for ensuring this.

Personal control is the degree to which an individual is in charge of their own destiny and can alter the course of events. Many different schools of thought have pointed to the significance of internal locus of control and proposed that an innate human drive to exert dominion over external circumstances (Schultz et al., 1994). According to ISA 700, reporting is a communication tool. The control function is served when the possibility of a negative event is eliminated or significantly decreased. Timelines, progress toward objectives, financial resources, and potential outcomes are all topics that can be aided by reporting for the purposes of monitoring (Business Dictionary, 2002).

#### **2.1.5. Limitations of Internal Controls in Organizations**

A system's internal controls can provide some level of assurance that the goals set out by management when establishing the system will be met. This is due to the fact that it is very difficult to prevent or detect errors and fraud when two or more individuals have colluded, despite the best efforts of any internal control system. Fraudulent collusion between parties outside of the entity or within the entity's own ranks can be used to circumvent control

(Millichamp, 1996). Those in positions of authority may misuse their power. For instance, the person who has been given authorization controls may use them improperly (Woolf, 1986).

Internal control has the following limitations, as discussed in the Financial Accountability Handbook (2013): The majority of controls are focused on typical transactions, so unusual transactions may slip through the cracks due to staff collusion for personal gain or other motives; human error is always a possibility in any control system. Causes include staff carelessness, poor judgment, and laziness, as well as the strain of the workplace as a whole.

#### **2.1.6. Internal control components**

Internal control has elements that are similar to those found in other systems. The term "internal control standards" has also been used to refer to the same things; however, the terms "elements" and "frameworks" are more common. In order to be effective, internal control, according to the Committee of Sponsoring Organizations (COSO), Sarbanes-Oxley, and the American Institute of Certified Public Accountants (AICPA), should primarily consist of five components: the control environment, control activities, risk assessment, information and communication, and monitoring. We broke down each component like this:

The term "control activity" refers to the measures taken in accordance with established policies and procedures to help guarantee that management's orders to reduce potential threats to goal attainment are carried out. There are controls in place over the entire organization, at each step of the business process, and in the underlying technology infrastructure. Authorizations, approvals, verifications, reconciliations, and reviews of business performance are just a few examples of the manual and automated tasks that fall under this category. Selection and development of control activities typically incorporate segregation of duties. Alternative control activities are selected and developed by management in situations where segregation of duties is impractical. (COSO2013) According to the framework for an internal control system in banking organizations (1998), the bank's control activities should be built into the fabric of the business as a whole.

Establishing an appropriate control structure and defining control activities at each level of an organization's operations are essential for implementing an effective internal control system.



Top-down reviews, department-specific activity controls, physical controls, verification and reconciliation processes, a process for handling violations of exposure limits, and a system for approving and authorizing transactions are all essential components. For an internal control system to function properly, there must be clear separation of responsibilities and no overlap between the roles of different employees. Conflicts of interest should be identified, mitigated, and subject to stringent, independent oversight.

Each organization needs to conduct a risk analysis because there are so many potential threats in the world. A risk is anything that might happen that could have a negative impact on plans and goals. The process of risk assessment is an ongoing cycle of discovery and evaluation of potential threats to success. All risks, internal and external, that could prevent the organization from reaching its goals are evaluated in light of its risk appetite. This means that risk assessment is the cornerstone of risk management strategy development. In order to conduct a risk analysis, it is necessary to first establish interconnected objectives at various organizational levels. There is sufficient clarity in management's articulation of objectives across the operational, reporting, and compliance domains to permit the identification and analysis of risks to those goals. In addition to ensuring that the goals are realistic, management also evaluates whether or not they are appropriate for the organization.

As part of the risk assessment process, management must also think about how potential shifts in the external environment and within the company's own business model might compromise the efficacy of internal control. (COSO2013) Effective risk assessment, as outlined by the framework for internal control systems in banking organizations (1998), identifies and takes into account both internal and external factors (such as economic conditions, industry shifts, and technological developments) that could have a negative impact on the bank. This risk analysis needs to be performed at the company level and across the entire spectrum of the consolidated banking organization's activities and subsidiaries. There are a few ways to achieve this. An accurate risk assessment takes into account the costs and benefits of potential controls and takes into account both the quantifiable and intangible aspects of potential dangers. Evaluating which risks are within the bank's control and which are not is also part of the risk assessment process. The bank must decide whether to accept controllable risks or how much it wants to reduce them through control measures. The bank must decide whether to continue engaging in the business as

usual, despite the uncontrollable nature of certain risks, or whether to withdraw from or scale back on the activity altogether. Risk management, as defined by J. Dubihlela and Lisa (2017), is the process of preventing, detecting, and responding to events that could have a negative financial or physical impact on an organization, its people, its assets, or its profits.

Each of the five components of internal control, as well as the controls to affect the underlying principles within each component, must be subjected to continuous or periodic evaluations in order to ensure proper functioning and compliance with regulatory requirements. Continuous assessments, embedded in organizational processes at all levels, yield timely data. The scope and frequency of these independent reviews will shift over time in response to changes in risk perception, the results of ongoing reviews, and other managerial factors. Deficits are reported to management and the board of directors after being compared to regulatory or recognized standard-setting body criteria or internal company standards. (COSO2013) An ongoing evaluation of the bank's internal controls is required by the framework for internal control systems in banking organizations (1998 ).

The bank's daily operations, as well as periodic reviews by the various business lines and internal audit, should include the monitoring of key risks. The banking industry is always changing, so financial institutions must ensure their internal control systems are updated and improved as needed to keep up. The efficiency of internal controls can be monitored by experts in a variety of fields, such as the underlying business function, financial control, and internal audit. That's why upper management needs to specify exactly who's in charge of what kinds of oversight. The bank's daily operations should be monitored, and there should also be periodic, independent reviews of the entire system of internal controls. The risks and the pace and nature of changes in the operating environment should inform how often a bank monitors its various activities. The benefits of continuous monitoring include early detection of problems and the opportunity to fix them before they cause serious damage to the organization's internal control structure. When an internal control system is embedded within the business infrastructure and generates periodic reports, management can rest assured that their operations are being closely watched.

Banks and other financial institutions are required by law to have a "corporate governor" who is responsible for establishing and maintaining a corporate governance framework that establishes

the institution's mission and values and fosters a company culture that is conducive to strong internal control and auditing. Corporate governance has been in the spotlight recently due to high-profile scandals involving companies like Adelphia, Enron, WorldCom, and others (Jhonkanu, 2016), which served as the impetus for new regulations in the United States like the Sarbanes-Oxley Act of 2002. This law is widely regarded as the most comprehensive corporate governance regulation enacted in the past seven decades (Henal., & Th; Henry & Thornton et alrnton et al 2003). Tobin Qs are a proxy for firm value, and research by Bebchuk, Ferrell, and Cohen (2009) shows that firms with stronger stockholder rights have higher Tobin Qs. This finding suggests that better-governed firms are more valuable. The corporate governance code stresses the significance of a solid internal control structure for mitigating the risks that any business faces. Below, we also talked about the controls in place, the accounting software, and the lines of communication. The control environment is the foundation upon which internal control can be implemented and maintained throughout an organization. The board of directors and the executive management team set the bar for employee behavior and the organization's commitment to internal control. Organizational expectations are consistently reinforced by management at all levels. Integrity and ethical values, the framework for the board of directors to carry out its governance oversight responsibilities, the structure and assignment of authority and responsibility, the method for attracting, developing, and retaining competent individuals, and the rigor around performance measures, incentives, and rewards to push accountability for performance are all part of the control environment. The resulting control environment affects the internal control system in fundamental ways. (COSO2013) The entity cannot fulfill its internal control responsibilities without the information at its disposal. To ensure the smooth operation of the other parts of internal control, management gathers or creates the necessary information and uses it. Constant, iterative exchange of information between individuals is what we mean when we talk about communication. (COSO2013) Adequate information and effective communication are crucial to the proper functioning of an internal control system, as stated in the framework for an internal control system in a banking organization (1998). From the bank's point of view, information is most helpful when it is accurate, up-to-date, easy to find, and presented in a uniform format. An organization's internal financial, operational, and compliance data, as well as external market data on events and conditions that are relevant to decision-making, are all

examples of information. The process of keeping records, of which internal data is a part, ought to include standard operating procedures for document storage and retrieval.

### **2.1.7. Features of Effective Internal Control**

For us to say that the company has good internal control, it would have to have the following:

- a) Segregation of duties: A good internal control system is built on the idea that different jobs should be done by different people. Authorization, custody, and keeping records should be done by different people, so that one person can't do a transaction from start to finish. The idea behind segregation of duties is that people would have to work together to steal money instead of just one person doing it on their own.
- b) Authorization and approval: For internal control to work well, all cash transactions need to be authorized and approved by a person with the right amount of responsibility. To keep from giving too much power to only a few people, the Board of Directors should decide on the limits of authorization. With the right permissions, we will have to pay for any cash that goes missing.
- c) Personnel: Personnel is the most important part of good control. Even if the rest of the checklist is good, employees who aren't good at their jobs or aren't honest can ruin the system.
- d) Documents with serial numbers are an internal control method that can be used in many different situations. Serial numbers keep track of how many checks, tickets, payment vouchers, purchase orders, and other business documents are made. For each number in the series, documents should be checked once a month or once a week (Odongo A., 2011).
- e) Other things that make for good internal control are correct math and accounting, a voucher system, and organization.

## **2.2. Empirical Literature Review**

Dagnu (2013) looked at the Cooperative Bank of Oromia's cash operations to see how well internal control and the internal audit function worked. Dagnue used descriptive research design methods to explain what makes the Cooperative Bank of Oromia's internal control system effective and efficient. The empirical results show that a combination of cash operation

functions and some personal relationships leads to a lack of integrity, competence, knowledge, and experience among cash operation employees, poor communication of the right information for making decisions, theft of cash, unsatisfactory checks, and weak internal audit functions in the bank. This makes it hard for the bank's internal control systems to be effective and efficient. Lastly, Dagnu suggests that the Cooperative Bank of Oromia set up incentives, punishments, chained follow-up where all employees watch each other, different and ongoing training and orientation, surprise audits and verification, serious regular reporting periods, and keep the internal auditor's independence in order to make internal control systems more effective and efficient.

Francis and Samuel (2013) did an empirical study of internal control over cash collection in the Electricity Company of Ghana Ltd., Accra East Region. They found that internal control systems can be expected to help achieve goals related to the reliability of financial reporting and following laws and rules. Before officers can choose and put in place controls that are right for the size and complexity of their business, they need to know how, when, and where cash is collected and what each employee does. Even though no system is perfect, a well-designed set of control procedures can give you a good idea of how likely it is that major thefts of cash receipts and major mistakes in keeping records will be stopped or found. The most likely thing to be stolen from a local government is cash, if there isn't a system of internal controls in place and working well.

Terengo (2013) looks at how Awash International Bank, Share Company, controls its cash on the inside. Terengo found that some documents, like deposit vouchers and withdrawal vouchers for savings accounts, don't have serial numbers. One person pays and receives cash in the cash payment and receiving function. In payment processing, one person finds the payment, checks it, and gives it the go-ahead. There are a lot of people coming and going, and all of the cash will be counted by hand and with a machine.

In a case study of Tanzania Breweries Limited, Leon (2010) looks at how well an internal control system works when it comes to managing cash. The empirical results show that there are problems with internal control over cash, such as transactions that need to be recoded, employees who don't get switched out often enough, and payments that are late.

Geofry (2014) research on the evaluation of internal cash management control systems and a case study of five compassion centers in the Morogoro region. Geofry found that the internal controls over cash management were not working well because of bad operations or mismanagement of funds. He also found that the financial report to donors was late.

Also, it was found that some of the people didn't have the professional skills to do the jobs they were given, since they didn't keep account books or follow the rules for buying things. There is a problem with accountants and auditors who don't follow their profession's rules. This makes accounting books that aren't accurate. The study has shown that there are some problems with managing cash, such as when leaders get in the way of cash control. This is especially true for pastors, who were found to be the ones who hired the people who worked in the Compassion Centers. Geofry also found that there was no separation of duties, which, along with the fact that there weren't enough people to do the work, led to a weak internal control system for managing cash.

Internal controls are the tools, rules, and procedures that a company uses to make sure that financial and accounting information is accurate, encourage accountability, and stop fraud. Internal controls can help improve operational efficiency by making sure that financial reporting is accurate and done on time. They can also make sure that employees don't steal assets or commit fraud. After the accounting scandals of the early 2000s, the Sarbanes-Oxley Act of 2002 was passed to protect investors from fraudulent accounting practices and improve the accuracy and reliability of corporate disclosure. In general, the research shows that organizations should put a lot of money into internal control and use that money to make their internal control systems better. There needs to be a commitment of money, time, knowledge, and people, especially because good internal control is good business on its own. It makes sure that an organization's operational, financial, and compliance goals are met.

### **2.3. Research Gap**

A cash collection internal control system's fundamental drawback is that it can only provide reasonable assurance, rather than absolute certainty, that the measures adopted will withstand undesirable circumstances, regardless of how well the system works. Because humans are responsible for performing the internal controls over cash collection, it is vulnerable to mistakes

made by personnel. Training programs that emphasize ethics as a core value can help reduce the likelihood of this happening.

Organizations have fewer personnel to conduct several internal accounting controls such layers of permission, cross-checking, segregation of duties, supervision, etc. as a result of technological developments and shifting management practices. Therefore, in order for internal controls to be efficient, a variety of control elements are required. The foregoing literature study shows that internal cash control resources have not been utilized as thoroughly as they could. There have been a number of studies discussing the five components of internal control, but most of them have focused on the controlling system of a single company. These studies diverge from one another by highlighting a different aspect of internal control specifically cash, the most liquid asset ever and the effect has been greater because of this. This research endeavors to zero in on the problem of inadequate internal control over funds. There is a knowledge vacuum due to the lack of empirical research on the factors that affect internal cash control, especially in the banking industry.

## **CHAPTER THREE**

### **3 RESEARCH METHODOLOGY**

#### **Introduction**

This chapter describes the study methods utilized to achieve the stated research objectives. It provides a full outline of the processes used by the researcher to conduct this study. It describes the research design, data source and type, sampling strategy and procedures, data gathering method, data processing approach, and presentation.

#### **3.1 Research design**

Different research designs may be utilized to investigate business problems. On the basis of how researchers pose their research questions and present their findings, the research design can be divided into three major categories: exploratory, descriptive, and explanatory (Saunders et al., 2009). This study employed a descriptive research design to assess the Commercial Bank of Ethiopia Sebeta Cluster Branches' internal control over cash. A descriptive study, as opposed to an exploratory study, would provide readers with a reassuring answer to the research question posed in the first chapter of this research paper.



### 3.2 Research Approach

To get the most accurate results, this study used a triangulation strategy, which involves combining qualitative and quantitative methods. The research questions necessitate both in-depth comprehension and facts about the study population, which is why both a quantitative and qualitative technique is being used. Triangulations, or the practice of gathering data from multiple sources and comparing their results, were used in the study. The information gleaned from the questionnaire can be further validated or verified with the aid of triangulation.

### 3.3 Data Source

Primary sources were used to gather all of the study's essential information. To complete this research, the researcher consult and collect data from primary sources to evaluate the Commercial Bank of Ethiopia's Sebeta cluster branches' adherence to internal controls over cash. Data for this study primarily comes from the expert staff members at the Commercial Bank of Ethiopia's Sebeta cluster offices. The Mogelega terara, Seden tuluma, Kentera branch, Kerabu branch, Mama Mesjid branch, Alemgena branch, Melka sebeta branch, and Sebeta cluster branches of Commercial Bank of Ethiopia participated in the study which includes operational and management staffs. Questionnaires were used to gather information from the aforementioned locations.

### 3.4 Target Population

Those working in the various departments of the Commercial Bank of Ethiopia's Sebeta Cluster branches made up the study's primary population. There are 1838 different locations of the Commercial Bank of Ethiopia. Since it is impractical to examine all branches within the constraints of time and money, the researcher has narrowed the scope of the study to the eight branches that make up the sebeta cluster. Staff at CBE's Mogelega Terara, Seden Tuluma, Kentera Branch, Kerabu Branch, Mama Mesjid Branch, Alemgena Branch, Melka Sebeta Branch, and Sebeta Branches are the primary audience for this communication.

**Table 1: Total number of professional staffs working in CBE Sebeta cluster branches**

<b>Branch</b>	<b>Total Number of staffs</b>
Mogelega terara	17

Seden tuluma	11
Kenteri branch	19
Kerabu branch	17
Mama mesjid branch	9
Alemgena branch	32
Melka sebeta branch	11
Sebeta branch	49
<b>Total professional employees in all branches</b>	<b>165</b>

Therefore, the researcher sets total target population of the study is professional employees who work from those eight branches CBE sebeta cluster branches which accounts 165 employees.

### 3.5 Sample Size and Sampling Method

#### 3.1.1. Sample Size

The banking industry was the focus of this research, more specifically the branches in the CBE sebeta cluster. With the available time and money, it is challenging to bring all 165 employees across eight branches online. For this reason, picking the right size of a sample is crucial. According to the study's official tally, there are a total of 165 people working at the eight CBE locations that are part of the sebeta cluster. Yamane (1967:886) offers a simplified formula for calculating sample sizes in order to determine the appropriate sample size for small populations. The following are the sample sizes determined using Yamane's formula:

$$n = \frac{N}{1 + N(e)^2}$$

Where n is the sample size, N is the population size, and e is the level of precision. When this formula is applied to the this paper by considering a 95% confidence level and P = .05

$$n = \frac{165}{1 + 165(0.05)^2} = 116.8 = 117$$

According to Yamane's formula, the sample size for this study consists of 117 professional CBE staff members currently employed at sebeta cluster branches. To ensure inclusivity, the overall sample size is stratified as follows by branch:

$$i = \frac{i}{N} * n$$

**Table 2: sample size allocation based on branch stratification**

<b>Branch</b>	<b>Total Number of staffs</b>	<b>Sample</b>
Mogele terara	17	$17/165 \times 117 = 12$
Seden tuluma	11	8
Kenteri branch	19	13
Kerabu branch	17	12
Mama mesjid branch	9	6
Alemgena branch	32	23
Melka sebeta branch	11	8
Sebeta branch	49	35
<b>Total</b>	<b>165</b>	<b>117</b>

### 3.1.2. Sampling Method

To select 117 staff stratified by branch from a target population of 165 staff, both probability and non-probability sampling techniques, namely simple random sampling and judgmental sampling, were employed. To be inclusive, the researcher takes into account each staff group: operational staff, middle staff, and upper management. For operational staff, a simple random sampling technique is used by taking their list from the HRM department and selecting employees who fill out questionnaires using a lottery system. The sampling technique used to select middle and upper management staffs based on subjective criteria.

### 3.6 Data Collection Methods and Instruments

Because questionnaires are commonly used to collect data for descriptive research designs, it is common to collect data for a study by distributing questionnaires to selected employees. Questionnaires are defined as written forms that ask precise questions of all members of a sample group and that respondents may complete at their leisure (Gall et al., 2007). Each respondent will be provided with a questionnaire for self-administration. The questionnaire contains two major sections. To achieve the research objectives, the first section covered demographic variables, and the second section covered the internal control over cash of CBE sebeta cluster branches. The researcher uses a questionnaire because it is easier to administer and collect data with, as well as more cost- and time-efficient. There were both closed-ended and open-ended questions on the questionnaire.

### **3.7 Data Analysis Methods**

The sample of respondents provided both quantitative and qualitative data. The information gathered through closed-ended structured questionnaires was analyzed using SPSS software version 20; descriptive analyses will be presented in a variety of formats, including charts, histograms, tails, and tabulations.

### **3.8 Research Ethics**

An important issue in this study was research ethics, and the researcher placed special emphasis on these ethical issues in every aspect that required it. When the questionnaires were given to the respondents, they were informed and assured that the information they provided is kept confidential and used solely for academic purposes. A statement complies with the prohibition on disclosing identity details or personal references in the questionnaire, which aids in the avoidance of biased responses or unauthentic data provided by respondents and makes participants feel safe in filling out the questionnaire. The collected data is kept and will not be used for any personal gain, and it is done in accordance with acceptable professional ethics.

## CHAPTER FOUR

### 4. RESULT AND ANALYSIS

#### Introduction

This chapter discusses the presentation, analysis, and interpretation of data collected from respondents via questionnaires. The quantitative and qualitative data were used in the analysis. The data was intended to be collected from a total of 117 respondents, but only 113 completed and returned the questionnaire from the total sample size of 117 to which it was distributed, implying that the analysis is based on 113 respondents. Even though not all respondents completed and returned the distributed questionnaire, those who did had an excellent response rate of 96.6, so an analysis based on the returned questionnaire is reasonable.

#### 4.1. Reliability Rest

When using Likert scale questions to assess the credibility of research outcomes and findings, reliability testing is the most important criterion. Cronbach's alpha is the most commonly used measure of reliability; a value close to one indicates that the scale is more reliable, and vice versa. As a general rule, alpha values of 0.70 or higher are recommended for high reliability (Hair et al. 2005).

**Table 3: Reliability Statistics**

<b>Sub section of scale variables</b>	<b>N of Items</b>	<b>Cronbach's Alpha</b>
1. Documentation and Record keeping practice	5	0.85
2. Internal control over cash policies in CBE	5	0.82
3. Segregation of Duties and Responsibilities in CBE	3	0.78
4. Cash custody and dual control	2	0.88
5. Safeguard cash from misappropriation	2	0.82
6. Existence of pre-numbered system in CBE	2	0.80

Source: Researcher's Computation using SPSS (2022)

The Cronbach's alpha value of 0.83 in Table 3 above for all six sections indicates that the reliability of five-likert scale questionnaires is good because it is greater than 0.7 for all variables, and it can be used for research analysis on internal cash control over cash in the case of CBE sebeta cluster branches

## 4.2. Demographic Characteristics of Respondents

**Table 4:** Demographic Characteristics

Item		Frequency	Percent
1. Gender	Female	46	40.7
	Male	67	59.3
	<b>Total</b>	<b>113</b>	<b>100</b>
2. Marital Status	Married	59	52.2
	Single	48	42.5
	Divorce	4	3.5
	Widowed	2	1.8
	<b>Total</b>	<b>113</b>	<b>100</b>
3. Age	18-22	26	23.0
	23-27	38	33.6
	28-32	26	23.0
	33-37	10	8.8
	38-42	8	7.1
	above 42	5	4.4
	<b>Total</b>	<b>113</b>	<b>100</b>
4. Educational Qualification	TVET/Diploma	10	8.8
	First Degree	60	53.1
	MA/MBA/Msc.	43	38.1
	PhD	0	0.0
	<b>Total</b>	<b>113</b>	<b>100</b>
5. Experience	1-2 years	18	15.9
	3-5 years	31	27.4
	6-10 years	38	33.6
	11-15 years	21	18.6
	above 15 years	5	4.4
	<b>Total</b>	<b>113</b>	<b>100</b>
6. Current position	Junior Officer	31	27.4
	Assistant Officer	39	34.5
	Senior Officer	28	24.8
	Deputy Branch Manager	9	8.0
	Branch Manager	6	5.3
	<b>Total</b>	<b>113</b>	<b>100</b>

Source: Researcher's Computation using SPSS (2022)

Table 4, Item 1 reveals that the majority of respondents were male (59.3 percent) and female (40.7%), with the remainder respondents being female (40.7%). 52.2 percent of respondents were married, 42.5 percent were single, 3.5 percent were divorced, and 1.8 percent were widowed, per Table 4, Item 2.

23 percent of respondents were between the ages of 18 and 22, 33.6 percent were between the ages of 23 and 27, 23 percent were between the ages of 28 and 32, 8.8 percent were between the ages of 33 and 37, 7.1 percent were between the ages of 38 and 42, and 44 percent were older than 42. In Table 4, Item 4, the majority of respondents, 53.1%, held a bachelor's degree; 38.1% held a master's degree; and 8.8% held a diploma.

According to table four, item five, the majority of study participants were between the ages of 1 and 2 years, 27.4% were between the ages of 3 and 5 years, 33.6% were between the ages of 6 and 10 years, and 18.6% and 4.4% were beyond the age of 15 years. 27.4% of all participants in the study table four item six are junior officers, 34.5% are assistant officers, 24.8% are senior officers, 8% are deputy branch managers, and 5.3% are branch managers.

### **4.3. Assessment of Internal Control over Cash**

Abdelrasheed (2020) says that the mean score can be used to figure out what the five-likert scale data means. If the mean score is between 1 and 1.8, it means that most of the respondents strongly disagree. If the mean score is between 1.8 and 2.6, it means that most of the respondents disagree. If the mean score is between 2.6 and 3.4, it means that most of the respondents are neutral. If the mean score is between 3.4 and 4.2 indicate Agree, between 4.2 and 5 is considered as Strongly Agree on the issue that is raised.

#### **4.3.1. Documentation and Record Keeping Practice**

Table 5's seventh question shows that 2.7%, 5.3%, 12.4%, 48.7%, and 31% of the people who answered strongly disagree, disagree, neutral, agree, agree, and strongly agree, respectively, that the Commercial Bank of Ethiopia has organized documentation and records of cash transactions. The average value (4.0) for item seven in Table 5 shows that the value is between 3.4 and 4.2. This means that, on average, most of the people who answered the survey agree that the Commercial Bank of Ethiopia has organized documentation and records of cash transactions.



**Table 5: Documentation and Record keeping practice**

Item	Strongly Disagree	Disagree	Neutral	Agree	Strong Agree	Mean	Std. Deviation
	Row N %	Row N %	Row N %	Row N %	Row N %		
7. There is organized documentation and record keeping of cash transaction	2.7	5.3	12.4	48.7	31.0	4.00	0.94
8. CBE current cash management system safeguard cash from misappropriation	1.8	4.5	7.9	48.7	37.2	4.13	0.79
9. CBE record the transaction on timely basis	0.0	0.9	1.8	54.9	42.5	4.39	0.57
10. The bank maintain separate property files which include invoices(including settlement sheets and bills of sale as necessary) titles(on real estate vehicles etc) and other pertinent ownership data as part of the required documentation	0.0	8.0	16.8	43.4	31.9	3.99	0.90
11. An individual cumulative over and short record maintained for all persons handling cash and does management review the record	8.0	10.6	12.4	39.8	29.2	3.72	1.22

Source: Researcher’s Computation using SPSS (2022)

Table 5's item 8 shows that 1.8 percent, 4.5 percent, 7.9 percent, 48.7 percent, and 37.2 percent of respondents strongly disagree, disagree, are neutral, agree, and strongly agree that the CBE's current cash management system protects cash from being stolen. Table 5's average value for item 8 (4.13), which is between 3.4 and 4.2, shows that most people agree that CBE's current cash management system keeps cash from being stolen.

Table 5's item nine shows that 0.9%, 1.8%, 54.9 %, and 42.5 % of respondents don't agree, are

neutral, agree, and strongly agree, respectively, that CBE records the transaction in a timely manner. The average value of 4.39 for item 9 in table 5 shows that the value is between 4.2 and 5, which means that on average, most of the respondents strongly agree that CBE records the transaction in a timely manner.

Item ten in Table 5 shows that 8 percent of respondents disagree, 16.8 percent are neutral, 43.4 percent agree, and 31.9 percent strongly agree that the bank should keep separate property files with invoices (including settlement sheets and bills of sale, if needed), titles (for real estate, vehicles, etc.), and other important ownership information as part of the required paperwork. The average value (3.99) for item ten in table five is between 3.4 and 4.2. This means that on average, most of the respondents agree that the bank keeps separate property files that include invoices (including settlement sheets and bills of sale as needed), titles (on real estate, vehicles, etc.), and other important ownership information as part of the required documentation.

Table 5's item 11 shows that 8 percent, 10.6 percent, 12.4 percent, 39.8 percent, and 29.2 percent of respondents strongly disagree, disagree, are neutral, agree, and strongly agree, respectively, that a cumulative over and short record is kept for each person who handles cash and that the record is reviewed by management. Table 5's average value of 3.72 for item 11 shows that the value is between 3.4 and 4.2. This means that, on average, most of the respondents agree that a cumulative over and short record is kept for each person who handles cash and that the record is reviewed by management.

### 4.3.2. Internal Control over Cash Policies

**Table 6: Internal control over cash policies in CBE**

Item	Strongly Disagree	Disagree	Neutral	Agree	Strong Agree	Mean	Std. Deviation
	Row N %	Row N %	Row N %	Row N %	Row N %		
12. There is strong policies and procedures that forces the control system to be implemented regarding to cash	0.0	8.0	18.6	40.7	32.7	3.98	0.92
13. The banks have a clearly defined method of determining whether fixed assets should be owned or leased, and does the bank maintain supporting documentation	0.0	6.2	16.8	41.6	35.4	4.06	0.88
14. Employees are responsible for cash handling and deposits provided with a manual or set of standard operating procedures	0.0	0.0	7.1	51.3	41.6	4.35	0.61
15. There is strong banks polices that protect internal control system from mislead	0.0	7.1	12.4	46.9	33.6	4.07	0.86
16. The bank's policies and procedures on cash management are in written form	2.7	14.2	14.2	36.3	32.7	3.82	1.12

Source: Researcher's Computation using SPSS (2022)

As seen in Table 6's item 12, 8%, 18.6%, 40%, and 32.7 % of those who answered disagree, are neutral, agree, or strongly agree that there are strong policies and procedures that force the control system to be used with cash in the CBE. The average value for item 12 in table 6 is 3.98, which is between 3.4 and 4.2. This means that, on average, most of the people who answered the survey agree that there are strong policies and procedures that force the control system to be used with cash in the CBE.

Item 13 in table 6 shows that 6.2 percent of respondents disagree, 16.8 percent are neutral, 41.6 percent agree, and 35.4 percent strongly agree that the CBE has a clearly defined method for deciding whether fixed assets should be owned or leased, and that the bank keeps supporting documentation. The average value (4.06) for item thirteen in table six shows that the value is between 3.4 and 4.2. This means that, on average, most of the respondents agree that CBE has a clearly defined method for deciding whether fixed assets should be owned or leased and whether the bank keeps supporting documentation.

Table 6's item 14 shows that 7.1%, 51.3%, and 41.6% of respondents are neutral, agree, and strongly agree, respectively, that employees are responsible for handling cash and making deposits when given a manual or set of standard operating procedures. Table 6's average value for item 14 (4.35), which is between 4.2 and 5, shows that most people strongly agree that employees are responsible for handling cash and making deposits as described in a manual or set of standard operating procedures.

Table 6's item 15 shows that 7.1%, 12.4%, 46.9%, and 33.6% of respondents disagree, are neutral, agree, or strongly agree that CBE has strong bank policies that keep the internal control system from being misled. The average value for item 15 in table 6 is 4.07, which is between 3.4 and 4.2. This means that most people agree that CBE has strong bank policies that keep the internal control system from being misled.

Table 6's item 16 shows that 2.7 percent of respondents strongly disagree, 14.2 percent disagree, 14.2 percent are neutral, 36.3 percent agree, and 32.7 percent strongly agree that the bank's policies and procedures for managing cash are written down. Table 6's average value of 3.82 for item 16 shows that the value is between 3.4 and 4.2, which means that on average, most of the respondents agree that the bank's cash management policies and procedures are written down.

### 4.3.3. Segregation of Duties and Responsibilities in CBE

**Table 7: Segregation of Duties and Responsibilities in CBE**

	Strongly Disagree	Disagree	Neutral	Agree	Strong Agree	Mean	Std. Deviation
	Row N %	Row N %	Row N %	Row N %	Row N %		
17. There is division or segregation of duties and responsibilities in the area of cash and cash related activities	6.2%	5.3%	26.5%	36.3%	25.7%	3.70	1.1
18. There is rotation of cash handling duties on a periodic basis	8.8%	13.3%	26.5%	25.7%	25.7%	3.46	1.25
19. All cash transactions require authorization and approval by an appropriate responsible person	1.8%	13.3%	16.8%	33.6%	34.5%	3.86	1.09

Source: Researcher’s Computation using SPSS (2022)

Table 7's item 17 shows that 5.3 percent, 6.2 percent, 26.5 percent, 36.3 percent, and 25.7 percent of respondents strongly disagree, disagree, are neutral, agree, and strongly agree that duties and responsibilities are split or separated when it comes to cash and activities related to cash. Table Seven's average value for item 17 is 3.70, which shows that the value is between 3.4 and 4.2. This means that, on average, most of the respondents agree that duties and responsibilities are split or separated when it comes to cash and cash-related activities.

Table 7's item 18 shows that 8.8%, 13.3%, 26.5, 36.3%, and 25.7 % of respondents strongly disagree, disagree, are neutral, agree, and strongly agree that cash handling duties are rotated regularly. The average value for item 18 in Table 7 is 3.46, which means that the value is between 3.4 and 4.2. This means that, on average, most respondents agree that cash handling duties are changed often.

Based on question 19 in table 7, 1.8%, 13.3%, 16.8%, 33.6 %, 34.5 %, and 34.5 % of the respondents strongly disagree, disagree, are neutral, agree, and strongly agree that all cash transactions need to be authorized and approved by a responsible person. Table Seven's average value (3.86 for item 19) shows that the value is between 3.4 and 4.2. This means that, on average, most of the respondents agree that all cash transactions need to be authorized and approved by

responsible person.

#### 4.3.4. Cash custody and dual control

**Table 8: Cash custody and dual control**

Item	Strongly Disagree	Disagree	Neutral	Agree	Strong Agree	Mean	Std. Deviation
	Row N %	Row N %	Row N %	Row N %	Row N %		
20. All tellers, including relief tellers, have sole access to their own cash supply, and are all spare keys kept under dual control	0.0%	6.2%	15.0%	46.9%	31.9%	4.04	0.85
21. Tellers have their own vault cubicle or controlled cash drawer in which to store their cash supply	0.0%	0.0%	0.0%	49.6%	50.4%	4.50	0.50

Source: Researcher’s Computation using SPSS (2022)

Table 8's item 20 shows that 6.2% of respondents disagree, 15% are neutral, 46.9% agree, and 31.9% strongly agree that all tellers, including relief tellers, have exclusive access to their own cash supply and that all spare keys are kept under dual control. The average value for item 20 in table 8 is 4.04, which is between 3.4 and 4.2. This means that on average, most of the respondents agree that all tellers, including relief tellers, have sole access to their own cash supply and that all spare keys are kept under dual control.

Table Eight's item twenty-one shows that 49.6% of respondents agree and 50.4% strongly agree that CBE tellers have their own vault cubicle or controlled cash drawer to store their cash supplies. The average value (4.5) for item twenty-one in table eight is between 4.2 and 5, which means that on average, most of the respondents strongly agree that CBE tellers have their own vault cubicle or controlled cash drawer to store their cash supply

#### 4.3.5. Safeguard cash from misappropriation

**Table 9: Safeguard cash from misappropriation**

Item	Strongly Disagree	Disagree	Neutral	Agree	Strong Agree	Mean	Std. Deviation
	Row N %	Row N %	Row N %	Row N %	Row N %		
22. CBE current cash management system safeguard cash from misappropriation	0.9%	3.5%	6.2%	51.3%	38.1%	4.22	0.79
23. The physical existence of bank equipment periodically checked or tested such as by a physical inventory and are any differences from property records investigated by persons who don't also have sole custody of property	4.4%	8.8%	28.3%	27.4%	31.0%	3.72	1.13

Source: Researcher's Computation using SPSS (2022)

Table Nine's item 22 shows that 0.9%, 3.5%, 6.2%, 51.3%, and 38.1% of respondents strongly disagree, disagree, are neutral, agree, and strongly agree that the CBE's current cash management system protects cash from being stolen. The average value (4.22) for item twenty-two in table nine shows that the value is between 4.2 and 5, which means that on average, most of the respondents strongly agree that the CBE's current cash management system keeps cash from being stolen.

From item 23, table 9, 4.4 percent, 8.8 percent, 28.3 percent, 27.4 percent, and 31 percent of respondents strongly disagree, disagree, neutralize, agree, and strongly agree, respectively, that the physical existence of bank equipment is periodically checked or tested, such as by a physical inventory, and that any differences from property records are looked into by people who don't also have sole custody of property. The average value for item 23 in Table 9 is 3.72, which is between 3.4 and 4.2. This means that on average, most of the respondents agree that the physical existence of bank equipment should be checked or tested periodically, such as with a physical inventory, and that any differences between property records and the real world should be

looked into by people who don't have sole custody of the property.

#### 4.3.6. Existence of Pre-Numbered System in CBE

**Table 10: Existence of pre-numbered system in CBE**

Item	Strongly Disagree	Disagree	Neutral	Agree	Strong Agree	Mean	Std. Deviation
	Row N %	Row N %	Row N %	Row N %	Row N %		
24. The bank's procedures provide for serial numbering of equipment	0.0%	6.2%	14.2%	49.6%	30.1%	4.04	0.83
25. CBE uses sequentially pre-numbered or computer generated receipt forms being used to establish accountability for each cash transaction.	0.0%	3.5%	6.2%	50.4%	39.8%	4.27	0.73

Source: Researcher's Computation using SPSS (2022)

Table 10's item 24 shows that 6.2% of respondents disagree, 14.2% are neutral, 49.6% agree, and 30.1% strongly agree that the bank's procedures include serial numbering of equipment. The average value (4.04) for item 24 in Table 10 shows that the value is between 3.4 and 4.2. This means that, on average, most of the respondents agree that the bank's procedures include serial numbering of equipment.

Item 25 of Table 10 shows that 3.5% of respondents disagree, 6.2% are neutral, 50.4% agree, and 39.8% strongly agree that CBE uses sequentially pre-numbered receipt forms or computer-generated receipt forms to show who is responsible for each cash transaction. Table 10's average value of 4.27 for item 25 shows that the value is between 4.2 and 5, which means that on average, most of the respondents agree that CBE uses sequentially pre-numbered or computer-generated receipt forms to make sure that each cash transaction can be traced back to the right person.

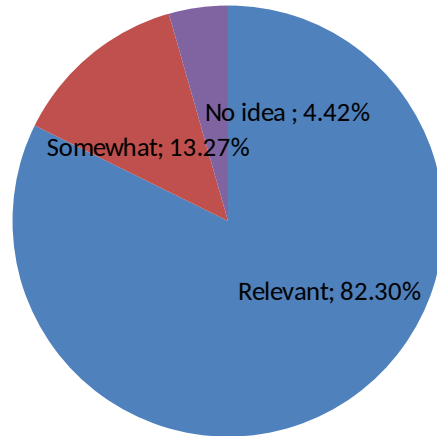
#### 4.3.7. Cash procedure Relevancy of to the Bank for Controlling Misuse of Cash

Cash operations are relevant to the bank in terms of preventing misuse of the bank's cash, as depicted in Figure 1. Eighty-two percent of all respondents agree that cash processes are relevant



to the bank for preventing the misuse of cash at CBE branches. 13 percent of respondents agree that the cash procedure is somewhat applicable to preventing the abuse of cash in CBE branches. The remaining five percent had no notion if the cash processes were applicable to preventing the abuse of cash in CBE bank branches.

**Figure 1: cash procedure relevance in controlling cash misuse**

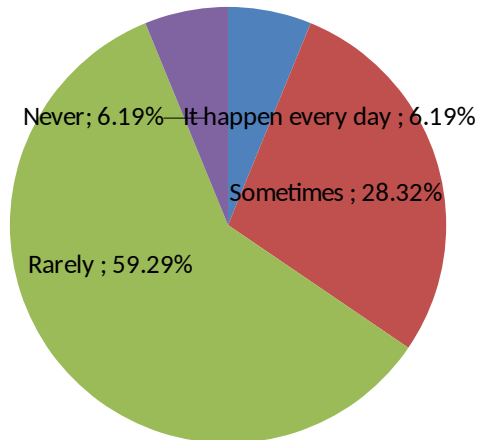


Source: Researcher’s Computation using SPSS (2022)

**4.3.8. Occurrence of Cash Shortage or Excess**

The occurrence of a cash shortage or surplus in CBE sebeta cluster branches is depicted in Figure 2. According to 59%, 29%, 6%, and 6% of respondents or staff at CBE sebeta cluster branches, cash shortages occur infrequently, occasionally, daily, and never, respectively.

**Figure 2: Occurrence of cash shortage or excess**



Source: Researcher's Computation using SPSS (2022)

#### **4.3.9. Strength of internal control over cash**

The empirical survey results indicate that the majority of respondents agree that the following are the strengths of internal cash control in CBE sebeta cluster branches.

- Strong and reliable internal control system
- Strong check and balance system
- Dual control of cash
- Good follow up of cash control
- Daily cash balance is done by chief cashier and checked by the business manager
- No room for misuse of cash or robbery due to strong cash follows
- Strong cash management system
- Every transaction is signed between chief cashier and teller

#### **4.3.10. Weakness of internal control I over cash**

Even though CBE has strengths in internal control over cash, the majority of respondents have identified the following weaknesses in cash management:

- The occurrence of cash shortage and sometimes surplus
- Small cash holding limit
- Even though there is cash holding limit is it not controlled on daily basis
- No daily basis follow-up rather usually it is done weekly or monthly basis
- Surprise check not done continuously

#### **4.3.11. Discussion**

The finding of this paper is not similar with the finding of Dagnu in the case of Cooperative Bank of Oromia who founds that the internal control over cash is not effective and efficient because of some personal relationships leads to like integrity, competence and experience among cash operation employees.

The empirical result of effective cash control and management system at CBE sebeta cluster branches in line with the finding of Francis and Samuel (2013) in the case of Electricity Company of Ghana Ltd., Accra East Region. The empirical result that most of the respondents agree that employees are responsible for handling cash and making deposits as described in a manual or set of standard operating procedures which is supported by Francis and Samuel (2013) which helps to control thefts of cash receipts and major mistakes in keeping records

The empirical finding of internal control over cash in CBE the presence of bank procedures allow documents, like deposit vouchers and withdrawal vouchers for savings accounts, have serial numbers which is not in line with Terengo's(2013) finding which in the case of awash international bank and Leon (2010) Tanzania Breweries Limited who found there is didn't have serial numbers.

In conclusion the internal control over cash in commercial bank of Ethiopia is good which is the opposite of Geofry (2014) who founds, the internal controls over cash management were not working well because of bad operations or mismanagement of funds.

## CHAPTER FIVE

### 5. SUMMARY, CONCLUSION AND RECOMMENDATION

#### Introduction

The objective of this study was to evaluate internal cash control in CBE Sebeta cluster branches. To achieve the stated objectives, descriptive analysis expressed in percentages, frequencies, and figures was used. This section has three sections which includes summary of the finding, conclusion and recommendation.

#### 5.1. Summary

Based on the research objective and empirical finding of this research paper the researcher summarizes this paper as follows:

- This paper focuses on internal control over cash in the case of CBE specifically Sebeta cluster branches.
- The sample size was 117 which were determined from the total 165 professional staffs that are currently working in the selected branches.
- From a total questionnaire distributed 117 respondents only 113 respondents complete and return the questionnaire which have response rate of 96.6 percent.
- The value of Cronbach's alpha greater than 0.7 indicates the Likert scale is useful for analyzing the internal cash control over cash in the case of CBE sebeta cluster branches.
- In terms of educational status most of employees have degree or higher and aged between 18 and 32
- On average most of the respondents agree that
  - ✓ CBE has made keeping records and document cash transactions easy.
  - ✓ CBE's current system for managing cash keeps money from being stolen.
  - ✓ CBE should keep separate property files with invoices (and, if necessary, settlement sheets and bills of sale), titles (for real estate, vehicles, etc.), and other important ownership information.
  - ✓ A record of each cashier's short-term sales is kept and that management looks at

the record.

- ✓ There are strong policies and procedures that make it necessary to use the control system for cash in CBE.
  - ✓ CBE has a clear way of deciding whether fixed assets should be owned or rented, and whether the bank keeps proof.
  - ✓ CBE's bank policies are strong and keep the internal control system from being misled.
  - ✓ The bank's cash management policies and procedures are written down.
  - ✓ Duties and responsibilities are split or separated when it comes to cash and cash-related tasks.
  - ✓ People take turns handling cash.
  - ✓ All cash transactions need to be authorized and approved by a responsible person.
  - ✓ All tellers, including relief tellers, have sole access to their own cash supply and that all spare keys are kept under dual control.
  - ✓ Bank equipment should be checked or tested periodically, such as through a physical inventory, and that any differences between property records and the actual equipment should be looked into by people who don't have sole custody of the property.
  - ✓ The bank's procedures allow for equipment to be given a serial number.
  - ✓ CBE uses receipt forms that are either pre-numbered in order or made by a computer to show that is responsible for each cash transaction.
- On average most of respondents strongly agree that
    - ✓ CBE record the transaction as soon as possible.
    - ✓ Employees are responsible for handling cash and making deposits as described in a manual or set of standard operating procedures.
    - ✓ CBE's current cash management system keeps money from being stolen.
    - ✓ CBE tellers have their own vault cubicle or controlled cash drawer to store their cash.
  - 82% of employees think that cash procedures are important for the bank to control how cash is used in CBE branches.

- 88% of the respondents agree that CBE sebeta cluster branches sometimes run out of cash.
- The main strength of CBE sebeta cluster branches on internal control over cash is they have a strong and reliable internal control system, a strong check and balance system, dual control of cash, good follow-up on cash control, a daily cash balance done by the chief cashier and checked by the business manager, and every transaction signed by both the chief cashier and teller.
- The major weakness of CBE's sebeta cluster branches is that, they sometimes run out of cash and sometimes have too much, have a small limit on cash, and even though there is a limit, it is not checked every day. Instead, it is checked once a week or once a month, and there aren't always surprise checks..

## 5.2. Conclusion

In accordance with the research objectives and empirical finding presented in chapter four, the researcher reaches the following conclusion points.

- This paper focuses on internal control over cash in the case of CBE specifically Sebeta cluster branches.
- From the total 165 professional employees worked in CBE sebeta cluster branches the sample included were 117 which have a response rate of 113(96.6 percent).
- The value of Cronbach's alpha greater than 0.7 indicates the Likert scale is useful for analyzing the internal cash control over cash in the case of CBE sebeta cluster branches.
- Most of the respondents believe that cash procedure is relevant to the bank for controlling misuse of cash.
- Most of the respondents agree that CBE current cash management system safeguard cash from misappropriation
- Most of the respondents agree that there is division or segregation of duties and responsibilities in the area of cash and cash related activities and all cash transactions require authorization and approval by an appropriate responsible person
- On average most of the respondents agree that CBE uses sequentially pre-numbered or computer generated receipt forms being used to establish accountability for each cash transaction

- On average most of respondents strongly agree that CBE record the transaction as soon as possible, Employees are responsible for handling cash and making deposits as described in a manual or set of standard operating procedures, CBE's current cash management system keeps money from being stolen and CBE tellers have their own vault cubicle or controlled cash drawer to store their cash.
- 82% of employees think that cash procedures are important for the bank to control how cash is used in CBE branches.
- 88% of the respondents agree that CBE sebeta cluster branches sometimes run out of cash.
- The main strength of CBE sebeta cluster branches on internal control over cash is they have a strong and reliable internal control system, a strong check and balance system, dual control of cash, good follow-up on cash control, a daily cash balance done by the chief cashier and checked by the business manager, and every transaction signed by both the chief cashier and teller.
- The major weakness of CBE's sebeta cluster branches is that, they sometimes run out of cash and sometimes have too much, have a small limit on cash, and even though there is a limit, it is not checked every day. Instead, it is checked once a week or once a month, and there aren't always surprise checks..

### **5.3. Recommendation**

Based on the major findings of this study the following recommendations were forwarded.

- Since CBE sebeta branches have strength of internal control over cash in terms of strong and reliable internal control system, strong check and balance system, dual control of cash, good follow up of cash control, daily cash balance is done by chief casher and checked by the business manager and every transaction is signed between chief casher and teller CBE better to continue with this strength
- Since CBE Sebeta cluster branches has weakness in terms of the occurrence of cash shortage, small cash holing limit, no daily basis follow-up rather usually it is done weekly or monthly basis and surprise check not done continuously so CBE better to do

regular surprise check, daily basis follow up and allowing each branch to have enough cash holding limit to smooth their transaction.

- Since most of the respondents believe that cash procedure is relevant to the bank for controlling misuse of cash so CBE better to develop and have a good cash procedure which helps to avoid cash misuse.
- Since most of the respondents agree that CBE current cash management system safeguard cash from misappropriation so CBE better to strength its existing cash management system.
- Since most of the respondents agree that there is division or segregation of duties and responsibilities in the area of cash and cash related activities and all cash transactions require authorization and approval by an appropriate responsible person CBE better to strength the existing duty segregation and check and balance to control cash misuse.
- On average most of the respondents agree that CBE uses sequentially pre-numbered or computer generated receipt forms being used to establish accountability for each cash transaction so CBE better to strength it to have good internal control over cash.
- Since this research paper only considers CBE sebata cluster branches as a target population to study internal control over cash in CBE the author recommends other researches to study on the area by increasing sample coverage which may help to generalize about CBE cash management system



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## ***Appendix***



**ST. MARRY UNIVERSITY**

**Department of Accounting**

Dear respondent, the purpose of this questionnaire is prepared as part of the researcher's effort to partially fulfill the requirements for Master of Degree in Accounting from St. Mary University. The objective of the research is to explore “Assessment of Internal Control over Cash in case of Commercial Bank of Ethiopia (CBE) in Sebeta Cluster”. The research is hoped to assess internal control over cash being practiced in Commercial Bank of Ethiopia Sebeta cluster branch and what needs to be done to have a good internal control over cash system to increase the organizations efficiency and effectiveness. Your active participation in the research will help to achieve this objective. The data shall be kept confidential and used for academic purposes only

so please try to answer the questions frankly with due attention and please put mark (√) what you belongs for each of the statements below. You are not required to indicate your name.

*Thank you in advance for your cooperation!*

**Part One: Demographic parameters**

- 1. Gender:            Male     Female
- 2. Marital Status: Married  Single  Divorce  Widowed
- 3. Age: 18-22  23-27  28-32  33-37  38-42  Above 42
- 4. Educational Qualification: TVET/ Diploma  First Degree  MA/MBA  Phd
- 5. Service Years in CBE: 1-2 Years  3-5 years  6-10 years  11-15 years   
above 15 years
- 6. Current Position: junior officer  Assistant officer  senior officer   
Deputy branch manager  Branch manager

**Part Two: General question related to Internal Control over Cash**

Indicate your level of agreement to the following statements concerning internal control over cash at CBE Sebeta cluster branches. Use a scale of 1-5 where 1 is Strongly Disagrees, 2 Disagree, 3 Neutral, 4 Agree and 5 Strongly Agree.

		(1)	(2)	(3)	(4)	(5)
7	There is organized documentation and record keeping of cash transaction					
8	CBE current cash management system safeguard cash from misappropriation					
9	CBE record the transaction on timely basis					
10	The bank maintain separate property files which include invoices(including settlement sheets and bills of sale as necessary) titles(on real estate vehicles etc) and other pertinent ownership data as part of the required documentation					
11	An individual cumulative over and short record maintained for all					

1	persons handling cash and does management review the record					
1 2	There is strong policies and procedures that forces the control system to be implemented regarding to cash					
1 3	The banks have a clearly defined method of determining whether fixed assets should be owned or leased, and does the bank maintain supporting documentation					
1 4	Employees are responsible for cash handling and deposits provided with a manual or set of standard operating procedures					
1 5	There is strong banks polices that protect internal control system from mislead					
1 6	The bank's policies and procedures on cash management are in written form					
1 7	There is division or segregation of duties and responsibilities in the area of cash and cash related activities					
1 8	There is rotation of cash handling duties on a periodic basis					
1 9	All cash transactions require authorization and approval by an appropriate responsible person					
2 0	All tellers, including relief tellers, have sole access to their own cash supply, and are all spare keys kept under dual control					
2 1	Tellers have their own vault cubicle or controlled cash drawer in which to store their cash supply					
2 2	CBE current cash management system safeguard cash from misappropriation					
2 3	The physical existence of bank equipment periodically checked or tested such as by a physical inventory and are any differences from property records investigated by persons who don't also have sole custody of property					
2 4	The bank's procedures provide for serial numbering of equipment					
2 5	CBE uses sequentially pre-numbered or computer generated receipt forms being used to establish accountability for each cash transaction.					

20. How do you evaluate relevancy of cash procedure to the bank for controlling misuse of cash in the branch? Relevant  Somewhat  Irrelevant  No idea

21. How do you evaluate occurrence of cash shortage or excess?

It happen every day  Sometimes  Rarely  Never

22. List the weakness of internal control over cash you observe in your bank

.....  
.....  
.....

23. List the strength of internal control over cash you observe in your bank

.....  
.....  
.....