St. MARY UNIVERSITY

MASTER OF BUSINESS ADMINISTRATION

EFFECTS OF INTERNAL CONTROL ON FINANCIAL PERFORMANCE OF BANK OF ABYSSINIA

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February, 2024

Addis Ababa, Ethiopia

SCHOOL OF POSTGRADUATE STUDIES
DEPARTMENT OF MASTERS OF BUSINESS ADMINISTRATION (MBA)

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A Thesis Submitted to the school of Postgraduate Studies of St. Mary University in Partial Fulfillment of the Requirements for the Degree of Master of Business Administration.

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Effects of internal control on financial performance of Bank of Abyssinia

BY: Helina Mulugeta

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February, 2024

Addis Ababa, Ethiopia

Declaration

I, the undersigned, declared that this project entitled topic "Effects of internal control on financial performance of Bank of Abyssinia" is my original work. I have carried out this project work independently with the guidance and support of my project advisor. This study has not been submitted to any Degree/Diploma in this or any other institutes.

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Letter of Certification

This is to certify that Helina Mulugeta has worked her project on the topic “Effects of internal control on financial performance of Bank of Abyssinia” under my supervision. To my belief, this work undertaken by Helina Mulugeta is original and qualifies for submission in partial fulfillment of the requirements for the award of Degree of Masters of Business Administration.

Demis H/Gebriel(PHD) ______________________ ____________________

Signature Date

ACKNOWLEDGMENTS

Above all, I want to thank St.Mary University for providing me with the chance to conduct this research. My sincere gratitude also goes out to Dr. Demis H/Gebriel, my advisor, for his generous guidance, enthusiastic encouragement, and helpful comments throughout the paperwork. Furthermore, I would like to express my gratitude to the entire team at the Bank of Abyssinia for their acceptance and for giving me the information I needed to complete my research paper.

Finally, my gratitude goes to all my families, relatives, and friends who gave me the courage to continue this work.

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ACRONYMS

ACCA	Association of Chartered Certified Accountants
BOA	Bank of Abyssinia
CEO	Chief Executive Officer
COSO	Committee of Sponsoring Organizations of the Tread way Commission
IT	Information Technology
Ltd	Limited
MVA	Market Value Added
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
ROS	Return on Sales
SPSS	Statistical Package for the Social Sciences

ABSTRACT

The research was conducted at the Bank of Abyssinia in Addis Ababa and examined how internal control systems affected financial performance. A total of 197 people were chosen at random. Semi-structured questionnaires were created at the bank to collect data on socioeconomic factors and the effect internal control systems have on financial performance. A semi-structured, self-completion research questionnaire was distributed and collected. After the completed questionnaires were reviewed for plausibility, integrity, and completeness, there were 180 respondents that could be used. From the 197 questionnaires distributed, 180 relevant examples were chosen. The data was then summarized using descriptive statistics, regression, and correlation analysis, and averages were statistically compared using SPSS version 24.0. Five independent variables were found and scored on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The independent variables were control environment, control activity, internal auditing, risk assessment, and information communication. The dependent factor was the extent to which the company met its financial performance targets during the last seven years. To discover the internal control systems that influence financial performance, regression and correlation analyses were employed. the correlation analysis that the relationship between risk assessment and financial performance is positive and insignificant, study's correlation analysis findings disagree with the findings which indicated that financial performance of banks was strongly positively related to risk management. Control activities and risk assessment have a significant positive impact on financial performance; whereas Information and communication has an insignificant impact on financial performance and control environment in banks of Abyssinia negatively influence the financial performance. The following recommendations are made based on the findings: the researchers advise the management of banking institutions should make sure that every part of the control environment that has a negative impact on financial performance should be properly dealt with and that appropriate steps are taken in order to reduce those effects.

Keywords:Abyssinia bank, control activity, control environment, financial performance, information communication, internal audit

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The process of internal control is one that the board of directors, senior management, and other employees of the firm carry out to achieve the organization's objectives regarding operational effectiveness and efficiency, financial credibility, and management reporting. Its purpose is to offer reasonable assurances that an organization will comply with all applicable rules and regulations and to safeguard the reputation of those organizations (Kaplan, 2008). Banks can use a variety of controls to protect assets from theft and improve efficiency. Internal control system (ICS), a group of internal controls put in place by banks, is a multidisciplinary subject that includes financial accounting and auditing. It can be traced back to the Hellenistic era in ancient Egypt, where taxes were administered and collected by separate governments. A failing in internal control was demonstrated by the fall of Troy in. Internal control first became apparent in the early 21st century as a result of a significant business scandal (PABC, 2006).

One issue facing the banking sector is internal control inefficiencies, which can allow dishonest traders to cause these banks to suffer significant financial losses (Ayagre, Appiah Gyamerah, and Nartey, 2014). Numerous causes contribute to the financial sector's problem, but the largest ones are the huge non-performing loans, lack of transparency, inadequate capitalization, as well as lax internal controls, and inefficiency or particularly during the crises that hit this industry in the early 1990s and the middle of 2004, compromised external audits were crucial (Adeyemi & Adenugba, 2011). Rahel (2017) conduct a research on the role of internal control systems on performance of Ethiopian shipping and logistics service enterprise. The main purpose of the study was to determinethe impact of internal control systems on financial performance in Ethiopian shipping and Logistics Services Enterprises as a case study.

Internal control is classified into three types: preventive, detective, and corrective. Preventive measures make adjustments, detect errors in order to prevent them, and identify possible problems before they arise. The theory of remote action is limited. A detection control arc can be used to identify and report outlays, defects, and malicious files. The corrective control also helps to reduce the impact of errors that come as a result of problems, threats, and problems. A corrective control makes changes to the processing system and fixes faults found by detective controls to stop the issue from happening again.

Components of internal control include risk assessment, control actions, information and communication, and monitoring (Akisik & Gal, 2017). The control environment has a significant impact on how the organization operates, drives decisions, shapes how people view the control system and provides the framework for the internal control system's efficient operation. Business owners can deal with hazards that prevent them from attaining their objectives by doing a risk assessment. The process of discovering, evaluating, and monitoring hazards is known as risk assessment. These dangers include asset misuse and the manipulation of financial data. Examples of management activities are contracting, approving, certifying, coordinating, evaluating, supplying security, producing data, and managing data. Financial performance is a term used to define a monetary indicator of the operations and results of an organization. The majority of the time, it is always expressed in terms of the business's gains or losses within a certain trading period. As a result, it stands to reason that a firm's long-term sustainability largely depends upon its profitability. Businesses must always be profitable, strong, and stable since profits from taxes and employment are crucial to a country's economic prosperity. Reducing the amount of fraud is the most efficient way to boost your company's internal financial management system and boost financial performance.

There are various studies on the "effects of internal control on financial performance" in various sectors, one of which is banking. The study has been done in various banks, but not specifically in the Bank of Abyssinia. The Bank of Abyssinia is used because it is the first bank in Ethiopia and one of the top three most profitable Ethiopian private banks. This study aims to recognize how internal control mechanisms affect the financial performance of the Bank of Abyssinia. This study is beneficial for senior leaders' teams to fill gaps and provide better service to their followers.

1.2 Statement of the Problem

Banks play an important role in the economy because they hold national deposits and use them to pay for products and services and to fund the growth of businesses. Internal control and internal audit have received more attention recently as a result of economic globalization, technology advancements, business complexity, and suspicions of fraudulent financial reporting (Bowrin, 2004). Internal controls in banking sector are vulnerable to cooperation, fraud, embezzlement, revenue loss, asset restructuring, honest and intentional errors, corruption, lack of transparency, and the collection of income and other assets. It has the unintended effect of encouraging responsibility. A study of the causes that contributed to the enormous losses of several African banks led to an increased interest in internal control and its ongoing nature (Amudo, 2008). According to a Basel Committee examination, the primary contributor to the loss was an inadequate internal control system. Public service provision may be performing poorly and decreasing despite enormous spending. To improve the mission and goals of the banking industry, it is crucialto remove these barriers. Therefore, the primary purpose for this study was to improve internal controls and emphasize the importance of regularly monitoring their efficacy. Internal control systems are put in place to help organizations achieve their goals and objectives by increasing productivity, minimizing the risk of loss, ensuring the accuracy of financial statements, and adhering to the law.

Any firm must prioritize the impact of its internal control system on financial performance. Internal controls ensure that errors and fraud are detected and prevented. Profits generated by the company's financial resources allow for growth and sustainability. To improve financial performance, banks must quickly implement strict controls. Management of the organization should meet frequently to examine operations, direct the company's strategic course, and guarantee on going synchronization of goals (Reid & Smith, 2000). To promote growth and development, internal controls examine the governance of the bank (Said *et al*., 2017). Banks are susceptible to dangers that could endanger their continued viability. Regulatory environments, fraud, system failures, and human mistakes are the main causes of operational and strategic risks (COSO, 2004). However, when they happen, these risks are financially significant to the firm and result in a loss. When internal controls cannot be developed, many banks are in danger of failing or are already failing (COSO, 2004).

In today's banks, fraud, embezzlement, high fees, tampering, missing files and ledger cards, and other bank flaws are frequent. Management and stockholders are ill-equipped to deal with the consequences, and there is constant debate. Despite the existence of mutual control and fraud detection mechanisms, ripple troubles and bank misuse have not been left behind by this increase in criminality. Employees, stockholders, and customers lost faith in the expansion and performance of banks as a result of this condition. Fikru (2018) examines the effectiveness of internal control in Ethiopian banking industry and based on that effectiveness the researcher test the effectiveness of internal control system in preventing and detection of fraud in Ethiopian banking industry. Among the findings were that banks' internal control systems for detecting fraud were effective but received low grades. The transparency in reporting the performance of internal control systems in fraud control for diverse stakeholders was not addressed clearly in this study.

Oguda Ndege, Odhiambo Albert and John Byaruhanga (2015) investigated the Effect of Internal Control on Fraud Detection and Prevention in District Treasuries of Kakamega County. The study discovered a substantial positive association between internal control systems and fraud detection and prevention. This study did not investigate or did not take into account the effectiveness of the internal control system, and it was unable to demonstrate the presence of preventative mechanisms. Though there are international studies in this area of study, very limited studies have been conducted in commercial banks in Addis Ababa on the effects of internal control on the financial performance of the Bank of Abyssinia. Therefore, the initiation of this research was based on the fact that the effects of internal control on the financial performance of the bank of Abyssinia in the case of Addis Ababa city were not well identified and documented. Therefore, the study was conducted to address the above-mentioned problems.

1.3 Objectives of the Study

1.3.1 General Objective

To investigate the effect of internal control on financial performance in the Bank of Abyssinia.

1.3.2 Specific objectives

- To investigate the existing internal control system over the financial performance of the bank of Abyssinia.
- To examine the effect of control environment on financial performance in the bank of Abyssinia.
- To examine the effect of control activities on financial performance in the bank of Abyssinia.
- To examine the effect of Internal Audit on financial performance in the bank of Abyssinia.

- To examine the effect of information on financial performance in the bank of Abyssinia.
- To examine the effect of risk assessment on financial performance in the bank of Abyssinia.

1.4 Hypothesis

Based on theories and previous empirical studies the following hypothesis were developed:

H1: Control environment has no significant effect on financial performance

H2: Control activities have no significant effect on financial performance

H3: Internal audit has no significant effect on financial performance

H4: Risk assessment has no significant effect on financial performance

H5: Information and Communication has no significant effect on financial performance

1.5 Significance of the Study

The study will have benefits for senior leaders' team- it assists top leaders in filling gaps and providing better service to their followers, other banks - it will be a model for other banks to follow their action, the government- it will help the government to be a tool, for policy making, and for future researchers- it will serve as a spring board for other researchers to perform more extensive investigation.

1.6 Scope of the Study

The research focused on the impact of internal control systems on the Bank of Abyssinia's financial performance. This topic now includes the following objectives: the influence of internal control on financial performance and the relationship between internal control and financial performance. The data for the study was taken from seven years (2017–2023) of bank performance. This time range allows the researcher to collect sufficient data on the effectiveness of internal controls on financial performance in the bank of Abyssinia.

1.7 Limitation of the study

The research focused on the connections between financial performance and the control environment, control activity, internal auditing, risk assessment, and information sharing.
The overall aim of this study was to determine how the internal control system of Abyssinia Bank

affected the bank's financial performance. This study focused on the internal control mechanisms that affect Abyssinia Bank's financial performance and the benefits derived from the bank as a result of its broad and complicated structure. The main research limitations were the title's focus on studying a specific bank and probable data access concerns. Another limitation is the study's exclusion of additional Abyssinia branches that are components of the bank and are located in and around Addis Ababa. This typically limits the breadth of the study's analysis. Most of the time, the subordinates are preoccupied, and some of them refuse to respond because doing so could risk the study's conclusions.

1.8 Definition of Terms

The following are definitions of terms used throughout this research paper

Check: A check is an exchange bill that a bank employee pulls out for payment in person.

Embezzlement: Theft of assets entrusted to him by a person

Documentation: This includes all charts, accounts, tapes, reports and other business papers that guide the functioning of a company's accounting system and internal controls and explain tampering with assets and accounting records, and financial statements.

Effectiveness: Achievement of a given goal.

Efficiency: Relationship between input and output

Illegal Acts: Actions that are not in conformity with prescribed company practices that are capable of leading to fraud.

Independent Auditor: An expert-level accountant who examines the company's books and records and gives opinions on accounting records on behalf of others

Internal Accounting/Financial control: Measures to protect assets and ensure the reliability of accounting information and financial statements.

Internal Audit: An activity carried out within an organization by experts to investigate and evaluate the internal control system throughout the year. It also assesses the efficiency of individual departments within the organization.

Internal Controls: A subset of internal controls designed primarily for operational efficiency and compliance with company policies and does not directly affect the reliability of financial statements.

Internal Control System: This was put in place by management to guarantee that a business operates in an appropriate and effective manner, that it complies with management guidelines, that it offers assistance, and that it is as accurate and supplemental as feasible. It is also a comprehensive financial system with additional record-keeping measures.

Organization Chart: A diagram showing the authority and responsibilities of an organization with an emphasis on the separation of duties.

Irregularity: An individual act within an organization aimed at committinfraud or embezzlement.

1.9 Organization of the study

The study contains five chapters. The first chapter contains the introduction which includes a background of the research, statement of the problem, objectives, hypothesis, significance, scope, and limitation of the study. The relevant literature in the fields has been discussed in the second chapter. The third chapter presents the research methodology. The fourth chapter will present the result and discussion. Finally, the fifth chapter will present a summary, conclusion, and recommendation.

CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical Literature Review

2.1.1 The Nature of Internal Control System

Internal control doesn't have a single definition, and different writers define it differently: Internal control is described as "the plan of organization and all the methods and procedures adopted by the management of an entity to assist in achieving management objectives of ensuring, as far as is reasonably possible, the orderly and efficient conduct of its business, including adherence to management policies, asset safeguarding, fraud and error prevention and detection, and the accuracy of financial statements" (Gupta, 2001).

Workflow, authority, organizational structure, people engaged, and management information systems all have an impact on the internal control process, which is designed to help an organization achieve certain objectives or goals. It is the process of utilizing, tracking, and evaluating an entity's supplied or available resources. Internal control plays an important role in detecting and preventing fraud and safeguarding the entity's accessible tangible and intangible resources. Equipment and real estate are two examples of tangible resources. A possible example of an intangible resource is intellectual property, such as trademarks (Lagrost *et al.*, 2010).
According to the relevant reporting structure, the management of an 18 firm is said to guarantee that its financial and other objectives are met through internal control (ACCA, 2009/2010). Internal control systems are critical responsibilities of business boards of directors and help managers perform well. Internal controls provide a fair level of certainty that objectives will be met. Some of these objectives include asset protection, keeping detailed records sufficient to report company assets fairly and accurately, delivering accurate and reliable information, preparing financial reports in accordance with predetermined standards, promoting and improving operational efficiency, enforcing adherence to managerial policies as outlined, and abiding by applicable laws and regulations. According to (Romney and Steinbart, 2008), (Locatelli, Mary, 2003), internal control system failures are frequently the precursor to recent corporate collapses and accounting crimes. Internal controls are the defenses of a company against fraud and risk management. The internal control structure consists of the accounting

system, accounting structure, and operations known as control activities. Furthermore, a properly designed and operational internal control system will considerably reduce the danger of loss, if not fully eliminate it.

The term "internal control" refers to a system or plan for accounting and financial organization within a business that includes all techniques and precautions for asset protection, verifying the accuracy of accounting data or otherwise substantiating financial statements, and monitoring previously implemented rules, procedures, and policies for compliance and effectiveness (Merriam-Webster, 2018).

2.1.2 Internal control theory

A theory is a "set of interrelated concepts, definitions, and propositions that present a systematic view of events or situations by specifying relations among variables, in order to explain and predict the events or situations" (Van Ryn& Heaney, 1992). Theoretical literature is more concerned with theories or hypotheses than with practical applications.

The study looked at two theories: agency theory and theory of the company. Agency theory is a management and economic theory that aims to explain commercial relationships and self-interest. It outlines the connection between principals and agents as well as delegation of control. It explains how best to organize relationships in which one party (principal) determines the work and which another party (agent) performs or makes decisions on behalf of the principal (Jensen and Meckling, 1976). Agency Theory describes how to best manage partnerships in which one party specifies the job and another party performs it. The principal hires an agent in this relationship to do the labor or to accomplish a task that the principle is unable or unwilling to do. In companies, for example, the principals are the company's shareholders who delegate work to the agent, which is the company's management. According to agency theory, both the principal and the agent are motivated by self-interest. This self-interest assumption dooms agency theory to inherent conflicts. Thus, if both parties are motivated by self-interest, agents are more likely to pursue self-interest objectives that diverge from, and even clash with, the principal's goals. However, agents are meant to act solely in the best interests of their principals. Coarse (1937) agreed, claiming that the controls provide for conflict resolution between the agent and the principal and that moral hazard and adverse selection affect the agent's performance. Studies have shown that Agency theory has been used to explain demands for monitoring controls (Watts

& Zimmerman, 1983). Internal control systems have been incorporated into policies, rules and regulations of organizations to achieve their established objectives. This theory was important in the current study as it shed light on how the principal and agency interact for the benefit of the organization.

The theory of the company is a neoclassical economic concept that asserts that firms (including enterprises and corporations) exist and make decisions to maximize profits. Firms engage with the market to establish pricing and demand before allocating resources based on models that seek to optimize net profits. Profit maximization is believed to drive the behavior of a certain corporate entity in firm theory. This theory governs decisions in a range of domains, including resource allocation, manufacturing process, pricing adjustments, and amount produced. Modern theories of the firm take into account facts such as low equity ownership by many decision makers; some believe that CEOs of publicly traded companies are interested in profit maximization as well as goals based on sales maximization, public relations, and market share. Profit maximization alone carries a level of risk in terms of public opinion and a loss of goodwill between the firm and other individuals or entities. When a company relies on a single strategy in the marketplace, it exposes itself to additional risk. If a firm or department within a company is reliant on the sale of a single product for its overall performance, and that product fails in the market, the company or department may go bankrupt. According to Spulber(2009) the theory of the firm consists 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.

According toMagu&Kibati (2016) cited as DePaula (1990) in support stated that risk assessment is important for the existence of the firm. Millichamp (1999) in support stated that monitoring of firm’s activities reduces risk of intentional manipulation of accounts and increases element of checking. This makes fraud more difficult to conduct and maximizes the firm's revenues. This idea is significant in the current study endeavor since it provided insight on how wealth maximization can be achieved through interaction with internal controls. It also aided in the comprehension of the controls actions that are supposed to be implemented to increase wealth production.

2.1.3 Control Environment

Control Environment addresses the company's circumstances, which has an impact on its employees' control consciousness. It serves as the foundation for the other parts of internal control.

Customers are a company's most valuable asset because of their moral character, competence, and honesty. The most important element of the internal control system is the control environment, also referred to as the internal environment (Romney, 2009).

The control environment refers to an organization's overall control awareness, which is impacted by rules, ethical standards, processes, and monitoring systems. The organization's objective and mission, as well as its struggle to uphold adequate financial accountability, can be seen as examples of the organization's management philosophy, which is part of the control environment (2004) Anthony M. It is critical to remember that the control environment dictates overall direction, which influences employee awareness. The board of directors' and management's effectiveness has a substantial impact on the control environment. The control environment has an impact on personnel consciousness (Aldridge and Colbert, 1994). It reflects management's perspectives and positions on the importance of internal controls in banks, as well as operational performance.

The control environment also has an impact on the company's history and culture, which results in a good attitude toward internal control and management. Cases of huge losses within banks demonstrate management's contempt for and carelessness with the financial firm's control culture. Additional losses have occurred from the directors' and upper management's disdain. These incidents in the banking industry also testify to a lack of incentives for managers to perform effective line supervision and maintain a high level of control consciousness. Through their words and actions, boards of directors and top management must underscore the importance of internal control. This encompasses the moral principles of management in both internal and external business transactions. The words, attitudes, and conduct of the board of directors and top management have an impact onthe bank's integrity, ethics, and other facets of its culture (Howorth & Moro 2006).

The control environment is the attitude toward internal control and control consciousness that a company's management and employees develop and maintain. It is the result of management's ideology, style, and supporting attitude, as well as the workforce's competency, morale, integrity, and ethical standards. The control environment is influenced by the organizational structure and responsibility relationships. These notions are considered during control activities. Declare your commitment to moral ideals and honesty, and structure, authority, and accountability are established. Declare your commitment to professionalism and knowledge. Responsibility is maintained.

2.1.4 Control Activities

As specified by policies and procedures, control activities, according to COSO (2013), are actions that help guarantee that management directives to reduce risks to the attainment of objectives are implemented. Control actions, according to the paper, are also carried out at all organizational levels, at all stages within business processes, and across the technical environment. It could include a variety of human and automated processes such as authorizations and approvals, verifications, reconciliations, and business performance reviews. It also mentions that it could be proactive or reactive. The study claims that role separation is routinely implemented into the selection and creation of control activities.

To help ensure that management effectiveness is carried out accurately and on time,policies and procedures are in place. Examples of control activities include work segregation, physical controls, information processing, and performance appraisals (Walker, 1999). It According to this argument, all levels and functions of the entity are subject to control actions. Approvals, authorizations, verifications, reconciliations, performing reviews, security maintenance, and the production and maintenance of pertinent records are examples of financial performance operations in institutions, which are the rules and procedures that aid in the execution of management directives. The separation of roles is one of the most important control jobs. It is best to delegate the functions of authorizing and recording transactions, maintaining asset custody, and conducting comparisons and reconciliations to different employees. Small businesses may find it difficult to efficiently divide duties, but organizations should make every effort to do so. When segregation is not possible, effective management monitoring should be provided to ensure that any errors or anomalies are discovered as soon as possible.

Control activities, which can be both manual and automated, are used to prevent, mitigate, and control hazards that could obstruct the achievement of the organization's objectives and missions. To effectively and successfully carry out the organization's goals and mission, management must develop control activities. Some of the fundamental principles of control activities include selecting and establishing control activities, selecting and developing wide controls over technology, and deploying rules and procedures.

2.1.5 Risk assessment

Risk assessment, according to COSO (2013), is a dynamic and iterative process for identifying and analyzing risks to fulfill the entity's objectives, and it serves as a foundation for establishing how risks should be managed. Additionally, It was stated that management evaluates potential changes in the company's internal business model as well as the external environment that may impede its capacity to fulfill its goals. The framework also recognizes that many organizations will adopt a risk-based approach to internal control, that processes for risk identification, analysis, and response are included in risk assessment, and that risk tolerance and acceptable levels of performance variation should be considered when determining acceptable risk levels; noting that the discussion of risk severity takes into account velocity and persistence in addition to impact and likelihood. It continues by stating that an internal control system for financial reporting is developed and implemented in order to avoid or identify a major omission or misstatement of a financial statement due to fraud or error.

2.1.6 Information and communication

According to COSO, information is necessary for the entity to fulfill its internal control requirements in support of the achievement of its goals (2013). Internal and external communication provide the organization with the information it requires to carry out ordinary internal control activities. It teaches employees about internal control responsibilities and the necessity of such functions in achieving goals. It also states that auditors must learn about the information system and business procedures relevant to financial reporting, such as transaction classes, manual and IT system procedures, accounting records, and how information systems record events and conditions, as well as the financial reporting process.

It is necessary to identify, collect, and communicate relevant data in a timely and efficient manner that allows people to carry out their responsibilities. Reports provided by information systems that include operational, financial, and compliance-related data aid in business management and operation. They work with data created internally as well as knowledge about external events, activities, and conditions, which is critical for making educated company decisions and informing external audiences. The top management levels must create a firm foundation. Communication must be effective at all levels of the organization. Top management must give a clear message to all employees about the importance of controlling one's own destiny. They must understand their role in the internal control structure as well as how their actions affect the work of others. They will need a way to move critical information to the head of the queue.

2.1.7 Internal Auditing

As part of an organization's monitoring efforts, internal auditing is carried out, (Wittington O.R., & Kurt, P, 2001). Internal controls and the effectiveness with which various organizational components carry out their assigned responsibilities are investigated and evaluated. An internal auditor often examines whether a department is properly staffed, keeps accurate records, safeguards cash, inventory, and other assets, and works well with other departments. As a service to the organization, an internal audit is a role of unbiased assessment created within an organization to analyze and assess its actions(Gupta, 2001). The purpose of internal auditing is to help employees fulfill their duties efficiently. "The management defines the internal audit's purview "Gupta claims. However, this could jeopardize the internal auditor's objectivity and independence because it's challenging to write critically about someone who establishes the parameters of your work (Sebbowa, 2009). Another definition is that "internal auditing is an impartial, objective assurance and consulting activity aiming to deliver value and improve an organization's operations." Employing a methodical, disciplined approach to assessing and enhancing the effectiveness of risk management, control, and governance systems helps a corporation achieve its objectives."

2.1.8 Financial Performance

The European Central Bank examined bank performance in terms of its ability to generate long-term profitability in a study released in September 2013. Profitability acts as a bank's first line of defense against unplanned losses since it builds its capital position and increases future profitability by investing retained earnings. A company that consistently loses money will eventually run out of money, putting stock and loan holders at risk

Furthermore, the bank's return on equity (ROE) must be greater than its cost of equity in order to produce shareholder value, because the ultimate goal of any profit-seeking business is to protect and increase wealth for its shareholders.

Throughout the crisis, the report argues, ROE may have offered misleading information on how to discriminate between excellent and bad performance. To accomplish this, a complete picture of the variables that may affect bank performance is required, including critical variables such as the suitability of business models in light of risk appetite, as well as how this suitability is managed both internally and externally through governance processes. As a result, applicable benchmarks, sensitivity assessments, and stress tests should be used to determine the banks' actual capacity to deal with stressful market conditions and absorb successive shocks based on their business plan and risk tolerance.

2.1.9 Measures of Financial performance

According to Dixon et al. (1990), appropriate performance indicators are those that enable businesses to direct their efforts toward achieving their strategic goals. Reid and Ashelby (2002) claim that there are two ways to evaluate performance: subjectively or objectively. Arguments in favor of subjective metrics include the difficulties of acquiring qualitative performance information from small enterprises, as well as the unreliability of such information due to differences in accounting processes. Whittington & Kurt(2001)list profit growth, revenue growth, and return on capital utilized as examples of objectiveperformance measurements. Market Value Added (MVA), which was developed by financial advisors Stern Stewart & Co., is a measurement of the excess value that a company has generated for its shareholders over the sum of its investments (Morris, 2011).

The total return over one and three years, sales growth over one and three years, profit growth over one and three years net margin, and return on equity are the eight typical financial performance metrics that make up this ranking. Dwivedi (2002) also emphasized the value of long-term investments, financial stability, and the use of corporate assets as additional financial metrics. He also discusses non-financial success criteria like as inventiveness, the ability to attract, develop, and retain qualified personnel, the quality of management, the quality of the goods or services, and social and environmental responsibility. Three accounting-based performance measures return on assets (ROA), return on equity (ROE), and return on sales (ROS). By dividing net income by the total number of employees, each statistic was calculated.

Liquidity

According to Hitt, et al. (1996), the current ratio (current assets/current liabilities) is a typical indicator of a company's liquidity. According to Baysinger, the current ratio is crucial as a sign of a company's liquidity (1989). According to ACCA and Panday, the acid test ratio, which is calculated as Current Assets less Inventory/Current Liabilities, is another sign of liquidity (1996).

Survival

Strong performing companies can remain in operation for a significant amount of time, according to Kotler (1992). Additionally, Dwivedi (2002) discovered that a company's ability to remain in operation is a sign of strong financial performance.

Reporting

The thoroughness of internal controls in addressing the accomplishment of goals in financial reporting, operations, and law and regulation compliance is discussed by Whittington and Pany (2001). They continue, Internal control also includes the program for producing, validating, and distributing to various levels of management those current reports and analyses that enable executives to maintain control over the variety of activities and functions carried out in a large corporation.

Accountability

According to Hayes et al. (2005), managers need regular financial reports to make informed decisions. By reporting, managers can hold themselves responsible for the assets entrusted to them (especially financial reports). Emasu (2010) asserts that accountability may be social, political, or economic.

2.1.10 Internal Control and Financial performance

According to the COSO (2013) Framework, internal control is "a process, implemented by an entity's board of directors, management, and other personnel, designed to offer reasonable confidence over the attainment of objectives relating to operations, reporting, and compliance." Contrarily, internal controls refer to the measures taken by a company to ensure that its goals, objectives, and missions are met (Brennan & Solomon, 2008). These policy and procedural processes protect an organization's assets while also ensuring accurate financial reporting, encouraging conformity to laws and regulations, and ensuring effective and efficient operations.

Financial performance is a financial measure of a company's policies and activities. It can be used to compare firms in the same industry or to group industries or sectors together. It is a broad indicator of a company's long-term financial health. A corporation's financial success can be measured using a variety of methods. This can be seen in the company's return on investment (ROI), return on assets (ROA), value-added, and other indicators. It is a judgment call about how a business can leverage resources from its core business model to generate income (Rurangwa, 2018). On the other hand, Sebbowa(2009) defines performance as the capacity to work efficiently, profitably, survive, develop, and take advantage of environmental opportunities.
Internal control systems, such as internal audits, are intended to increase the accountability of information sources within a business, either directly or indirectly, to increase the dependability of financial performance (Jensen, 2003). Internal control serves a much wider range of purposes, including identifying organizational-level control issues that are linked to lower revenue, investigating the relationships between the disclosure of material weaknesses and fraud, earnings management, or restatements. Internal controls also offer an unbiased assessment of the effectiveness of managers in carrying out their duties for increased revenue generation (Beeler, Hunton&Wier, 1999). A strong internal control system is crucial for an organization to be able to meet its revenue goals, claim Fadzil, Haron, and Jantan (2005).

According to Hasan (2017), internal control systems are crucial, and external auditors find it challenging to rely on internal control systems across many organizations. This is due to the fact that such firms have not built solid internal control systems, there is insufficient job segregation, and there is no assurance that company transactions are properly recorded. It is more likely that ongoing monitoring measures performed by entities will be informal and implemented as part of the entity's overall management of its operations (Wamae, 2005). An organization's internal control system has a significant impact on the accuracy of management suggestions (2009). Similarly, companies that claim to have insufficient internal control systems are more likely to make operational management errors than companies that claim to have effective internal control systems. Successful internal control systems "are crucial drivers toward profits quality," claim Schneider and Church (2008). In a similar vein, a successful internal control system is essential to a corporation (Jokipii, 2010).

Internal control systems, such as internal audits, are intended to increase the accountability of information sources within a business, either directly or indirectly, to increase the dependability of financial performance (Jensen, 2003). Internal controls provide a considerably broader role by investigating links between material weakness disclosure and fraud, earnings management, or restatements. They also offer an unbiased assessmentof the effectiveness of managers in carrying out their assigned duties for increased revenue generation (Beeler, 1999). A strong internal control system is crucial for an organization to be able to meet its revenue goals, claim Fadzil, Haron, and Jantan (2005). Effective internal control for revenue generation includes regular reviews of the accuracy and integrity of financial and operational data, a review of the safeguards in place to protect assets, and evaluation of employee adherence to management policies, procedures, and applicable laws and regulations, and an assessment of the effectiveness and efficiency with which management accomplishes its organizational goals (Tuner, Larcker& Randall, 2003). Mawanda (2008) looked into how internal control mechanisms affected the financial performance of higher education institutions in Uganda. In his research, he explored the relationship between internal control procedures and the financial performance of a higher education institution. Internal control systems and financial performance have a high association, according to this study.

2.1.11 Internal Control in Banking

Internal control systems are defined by the Banking Regulation and Supervision Board (BRSB) as all financial, operational, and other control systems that are implemented by internal controllers and involve routine monitoring, unbiased assessment, and timely reporting to management levels to ensure that all bank activities are carried out by management levels in accordance with current policies, procedures, directives, and limits. In a larger sense, the definition investigates the critical function of independent internal control in determining and assessing compliance with industry laws. In their work, Bayou and Sayyad (2015) underlined the importance of independence in internal control as a fundamental component.

They maintained that internal controls could not be considered efficient or successful unless they were independent. An independent controller is required to supervise management's actions as well as the general operations of the organization. The Basel Committee on

Banking Supervision has released this framework for assessing internal control systems as part of its continuous efforts to solve bank supervisory concerns and strengthen supervision through suggestions that support successful risk management practices. Internal controls are a critical component of bank management and the foundation of secure and dependable financial institution operations.

A solid internal control system can assure the achievement of a bank's goals and objectives, the achievement of long-term profitability targets, and the accuracy of financial and managerial reporting. A system like this can reduce the risk of unplanned losses or reputational harm, in addition to assisting the bank in complying with laws and regulations, policies, strategies, and internal rules and procedures. Supervisory authorities should consider these fundamental concepts when evaluating their methodology and procedures for analyzing how banks set up their internal control systems. Individual supervisors' approaches will differ depending on a variety of factors such as on-site and off-site supervisory techniques and the degree to which external auditors are involved in the supervisory function, but all members of the Basle Committee agree that the principles outlined in this paper should be used when assessing a bank's internal control system.

2.2 Empirical Literature Review

2.2.1 Foreign Literature

The results of several types of research on internal control and financial performance are inconsistent. Indicators of internal control systems, such as the control environment, risk assessment, control activities, and information and communication, have a substantial impact on the financial performance of the institutions of higher learning in Nairobi City (Benson, 2015). The organization implemented internal control systems, mechanisms, and procedures in response to the unfavorable environment, insufficient risk and control activity assessment, diligent use of information and communication systems to reliably improve accountability, and prudent use of organizational resources. As a result, financial performance must be Subpar.

Internal control has an impact on the financial performance of sugarcane out-grower businesses in Kenya, according to Mwakimasinde *et al*. (2014). Their purpose was to determine how internal control system aspects affected the financial performance of sugarcane out-grower firms. Financial performance was defined as cost per unit, goal achievement, profitability, or surplus, whereas internal control system was defined as control environment, risk assessment process, information system, and control activities. The regression analysis results show that internal control systems help improve the financial performance of sugarcane out-grower firms. In light of the study's findings and conclusions, the following recommendations were made: the internal control system was found to have a statistically favorable impact on the performance of sugarcane out-grower firms; as a result, the internal control system needs to be strengthened.

Even while the study produced valuable data, it had some flaws that left room for future investigation. Kinyua (2015) looked into how the internal control environment affected the financial performance of companies listed on the Nairobi Securities Exchange. The study's goal was to investigate the impact of the internal control environment on the financial performance of Nairobi Securities Exchange-listed companies. The results showed a substantial positive association between the internal control environment and financial performance, supporting Mawanda's (2008) assertion that institutions with effective internal control systems always provide better financial outcomes.

The results of serunjogi (2018)'s evaluation of the effects of internal controls on the financial performance of equity Bank (U) Ltd show that internal control systems, particularly equity Bank (U) Ltd, play a significant role in the performance of commercialbanks. This is due to the fact that they ensure that activities are carried out in accordance with specified managerial rules and organizational resources. More specifically, in correctly handled cash, there is incidental accountability for all cash received, and payments are made by the right documentation authority to the bank's benefit. The causes of the inefficiency and ineffectiveness of existing internal control systems were eventually recognized. These include Equity Bank (U) Ltd's inability to implement adequate control, correct money permission and approval, and the absence of an internal audit unit in the business for the associated transaction.

Ibrahim S., Diibuzie G., and M. Abubakari (2017) investigated the association between financial performance and all five internal control variables was favorable. Only three of the five internal control components—control activities, internal audit, and monitoring—had a meaningfully positive relationship with financial performance, while the two remaining components, control environment and information and communication, had negligible effects. However, when compared to health institutions with a weak internal control system, those who had invested in strong internal control systems performed better financially.

2.2.2 Local Literature

Overall, the study by Tsedal (2015) indicates that internal control is practiced in universities and that this is good from an experience and academic competence perspective. However, each internal control component has a substantial influence, such as the internal control system's control environment, which is insufficient to be considered effective. Several weaknesses in the organization's control measures include an obsolete asset register and documentation, major issues about role separation, and inefficient asset acquisition and disposal. Furthermore, risk assessment, information, and monitoring are ineffective, but action is nevertheless conducted.

The study's findings, according to Endeshaw (2021), reveal that internal control elements have positively impacted the performance of privately owned manufacturing share businesses, even though some of them had a minor impact on the company's financial performance. Thus, the internal control system influenced the performance of privately owned manufacturing sharing firms in Addis Ababa. Stronger internal control systems appear to lead to high levels of financial performance in privately held manufacturing share businesses.

Internal control systems and organizational performance are highly positively correlated, according to Agegnew (2019). Since all internal control systems are elaborated to some level, they can serve to assure record administration, completeness, and correctness, as well as operate as a precaution against fraud and collusion, particularly on the part of individuals in positions of trust or power. As a result, internal control systems are relatively effective and have a substantial impact on organizational performance. Internal control measures in any organization must be adequate for proper operation.

Yemer, M. (2017) claimed that other internal control components, such as controlling activity, information and communication, and monitoring activity, have positive and significant effects in determining the outcomes while the two indicators of internal control systems, namely, control environment and risk assessment, do not. Monitoring activity has a greater impact on results than information, communication, and control activity. As a result, risk assessment, control actions, information and communication, and internal control system monitoring were utilized to estimate the income of hotels in Bahir Dar and Gondar.

According to the literature review, numerous experts agree that there is a link between internal control systems and a company's financial success. The vast majority of internal control evaluations are case studies that focus on specific institutions or organizations that have distinguishing features or substantial weaknesses in their internal control systems.

2.3 Identified Literature Gaps

The above literature review found numerous theoretical and empirical knowledge gaps regarding financial performance.

Gap 1: There is no theoretical debate regarding the connection or relationship between financial success and internal control. It turns out that the impact of internal control on financial performance in Ethiopia has not been studied theoretically or experimentally.

Gap2: There is no empirical evidence of a relationship between financial success and internal control in Ethiopian banks. The researcher emphasizes the importance of internal control and financial performance, but there is little empirical evidence to support this link in the Ethiopian context, particularly at the Bank of Abyssinia.

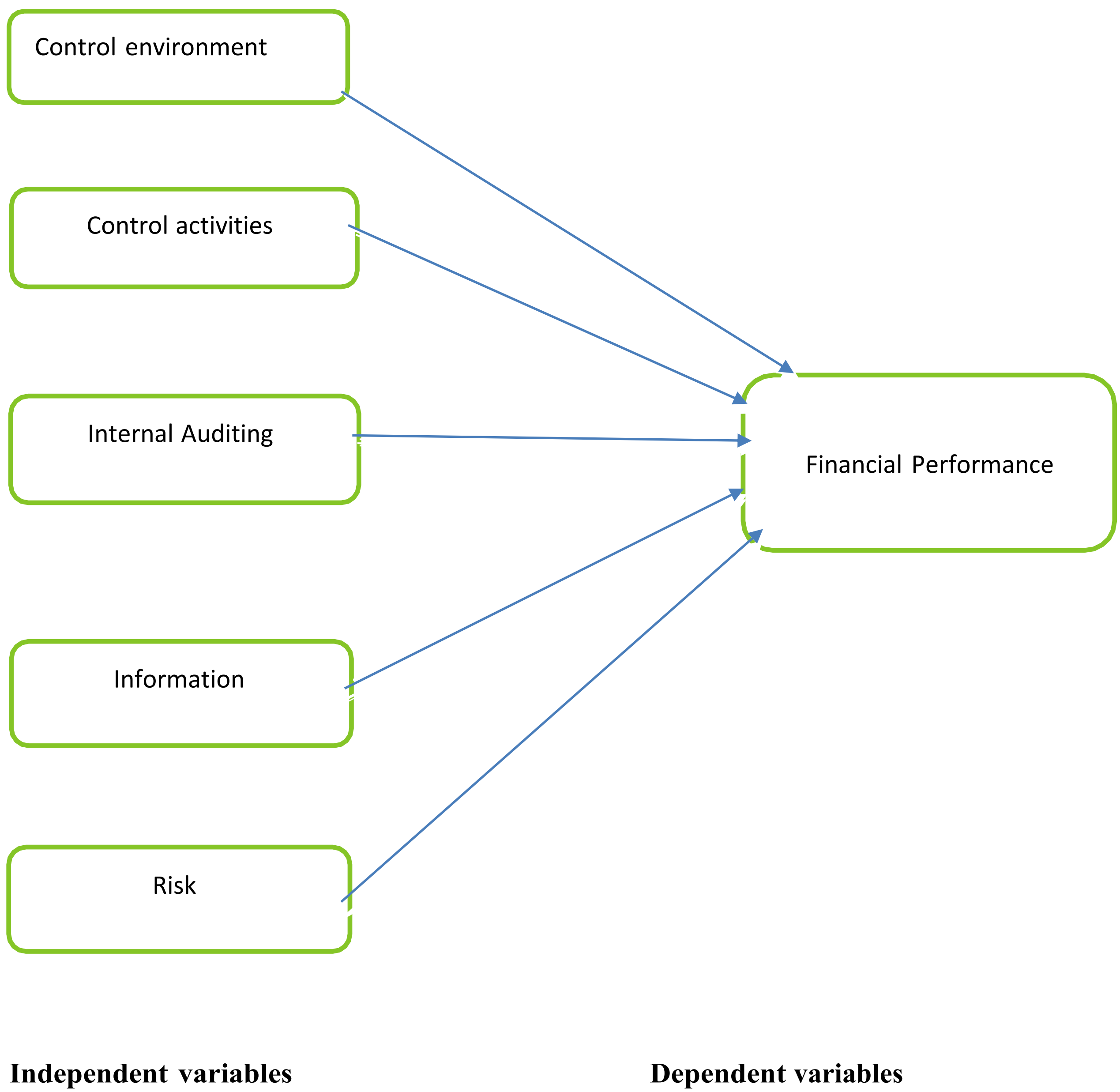
Gap 3: There is no empirical support for financial performance as an intervention variable for organizational performance. It studies the relationship between financial performance and internal control, and it almost investigates the relationship between financial performance and organizational performance. However, no empirical evidence exists to support the concept that internal control capacity influences both organizational and financial performance.

The above mentioned gaps can be further subdivided into theoretical gaps and empirical gaps. The gaps with number one are mostly theoretical, while the gaps with numbers two and three are empirical. The identified gaps are then used to build theoretical frameworks.

2.4 Conceptual Framework of the Study

The purpose of this research is to identify the numerous ways in which internal control influences the financial performance of the Bank of Abyssinia. Furthermore, the purpose of this research is to understand how internal controls may affect the financial performance of the Bank of Abyssinia. The study also intends to find and test the impact of internal control drivers of financial performance, such as control environment, control activity, internal auditing, risk, and information, on financial performance. Finally, the purpose of this research is to understand how internal control systems affect the financing system of the Bank of Abyssinia, as well as how the compulsion of this sort of internal control system affects its performance.

Thus, in the current study, the measure of financial success signified the extent to which a company met its commercial objectives. The following is an illustration of the research model:



Source: (The researcher, 2023)

Figure 1. conceptual framework of the study

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This chapter discusses the methodology used in the study, the research design, the target population, the sampling strategy, the method of data collecting, the validity and reliability of the research instruments, the methods used in the data analysis and presentation, and the model definition.

3.1 Research Design

Research design, according to Gubta et al. (2018), is the conceptual framework for conducting research. They stated clearly that a research design is an arrangement of criteria for data collecting and analysis that balances process economy with relevance to the study objective. A research design is organized around a specific aim and purpose statement.

This study established a causal association between the variables, and because it falls under the category of causal research, causal analysis and descriptive analysis were used to explain the relationship between management practices and employee performance. As a result, both quantitative and qualitative questionnaire-based survey research designs were used.

3.2 Research Approach

A research approach is a strategy that includes steps ranging from broad hypotheses to specific data collection, analysis, and interpretation procedures. As a result, depending on the type of research problem being addressed, data processing method, or line of reasoning, quantitative and qualitative research approaches were applied in this study.

3.3 Population of the Study

The target population is referred to as a particular set of individuals or things for which inquiries can be made or observations made to produce the necessary data structures and information, according to Hair et al. (2006). The study's target population will be financing employees and internal auditors of the Bank of Abyssinia.

3.4 Sampling and Sampling Procedure

3.4.1 Sampling techniques

The study focused on workers at various levels of the Bank of Abyssinia's Internal Audit Department. The Bank of Abyssinia used basic random sampling to select respondents. The method of purposive sampling is also employed to choose senior officials.

3.4.2 Sample Size

Considering the size, it had been difficult to collect data on the entire population at the time. Because of this, during this study to create the sample was determined representatives, the sample size of the study was decided victimization the formula adopted from (Yamane, 1967). Thus, the formula used to calculate the sample size is $n= N/ (1+N (e)^2)$

Where: - N = Target populationn = sample size

e = level of precision=0.05

The number of total target population for this research was 388(number of Bank of Abyssinia Internal auditors, finance employees, risk and compliance employees in Addis Ababa).

Using the on top of formula the easy size of the study is decided as

$n= 388/ (1+388(0.05)^2)$ $n= (388/1.97)$ $n= 197$

3.5 Source of Data

3.5.1 Primary source of data

When we see that primary data, was created by the researcher with the intent of solving, the study problem (Malhotra, 2006). A 5-point Likert scale questionnaire was used as the primary data collection instrument in this investigation. The most common method for acquiring primary data is through surveys. A structured and semi-structured questionnaire was presented to a sample of the population in order to obtain specific information from the respondent. The

main data collection strategy investigates the originality of the data by acquiring data that is relevant to the research. The primary data provides direct evidence of how internal control influences financial performance. Respondents at the Abyssinia Bank provided primary data. Data was collected from respondents via questionnaires.

3.5.2 Secondary source of data

Secondary data are historical data structures of variables that have already been gathered and assembled for a study challenge or opportunity situation unrelated to the current situation (Hair et al., 2006). Secondary sources of information included senior officials, books, magazines, journals, websites, and so on. Secondary data provided the researcher with guidance on the study's background and literature review.

3.6 Research Instrument

The questionnaire method was used to address the study's mentioned purpose. The respondents were asked to score their responses on a survey questionnaire used by the researcher.

The study relied on primary data obtained from customary questionnaires created by subject-matter specialists. In most cases, questionnaires were used in descriptive or explanatory research, which looked at and explained correlations between factors and phenomena' variability (Saunders, Lewis, & Thornhill, 2009). The questionnaire was developed in response to the study's objectives and is divided into four pieces. Section 1 deals with demographic information such as gender, educational background, age distribution, and work experience. Section 2 sought data on the effectiveness of the internal control system. Sections 3 and 4 deal with risk assessment and information and communication.

3.7 Data Analysis

The information gathered from the respondents was entered into SPSS 24.0 for analysis and frequent table presentation. Multiple regression models were used to assess the acquired data, and the appropriate interpretation was provided. Pearson's correlation was utilized to establish whether there are relationships between the variables as well as to describe the nature, degree, and direction of those relationships. A reliability test was also performed to examine or test the consistency of the measured data.

The study used descriptive statistical analysis, regression, and correlation analysis for data analysis. The first research goal and the demographic information of the respondent were primarily organized and summarized using descriptive statistics, and correlation coefficients were utilized to show the association between internal control and financial performance components. On the other hand, regression analysis was employed to evaluate the impact of internal control on the financial performance of the Bank of Abyssinia.

3.8 Validity and Reliability

The questionnaires are created by the researcher to gather data on the respondents' profiles and perceptions. The questionnaire was sent to the adviser for review, editing, and guidance after the researcher had given it some thought. To account for the correction, the new draft was modified. To maintain the consistency of the study equipment, Cronbach's alpha was used in the scale evaluation and compared to the typical tolerance of 0.7. According to Field (2005) and Bourke-Taylor & Pallant (2013), a Cronbach's alpha of more than 0.7 indicates that the study apparatus is internally consistent. The reliability of the surveys used to assess each internal control system and financial performance was tested, and the Cronbach's alpha numbers obtained with each internal control system and financial performance ranged from 0.777 to 0.894, indicating a very respectable degree of internal consistency of the study used in the results (Table 1). The internal consistency of the full questionnaire utilized in this study was also checked by the researcher, and the results showed that it was internally consistent overall (Cronbach's alpha was 0.832).

Table 1. Reliability result of the study instrument

Scale	**Cronbach's Alpha**	**Number of Items**
Control environment	0.787	8
Control activity	0.809	5
Internal auditing	0.777	4
information	0.894	7
risk	0.846	5
Financial performance	0.879	9

3.9 Ethical Considerations

The researcher addressed ethical concerns about privacy and secrecy. It is guaranteed that the names of respondents will not appear in surveys or survey reports. To ensure the success of the investigation, leaders are linked to their subordinates, ensuring that responses are anonymous save for the fact that they are related with a certain leader. Participants were also given written and verbal summaries of the study prior to the trial, as well as the option to offer informed consent. All participant responses were kept anonymous, and participation in the study was fully voluntary.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATIONS

4.1 Introduction

This section is organized by presenting the general information about the respondents, were presented and data collected through questionnaires were analyzed at the same time. To get responses from the respondents, 197 questioners were distributed for this study. The first section of this chapter presents the profiles of respondents. The second section in this chapter is on the analysis, presentation and interpretation of the relationships under financial performance and those factors. The presentation and interpretation was in line with the study's objective. The findings are presented in the form of tables showing frequencies, percentages, mean and standard deviation. Since descriptive research design was used in this study, descriptive analysis was carried out in this chapter. For each research objective, descriptive analysis was first done by use of the percentiles and frequencies, mean and standard deviation. The findings are based on the responses of sample Effects of internal control on financial performance of bank of Abyssinia with the help of structured questionnaire in the study area.

4.2 Questionnaire Response Rate

This chapter examines the elements of Effects of internal control on financial performance of bank of Abyssinia. The survey had a sample size of 197 respondents, returning questionnaires, yielding a response rate of 92% percent. It is a reliable response rate for data analysis as Babbie (2002) posited that any response of 50 % and above is adequate for analysis. Moreover, it is possible to generalize that as the response rate indicates all of the respondents were happy towards the study and its findings.

Table 4.1: Response Rate

No.	Respondents category	Frequency	Percentage
1	Responded	180	92%
2	Did not responded	17	8%
Total		197	100%

(Source: SPSS output researcher survey data, 2024)

4.3 General Information of the Respondents

This section profiles the respondents in respect to gender, age, level of education, year of experience and trainings to participate in one year of the respondents of employee's performance. The items in the research instruments used in the study informed profiling of the respondents.

4.3.1 Gender of respondents

Table 4.2 Genders of the respondent

Genders of the respondent					
Frequency			Percent	Valid Percent	Cumulative Percent
Valid	Male	105	58.3	58.3	58.3
	female	75	41.7	41.7	100.0
	Total	180	100.0	100.0	

(Source: SPSS output researcher survey data, 2024)

The data sought on whether respondents were males or females. The study found it important to analyze gender distribution of the respondent so, as to compare the level of participation in BOA. The study did not consider any of the gender in the selection of respondents. Respondents asked to indicate their gender. From the findings of the males are the majority of the respondents with 105 (58.3 %) and females with 75 (41.7 %) as shown the above table. This indicates that the majority of the respondents are males.

4.3.2 Age of the respondent

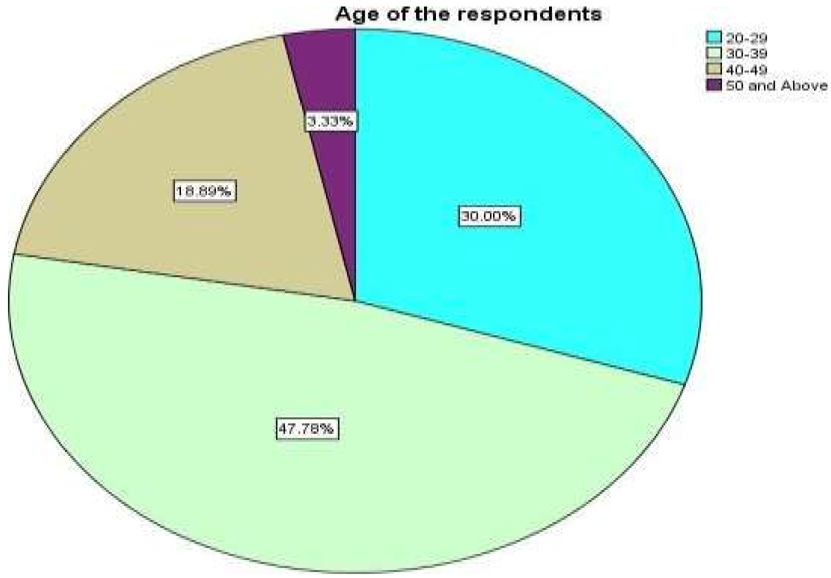


Figure 1 age of the respondents

Source: - SPSS output

From the given figure above Respondent asked to indicate their age group in years. This done to understand the age distribution of the respondents since an individual's age was considered in the selection of respondents in this study. Age groups classified into four categories: as we see the 20-29years; 30-39 years, 40-49 years and above 50 years. Regarding to respondent Age category in year majority 86 (47.8%) of respondents are participated at age of 30-39 years old, similarly the second highest number 54 (30%) of respondents are at age of 20-29 years. on other hand the list participated respondents are 40-49 year-olds are 34(18.9) and finally above 50 years old are 6 (3.3 %). This confirms that 86 (47.8%) of respondents were youths between the age of 30-39 years. About the age, distribution of the respondent majority of them found at young and youth age and well known the Effects of internal control on financial performanceof bank of Abyssinia.

4.3.3 Education level of respondents

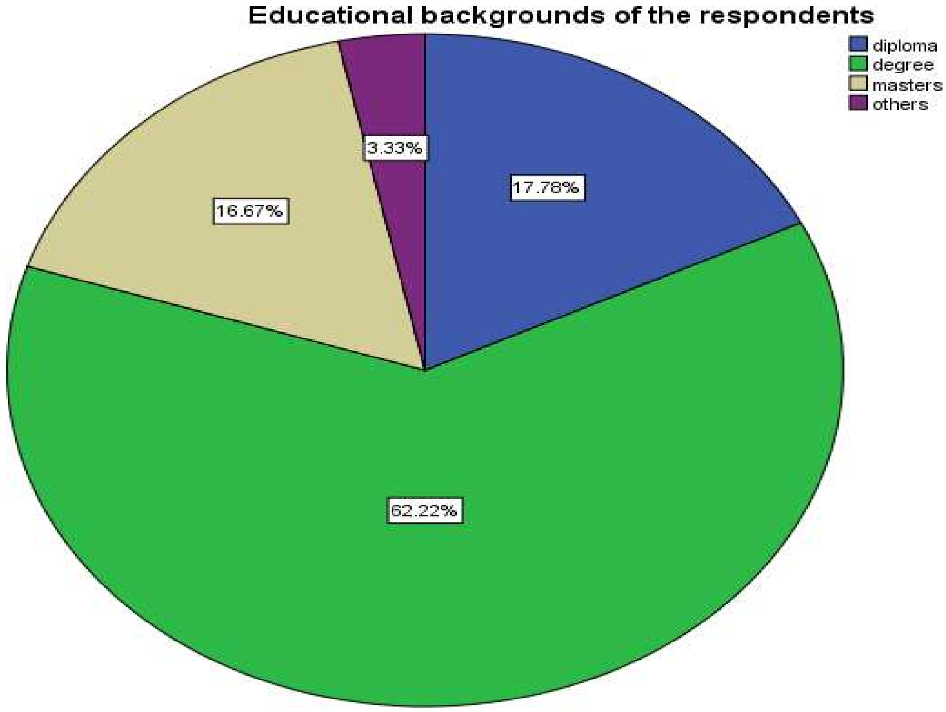


Figure 2. Educational levels of the respondentsSource: - SPSS output

From the figure above the respondents asked to indicate their highest level of education. Respondent's level of education considered important in this study in respect to responding to the research instruments as well understanding the effect of financial performance. The study sought to establish the educational level of respondents from the findings of the respondents 32(17.8 %) had diploma whereas first degree were the majority of the respondents having 112(62.2%) and with master's level of education having 30 (16.7%) as shown in the figure above. From this majority of the respondents are educated and have knowledge of the Effects of internal control on financial performance of bank of Abyssinia which were first degree having 112(62.2%).

4.3.4 Marital status of respondents

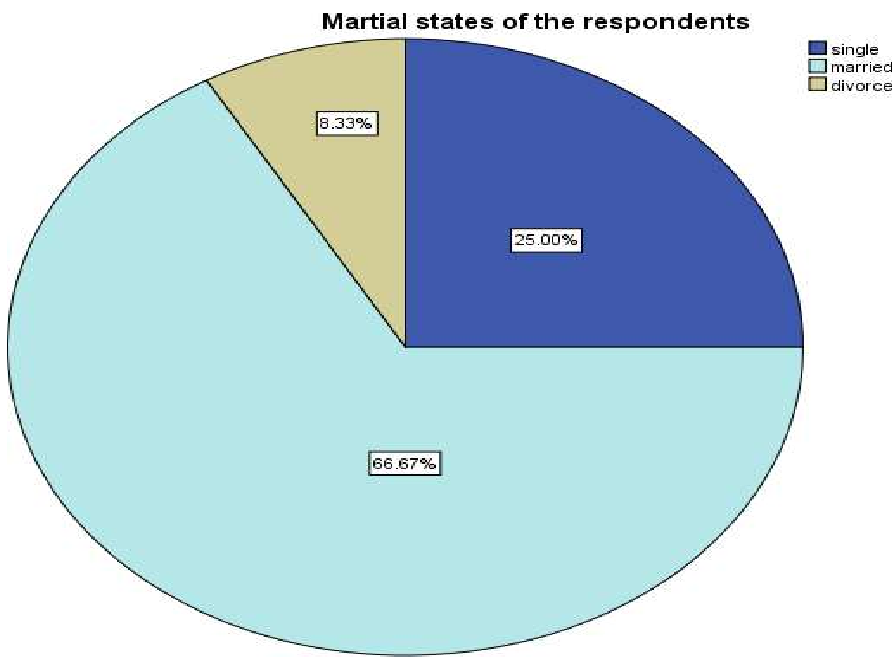


Figure 3. Martial status of the respondents

Source: - SPSS output 2024

From the figure above the respondents asked to indicate their highest level of Martial status. Respondent's Martial status considered important in this study in respect to responding to the research instruments as well understanding the Effects of internal control on financial performance of bank of Abyssinia. The study sought to establish Martial status of respondents from the findings of the respondents the highest respondents are married which is 120 (66.7%) whereas single respondents were 45(25%) and finally the remaining 15(8.3%) of respondents are divorced as shown in the figure above. From this majority of the respondents are married and have knowledge of the Effects of internal control on financial performance of bank of Abyssinia which were married having 120 (66.7%). In this study no widowed or others.

4.3.5 Work Experience of respondents

Table 4.3 Work Experience of respondents

Work Experience of the respondents					
		Frequency	Percent	Valid Percent	CumulativePercent
Valid	0-4 year	56	31.1	31.1	31.1
	5-7 years	97	53.9	53.9	85.0
	8 - 10 years	10	5.6	5.6	90.6
	above 10 years	17	9.4	9.4	100.0
	Total	180	100.0	100.0	

Source: - SPSS output 2024

From the given table above the study sought to establish that the work experience of respondents. From the findings of the respondents 0-4 years are 56 (31.1%), 5-7 years 97 (53.9%) followed by those 8-10 years 10(5.6 %), more than 10 years 17 (9.4 %), as shown in the above table. So, the established of the work experience of the respondents from the findings the majority of them are from 5-7 years which is 97(53.9 %) years followed by 0-4 years' work experience. About the education, distribution of the respondent majority of them found at young and youth age which were found under work group.

4.3.6 Occupational status respondents

Table 4.4 Occupational status respondents

Occupational status respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Internal Audit Department	56	31.1	31.1	31.1
	Accounting and Finance Department	78	43.3	43.3	74.4
	Risk and Compliance Department	30	16.7	16.7	91.1
	others	16	8.9	8.9	100.0
	Total	180	100.0	100.0	

Source: - SPSS output 2024

From the given table above the study sought to establish that the Occupational status respondents. From the findings of the 78(43.3%) of the respondents are Accounting and Finance Department followed by Internal Audit Department having 56 (31.1 %) respondents. The remaining those 30 (16.7%) of the respondents are Internal Audit Department and 16 (8.9 %) of such respondents are other departments, as shown the above table. So, the established of the Occupational status respondents from the findings the majority of them are from 78(43.3%) followed by Internal Audit Department having 56 (31.1 %) respondents. About Occupational status respondents the respondent majority of them found at accounting and Finance Department which were found under to know more about Effects of internal control on financial performance of bank of Abyssinia.

4.4 The Effects of internal control on financial performance

This section presents the analysis of internal control on financial performance obtained from the results. Among the different internal control the five main types, namely control environment, control activity, internal auditing, risk, and information have been studied. Interpretation of the data and findings in the following discussion produced the mean score and standard deviation of the responses of respondents on the exhibited internal control on financial performance of bank of Abyssinia. The questions were scaled by using a five point Likert scale in which 1= strongly disagree, 2= Disagree, 3 = Neurtal, 4 = Agree, 5 = Strongly Agree to rate the exhibited leadership styles.

4.4.1 Descriptive analysis of control environment

Table 4.5 Descriptive Statistics control environment

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
The management discusses internal controls at management and other staff meetings	180	1.00	5.00	3.7500	0.95071
The bank has an updated internal control plan	180	1.00	5.00	3.8222	0.98758
The organization has a formal information systems security policy	180	1.00	5.00	3.8778	0 .94475

The organization chart clearly defines the lines of management authority	180	1.00	5.00	3.7611	0.95187
There are formalized policies and procedures operations of the entity	180	1.00	5.00	3.8667	0 .92960
Policies and procedures for authorizations established at reasonably high level	180	1.00	5.00	3.8278	0.97825
The control environment has affected the financial performance of the organization	180	1.00	5.00	3.4722	0.95593
Does controlof the environment effective in your organization	180	1.00	5.00	3.7333	0.91699
Valid N (listwise)	180				

Source: Own survey, 2024, SPSS out put

As shown in the above table, an overall mean and standard deviation of **M=3.764 SD= 0.952.** Were recorded and indicating that internal control in financial performance is applied highly in bank of Abyssinia. As indicated from the table, respondents showed their response to the statement with a high means that the organization has a formal information systems security policy with a means of M= 3.8778, SD= 0 .94475, There are formalized policies and procedures operations of the entity with a means of M= 3.8667, SD= 0 .92960 and Policies and procedures for authorizations established at reasonably high level with a means of M= 3.8278, SD= 0.97825 and The bank has an updated internal control plan with a means of M= 3.8222, SD= 0.98758 respectively.

On the other hand The organization chart clearly defines the lines of management authority with a mean M=3.7611 and SD = 0.95187 , The management discusses internal controls at management and other staff meetings having a means of M=3.75 and SD = 0.95071, Is control of the environment effective in your organization with a means of M=3.7333 and SD = 0.91699. Lastly the control environment has affected the financial performance having a means of M=3.4722 and SD = 0.95593. Most respondents highly believe that internal control has an impact on the bank of Abyssinia's financial performance due to the control environment.

4.4.2 Descriptive analysis of control activity

The data analysis for this section helps to identify how control activity contribute to the financial performance in Banks of Abyssinia. The analysis of the financial performance was assessed by using means and standard deviations from the results. The results of the means were interpreted based on: 1-1.49 = Very Low; 1.5-2.49 = Low; 2.5-3.49 = Moderate; 3.5-4.49 = High; 4.5-5.0 = Very high.

Table 4.6 Descriptive Statistics control activity

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
All operating units have a functional separation.	180	1.00	5.00	3.7444	0.95570
control activities are effective in the bank	180	1.00	5.00	3.9167	0.97860
There is appropriate supervision by senior staff on the work of their junior	180	1.00	5.00	3.7167	0.93395
Our security system identifies and safeguards internal Assets.	180	1.00	5.00	3.6611	0.92961
Accounting supervisors appear to have sufficient expertise to review accounting transactions for accuracy and compliance with rules and regulations	180	1.00	5.00	3.8722	0.96768
Valid N (listwise)	180				
Aggregate mean and SDD				3.782	0.953

Source: Own survey, 2024, SPSS out put

The results presented in Table 4.6 indicate that the sample mean for individual response ranged between 3.6611 and 3.9167. Similarly, the sample standard deviation for the different responses ranged between 0.92961 and 0.97860 demonstrating that the responses were fairly close together around the sample mean as the variability was narrow. Furthermore, the aggregate scores for sample mean and sample standard deviation for strategy control were 3.782 and 0.953 respectively.

From the study findings, majority of the respondent agreed that control activities are effective in the bank (Mean = 3.9167 STD =0.97860), Accounting supervisors appear to have sufficient expertise to review accounting transactions for accuracy and compliance with rules and regulations (Mean = 3.8722 STD =0.96768) and all operating units have a functional separation. (Mean = 3.7444 STD = 0.95570) respectively.

On the other hand There is appropriate supervision by senior staff on the work of their junior (Mean = 3.7167 STD = 0.93395) and final security system identifies and safeguards internal Assets of the bank having a means of 3.6611 and STD of 0.92961 respectively. Most respondents strongly believe that internal control activities have an impact on the bank of Abyssinia's financial performance.

4.4.3 Descriptive analysis of internal auditing

The data analysis for this section helps to identify how internal auditing contribute to the financial performance in Banks of Abyssinia. The analysis of the financial performance was assessed by using means and standard deviations from the results. The results of the means were interpreted based on: 1-1.49 = Very Low; 1.5-2.49 = Low; 2.5-3.49 = Moderate; 3.5-4.49 = High; 4.5-5.0 = Very high.

Table 4.7 Descriptive Statistics of internal auditing

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Our internal audit department is adequately organized	180	1.00	5.00	3.9500	0.96899
Our Bank has an objective, independent and active Board audit committee.	180	1.00	5.00	3.8333	0.97740
Internal auditors are performing their duties with a great degree of autonomy and independence from the management	180	1.00	5.00	3.7778	0.92640
Management discusses internal audit reports Regularly	180	1.00	5.00	3.7000	0.92314
Valid N (listwise)	180				
Aggregate mean				3.81527	0.94898

Source: Own survey, 2024, SPSS out put

The results presented in Table 4.6 indicate that the sample mean for individual response ranged between 3.7 and 3.95. Similarly, the sample standard deviation for the different responses ranged between 0.92314 and 0.9774 demonstrating that the responses were fairly close together around the sample mean as the variability was narrow. Furthermore, the aggregate scores for sample mean and sample standard deviation for internal auditing were 3.81527 and 0.94898 respectively.

From the study findings, majority of the respondent agreed that internal audit department is adequately organized (Mean = 3.9500 STD =0.96899), Bank has an objective, independent and active Board audit committee (Mean = 3.833 STD =0.9774) respectively.

On the other hand Internal auditors are performing their duties with a great degree of autonomy and independence from the management (Mean = 3.7778 STD = 0.92640) and final Management discusses internal audit reports regularly having a means of 3.700 and STD of 0.92314 respectively. Internal audit has a significant impact on internal control and the financial performance of the Bank of Abyssinia, according to most respondents.

4.4.4 Descriptive analysis of Risk Assessment

This section presents the analysis of Risk Assessment on financial performance obtained from the results. Interpretation of the data and findings in the following discussion produced the mean score and standard deviation of the responses of respondents on the exhibited internal control on financial performance of bank of Abyssinia. The questions were scaled by using a five point Likert scale in which 1= strongly disagree, 2= Disagree, 3 = Neurtal, 4 = Agree, 5 = Strongly Agree to rate the exhibited leadership styles.

Table 4.8 Descriptive Statistics of Risk Assessment

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
The institution has effective risk assessment tools	180	1.00	5.00	3.6500	0.94387
The institution has an adequate and effective risk management system	180	1.00	5.00	3.8500	0.91662
All employees are well trained in risk assessment	180	1.0	5.00	3.6780	0.93188
Risk assessment has affected the institution's revenue for the last eight years	180	1.00	5.00	3.8444	0.88568
Valid N (listwise)	180				
Aggregate mean and STD				3.7556	0.91951

Source: Own survey, 2024, SPSS out put

From the given table above respondents asked whether agree, disagree or neutral on the Risk Assessment internal control on financial performance of bank of Abyssinia.. The aggregate mean and STD of the statement given to the respondents were 3.7556 and 0.91951 respectively this indicates that respondents are highly agreed on the list statements of Risk Assessment. According to the respondent, the institution has an adequate and effective risk management system (Mean = 3.8500 STD =0.91662), Risk assessment has affected the institution's revenue for the last eight years (Mean = 3.8444 STD =0.88568) respectively. On the other hand all employees are well trained in risk assessment (Mean = 3.678 STD =0.93188) and the institution has effective risk assessment tools (Mean = 3.650 STD =0.94387) respectively. This shows that respondents strongly agree on the risk assessment and internal control elements regarding the bank of Abyssinia's financial performance.

4.4.5 Information and Communication

Table 4.9 Descriptive Statistics of Information and Communication

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Our institution has effective information and communication channels	180	1.00	5.00	3.9222	0.91594
Our institution has invested in modern and efficient information and communication technologies (computers, internet, and other systems)	180	1.00	5.00	3.9167	0.91803
Our institution has the adequate transfer of information	180	1.00	5.00	3.8778	0.97543
Our institution has an excellent record oftransactions	180	1.00	5.00	3.6111	0.94284
Our institution has proper accountability for assets	180	1.00	5.00	3.9056	0.92710
Effective flow of information and communication enhances financial accountability	180	1.00	5.00	4.0111	0.93348
Valid N (listwise)	180				
Aggregate mean and STD				3.874	0.93547

Source: Own survey, 2024, SPSS out put

From the given table above respondents were requested to fill the effects of Information and Communication Financial Performance. Based on that the majority of the respondents stated that Effective flow of information and communication enhances financial accountability with a highest means of 4.0111 and STD of 0.93348, institution has effective information and communication channels with the second highest means of 3.9222 and STD of 0.91594, Our institution has invested in modern and efficient information and communication technologies (computers, internet, and other systems) having a mean of 3.9167 and STD of 0.91803, institution has proper accountability for assets with a means of 3.9056 and STD of 0.92710 respectively. On the other hand our institution has the adequate transfer of information having a means of 3.8778 and STD of 0.97543, our institution has an excellent record of transactions with a means of 3.611 and STD of 0.94284. In general Information and Communication has an effect on Financial Performance of bank of Abyssinia with an aggregate means of 3.874 and STD of 0.93547.

4.4.6 Financial Performance

Table 4.10 Financial Performance

The results of the surplus were written in millions (m) and billions (b).

Name of institution	BOA	BOA	BOA	BOA	BOA	BOA	BOA
Year	2017	2018	2019	2020	2021	2022	2023
Surplus	6.8 m	7.7 m	1 b	1.1 b	2 b	4.7 b	5.2 b

Table 4.11 Descriptive Statistics of Financial Performance

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Our institution has enough cash to meetits obligations effectively (as and when they fall due)	180	1.00	5.00	3.6444	0.92708
The fees charged by our institution are appropriate to cover the costs of runningthe courses	180	1.00	5.00	3.6444	0.95792
All Institutional fees are fully collected	180	1.00	5.00	3.5333	0.93872
Outstanding fees are dully paid in time	180	1.00	5.00	3.8389	0.90132

Our Institution's accounting system adequately identifies the receipts and expenditure of grant contracts	180	1.00	5.00	3.8444	0.94737
Management of finances affects the financial performance of the institution	180	1.00	5.00	3.6944	0.91489
The Institution's asset base has greatly increased over time	180	1.00	5.00	3.8500	0.91202
The internal control system has affected the institution's revenue for the last sevenyears	180	1.00	5.00	3.7111	0.95733
The internal control system has affected the institution's accountability for the lastseven years	180	1.00	5.00	3.8500	0.97931
Valid N (listwise)	180				
Aggregate mean				3.7345	0.93732

Source: Own survey, 2024, SPSS out put

Table 4.10 shows BOA's profit for the last seven years, which shows the bank's profit increased every year (2017–2023). The results of descriptive analysis presented in Table 4.11 indicates that sample mean associated with individual responses ranged between 3.5333 and 3.85 approximating to 4.00 on the Likert scale that had been used in this study. These values of sample mean implied that the respondents were in agreement that the various specific activities represented by the statements on financial performance were embraced in bank of Abyssinia. On the other hand, the sample standard deviation for the separate responses ranged between 0.90132 and 0.97860. The level of sample standard deviation relative to the sample mean demonstrates that the variability of responses was low and as such responses from the respondents were clustered together around the sample mean.

In addition, the aggregate scores for sample mean and sample standard deviation for strategy formulation were 3.7345 and 0.90266 respectively yielding a low score of aggregate coefficient of variation on financial performance. The internal control system has affected the institution's accountability for the last seven years and The Institution's asset base has greatly increased over time with a high means of 3.85, The Institution's accounting system adequately identifies the receipts and expenditure of grant contracts and outstanding fees are dully paid in time having a means of 3.8444 and 3.8389 respectively.

The internal control system has affected the institution's revenue for the last seven years having a means of 3.711. On the other hand Management of finances affects the financial performance of the institution with a means of 3.694. Furthermore hand the fees charged by the institution are appropriate to cover the costs of running the courses and the institution has enough cash to meet its obligations effectively (as and when they fall due) having a means of 3.6444. This suggests that respondents had significant agreement regarding the financial performance of Abyssinia banks.

4.5 Reliability Test

Reliability is fundamentally concerned with issues of consistency of measures whereas validity is the degree to which an instrument measures what it is supposed to measure. (Bryman and Bell, 2003). The total number of complete feedback received was 180 sample populations. In order to confirm the reliability of the data, Cronbach's Alpha; was calculated for each variable. As below table indicate, all variables Cronbach's alpha test result shows to be larger than 0.7 which is known to be satisfactory.

Table 4.12 Cronbach's Alpha Result

Scale	Cronbach's Alpha	Number of Items	Remarks
Control environment	0.787	8	Accepted
Control activity	0.809	5	Accepted
Internal auditing	0.777	4	Accepted
information	0.894	7	Accepted
risk	0.846	5	Accepted
Financial performance	0.879	9	Accepted

Source: Own survey, 2024, SPSS out put

The overall Cronbach's alpha for the four categories which is 0.832. The findings of the pilot study showed that all the five scales were reliable as their reliability values exceeded the prescribed threshold of 0.7 (Bryman and Bell, 2015).

4.6 Correlation Analysis

Correlation analysis involves identification of interrelationship of the study variables. Pearson's correlation coefficient (r) was used to determine the strength and direction of associations and how study variables were related. Table 4.12 illustrates the correlations between the dependent variable and predictors for this study namely control environment, internal audit, risk assessment, information and communication system and control activities. Values of correlation coefficients (r) range between -1.00 and +1.00 in which a negative value is used indicate a perfect negative relationship while a positive number is used to indicate a perfect positive relationship. Values between 0.8-1.00 are used to indicate a very strong relationship, 0.6-0.8 indicate strong relationship, 0.4-0.6 indicate moderate relationship, 0.2-0.4 indicate weak relationship while 0 .00-0.2 indicate very weak relationship. The test of the relationship between the study variables was at 5% significant level.

Table 4.13 Correlation Analysis

		Financial Perfor	Control Enviro	Risk Assess	Information Co. System	Control Activities	Internal audit
Financial Perfor	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	180					
Control Activities	Pearson Correlation	.131	1				
	Sig. (2-tailed)	.254					
	N	180	180				
Risk Assessment	Pearson Correlation	.170	.974**	1			
	Sig. (2-tailed)	.136	.000				
	N	180	180	180			
Information and Co.System	Pearson Correlation	.199	.941**	.971**	1		
	Sig. (2-tailed)	.081	.000	.000			
	N	180	180	180	180		
Control Activities	Pearson Correlation	.190	.982**	.972**	.937**	1	
	Sig. (2-tailed)	.095	.000	.000	.000		

	N	180	180	180	180	180	
Internal audit	Pearson Correlation	.110	.954**	.980**	.970**	.959**	1
	Sig. (2-tailed)	.337	.000	.000	.000	.000	
	N	180	180	180	180	180	180
** Correlation is significant at the 0.05 level (2 tailed).							

Source: Own survey, 2024, SPSS out put

Table 4.12 presents the findings that financial performance has a very weak positive and statistically insignificant relationship with control environment (r=0.131; P>0.05). The findings also indicate that financial performance positively correlate with risk assessment. The relationship is very weak and statistically insignificant (r=0.170; P>0.05). The correlation table also shows a very weak positive and insignificant relationship between financial performance and information and communication system (r=0.199; P>0.05). As indicated in the correlation analysis table, control activities component has a very weak and insignificant relationship with financial performance (r=0.190; P>0.05). The correlation analysis also shows that internal audit component of internal control systems has a very weak positive and insignificant relationship with financial performance (r=0.110; P>0.05). The results of the correlation indicate that there is a very strong positive and a high significant relationship among the study independent variables. The findings indicate that the highest, very strong positive and highly significant correlation is that between control environment and control activities (r=0.982; P<0.05). The table also indicates that lowest, very strong positive and highly significant correlation is that between control activities and information and communication system (r=0.937; P<0.05).

The results by the correlation analysis indicating very strong positive and highly significant relationship between independent variables imply that all the components of internal control systems must function jointly to produce better reliable results. The weak positive and insignificant relationship between individual internal control systems and performance implies that a single component of internal control system cannot work efficiently and cannot be relied upon to relate significantly to performance. This brings out the new knowledge regarding the functionality of internal control systems as individuals or working together in an organization. As per the correlation analysis that the relationship between risk assessment and financial performance is positive and insignificant, study's correlation analysis findings disagree with the findings which indicated that financial performance of banks was strongly positively related to risk management. This study finding agrees with the findings by Gift (2018) which indicate that internal controls positively related with financial performance.

4.7 Regression Analysis

This study employed multi regression analysis to determine the relationship of independent variables with the dependent variable. The dependent variable was financial performance of the banks of Abyssinia measured by return on assets. Independent variables of the study included control environment, risk assessment, information and communication system, control activities and internal audit. The regression test was conducted with the model presenting coefficients of independent variables. The test of the relationship was tested at 5% significant level. This part presents the relationship test outcome between the dependent and independent variables. The regression test was performed to show the degree upon which internal controls have influence on financial performance of banks of Abyssinia. The significance of the regression model was tested at the 5 % level of significance. F –statistics were undertaken to determine how reliable the regression model is in predicting the relationship between independent variables and the dependent variable. With the help of regression analysis, the outcomes are given in the regression model summary indicating the extent of variability of performance due to the effect of the predictor variables, which are the internal controls as given by the coefficient of determination (r^2), the ANOVA table presenting how significant the regression model is as well as the regression coefficients.

4.7.1 Multi-collinearity diagnostics test

The test for multi-collinearity of the independent variables was performed with the help of Variance Inflation Factors value table. The values which were above 10 in the Variance Inflation Factor column of the table, indicated that there was a problem with co-linearity of independent variables. This called for a further test to identify the possible source of the multi- collinearity between independent variables in the regression model. Collinearity diagnostic test was performed and the results are as presented in table 4.13.

Table 4.14 Multi-collinearity Diagnostics

Model	Dimension	Eigen value	Condition Index	Variance Proportions					
				(Constant)	Control Enviro	Risk Assess	information Com. System	Control Activities	Internal audit
	1	5.935	1.000	.00	.00	.00	.00	.00	.00
	2	.057	10.233	.22	.00	.00	.00	.00	.01
	3	.004	36.372	.24	.10	.00	.28	.05	.03
	4	.002	52.567	.14	.06	.00	.48	.00	.72
	5	.001	77.984	.10	.04	.95	.20	.16	.08
	6	.001	90.168	.30	.80	.05	.03	.79	.16

Source: Own survey, 2024, SPSS out put

a. Dependent Variable: Financial Performance

Table 4.13 illustrates that there are 5 predictor variables in the study and 6 dimensions. The table helps to extract uncorrelated dimensions from the predictor data. If there is no collinearity, all the dimensions should contribute information meaningful to the predictor variables. If there is multi-collinearity then all dimensions are redundant. In the table, dimensions with high Eigen value show high contribution to the independent variables whereas those with low value closer to 0 indicate aspects of multi-collinearity between independent variables.

It is difficult to interpret the Eigen values to pinpoint the source of multi-collinearity because they are reliant on the number of predictors on the model. This necessitates the use of condition index values which are calculated from Eigen values. By using this, the dimensions which show values above 15 indicate possible problems with multi-collinearity. Values above 30 indicate strong signs of multi-collinearity. In the findings, there are four cases with high condition indexes. Therefore, the next step is to use the variance proportions where the variances of each predictor variables are distributed to each of the four dimensions with condition index, which are 3,4,5and 6. In each of the four dimensions, the predictor variables with variance proportions above 0.90 are ascertained. If in one row there are two or more predictor variables with variance proportions being above .90, the predictors have collinearity problem. Table 4.13 illustrates that there are no two or more predictor variables in each row of the four dimensions, having the highest condition indexes, with variance proportions above 0.90. The diagnostics tests therefore indicate no major collinearity problems in the data, revealing no such severity. Therefore, there is no significant collinearity in the data set that can hinder regression model analysis.

Table 4.15 Coefficient of Determination Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.735[a]	. 540	.512	.67759

Source: - SPSS output 2024

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), internal audit, control environment, information and communication systems, control activities, risk assessment

Table 4.14 shows the regression model summary for the relationship between performance of banks and the predictor variables which are the internal auditing , control activities, information and communication systems, risk assessment and control environment. The table contains the summary coefficients which indicate the degree of influence of the independent variables (predictor variables) on the performance.

As per the findings, the R-coefficient is 0.735 indicating that the predictor variables (independent variables) have strong positive association with the performance of banks of Abyssinia. The coefficient of determination (R-Square) indicates that the predictor variables used in the study can be relied on to explain 54% (0.540) of the variability in performance of banks. Therefore, basing on the findings presented in the table while holding other factors constant, internal audit, control activities, information and communication system, risk assessment, and control environment contribute to 54% growth in the performance of banks. This implies that all the five components of internal control system working in combination, lead to 54% variation in financial performance. 46% of the variability is caused by other factorsnot studied.

Table 4.16 Analysis of Variance and F-Test Results

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	27.059	5	5.412	11.787	.000[b]
Residual	33.057	72	.459		
Total	60.115	77			

Source: - SPSS output 2024

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Internal audit, control environment, information and communication systems, control activities, risk assessment

From Table 4.15, the significance value in testing the reliability of the model for the relationship between financial performance and internal controls was obtained as 0.01 which is less than 0.05 the critical value at 5 % significance level. Therefore, the model is statistically significant in predicting the relationship between financial performance and internal controls in the banks of Abyssinia. The F value calculated is 11.787 implying a significant model for the relationship as given by the regression coefficients. This implies that the overall model was statistically significant and reliable in explaining the influence of the predictor variables to the financial performance of the banks, $F(5, 72) = 11.787$, $P<0.05$. The significant of the effect of independent variables on the dependent variable was tested on the multiple regressions with the use of beta and significance values at 5%. The findings on the significance of the effect were presented as shown in Table 4.16.

Table 4.17 Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.057	.587		1.801	.076
Control Environment	-.930	.496	-.971	-1.874	.065
Risk Assessment	1.460	.560	1.662	2.608	.011
Information Com System	.370	.358	.420	1.034	.305
Control Activities	1.931	.558	1.774	3.462	.001
Internal audit	-2.508	.390	-3.179	-6.440	.001

Source: - SPSS output 2024

a. Dependent Variable: Financial Performance

According to the findings as presented in Table 4.16, the independent variables (control environment and internal audit) showed negative coefficients indicating negative effect on the performance. Risk assessment, information and communication system and control activities showed positive beta coefficients indicating that they have positive effect on performance. Therefore, it observed from the table that control environment does not have a significant effect on financial performance, $t(72) = -1.874$, $P=0.065$. The findings show that risk assessment has significant effect on financial performance, $t(72) = 2.608$, $P<0.05$. It is also indicated by the table that information and communication system has no significant effect on financial performance, $t(72) = 1.034$, $P=0.305$. Control activities is also shown to have significant effect on financial performance, $t(72) = 3.462$, $P<0.05$. The table indicates that monitoring also has significant effect on financial performance, $t(72) = -6.440$, $P<0.05$.

The interpretation of Beta coefficients of Table 4.18 is presented that with one-unit increase in control environment, financial performance decreases by 0.93. This implies that control environment component may not function alone to produce positive results. It can only work with other components for positive results. A one-unit increase in risk assessment increases performance by 1.46. This implies that risk assessment component can stand alone to produce positive results. A unit increase in information and communication system leads to an increase in performance by 0.37 implying that this component can also stand to work alone to generate positive results. A unit increase in control activities results in an increase in performance by 1.93. This indicates that control activities can also produce positive results working alone while with one-unit increase in monitoring results in a decrease in performance by 2.51. The implication of internal audit is that too much audit of activities may lead to a fall in performance. Based on the coefficients, the regression model, financial performance = $\alpha + \beta 1CEi + \beta 2RAi + \beta 3ICS + \beta 4CAi + \beta 5Moni + \varepsilon$ therefore becomes; financial performance = $1.06 - 0.416\ CEi + 1.46RAi + 0.37ICSi + 1.93CAi - 2.51Intaud$. This clearly shows either positive or negative relationship between the predictor variables and the performance of banks of Abyssinia.

4.8 Discussions

Financial performance of an organization can be measured using objective criteria which include indicators such as profit growth, revenue growth, return on capital employed; and subjective measures like innovation, ability to attract, develop, retain talented people, quality of management, quality of products or services, community and environmental responsibility. Control environment sets the tone of the organization by influencing the control consciousness of its people.

The study goes on to state that, control environment is the foundation for all the other components of internal control. It comprises of factors like; integrity and ethical values of personnel tasked with creating, administering, and monitoring the controls, commitment and competence of persons performing assigned duties, board of directors or audit committees, management philosophy, operating style, and organizational structure. some of the control environment activities that an organization can undertake include; having an accounting and financial management system, management being committed to the operation of the system, management closely monitoring implementation of internal control systems in organizations, management providing feedback to the junior officers about the operation of the system and having appropriate measures to correct misfeasance in operation of the organization's accounting and finance management system risk assessment indicators include; having mechanisms in place to identify and react to changes that can have dramatic effects on the operations; establishing controls for approving decisions regarding financing alternatives and accounting principles, practices and methods, assessing risks according to changes in the operational environment, analyzing the risks that may arise due to changes of new staff and determining the risks that are likely to be brought about by restructuring and establishing whether new services are likely to bring risks to the organization. information activities that an organization can undertake: Management identifying individuals who are responsible for coordinating the various activities within the entity, ensuring all employees understand the concept and importance of internal controls including the division of responsibility, evaluating how well guidelines and policies of the organization are working and being implemented, and reporting system on organizational structures spells out all the responsibilities of each section/unit in the organization.

On whether the functionality of internal controls affect the financial performance of the banks of Abyssinia the results revealed that most of the banks had control environment as one of the functionalities of internal controls that significantly contributed to financial performance. The study examined the effects of risk assessment as functionality of internal controls of the organization affect the financial performance of banks of Abyssinia, the results indicated that the banks had put in place mechanisms for mitigation of critical risks that may result from fraud. These results show that most of the banks of Abyssinia observe risk assessment procedures as functionality of internal controls. The study also examined the effect of control activities on the financial performance of banks of Abyssinia.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the study findings, conclusions drawn from the research results, recommendations to be made based on the study findings and suggestion for further research.

5.2 Finding

This research was performed with the aim of investigating the effect of internal control systems on financial performance of banks of Abyssinia. This study was supported by five specific objectives which were to investigate the existing internal control system over the financial performance of the bank of Abyssinia, to examine the effect of control activities on financial performance in the bank of Abyssinia, to evaluate the effect of risk assessment on financial performance in the bank of Abyssinia, to evaluate the effect of Internal Audit on financial performance in the bank of Abyssinia, to evaluate the effect of information on financial performance in the bank of Abyssinia..

The study was conducted on the 180 respondents that constituted the sample size. To collect data the researcher used a structured questionnaire that was personally administered to the respondents. The respondents were employees of bank of Abyssinia. In this study, data was analyzed using frequencies, mean scores, standard deviations, percentage, and correlation and regression analysis. The study found that most of the banks' staffs were undergraduate degree holders.

From the study findings, the majority of the respondents are males with 105 (58.3 %). Regarding to respondent Age category in year majority 86 (47.8%) of respondents are participated at age of 30-39 years old. The majority of the respondents having 112(62.2%) were degree holders. respondents from the findings the majority of them were from 5-7 years' work experience which is 97 (53.9 %) years. When we see the Descriptive Statistics over all control environment have a means of 3.764 and SD of 1.164, over all control activity have a means of 3.782 and SD of 1.211 and over all internal auditing have a means of 3.81527 and SD of 1.074235. An overall mean and standard deviation of Risk Assessment were M=3.7556 SD= 1.24124**.** An overall mean and standard deviation of Information and Communication were M=3.874 SD= 1.13545**.** . An overall mean and standard deviation of financial performance were M=3.7345 SD= 1.10266**.** The overall Cronbach's alpha for the four categories which is 0.832.

Correlation findings also indicated that the relationship between the independent variables was positively strong. This indicated that the relationship between the variables in determining financial performance was significant. This is evidenced by the highest and positively strong correlation between control environment and control activities with correlation coefficient (r)of 0.982. The outcomes of the multiple regression model indicated that there is either a positive or negative relationship between internal control and financial performance of banks of Abyssinia. The study findings also indicated that internal controls influenced financial performance to some extent as provided in the summary below. According to findings of this study, control environment has a negative and insignificant effect on the financial performance of bank of Abyssinia, this is as per finding (B= -0.93, P-Value=0.065). Risk assessment indicates a positive and significant effect of risk assessment on financial performance of bank of Abyssinia, (B=1.46, P-Value=0.011). Information and communication systems have a positive but insignificant effect on the banks performance (B=0.37, P-Value=0.305). There is a positive and significant effect of control activities on the financial performance of bank of Abyssinia. (B=1.931, P-Value=0.001). It shows that internal auditing has a negative and significant effect on financial performance of the bank of Abyssinia. (B=-2.51, P- Value=0.001).

5.3 Conclusions

The study results revealed that the presence of the internal control is key in enabling the financial performance of banks of Abyssinia. The general objectives of this study was investigating the effect of internal control systems on financial performance of banks of Abyssinia. Based on the findings obtained in this study control environment in banks of Abyssinia negatively influence the financial performance but it is not significant. The negative effect of the control environment though not significant, requires the managers of banks of Abyssinia to look for better ways to improve the control environment measures to cause positive influence on financial performance. Risk assessment measures incorporated by the bank of Abyssinia. Also has positive and significant relationship with the level of the banks' performance. Banks with effective measures of risk assessment in their undertakings portray better financial performance. These banks are able to detect risks in their operations which could contribute to negative results and therefore help in devising techniques in place to contain and manage these risks. Minimum risks in operation guarantee the bank improved financial performance.

There is a positive but insignificant relationship between information and communication and the financial performance of banks of Abyssinia. The accessibility of relevant and reliable information in commercial banks by the clients and other stakeholders may guarantee improved financial performance through informed decision making based on the relevant and reliable information. Control activities as per the findings contribute positively and significantly to the financial performance of banks of Abyssinia. The management should ensure that implementation of measures such as segregation of duties, approval and authorization as well as internal audit is done and strengthened. The negative effect of internal audit which is significant on financial performance of banks of Abyssinia needs to be rectified by the management. It is the responsibility of the management to ensure that every aspect of internal control in the organization contributes to the general performance of the banks of Abyssinia.

5.4 Recommendations

On the basis of the study findings and conclusions which have been made, the researcher recommends the following measures to be implemented by the banks of Abyssinia for better objectives to be realized.

- The management of the banking institutions should ensure that every aspect of control environment which causes the negative influence on financial performance is given proper attention and measures be put in place to address the negative influence of such aspects. Management should find the possible alternative ways of improving on control environment in order to achieve a positive effect of it on financial performance.
- The management of the banks of Abyssinia should continue encouraging and strengthening the measures which are put in place to mitigate possible risks of losses in the banking sector. The management should continue investing more on research concerning the possible cause of technical risks in order to find effective ways to deal with such risks should they arise.
- Every organization must implement effective and efficient information and communication system in order to realize their desired objectives. The management of the branches of

banks of Abyssinia should ensure that their information and communication systems are effective and efficient in delivering the desired results. They must ensure that they invest in the systems which can help them to achieve positive and significant financial performance.

- The management of banks of Abyssinia should continue strengthening and implementing properly all aspects such as segregation of duties, vouching, proper approval and authorization of transactions in the organization. This will ensure that risks of distorting financial information are reduced to a minimum as possible and that guarantees improved the accuracy and reliability of financial performance.
- There is need for the management to implement proper monitoring strategies which will ensure that the banks of Abyssinia in the two counties achieve positive and significant improvement in their financial performance.

The banking sector continues to experience more new regulations in the banks of Abyssinia. These regulations as well are deemed to influence the banks of Abyssinia undertake their operations. The study suggests that in future, the researchers may consider undertaking a research on the other banks.

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APPENDICES

QUESTIONNAIRE

Dear respondent, I am a prospective MBA graduate of St.Mary University. Currently, I am undertaking research entitled "Effects of Internal Control on Financial Performance of Bank of Abyssinia". You have been chosen as one of the participants in this study. Kindly assist me in providing accurate and complete information so that I can present a representative finding on the current state of the internal control system affecting financial performance in the Bank of Abyssinia. The questionnaire is completely anonymous, and your participation is entirely voluntary.Finally, I assure you that any information you share with me will be kept strictly confidential and used only for academic purposes. Individual responses will not be identified, and the identities of those who respond will not be published or released to anyone. Thank you in advance for your generous cooperation and commitment to your time.In case you have any question please contact me at helinazeni19@gmail.com Sincerely, Helina Mulugeta

Section I. demographic characteristics of the respondent

Choose the one letter that shows your accurate personal information for the following questions.

1. What is your gender?

   A. Male B. Female

2. What is your age group?

   A. 20-29 B. 30-39 C. 40-49 D. 50-Above

3. Marital status

   A. single B. married C. Divorced D. widowed F. others specify…..…………

4. What is your Educational level?

   A. Diploma B. Degree C. Masters and above D. others specify ………………..

5. How long have you been in the current position?

   A.0-4years B.5-7years

   C.8-10years D. Above 10 years

6. Occupational status

   A. Internal Audit Department B. Accounting and Finance Department

   C. Risk and Compliance Department D. Others specify

II. Internal control

For the Likert scale type, questions indicate your answers with a checkmark (√) in the appropriate block. Ratings of the blocks **strongly disagree (1), disagree (2), neutral (3), agree (4), and strongly agree (5).**

NO	DESCRIPTION	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	1. CONTROL ENVIRONMENT					
1	The management discusses internal controls at managementand other staff meetings					
2	The bank has an updated internalcontrol plan					
3	The organization has a formalinformation systems securitypolicy					
4	The organization chart clearly defines the lines of management authority and responsibility					
5	There are formalized policies and procedures for all major operations of the entity					
6	Policies and procedures for authorizations established at reasonably high level					
7	The control environment hasaffected the financial performance of the organization					
8	Does control of the environment effective in your organization?					

2. CONTROL ACTIVITY						
1	All operating units have afunctional separation.					
2	Does control activities are effective in your institution?					
3	There is appropriate supervisionby senior staff on the work of theirjunior……					
4	Our security system identifies andsafeguards internal Assets.					
5	Accounting supervisors appear tohave sufficient expertise to review accounting transactions foraccuracy and compliance with rules and regulations					
3. INTERNAL AUDITING						
1	Our internal audit department isadequately organized.					
2	Our Bank has an objective, independent and active Board audit committee.					
3	Internal auditors are performing their duties with a great degree of autonomy and independence fromthe management					
4	Management discusses internal audit reports Regularly					

IV. **Risk Assessment**

1. Does the institution have a proper risk assessment program?

Yes ( ) No ( )

If yes please briefly explain your answer

……………………………………………………………………………………………

……………………………………………………………………………………………

2. Does risk assessment affect the financial performance of the institution?

Yes ( ) No ()

If yes please briefly explain your answer

…………………………………………………………………………………………………

…………………………………………………………………………………………………

Please state your level of agreement with the statements regarding risk assessment in your institution, where5=strongly agree, 4=agree, 3=neutral, 2=disagree, and strongly disagree.

1	**Statement**	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
2	Thein stitution has effective risk assessment tools					
3	The institution has an adequate and effective risk management system					
4	All employees are well trained in risk assessment					
5	Risk assessment has affected the institution’s revenue for the last eight years					

3. On average, how much (in Ethiopian birr) does your institution spend annually on risk assessment?

a. 0-10000 b. 10001-30000 c. 30001-50000 d. 50001-100000 E. Greater Than 100000

IV. Information And Communication

1. Does the institution have an effective flow of information and communication?

Yes ( ) No( )

If yes please briefly explain your answer

……………………………………………………………………………………………………

………………………………………………………………………………………

2. Does information and communication affect the financial performance of the institution?

Yes ( ) No( )

If yes please briefly explain your answer

……………………………………………………………………………………………………

………………………………………………………………………………………

Please state your level of agreement with the statements regarding information and communication in your institution, where 5=strongly agree, 4=agree, 3=neutral, 2=disagree, and 1=strongly disagree.

1	**Statement**	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly agree**
2	Our institution has effective information and communication channels					
3	Our institution has invested in modern and efficient information and communication technologies (computers, internet, and other systems)					
4	Our institution has the adequate transfer of information					

5	Our institution hasan excellent record of transactions					
6	Our institution has proper accountabilityfor assets					
7	Effective flow of information and communication enhancesfinancial accountability					

3. On average, how much (in Ethiopian birr) does your institution spend annually on modern information and communication technologies?

a. 0-10000 b. 10001-30000 c. 30001-50000 d. 50001-100000 e. greater than100000

Vi. Financial Performance

1. Do you think the financial performance of the bank has been stable in the last 7 years?

Yes ( ) No ( )

2. Do internal control systems affect the financial performance of the institution?

Yes ( ) No ( )

Kindly state the institutions surplus between 2017 and 2023

Name of institution							
Year	2017	2018	2019	2020	2021	2022	2023
Surplus							

Please state your level of agreement with the statements regarding financial performance in yourinstitution, where 5=strongly agree, 4=agree, 3=neutral, 2=disagree and 1=strongly disagree.

	Statement	StronglyDisagree	Disagree	Neutral	Agree	Strongly Agree
1	Our institution has enough cash to meet its obligations effectively (as and when they fall due)					
2	The fees charged by our institution are appropriate to cover the costs of running the courses					
3	All Institutional fees are fully collected					
4	Outstanding fees are dully paid in time					
5	Our Institution's accounting system adequately identifies the receipts and expenditure of grant contracts					
6	Management of finances affects the financial performance of the institution					
7	The Institution's asset base has greatly increased overtime					
8	The internal control system has affected the institution's revenue for the last seven years					
9	The internal control system has affected the institution's accountability for the last seven years					

Thank you for your cooperation and time