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## **Collage of Business and Economics Department of Accounting and Finance**

**Assessment of the Effectiveness of the Internal Control  
System in the Prevention of Fraud in Dashen Bank S.C.**

**By: Daniel Beyene**

**A thesis submitted for partial fulfillment of the requirements  
for the Degree of Masters ~MSC in Accounting and Finance**

**Advisor: Abebe Yitayew (PhD)**

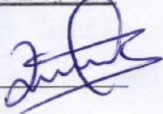
**February 2024  
Addis Ababa /Ethiopia**

## Declaration

I declare that this thesis is the result of my original study and that no part of it has previously been presented at another university or elsewhere. However, works by other authors that worked as sources of information and referencing were acknowledged with subsequent references to the authors.

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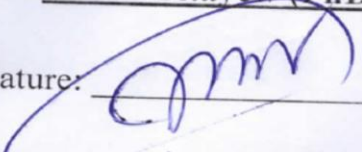
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This research thesis, conducted under my strict supervision, certifies its approval for submission to the Department in partial fulfilment of the requirements for the award of the Degree of Masters of Science (MSC) in Accounting and Finance at Addis Ababa University.

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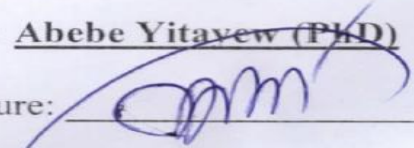
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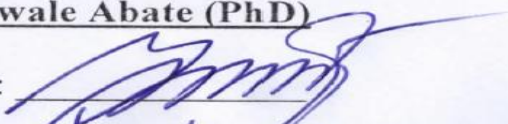
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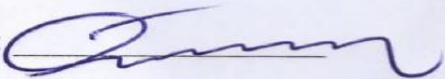
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## **Abstract**

*The study assessed the effectiveness of the internal control system in preventing fraud at Dashen Bank. A descriptive research design was utilized, incorporating both qualitative and quantitative approaches. The research involved 193 employees working in various work units within the bank, including the risk and compliance office, internal audit offices, and branches located in Addis Ababa. The study found that internal control techniques implemented by the bank have been effective in preventing fraud. However, some gaps were identified in the bank's risk identification, assessment of fraud and other risks, and systems for responding to risks effectively. There were also deficiencies in responsibility rotation, employee recruitment and retention, communication with external parties, and the use of transaction monitoring technology. The study recommended that Dashen Bank enhance its risk identification strategy, improve risk assessment processes, adopt advanced technological solutions, establish rotation procedures, enhance recruitment practices, offer targeted development opportunities, prioritize employee retention, promote diversity and inclusion, and create a feedback-rich environment. By enhancing internal control systems and incorporating technological solutions, banks can effectively prevent fraud, build customer trust, and ensure stakeholder confidence.*

**Key Words:** Internal Control, Fraud Prevention and Internal Control Components

# Chapter One

## 1. Introduction

### 1.1 Background of the Study

The banking business contributes significantly to economic growth in both developed and developing countries (Adeyemo, 2012). In less developed countries, the financial sector plays a key share in driving economic development and prosperity. Those countries face the challenges of high poverty, unemployment, and dependence on traditional agricultural practices. However, banks serve as a panacea for these challenges and act as catalysts for economic development. By enhancing the efficiency of the financial sector, countries can allocate their limited resources to maximize productivity and their full potential for economic growth (Levine, 1997).

Among others, it's important to pinpoint potential hindrances to the banking sector's smooth operation and to address these issues immediately. Recently, fraud has been a main challenge to the whole financial institution and might affect any bank in any part of life (Olorunsegun, 2010). According to Meshane (2007), the Internal Control System is a very effective mechanism for preventing fraud within organizations. It operates as a challenging adversary against fraudulent activities by applying a robust framework of control measures.

Internal control is a vital part of the smooth functioning of a company, and it provides a framework for management to conduct all activities effectively, both financial and non-financial. It has a significant impact on an entity's operations by directing its activities toward accomplishing objectives. This framework includes critical features such as adherence to internal policies, asset protection, fraud prevention, record accuracy, and completeness, and timely preparation of trustworthy financial information (Benjamin, 2001).

In recent years, fraudulent actions in the banking sector have become a serious problem that needs immediate consideration. It is, therefore, vital to evaluate how strong the internal control systems are and strengthen them accordingly. This paper aims to evaluate the effectiveness of Dashen Bank Share Company's internal control system to prevent fraud.

## **1.2 Background of the organization**

On September 20, 1995, Dashen Bank was established by eleven professionals and business people who saw a wonderful opportunity to combine their financial resources and expertise to establish a new private bank. Consequently, this collective effort resulted in the birth of the bank, which now stands as a reputable name in the Ethiopian banking sector (<https://about-us.dashenbanksc.com/>).

Dashen Bank is undoubtedly one of the biggest private banks in Ethiopia, with its main office in Addis Ababa. The bank has an extensive branch network, consisting of a staggering 830 branches. These branches serve as vital hubs for numerous customers, catering to a diverse range of needs. Adding to its accessibility, Dashen Bank is equipped with over 400 ATMs, 1,300 POS terminals, and nine dedicated forex bureaus (<https://dashenbanksc.com/company-profile/>).

In addition, the bank works in collaboration with leading electronic payment companies such as American Express Company, Visa credit card, MasterCard, and Union Pay. Furthermore, it partners with prominent money transfer operators, including Western Union, Express Money, MoneyGram, Dahabshiil, Transfast, EzRemit, Kahh, Ria, and World Remit. This extensive network of collaborations amplifies the bank's reach and accessibility in the global financial landscape (<https://dashenbanksc.com/company-profile/>).

## **1.3 Statement of the problem**

According to a report issued in 2022 (ACFE), fraud costs businesses up to 5% of their yearly income. Globally, this is expected to be \$4.7 trillion. In recent years, fraud has become a common problem in the business sector. These figures underline the critical necessity for businesses to recognize and combat fraud to secure their financial resources and maintain long-term success.

According to the Reporter, on June 4, 2022, the Ministry of Justice Ethiopia revealed that fraudsters stole 1.8 billion birr from commercial banks in Ethiopia over the last four years. This does not include client losses as a result of mobile banking fraud. CBE president Abie Sano admitted that it is becoming a large problem for the banking sector. The previous governor of

the National Bank of Ethiopia, Yinager Dessie, stated that "fraud is a common problem throughout the world," adding that "it is no different in Ethiopia."

To ensure that savings are mobilized effectively and allocated to profitable investments, an efficient internal control system, and a strong fraud prevention system are essential. These systems, in addition to promoting growth and development, also enable organizations to achieve their goals, profitability, and solvency. Moreover, they help in restoring the trust of clients and stakeholders (Olorunsegun, 2010).

Inadequate internal controls within bank branches present a substantial risk of fraud. This heightened risk is due to a multitude of factors, including a feeble control environment, insufficient duty separation, insufficient physical safeguards, a lack of independent checks, inadequate authorizations, deficient documentation, and record-keeping practices, non-compliance with existing controls, and flawed accounting systems (Agwu, 2013).

While there have been a few studies on the subject matter, Fikru's (2018) study focuses on the effectiveness of the internal control system in detecting and preventing fraud in the Ethiopian banking industry. The findings indicate that although internal control techniques have been effective in deterring fraudulent activities, there are still areas for improvement. Notably, Fikru's study falls short in discussing in detail the effectiveness of the internal control of banks that are included in the study. In addition, Samuel Girma (2022) conducted an assessment of the effectiveness of the internal control system in fraud prevention, specifically in the case of the Commercial Bank of Ethiopia and recommends that future studies focus on other commercial banks.

Furthermore, recently, there has been strong competition in the banking industry in Ethiopia. This strong competition could divert the attention of financial institutions towards deposits and the attraction of customers. This increased attention to attracting customers may expose the bank to the existence of an inadequate internal control framework. Therefore, it is vital to carefully assess the effectiveness of the internal control system in the prevention of fraud at Dashen Bank S.C., as it is a big financial institution in Ethiopia.

## **1.4 Objectives of the study**

### **1.4.1 The general objective**

The general objective of the study is to assess the effectiveness of the internal control system in preventing fraud in the case of Dashen Bank S.C.

### **1.4.2 The specific objectives**

The specific objectives are:

1. To assess the effectiveness of the control environment in Dashen Bank.
2. To assess the Risk Assessment adequately practiced in the Dashen Bank
3. To assess the control activities in the Dashen Bank
4. To assess the adequacy of Information and Communication in Dashen Bank
5. To assess the effective Monitoring of the internal control system in the Dashen bank.

## **1.5 Research Questions**

The research was carried out to answer the below specific research questions:

1. Is the Dashen Bank's Control Environment effective?
2. Does Dashen Bank adequately implement risk assessment?
3. Is the control activity in the Dashen Bank effective?
4. Is there adequate Communication and Information in the Dashen Bank?
5. Is the Dashen bank's internal control system effectively monitored?

## **1.6 Significance of the research**

The results of the study help Dashin Bank by identifying gaps in internal control systems. It assists it in prioritizing and allocating resources, as well as determining the level of effort required for each issue. This research is also vital for the bank to examine policies and procedures concerning the internal control system for fraud prevention at Dashen Bank. In addition, this study enhances the overall understanding of researchers and academics on this selected subject matter. Furthermore, it will serve as a significant source of inspiration for others to fill the research gap, conduct a more in-depth study, or undertake new research to determine how well Dashen Bank Share Company's internal control system works to prevent fraud. This research can also be used as valuable reference material for future studies.

### **1.7 Limitation of the study**

Amongst the financial institutions that emerged in Ethiopia, this study takes Dashin Bank to assess how well the internal control system prevents fraud at Dashen Bank in Addis Ababa branches and head office. To assess how well the internal control system works to prevent fraud, it would be better if the study were conducted in all Dashin Bank branches or districts located in Ethiopia. However, because of the time shortage, unrest in politics, and cost minimization, the study was restricted to selected Addis Ababa Dashin Bank branches and the head office. The researcher, on the other hand, made every effort to comprehend the effectiveness of the internal control system in Dashen Bank's fraud prevention.

### **1.8 Scope of the study**

The research was conceptually focused primarily on the evaluation of the effectiveness of the internal control in preventing fraud at Dashin Bank. The control environment, risk assessment, control activity, information and communication, and monitoring—all essential elements of the internal control system—are given more attention in this study. The study was limited to selected Dashen Bank branches in Addis Ababa and the head office. The research included both quantitative and qualitative data. Data was generated using descriptive approaches using the methodologies.

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

This study is organized into five chapters, each with a separate yet interrelated objective. The first chapter is an introduction, the second is a literature review, the third is about research design and methods, the fourth is about data analysis and results, and the fifth is about main findings, conclusions, and suggestions.

## **Chapter Two**

### **2. Literature Review**

#### **2.1 Theoretical and Conceptual Review**

##### **2.1.1 Introduction**

Internal control is an essential process that is implemented by an organization's board of directors, management, and other personnel to ensure reasonable assurance in the accomplishment of various objectives. These goals are mainly focused on compliance with relevant rules and regulations, the efficacy and efficiency of operations, and the accuracy of financial reporting (COSO, 2013). This definition underlines that internal controls play a crucial role in setting the standard for work within an organization. They ensure the safeguarding of funds, efficient and effective asset management, and the accuracy of financial statements at all times. Internal controls are supposed to be able to notify management of possible issues so that they can be addressed before they become more serious, even though they cannot completely eradicate errors and irregularities (Campbell and Harther, 2010).

A well-functioning internal control system is required for the banking industry to meet its objectives, preserve profitability, assure reliable financial and managerial reporting, and comply with laws and regulations. The bank can limit the possibility of unplanned losses or reputational harm by deploying effective control mechanisms backed up by active monitoring and continual improvement. As a result, implementing a thorough internal control system can provide several advantages to a banking business, ensuring its long-term profitability and sustainability (Basel, 1998).

##### **2.1.2 Objective of Internal Controls**

According to Howard (1982), in recent years, internal control systems have received more attention. The author's argument underlines how the increasing complexity of current business processes, as well as the scale of company sizes, have driven the development of ways that improve efficiency while also acting as protections against error or fraud. To navigate the complex environment of today's business world, businesses must adopt these measures and modify them to their own circumstances.

## **2.1.3 The Seven Internal Control Principles in Accounting**

Internal control methods in accounting are categorized into seven types, which are as follows:

### **2.1.3.1 Duties Separation**

The division of responsibilities is a vital principle in safeguarding the integrity and security of financial systems. It greatly diminishes the likelihood of fraudulent activities by assigning distinct roles for activities like record-keeping, fund deposits, reporting, and auditing. Dividing functions across separate individuals or departments offers numerous benefits for reducing the possibility of participating in deceptive behaviours. Furthermore, the separation of tasks plays a crucial role in long-term risk management and internal controls, as it ensures shared accountability and prevents unilateral actions that may have irreparable consequences. Companies must accept this notion to maintain a stable financial landscape (David I, 2019).

### **2.1.3.2 Access Controls**

Controlling access to different components of an accounting system through passwords, lockouts, and digital access logs is crucial for maintaining security and integrity. By following these guidelines, organizations can keep unauthorized users out of the system while also providing a means to audit the system for error identification. Efficiently managing access to accounting systems is essential to preventing fraudulent activities and maintaining the trust and credibility of financial information (David I, 2019).

### **2.1.3.3 Physical Audits of Assets**

Physical audits are indispensable for maintaining accurate financial records and managing a company's assets. Through the manual counting of cash and other tangible assets, audits are essential in identifying discrepancies that computerized systems could overlook. Regular audits promptly detect fraud and anomalies, while larger-scale audits provide a comprehensive assessment of assets. The establishment and upkeep of an asset register play a crucial role in ensuring effective asset monitoring and the accuracy of financial statements. By prioritizing the asset register, firms can enhance their accounting processes, performance evaluation, and planning capabilities, resulting in optimal asset utilization and cost-effectiveness. Therefore, investing in physical audits and maintaining an asset register is essential for the long-term success and sustainability of businesses (David, 2019).



#### **2.1.3.4 Standardized Financial Documentation**

Standardizing documents used for financial transactions is critical to preserving consistency in record-keeping across time. Organizations can ensure that critical details are routinely gathered and precisely preserved by creating standard document templates and using document management software. The software's capabilities, such as easy record retrieval and improved communication, help to support efficient and successful financial management procedures. Embracing uniformity and using technology not only improves consistency but also adds to enhanced efficiency and decreased errors in financial record-keeping. As a result, firms are actively encouraged to embrace the usage of standardized papers and document management software to enhance their financial processes (David I, 2019).

#### **2.1.3.5 Daily or Weekly Trial Balances**

By implementing a double-entry accounting system, businesses can ensure accurate and reliable financial records. Employing these writing techniques not only demonstrates the benefits of the double-entry accounting system but also captivates the reader's attention and conveys the importance of this financial management practice. By following these instructions, businesses can recognize the potential of this system to improve financial accuracy and reduce risks (David I, 2019).

#### **2.1.3.6 Periodic Reconciliations in Accounting Systems**

Reconciliation is a fundamental aspect of the accounting process that aims to ensure the accuracy and agreement of financial figures. Businesses and individuals maintain openness and confidence in their financial operations by routinely balancing their accounts. Therefore, reconciliation serves as an important tool for maintaining reliable, accurate, and complete financial records. The absence of a standardized method for conducting account reconciliations does not diminish the importance of adhering to GAAP. Double-entry accounting remains the most dominant and effective tool for facilitating accurate and reliable reconciliations. Through this method, financial transactions are recorded in both credit and debit accounts, enabling the identification and rectification of errors. The continued utilization of double-entry accounting provides businesses with comprehensive financial information, essential for assessing their financial health (David I, 2019).

### **2.1.3.7 Approval Authority Requirements**

Requiring a supervisor to approve specific forms of transactions brings an additional level of responsibility to accounting documents. It ensures that transactions are carefully reviewed, evaluated, and approved by the appropriate authorities. This mechanism acts as a deterrent to fraudulent actions and contributes to upholding the trustworthiness and precision of financial records. Through the implementation of supervisor authorization, organizations can strengthen their commitment to accountability, transparency, and credibility, all while safeguarding their valuable resources (David I, 2019).

## **2.1.4 Components of Internal Control**

### **2.1.4.1 Control Environment**

The foundation of internal control within an organization lies in the control environment. Setting the tone at the top and defining expected norms of behaviours are critical roles played by the board of directors and senior management. Through their leadership, they cultivate a culture that upholds ethical standards, promotes accountability, and ensures compliance with regulations (Brain and colleagues, 2013).

The control environment is pivotal in shaping an organization's attitude toward control and recognizing its importance. Auditors, to comprehend and assess the control environment, need to take into account several sub-elements. These encompass management philosophy and operating style, organizational structure, audit committee, methods of communicating authority and responsibility, management control approaches, internal audit function, and personnel policies and procedures (Alvin and James, 1991).

The efficacy of an internal control system relies on the fundamental contribution of the control environment. It provides the essential discipline and structure necessary for businesses to attain their objectives. This influence extends to shaping the definition of goals and structuring control activities, ultimately fostering accountability and cultivating a positive attitude toward internal control within the organization (SOX Guidance, 2007).

### **2.1.4.2 Risk Assessment**

Risk assessment is a dynamic and interactive process aimed at recognizing and evaluating risks to meet the organization's objectives, acting as the cornerstone for determining appropriate risk management strategies. Management closely monitors changes in the external environment and internal business model that may impede the attainment of the company's objectives (Brain et al., 2013).

Risk assessment entails identifying and analysing risks, including those associated with changes in the regulatory and operational environments, that may have an impact on achieving objectives. Effective solutions to reduce and manage these risks are developed based on this method (Hong Kong Institute of Certified Public Accountants, 2005).

It also assesses the risks that the organization faces as it struggles to attain its goals. This examination serves as the foundation for generating suitable responses to risks. Keep an eye on the managerial evaluation of risks to goal attainment, such as the possible effects of significant alterations, dishonest behaviours, and managerial manipulation of internal controls (COSO, 2009).

### **2.1.4.3 Control Activities**

For firms to manage risks and accomplish their goals, control activities are essential. They can be either preventive or investigative, and they are set through rules and procedures. Control operations take place in the technology environment, at different organizational levels, and in different business process phases. The concept of segregating duties is usually incorporated into the selection and creation of control activities; however, in situations where the segregation of jobs is not practical, alternative control activities may be devised. Organizations can guarantee the accomplishment of goals and improve their risk management skills by putting control actions into practice (Brain et al., 2013).

A wide range of rules and practices known as control activities are used to carry out management orders and manage threats to an organization's goals. Essential elements of these activities include preserving assets, segregating duties, approvals, verifications, and evaluations. Control activities guarantee effective procedures, precise financial data, and regulatory compliance by encompassing operations, financial reporting, and compliance. Establishing strong control measures helps firms protect their operations and keep stakeholders' credibility and trust (Hong Kong Institute of Certified Public Accountants, 2005).

The efficient operation of a bank depends on control activities. The key to maintaining an efficient internal control system is having a well-defined control structure that includes department-specific controls, physical controls, monitoring of adherence to exposure limits, approvals, and authorizations, as well as verification and reconciliation procedures. Banks can prioritize control actions to protect their assets and operations while still adhering to regulatory criteria (Basel Committee on Banking Supervision, 1998).

#### **2.1.4.4 Information and Communication**

For the entity to fulfil its internal control obligations and effectively achieve its goals, a constant inflow of information is essential. The management plays a pivotal role in gathering, producing, and applying pertinent and high-quality data from both internal and external sources. This data serves to support the operation of other internal control components. Communication, an ongoing process, encompasses various methods to ensure that information flows internally, encompassing all levels within the organization. Senior management assumes the responsibility of clearly and succinctly communicating to the public about the seriousness of control obligations. Additionally, external communication holds a two-fold significance: providing relevant information to external parties and facilitating the reception of vital external data (COSO, 2009).

Effective communication processes and systems enable individuals to fulfil their responsibilities effectively and empower them to make informed decisions. It involves communication from top management to highlight control-related issues and individual responsibilities. It also requires channels for communicating vital information upstream and effective communication with external stakeholders. By implementing efficient processes and systems for capturing, reporting, and communicating information, organizations can enhance their overall performance and success in today's complex business environment (Hong Kong Institute of Certified Public Accountants, 2005).

#### **2.1.4.5 Monitoring Activities**

One essential aspect of evaluating the performance quality of an internal control system is through monitoring. Monitoring enables the identification of any deficiencies in the internal control and subsequently reporting them to the appropriate higher levels. This ongoing process serves as a significant means of ensuring organizational control and can be applicable to various entities, such as the board, audit committee, or senior management (Hong Kong Institute of Certified Public Accountants, 2005).

Continuous monitoring plays a critical role in assessing the overall efficacy of a bank's internal controls. By integrating key risk monitoring, internal audits, and recurring assessments into their everyday operations, banks can proactively manage risks and address control weaknesses. A bank's monitoring schedule should be tailored to the specific risks associated with each activity and consider changes in the operating environment. By adhering to these practices,

banks can effectively safeguard their stability and security in a dynamic banking landscape (Basel, 1998).

Ensuring the effectiveness and efficiency of organizational activities requires the implementation of the activity management process. Management that closely monitors performance quality over time is able to pinpoint problem areas and quickly implement corrective measures. The continued success of a company depends on giving activity management the attention it needs (Dr.Theofanis, Karagiorgos, and George Drogalas, Alexandra Dimou, 2001).

### **2.1.5 Internal Control Systems Effectiveness**

The effectiveness of an internal control system is paramount in today's complex and challenging business environment. A well-functioning control system helps an organization navigate risks, achieve its objectives, safeguard assets, ensure compliance, and detect and prevent fraud. Therefore, the internal control system must interact fluidly with itself, seamlessly integrating different control activities and being embedded within the organization's business processes. Additionally, a vibrant board that questions the status quo and an independent internal audit unit are vital agents of effectiveness. Lastly, management and the board should periodically evaluate and assess the effectiveness of the internal control system to ensure continuous improvement and confidence in its ability to mitigate risks effectively.

According to COSO, an internal control system can be deemed effective if certain conditions are met. These conditions include the board of directors and management having reasonable assurance of the extent to which the entity's operational objectives are being achieved, the reliability of published financial statements, and compliance with applicable laws and regulations (COSO, Internal Control Integrated Framework, 1992).

Amudo and Inanga (2009) state that the performance of a control system depends on how well each of its five parts functions. The control environment, risk assessment, control actions, communication and information, and monitoring activities are some of these components. Each element is essential to ensuring that risks are recognized and adequately handled.

It is essential to analyse each element and how it works within the company to determine how effective internal controls are. The elements of the internal control system should be assessed collectively. This thorough evaluation is crucial, as the (COSO, 2013).

## **2.1.6 Overview of Fraud**

Theft, corruption, extortion, embezzlement, bribery, and conspiracy are all typically included in the definition of fraud. Fundamentally, fraud is the dishonest use of deceit to one's advantage and/or another's detriment (Helenne, 2008).

Numerous risks might affect businesses. The possibility of fraud is greatly reduced if the prospective fraudster believes that there will be limited benefits, that they will be discovered, or that the potential punishment will be too severe. Fraud can come from both inside and outside the firm. The main way to achieve this is to set up a comprehensive control system that aims to prevent fraud; if fraud is not stopped, there is a greater chance that it will be discovered, which will increase the cost to the fraudster (Helenne, 2008).

## **2.1.7 Fraud Triangle Theory by Donald Cressey (1973)**

Based on the research of Donald Cressey, the fraud triangle theory was created in 1973 to investigate the root causes of fraud. According to Cressey, when someone feels they are financially burdened and that load cannot be shared, they are more likely to betray that trust. These people are skilled and knowledgeable enough to take advantage of their financial trust positions and utilize linguistic defences to make their behaviours consistent with their belief that they are trustworthy people (Akelelo, 2012).

The fraud triangle theory outlines three crucial aspects in any fraud situation: perceived pressure, opportunity, and rationalization. Fraud cannot arise in the absence of these elements, and the severity and impact of the fraud will vary according to the strength and existence of these elements (Ruankaew, 2013).

### **2.1.7.1 Perceived pressure**

In the context of fraud, pressure is analogous to the motivating factor in a person's life that pushes them to commit fraud. There are several reasons why this pressure may arise, such as personal situations that make more money necessary. Such personal issues could include major life tragedies like a spouse losing their job, or vices like drug or gambling addiction. Workplace challenges can also lead to strain in addition to personal concerns. For example, when inflated performance goals are established, people could feel pressured to commit fraud to live up to these expectations. Recall that there are other forms of motivation besides monetary rewards. In certain situations, there can be a great deal of pressure to produce favorable results at work or to hide subpar work from others. Moreover, addictive behaviors like alcohol misuse and gambling can also be powerful inducers for people to commit fraud (Ruankaew, 2013).

### **2.1.7.2 Opportunity**

Opportunity is a crucial element of the Fraud Triangle, and although it is often challenging to notice, it can be effectively managed through organizational or procedural modifications. The potential for fraud arises when employees are granted the means to access both assets and information, empowering them to perpetrate and conceal fraudulent activities. Ordinary job duties require workers to have entry to records and valuable resources, unwittingly paving the way for fraudulent behaviour. As time goes by, managers have assumed greater responsibilities, overseeing a broader spectrum of employees and functions. This expanded scope has not only extended their access but also enhanced control over various operational areas within companies. Regrettably, this increased access has inadvertently fostered an environment conducive to fraud. Consequently, restricting access to only those systems, information, and assets necessary to fulfil an employee's job responsibilities has become imperative (LACPA (2009)).

### **2.1.7.3 Rationalization**

Rationalization is a complicated process that involves weighing the potential rewards against the risks of detection and justifying fraudulent actions to reduce guilt or wrongdoing. Various factors can contribute to this rationalization, including work discontent, perceived entitlement, intentions to make the victim whole in the future, and safeguarding one's family, assets, or status. By understanding these components, we can gain insights into the mindset of fraudsters and develop effective measures to detect and prevent fraudulent activities (LACPA, 2013). Rationalization is a psychological process that enables individuals to reconcile their fraudulent behaviour with commonly accepted notions of decency and trust. Dishonest individuals often employ various rationalizations, such as compensating for being underpaid or replacing an unattained bonus, "borrowing" rather than stealing, believing that the company does not need or will not miss the stolen assets, or viewing their actions as justified retribution.

## **2.2 Review of Empirical Studies**

Fikru Worku conducted a research study in 2018 to investigate the effectiveness of internal control systems in detecting and preventing fraud in the Ethiopian banking industry. Fraud is a prevalent issue that banks and other organizations strive to mitigate. Despite operating under resource constraints, organizations implement steps and establish procedures to maximize the use of these resources and achieve their goals. To combat bank fraud, banks and regulatory authorities have proposed and allowed internal control measures. However, the effectiveness of any internal control system relies on its level of interaction within the organization's business

processes. This paper aims to examine the effectiveness of internal control systems against fraud detection and prevention in the Ethiopian banking industry using primary data obtained through a survey method. The study explores how internal control systems in Ethiopian banks have contributed to combating or preventing fraud within the banking industry. The research assesses the effectiveness of these internal control systems and evaluates their ability to detect and prevent fraud. The findings of the study indicate that the internal control techniques employed by banks in checking fraud have been effective but require certain improvements. The study concludes that there is a significant relationship between the components of the internal control system, namely control environment (CE), risk assessment (RA), control activity (CA), information and communication (IC), and monitoring (MA), and fraud. Based on these findings, the researcher provides recommendations to address areas of control that require more attention. It is important to note that the effective internal control system is an ongoing process that requires constant monitoring and improvement.

Samuel Girma (2022) examine the effectiveness of the internal control system in fraud prevention in the case of the Commercial Bank of Ethiopia. The components of the internal control system, including control environment, risk assessment, control activities, information and communication, and monitoring activities, were found to be effective in addressing and preventing the frequent occurrence of fraud in the Commercial Bank of Ethiopia. The study indicated that the Commercial Bank of Ethiopia practices internal control in terms of control environment, risk assessment, information and monitoring, control activities, and monitoring to a good or high extent. Furthermore, the study highlights that the Commercial Bank of Ethiopia is in a good condition when it comes to providing information to their employees through well-organized mechanisms. However, it is recommended that the bank undertake periodic assessment practices in order to ensure continued effectiveness in fraud prevention. Additionally, the bank should focus on producing qualified employees by providing training and workshops to the internal control staff.

Tekalign Negash (2018) conducted a research to assess the effectiveness of the internal control system in the commercial bank of Ethiopia, specifically focusing on the case of Hawassa city. The findings revealed that the internal control system of the company under study was effective in several internal components. Firstly, the company exhibited a clear set of codes of conduct that guided its operations. Additionally, the management periodically reviewed policies and procedures to ensure their relevance and effectiveness. Furthermore, the organization had well-



defined objectives that were communicated to all staff members, providing them with clear guidance on risk assessment. In terms of internal control, the company maintained an adequate and robust system of dual control and separation of duties. Lastly, the organization had an effective reporting procedure in place, which was also effectively communicated to the employees. Based on the research findings, several recommendations were put forth. Firstly, it was suggested that while the bank had a human resource development plan in place, it needed to be strengthened further and given greater priority by the company. Investing in the development of employees would enhance their skills and competencies, thereby improving the overall effectiveness of the internal control system. Additionally, it was advised that the controlling environment should undergo a revision, particularly in terms of updating mechanisms for safeguarding the company's vital assets from potential fraud perpetrators.

The study conducted by Adewale (2014) examined the internal control system and financial fraud control in the Nigerian Customs Service. The researcher found that internal control systems should not be seen as a substitute for good management but rather as a tool to assist management in their duties. It is important to note that internal control systems cannot replace the role of management or provide an excuse for poor management practices. To support this conclusion, five hypotheses were empirically tested, and the research findings confirmed that continuous internal checks and audits, both on the part of top-level management and lower-level management, are necessary to ensure adequate internal control system implementation. This finding suggests that organizations should prioritize regular checks and audits to maintain the effectiveness of their internal control systems. Furthermore, the study highlighted the importance of adequate motivation for employees and officers to prevent financial fraud. Organizations must provide incentives and rewards, such as bonuses, to ensure that employees are motivated to perform their duties honestly and ethically. This approach plays a significant role in deterring fraudulent activities within the organization. Additionally, the effective use of information technology and a competent team of experts can enhance the logic of standard internal control measures and improve the overall effectiveness of internal control systems. By leveraging technology and employing qualified professionals, organizations can strengthen their security checks and ensure a higher level of protection against financial fraud.

## 2.3 Literature Gap

In general, the literature indicates the importance of integrating various elements such as the control environment, control activities, risk assessment, information and communications, and monitoring. These components work together to establish proper safeguards and protocols to protect assets, enhance the reliability of financial reporting, and ensure compliance with laws and regulations. Fraud is one important topic that comes up frequently while talking about internal control. Fraud can have devastating effects on organizations, leading to financial loss, damage to reputation, and even legal consequences. Donald Cressey's Fraud Triangle Theory provides valuable insights into the factors that contribute to fraudulent behavior, including pressure, rationalization, and opportunity. Understanding these elements can help organizations implement effective fraud prevention measures and strengthen their internal control systems.

The empirical literature indicates the effectiveness of internal control in fraud detection and prevention, particularly in the banking sector. Enhancing internal controls within the banking industry is vital for maintaining financial stability and safeguarding against potential fraud risks. In light of the rising incidence of fraudulent practices, banks should continuously assess the effectiveness of their internal controls. Fikru's (2018) study focuses on the effectiveness of the internal control system in detecting and preventing fraud in the Ethiopian banking industry. The findings indicate that although internal control techniques have been effective in deterring fraudulent activities, there are still areas for improvement. Fikru's study falls short in discussing in detail the effectiveness of the internal control of banks that are included in the study. In addition, Samuel Girma (2022) conducted an assessment of the effectiveness of the internal control system in fraud prevention, specifically in the case of the Commercial Bank of Ethiopia, and recommended that future studies focus on other commercial banks. The need for banks to continually evaluate and improve their internal control systems cannot be overstated.

This study was conducted to address the gaps in the literature. The study assesses various components of internal control systems, such as the control environment, risk assessment, control activities, information, and communication and monitoring.

## **Chapter Three**

### **3. Research Design and Methodology**

The chapter focuses on the research design, methods/approach, population target, sample and sampling techniques, data source, collection method, and data analysis methods.

#### **3.1 Research Design**

The researcher employed a descriptive research design to address the research questions. As per Mugenda (2003), the descriptive design as a guide that efficiently describes a particular sample by providing all the information about an element in a disruption-free manner. This is because the researcher believes that a descriptive research design is appropriate to assess Bank's internal control system in preventing fraud. The other reason that the researcher chose a descriptive design is to reduce bias and save time and cost.

#### **3.2 Research Methods/Approach**

The researcher employed qualitative and quantitative approaches. Assessing the internal control system's efficacy in preventing fraud is the primary objective of this study, with a specific focus on Dashen Bank. Hence, the qualitative and quantitative data were used to obtain information from employees of the Office of Risk and Compliance, the Office of Internal Auditing, and selected districts and branches located in Addis Ababa through a standardized questionnaire.

#### **3.3 Population Target**

According to Burns and Grove (1997), the population target consists of all respondents who satisfy the specified set of standards. The target population were Dashen Bank staff, those who are internal control officers working in the Addis Ababa branches and Addis Ababa district offices, as well as risk and compliance office staff and internal auditing office staff. The researcher took into account staff who have worked at Dashen Bank for at least three years. Since these employees have a better understanding concerning the subject of the study.

#### **3.4 Sample and Sampling Techniques**

Sampling is a popular research strategy for a variety of reasons. Some of them are: it is a cost-effective alternative to census studies and allows researchers to allocate resources more efficiently; sampling allows for faster data collection and analysis than a full-scale census; and in cases where the population is large or inaccessible, sampling remains the only viable option (Kothari 2004). As a result, the purposive sampling technique was utilized to carefully select

the key informants, comprising the Internal Control staff, Internal Auditors, and risk and compliance Officers alongside their supervisors. Because these individuals possess valuable information, expertise, and professional competencies essential for the study. Therefore, the researcher chose purposive sampling to select participants based on their specific criteria that are relevant to the research study.

According to bank information, 300 internal control officers were working in Addis Ababa branches on June 30, 2023. Additionally, there are 52 staff members in the Risk and Compliance Management Office, 53 in the Internal Audit Office, and 8 internal control officers in the Addis Ababa districts. As a result, the target population was 413 individuals from the Addis Ababa branches and the district's internal control officers, as well as employees who have worked in the risk and compliance management office and the internal audit office.

The researcher followed the Yamane T. (1967) sample size determining formula to calculate the necessary sample size for this study. With a confidence level of 95%, a degree of variability of 0.5, and a level of precision/sampling error of  $\pm 5\%$ , it was determined that 203 respondents would be required to complete the questionnaire. This sample size was ensuring a comprehensive and representative analysis of the research topic.

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

Where:

n = Sample size = 203

N = Population size = 413

e = Acceptable sampling error = 0.05

### **3.5 Data Source and Collection Method**

This study collected primary data to accomplish its goal. The researcher used a combination of two data-gathering methods—a questionnaire and an interview—to collect this primary data. To obtain information from the intended respondents, the researcher created a list of questions based on the study's goals. The structured survey was distributed to the bank's employees in the Internal Audit Office, Risk and Compliance Office, and the bank's branches under four Addis Ababa district offices and also in district offices. The respondents' questionnaires were administered in person. In addition to questions, the researcher used interviews to strengthen the collected information via questionnaires.

### **3.6 Data Analysis Methods**

The method of data analysis used for this study employs a descriptive statistical approach. Tables, percentages, frequencies, means, and standardization are all utilized to analyse the information gathered from the questionnaire provided by the respondents. To meet the objectives of the research, the data was processed, and analyzed by descriptive statistics using the 20th release of SPSS. The technique is nominated because it simply summarizes the data, offers and describes the features of the data that was gathered, and makes it possible to carefully examine and interpret the data one by one to achieve expressive outcomes.

## Chapter Four

### 4. Analysis of Data, Presentation & Discussions

This section reveals a comprehensive analysis and in-depth discussions of the study results obtained from the questionnaires and interviews. This study presented an assessment of how well Dashen Bank's S.C. internal control system prevented fraud. The information was gathered from Dashen Bank employees via questionnaires and interviews as the data collection instrument. In this chapter, an in-depth analysis has been conducted regarding the response rate, respondent profile, and the efficiency of the internal control framework in preventing fraud.

#### 4.1 Response Rate Analysis

The surveys were distributed to the Dashen Bank staff, specifically targeting the internal control officers in the Addis Ababa branches and district offices. In addition, the risk and compliance office staff and internal auditing office staff were also included in the survey. Therefore, it is vital to analyse the responses collected from these individuals to get a comprehensive grasp of their experiences and perspectives.

There were a total of 203 questionnaires distributed to those who knew the subject matter, ensuring a complete data collection process. From the distribution of these 203 questionnaires, a higher number of 193 were successfully collected, signifying an excellent response rate, and the remaining 10 were not completed because of the respondents' hectic schedules.

#### 4.2 Respondents Profile

**Table 4.1 Gender**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Female	68	35.2	35.2	35.2
Male	125	64.8	64.8	100.0
Total	193	100.0	100.0	

**Source: Survey results**

According to the above table 4.1, it reveals that a significant number of male respondents, involving 125 individuals, and a smaller number of female respondents, totalling 68 participants, took part in the conducted questionnaires. The male respondents, containing around 64.8% of the overall respondents, have a much higher level of representation compared

to the female respondents, which make up approximately 35.2% of the total participants. As a result, it becomes evident that female involvement in the profession falls considerably short in comparison to the male population.

**Table 4.2 Ages**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 20-29	81	42.0	42.0	42.0
30-39	79	40.9	40.9	82.9
40-49	29	15.0	15.0	97.9
ABOVE 50 YEARS	4	2.1	2.1	100.0
Total	193	100.0	100.0	

**Source: Survey results**

According to the above data, a very high percentage, specifically 42%, fall within the age range of 20 to 29. Also, 40.9% of the respondents were between the ages of 30 to 39, which indicates a significant proportion in this age group. Moreover, 15% were categorized within the age range of 40 to 49, showing a relatively smaller proportion compared to the younger age groups. Lastly, 2.1% of the respondents were above the age of 50. The results clearly show that the majority of bank employees are young and adult.

**Table 4.3 Educational level**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Diploma	2	1.0	1.0	1.0
BA/BSc DEGREE	93	48.2	48.2	49.2
MA/MSc	98	50.8	50.8	100.0
Total	193	100.0	100.0	

**Source: Survey results**

According to the data presented in Table 4.3, a major percentage of the respondents have a high level of educational background. Specifically, 98 individuals, or 50.8% of the total respondents, hold a master's degree. Furthermore, 93 respondents, equivalent to 48.2%, have a first degree. In contrast, only 2 participants, which represents 1% of the total, have a diploma. The result obtained from the survey undeniably indicates that the most of employees who participated in this survey possess a commendable educational background; hence, their educational background helps them to easily understand the research questions and interviews and assists them in responding effectively.

**Table 4.4 Service Year**

		Service Year			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5 YEARS	48	24.9	24.9	24.9
	6-10 YEARS	97	50.3	50.3	75.1
	11-15 YEARS	37	19.2	19.2	94.3
	16-20 YEARS	6	3.1	3.1	97.4
	ABOVE 21 YEARS	5	2.6	2.6	100
	Total	193	100.0	100.0	

**Source: Survey results**

Table 4.4 indicates the majority of participants, 97 individuals, or 50.3% of the total, have served for a period ranging from 6 to 10 years. A significant proportion of respondents, amounting to 48 individuals, or 24.9% of the sample, have service years between 1 and 5. Also, 37 participants (19.2%) had a range of service years falling between 11 and 15. Moreover, a smaller number of respondents, specifically 6 individuals, or 3.1%, have service years ranging from 16 to 20. Lastly, 5 respondents, or 2.6% of the total, have served for more than 21 years. The data reveal that a large number of respondents have a moderate level of experience, ranging from 6 to 10 service years. On the other hand, the lower numbers related to service years beyond 21 indicate a relatively smaller group of respondents who have extensive experience.

**Table 4.5 Work Unit**

		Work unit			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	INTERNAL AUDIT OFFICE	50	25.9	25.9	25.9
	RISK AND COMPLIANCE	48	24.9	24.9	50.8
	DISTRICT OFFICE	8	4.1	4.1	54.9
	BRANCH OFFICE	87	45.1	45.1	100.0
	Total	193	100.0	100.0	

**Source: Survey results**

Table 4.5 shows that different work units filled out the research questionnaire: 50 people (25.9%) filled it out from the internal audit office, 48 people (24.9%) from the risk and compliance office, 8 people (4.1%) from the district offices, and 87 people (45.1%) from the branch offices. This broad variety of work units indicates that the respondents to the surveys



were people who were knowledgeable about the subject matter and could look at the questionnaire from different perspectives.

**Table 4.6 Position of the Respondents**

		Position			Cumulative
		Frequency	Percent	Valid Percent	Percent
Valid	PROFESSIONAL	110	57.0	57.0	57.0
	LOWER Mgt	73	37.8	37.8	94.8
	MIDDLE Mgt	10	5.2	5.2	100
	TOP Mgt				
	Total	193	100.0	100.0	

**Source: Survey results**

Table 4.6 shows that 100 respondents, or 57% of the total, were professionals or non-managers; 73 respondents, or 37.8% of the participants, were lower-level managers; and 10 respondents, or 5.2% of the total, who held positions in middle-level management staff, participated in the questionnaire. This demonstrates that the researcher included a varied range of work levels in the study and successfully attained a comprehensive view of the topic matter.

### 4.3 Reliability of Research

The questionnaire's reliability in this study was thoroughly tested using "Cronbach's alpha." This evaluation was based on data collected from 193 respondents from the bank, ensuring a representative sample. A reliability result of 0.7 or above is considered acceptable, according to Deborah (2016). The Cronbach's alpha of 0.931 was obtained for the data collected for the 26 components of risk assessment, control environment, control activities, monitoring, and information and communication, which means the data is acceptable.

**Table 4.7. Reliability of questionnaire.**

Cronbach's Alpha	N of Items
.931	26

**Source: Survey results**

## 4.4 Effectiveness of Internal Control System in preventing Fraud

The study used Zaidation and Bagheri's (2009) rating mean score method as the benchmark to assess the efficiency of each internal control system in fraud prevention. According to this guideline, if the mean score is below 3.39, it is considered low. If the mean score ranges from 3.40 to 3.79, it is considered moderate, and if the mean score is above 3.8, it is considered high.

**Table 4.8: Descriptive Statistics of internal control system Effectiveness**

No	Components	N	Mean	Std. Dev
1	Control Environment	193	3.80	0.94
2	Risk assessment	193	2.68	1.08
3	Control activities	193	3.57	0.85
4	Information and communication	193	3.63	0.84
5	Monitoring activities	193	3.64	0.82

**Source: Survey results**

As depicted in table 4.8, the mean score level of respondents ranged across various components, providing insights into the overall effectiveness of the control system. Looking at each component individually, it becomes evident that the Control Environment exhibits a high level of agreement (Mean=3.8). Control activities (Mean=3.57), Information and communication (Mean=3.63), and Monitoring activities (Mean=3.64) also fall under a moderate agreement level. However, Risk assessment stands out with a relatively low agreement level (Mean=2.68).

The analysis of the internal control system's effectiveness in fraud prevention reveals varying levels across different dimensions. The Control Environment dimension stands out as highly effective, whereas Control activities, Information and communication, and Monitoring activities demonstrate a moderate level of effectiveness. However, the Risk assessment dimension appears to be relatively ineffective in preventing fraud incidents.

## 4.5 Detail Analysis of Internal Control Elements' Effectiveness

A response of strongly disagree, which carries a weight of 1 point, represents a strong opposition to the statement. Conversely, an answer of disagree, worth 2 points, indicates a less intense disagreement. The next category, neutral, holds a score of 3 points, reflecting a lack of strong alignment or disagreement. Following that, an answer of agree carries 4 points and

shows a certain level of agreement. Finally, the response of strongly agree, which bears 5 points, signifies a complete acceptance of the statement in question.

### 4.5.1 Control Environment

**Table 4.9 Descriptive Statistics**

Respondents Response in percentage									
No	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree	Total	Mean	Std. Deviation
1	Policies, procedures and guidelines are in place for all aspects of the Bank's operations.	2.1	13.0	19.7	38.3	25.9	100.0	3.6995	1.11470
2	The bank has a clear division of jobs and responsibilities.	0.5	4.7	26.4	47.2	21.2	100.0	3.8394	.82922
3	The Bank has a clear organizational structure.	0.5	7.8	17.6	39.9	33.2	100.0	3.9430	1.01646
4	Internal and external auditors of the bank assess the adequacy of the bank's internal control system on a regular basis.	0.5	6.7	22.3	50.8	19.7	100.0	3.8238	.84166
5	The bank is committed to ethical and integrity values.	1.0	8.8	16.6	40.4	33.2	100.0	3.9585	.97272
6	The bank is committed to attract, develop, and retain competent employees.	1.6	18.1	35.2	35.8	9.3	100.0	3.3316	.93200
7	Risk management is one of the banks strategic pillars.	0.5	6.7	20.2	43.0	29.5	100.0	3.9430	.90246

**Source: Survey results**

Results for Table 4.9 show that, among respondents, 38.3% agreed, 25.9% strongly agreed, 19.7% were neutral, 13% disagreed, and 2.1% strongly disagreed that the bank makes sure rules, procedures, and standards are in place to prevent fraud. From this, we can conclude that the bank has policies and guidelines to prevent fraud. The respondent also had a standard deviation of 1.11470, indicating less response variability across respondents, and a mean response of 3.6995, indicating agreement on the subject. The respondent's responses indicate a resounding agreement that there are policies, procedures, and guidelines available to control fraud activity in the bank.

As stated in item 2 (see table 4.9 above), "Ensure the separation of roles and responsibilities in the bank." 21.2% of participants strongly agreed, and 47.2% expressed agreement. Conversely, a small proportion, comprising 4.7% of respondents, disagreed. Additionally, an insignificant 0.5% strongly disagreed. Finally, 26.4%, remained neutral on the matter. This leads us to the conclusion that the bank carries out the task by ensuring the separation of roles and responsibilities. Additionally, the respondent's mean response was 3.8394, indicating consensus on the matter, together with a standard deviation of 0.82922, which demonstrates less respondent variability. We might conclude from this that the bank performs the activity by ensuring role and responsibility separation within the bank. The bank performs the activity by ensuring the separation of roles and responsibilities, which enables the bank to fulfill its goals and missions properly and efficiently.

In the case of a clear organizational structure (table 4.9 of item 3), points show that 39.9% of respondents agreed, 33.2% strongly agreed, 17.6% were neutral, 7.8% of respondents disagreed, and 0.5% of respondents strongly disagreed. The mean response of 3.9430 indicates a consensus on the issue, and the standard deviation of 1.01646 highlights the low variability in responses. Consequently, these findings provide strong evidence that the bank has indeed established a clear organizational structure.

Table 4.9 of item 4 regarding internal and external audit adequacy indicates that 50.8% agreed and 22.3% were neutral, indicating a lack of strong affirmation or negation. 19.7% of respondents strongly agree, a small percentage, specifically 6.7%, disagree with this practice, and a mere 0.5% express strong disagreement. The mean response of participants was 3.8238. This value indicates a general agreement among the respondents about the internal and external auditors conducting comprehensive assessments of the bank's internal control system. Moreover, the standard deviation of 0.84166 highlights less variability in the responses provided by the participants. The respondents' responses specify their strong support for both internal and external auditors periodically assessing the bank's internal control system. This means a bank assesses the adequacy of its internal control system to protect against different frauds happening in the bank, which enables the bank to compete in the industry.

In the above table 4.9 of item 5, the bank is committed to integrity and ethical values. 40.4% of respondents agreed, 33.2% strongly agreed, 16.6% remained neutral, 8.8% expressed their disagreement, and merely 1.0% strongly disagreed. These results indicate that the bank has an unwavering dedication to both integrity and ethical values. The mean response obtained from the respondents was 3.9585, showcasing a general agreement amongst them. Moreover, the standard deviation, which measures the extent of variability in responses, was 0.97272. This indicates that there is relatively less variability among the participants' opinions. The collective responses of the respondents effectively demonstrate their consensus in support of the subject. Based on this analysis and evaluation, it can be confidently concluded that the bank demonstrates a strong commitment to maintaining integrity and ethical values.

In the above table 4.9 of item 6, it is stated that the bank has an unwavering dedication to attracting, developing, and retaining skilled and capable employees. The data depicted in the table reveals that a remarkable 9.3% of the respondents strongly agreed, while 35.8% agreed. Additionally, 35.2% chose to remain neutral on this matter, whereas 18.1% expressed their disagreement, and a mere 1.6% exhibited a strong sense of disagreement. The mean is 3.3316, and the standard deviation is 0.93200, which shows a response with less variability among respondents. The data highlights almost equal portions of respondents who agreed and were neutral about the subject matter. As a result, the bank's attempts to attract, develop, and retain personnel who share its goals are inadequate.

Table 4.9 of item 9 shows that risk management is one of the bank's strategic pillars. The respondent's opinions showed that 43.0% agree and 29.5% strongly agree, while on the other hand, 20.2% remain neutral, 0.5% strongly disagree, and 6.7% simply disagree. The most of respondents agree that risk management is one of the bank's strategic pillars. The mean is 3.9430, indicating agreement on the issue, and the standard deviation is 0.90246, which indicates less variability in responses among the participants. Analysing the respondent's responses reveals agreement concerning risk management as one of the bank's strategic pillars.

## 4.5.2 Risk Assessment

**Table 4.10 Descriptive Statistics**

Respondents Response in percentage									
No	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree	Total	Mean	Std. Deviation
8	The bank has designed an appropriate strategy of identifying risks	16.1	34.2	19.7	23.8	6.2	100.0	2.6995	1.17830
9	Ongoing identification and assessment is done for fraud and other risks.	10.4	45.1	28.5	10.9	4.1	100.0	2.5026	.99543
10	The bank created a mechanism to provide proper risk response.	7.8	39.4	28.5	20.7	2.6	100.0	2.8238	1.05576

**Source: Survey results**

According to Table 4.10 of item 8, the results indicate that 23.8% of the participants agreed, while an additional 6.2% strongly agreed. Interestingly, 19.7% of the respondents remained neutral, indicating a lack of conclusive opinion on the matter. On the opposite end of the spectrum, 16.1% strongly disagreed, and a significant 34.2% simply disagreed. The mean response of 2.6995 denotes a clear inclination towards disagreement among the respondents. Moreover, a relatively low standard deviation of 1.17830 implies that there was less variability in responses among the participants. The study reveals that the bank is inefficient in designing an appropriate risk identification strategy, which can directly hinder its effectiveness in performing its activities. Creating an adequate risk-identification strategy can have a positive impact on the bank's protection against fraud.

As shown in Table 4.10 in item 9, the results indicate that 10.9% of participants agreed, while 4.1% strongly agreed. On the other hand, 45.1% disagreed, with an additional 10.4% strongly disagreeing. Remarkably, 28.5% of respondents remained neutral on the subject matter. The mean response from participants stood at 2.5389. This reveals consensus among respondents, as it indicates agreement. Furthermore, the standard deviation of 1.03571 shows a lower degree of response variability among the respondents. This indicates that risks like bank fraud and others are not appropriately identified and evaluated regularly.

In the above table of 4.10 for item 10, it showed that 20.7% of participants agreed, 2.6% strongly agreed on the issue, and the other 39.4% disagreed and 7.8% strongly disagreed. The rest, 28.5%, are neutral. The mean is 2.8446, indicating that respondents were in disagreement with the bank's design of a system to respond to a risk. Furthermore, the standard deviation of 1.05903 indicates less response variability. Finally, as the analysis demonstrates, the bank has not established a mechanism to provide an appropriate risk response.

### 4.5.3 Control Activities

**Table 4.11 Descriptive Statistics**

Respondents Response in percentage									
No	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree	Total	Mean	Std. Deviation
11	Processes exist for independent verification of transactions	1.0	9.3	29.5	48.7	11.4	100.0	3.6010	.84865
12	Responsibilities are rotated periodically	1.6	12.4	49.7	31.1	5.2	100.0	3.2591	.80054
13	Assets vulnerable to theft have sufficient physical security provided by the bank	1.6	10.4	25.4	47.7	15.0	100.0	3.6425	.91382
14	The physical asset register is up-to-date.	1.6	9.3	35.2	45.1	8.8	100.0	3.5026	.84239
15	Appropriate source documents are maintained for transactions.	1.6	8.3	19.2	53.4	17.6	100.0	3.7720	.88967
16	The Fraud Management Policy outlines actions to be taken to manage the expansion of fraud in the Bank.	9.8	-	28.5	49.2	12.4	100.0	3.6425	.82390

**Source: Survey results**

Table 4.11 of item 11 says there are processes for independent verification of transactions. The results show that 48.7% of people agreed, with 11.4% strongly agreeing. In contrast, 9.3% disagreed, with only 1.0% strongly disagreeing and the rest, 29.5%, being neutral. The mean is 3.6010, indicating agreement on the subject, and the standard deviation is 0.84865, indicating less variability across respondents. The responses confirm that the respondents agree with the topic that processes exist for independent verification of transactions in order to prevent fraud.

As the above table 4.11 of item 12 states, there is a periodical duty rotation. Results showed that 49.7% of respondents were neutral; in contrast, 31.1% agreed. Furthermore, 5.2% of participants strongly agreed. On the contrary, 12.4% expressed disagreement, and only 1.6% strongly disagreed. The respondents' mean response is 3.2591; this indicates that no either agreement or disagreement on the matter. Moreover, a standard deviation of 0.80054 was observed in the responses, signifying minimal variability in opinions among the surveyed individuals. According to the respondents, the bank has responsibilities that are periodically rotated to support them by combating fraud, and they are neutral. From this, we can conclude that the bank does not effectively rotate duties periodically. This will make work routine for the employees of the bank and will lead to fraud on the employee's side. From this, one can conclude that if the banks do not rotate duties periodically, the fraud happening in the bank will be high.

From the above table 4.11 of item 13, it is mentioned that assets vulnerable to theft have sufficient tangible security offered by the bank. The participants expressed that 49.7% agreed, while a smaller but still important portion of 15.0% strongly agreed. About a quarter of the participants, 24.4%, remained neutral on the issue. A smaller percentage of 10.4% disagreed, whereas a mere 1.6% strongly disagreed. The mean response is 3.6425, reflecting an overall consensus with the subject. Additionally, the standard deviation is 0.91382, indicating that there is relatively less variability in the responses provided by the participants. Therefore, the bank safeguards its assets from theft by providing tangible security.

From the above table 4.11 of item 14, the bank's physical asset register is up-to-date. The respondents responded that 8.8% strongly agreed, a significant majority of 45.4% agreed, and another notable group of respondents were categorized as neutral, accounting for 35.2%. In contrast, a smaller proportion of 9.3% disagreed, while a mere 1.6% strongly disagreed. The mean response was calculated at 3.5026, which indicates consensus among the participants. The standard deviation is 0.84239, which indicates relatively little variability in the respondents' reactions. Hence, the bank's physical asset gets an up-to-date registration.

From the above table 4.11 of item 15, appropriate source documents are maintained for transactions. 53.4% agreed, while 17.6% of participants strongly agreed. Moreover, 19.2% remained neutral, 8.3% of participants disagreed, and a mere 1.6% strongly disagreed. The mean response value of 3.7720 indicates an inclination towards agreement, while the standard deviation is 0.88967, indicating that respondents displayed less variability in their opinions.



This shows appropriate source documents are maintained for transactions, so this creates strong fraud prevention. Any user gets appropriate source documents for every transaction in the bank.

In the above table 4.11 of item 16, the fraud management policy outlines actions to be taken to manage the expansion of fraud in the bank. The respondents responded that 49.2% agreed, 12.4% strongly agreed, 28.5% were neutral, and 9.8% strongly disagreed. The mean response of 3.6425 shows agreement between participants, while the low standard deviation of 0.82390 indicates less response variability. Hence, fraud management police outline actions to be taken to manage the expansion of fraud in the bank.

#### 4.5.4 Information and Communication System

**Table 4.12 Descriptive Statistics System**

Respondents Response in percentage									
No	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree	Total	Mean	Std. Deviation
17	Established channels of communication within the Bank.	2.6	10.4	19.2	49.2	18.7	100.0	3.7098	.97294
18	Transactions recording and classifying	-	5.2	16.1	60.1	18.7	100.0	3.9223	.74244
19	Information is available on a timely manner	0.5	11.9	25.4	50.8	10.4	100.0	3.5544	.92331
20	Obtaining and using relevant, quality information	0.5	9.3	25.9	52.8	11.4	100.0	3.6528	.82203
21	communicates information internally, including responsibilities and objectives.	0.5	10.9	33.2	42.0	13.5	100.0	3.5699	.87591
22	Interconnects with external parties about issues affecting the functioning of internal control.	0.5	6.7	51.8	36.8	4.1	100.0	3.3731	.69649

**Source: Survey results.**

From the above table 4.12 of item 17 about the established channels of communication within the bank, the respondent said that 49.2% of the participants agreed with the existence of established channels, while 18.7% strongly agreed. On the other hand, 10.7% expressed disagreement, and 2.6% strongly disagreed. An additional 19.2% remained neutral on the matter. The mean response stands at 3.7098., which shows a significant level of consensus. Moreover, the relatively low standard deviation of 0.97294 indicates less variability among the

responses. Hence, the bank has established channels of communication within the bank. Channels of communication are the means of fraud prevention.

From the above table 4.12 of item 18, the transactions are recorded and classified effectively. The respondents said that 60.1% agreed, 18.7% strongly agreed, 16.1% were neutral, and 5.2% disagreed. The mean of the response is 3.9223, which demonstrates strong agreement. Moreover, the standard deviation of 0.74244 indicates that there is relatively low variability in the participant's response. Therefore, the bank played a sufficient role in promptly recording and classifying information to provide reliable information.

In the above case of table 4.12 of item 19, information is readily available. The respondents said that 50.8% agreed, 10.4% strongly agreed, 25.4% of participants remained neutral, 11.9% disagreed, and merely 0.5% of participants strongly disagreed. The mean response of 3.5544 confirms agreement among the respondents. The standard deviation of 0.92331 further emphasizes the little variability in the responses, indicating a high level of consistency. Therefore, it can be deduced that information has been made available to the respondents promptly. This will help the bank by preventing biased information from different sources to prevent fraud.

In the above table 4.12 of item 20, it is stated that the bank collects and applies relevant and high-quality information. The respondents stated that 52.8% agreed, 11.4% strongly agreed, 33.2% were neutral, 9.3% disagreed, and 0.5% strongly disagreed. The mean is 3.6528, indicating strong agreement among respondents; the relatively low standard deviation of 0.82203 signifies less variability in responses. As a result, we can conclude that the bank Obtaining and using relevant, quality information to aid in internal control and fraud prevention.

According to the above table 4.12 of item 21, the bank conveys information internally, including goals and duties. The respondents said that 42.0% agreed, while an additional 13.5% strongly agreed; in contrast, 10.9% disagreed, with a smaller percentage of 0.5% indicating a strong disagreement. The remaining 33.2% chose to remain neutral, neither supporting nor opposing the matter. The mean value of 3.5699 shows agreement among the respondents. Moreover, the standard deviation of 0.87591 highlights the degree of consistency within the collected responses. This indicates that information, including goals and duties, is communicated within the bank.

From the above table 4.12 of item 22, it can be observed that the bank engages in communication with external parties concerning matters that impact the effectiveness of its internal control. respondent responded that a significant portion, 36.8%, strongly agreed, while 4.1% simply agreed. On the other hand, a majority of 51.8% remained neutral. A small percentage of 6.7% disagreed, and 0.5% strongly disagreed. The mean is 3.3731, which shows agreement between the responses. Furthermore, the standard deviation of 0.69649 reveals that there is relatively less variability among the respondents' opinions. The analysis reveals that the majority of participants have a neutral stance regarding the bank's engagement in communication practices with external parties.

### 4.5.5 Monitoring

**Table 4.13 Descriptive Statistics**

Respondents Response in percentage									
No	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly agree	Total	Mean	Std. Deviation
23	A system is in place to verify that records, transactions, and reconciliations all meet requirements.	-	11.9	21.8	53.9	12.4	100.0	3.6684	.84403
24	Employees and leaders discuss performance, goals, and expectations during performance reviews.	0.5	6.7	28.5	49.2	15.0	100.0	3.7150	.82072
25	Conducts periodic assessments to determine the existence and operation of internal control components.	0.5	8.8	28.0	56.5	6.2	100.0	3.5907	.75919
26	Assesses and communicates deficiencies about internal control on time for corrective action.	2.1	7.3	33.7	44.6	12.4	100.0	3.5803	.87502

**Source: Survey results.**

From the above table 4.13 of item 23, A system is in place to verify that records, transactions, and reconciliations. Respondents responded that 12.4% strongly agreed, 53.9% agreed, 21.8% were neutral, and 11.9% disagreed. The mean response is 3.6684. This score indicates agreement among the participants. Additionally, the standard deviation of 0.84403 indicates relatively low variability in the responses. Therefore, as per the analysis, a comprehensive system has been developed in the bank to monitor and assess various aspects of transactions,

records, and reconciliations to confirm that they align with the expected standards and requirements.

From the above table 4.13 of item 24, it is evident that performance evaluations involving discussions on expectations, goals, and performance are established. Respondents said that 15% strongly agreed. Additionally, 49.2% of the respondents expressed agreement, while 28.5% remained neutral. However, a small percentage of 6.7% disagreed, and a mere 0.5% strongly disagreed. The mean response score was 3.7150. This mean value indicates consensus among the participants. Notably, the standard deviation of 0.82072 suggests that there was relatively less variability in the responses of participants. The analysis highlights the consensus among respondents that there are performance evaluations with discussions on expectations, goals, and performance within the bank.

From the above table 4.13 of item 25, observed that the bank utilizes ongoing evaluations to determine the existence and effectiveness of the various components of internal control. The respondents responded, with 6.2% strongly agreeing, 56.5% agreeing, 28% expressing neutrality, 8.8% disagreeing, and 0.5% strongly disagreeing. Additionally, the mean response of 3.5907 indicated a consensus, while the standard deviation of 0.75919 showcased a relatively lower level of response variability among the respondents. Thus, it can be concluded that the respondents agree with the subject that the bank conducts ongoing assessments to assess the presence and functionality of its internal control components.

According to Table 4.13 of item 26, it is evident that the bank possesses a commendable ability to effectively assess and communicate any internal control weaknesses promptly. The participants said a strong agreement was expressed by 12.4%, while 44.6% agreed; a neutral stance was taken by 33.7% of the participants; a small percentage of 7.3% disagreed; and 2.1% strongly disagreed. The mean response of participants was 3.5803, indicating agreement on the matter, with a standard deviation of 0.87502, representing relatively low variability in responses. In conclusion, the collective responses from the participants demonstrate their consensus with the bank's approach to promptly assessing and communicating internal control weaknesses.

## **4.6 Data presentation for the interview questions**

This section provides the interview questions and responses of Dashin Bank's Senior Manager of Fraud Investigation and Senior Manager of Operation Risks on issues concerning the bank's internal control activities for the prevention of fraud. Respondents are both male, have served the bank for eleven to fifteen years, and are between the ages of 30 and 39. Both are master's degree holders and middle-management members. The findings are presented according to the research objectives and discussed using the reviewed literature as a benchmark.

### **4.6.1 Responses regarding control environment**

In this topic, the researcher raised questions and gathered different responses about control activities at Dashin Bank. The responses given by the respondents (Senior Manager of Fraud Investigation and Senior Manager of Operation Risks) are summarized as follows:

There are a lot of important and significant points mentioned by the respondents. This means that the bank has established a strong prevention system for fraud through various approaches. Firstly, the bank has established and continuously updates its fraud risk monitoring policy and procedure. Secondly, the bank ensures that all employees are familiar with the fraud prevention protocols through consistent training. Thirdly, the bank uses technology for fraud detection software for post-transaction monitoring, which means the software flags alerts by considering suspicious transactions after the transaction is conducted by customers. However, most of the time, the system flags an alert after the fraud is conducted by different parties. Because the existing software supports post-transaction monitoring instead of real-time transaction monitoring, the bank can prevent fraud before it is conducted. In addition, they also added that to check the effectiveness of controlling, audit team assesses the adherence to policy and procedures.

### **4.6.2 Responses regarding Risk Assessments**

According to the respondents, it is evident that the bank has implemented measures to identify and record risks that might have a negative impact on its capacity to accomplish its goals. However, there are notable areas of concern that require immediate attention. The bank's exclusive focus on credit and liquidity areas during risk assessments, on the other potential risks there are not adequate assessment. Additionally, the lack of emphasis on identifying, analysing, and controlling fraud risk presents a significant gap in the institution's risk management framework.

### **4.6.3 Responses regarding control activities**

There are some mechanisms used to prevent fraud at the bank, according to the respondents. These are: segregation of duties, enforcing the authorization process, conducting regular audit reviews, and implementing physical and IT security measures. According to the respondents' responses, these control activities are effective because they deter the opportunity for fraud and ensure accountability.

### **4.6.4 Responses regarding information and communication system**

According to the respondents, the bank gathers and communicates information efficiently through established channels. This includes mechanisms for reporting law or regulation breaches, timely transaction recording, regular reporting of key operational data, and ensuring the availability of information. This approach assures transparency, accountability, and appropriate information flow in the bank's operations.

### **4.6.5 Responses regarding monitoring**

According to the respondents, as part of its monitoring efforts to prevent fraud, the bank conducts routine evaluations of how well its internal control mechanisms work. Additionally, spot checks are carried out on transactions, recording, and reconciliations to ensure compliance with expectations. Finally, the bank promptly reports significant weaknesses or failings to the management.

## **4.7 Discussion**

The broad objectives of this study were to assess the effectiveness of the internal control system in preventing fraud in the case of Dashen Bank. The researcher employed the survey method of data collection, which includes questionnaires and interviews. The questionnaires are analysed using descriptive statistics by employing frequency tables, percentages, means, and standard deviations of the respondents and also the interview results are presented. The discussion section combines both the questionnaires and interview analysis.

The control environment at Dashen Bank exhibits a high level of agreement, with a mean value of 3.8. However, the survey results suggest that there are areas of shortcomings regarding being committed to attracting, developing, and retaining competent employees in alignment with its objectives. The interview results regarding the control environment indicate that there are full practices of control environment elements but do not respond regarding being committed to attracting, developing, and retaining competent employees. In general, the control environment

of Dashen Bank is effective and contains all elements except being committed to attracting, developing, and retaining competent employees in alignment with its objectives.

The risk assessment in the bank stands out with a relatively low agreement level and a mean value of 2.68, indicating that it is not adequately implemented as an internal control component. However, the majority of the respondents disagreed regarding risk assessment. Furthermore, the interview results support these findings by revealing the bank's exclusive focus on credit and liquidity areas during risk assessments. There appears to be a lack of adequate assessment of potential risks in other areas.

The control activities scored a mean value of 3.57, indicating a moderate level of agreement regarding implementation. The internal control component reveals a gap in the system to ensure duties are rotated periodically. Interview results support the implementation of various control activities to prevent fraud but do not provide an answer regarding duty rotation among employees.

The mean value of 3.63 for information and communication indicates a moderate level of agreement within Dashen Bank's internal control measures to prevent fraud. However, there seems to be a gap in terms of communication with external parties on matters that affect the functioning of internal controls. The interview results also support the presence of proper information and communication within the bank, but they do not provide an answer regarding communication with external parties.

According to the survey, the monitoring scored a mean value of 3.64, indicating a moderate level of agreement with the internal control component. This indicates that there is a system in place to check transactions, records, and reconciliations to ensure they meet expectations. Additionally, performance evaluations are conducted where employees and supervisors discuss expectations, goals, and overall performance. Furthermore, the bank performs ongoing evaluations to ensure that the components of internal control are present and functioning effectively. The interview results also support the implementation of monitoring to preventing fraud within the bank.

## **Chapter Five**

### **5. Findings, Conclusions and Recommendations**

#### **5.1 Findings**

This study aimed to assess the effectiveness of Dashen Bank Share Company's internal control framework in preventing fraud. To achieve this objective, the researcher established research goals and questions that focused on various aspects of the internal control system. The study employed a sample from the targeted population of Dashen Bank Share Company. To ensure that important employees or work units were included, the research employed a purposive sample method based on the work units exposed to the subject matter within Dashen Bank. Quantitative and qualitative data were thoroughly analysed, employing descriptive statistics to determine key findings. The dataset was accurately coded and entered into SPSS Version 20.0, ensuring the accuracy of the results obtained. The following is a summary of the findings.

The outcome of the respondent's response indicates that the control environment variable, which is measured by policies, procedures, and guidelines, separation of roles and responsibilities, organizational structure, and risk management in performing the bank's activities, are strong internal control components in the prevention of fraud. Contrarily, the Risk Assessment variable is weak, which reveals the absence of a well-designed strategy for identifying risks, failure to continually identify and assess risks, and inadequate response mechanisms as weaknesses.

The control activity is determined by the independent verification of transactions, periodical rotation of duties, physical security for assets subject to theft, an up-to-date physical asset register, appropriate source documents, and fraud management policies that outline actions to be taken to manage the expansion of fraud in the bank, which have a positive response or are good internal control system elements for preventing fraudulent activity.

Information and Communication System, which is determined by channels of communication within the bank, records, and classification of transactions to provide reliable information, availability of information, relevancy, and quality of information exchanged internally and with outside parties regarding issues that impact the functioning of internal control, has a positive response or good internal control component in the prevention of fraud.



Finally, monitoring, which is determined by the system to check transactions, records, and reconciliations, performance evaluations of employees, on-going evaluations, and the bank's communication of internal controls deficiencies in a timely manner, has a positive response or good internal control component in the prevention of fraud.

## **5.2 Conclusion**

According to the research, there is a partial gap in the commitment to attract, develop, and retain skilled employees in link with its aims. The data highlights that almost an equal portion of respondents agreed and were neutral regarding the subject matter. The lack of consensus amongst responders implies a gap in the subject.

The study reveals that there is a gap in the bank's strategy for identifying risks. The data clearly indicates that the current approach employed by the bank does not meet the expectations and requirements of the respondents. Based on these findings, it can be stated that the bank has failed to design an appropriate strategy for risk identifying. As a result, this inadequacy hampers the bank's ability to mitigate risk, and the bank becomes exposed to vulnerabilities and potential fraud.

According to the study, there is a gap in identifying and assessing fraud and other risks on an ongoing basis. As per respondents, it becomes apparent that there is a general disagreement concerning risk identification and assessment. This indicate that there is room for improvement in adequately recognizing and evaluating such risks within the bank.

The study demonstrates that there is a gap in the way banks have designed its system to offer appropriate responses to risk. This is a highly concerning issue, as it directly impacts the safety and stability of the bank. Thus, it is of utmost importance to address this gap and develop effective strategies to mitigate risks.

The study reveals the gap in the system in place to ensure that responsibilities are rotated regularly. The analysis of this information reveals that the vast majority of respondents were neutral about the bank's duty rotation system. Employees become adapted to their work if they are not rotated regularly, and they may abuse system vulnerabilities for personal advantage. This poses a significant threat to the bank's overall security.

The study reveals that there is a gap in the bank's communication with external parties about issues impacting the efficiency of internal control. The relatively high percentage of respondents who expressed neutrality regarding the bank's communication with external parties

is a notable finding. However, it is crucial to recognize the significance of external communication for a bank's internal control system. According to COSO (2009), external communication serves a dual purpose: firstly, it facilitates the reception of external information that is pertinent to how internal control operates. This is essential, as it allows the bank to stay updated on external factors that could impact its internal processes and controls. Secondly, external communication involves providing information to third parties in response to their needs and prospects. This ensures transparency and accountability while also meeting regulatory obligations.

As per the study, the bank uses a post-transaction monitoring technology named Net Guardians Fraud Solution. This post-transaction monitoring technology has key benefits for fraud prevention and detection. For example, by thoroughly monitoring post-transaction activities, the bank can identify any suspicious or unauthorized transactions, and so on. However, post-transaction monitoring technology delays the detection of fraudulent activities. Since the monitoring is done after the transaction has occurred, fraudulent transactions could go unreported for a while, which could lead to serious financial losses.

### **5.3 Recommendation**

The results of the data collected regarding the bank's commitment to attract, develop, and retain capable personnel highlight the existence of differing views among respondents. The fact that agreement and neutrality exist indicates that the bank's efforts have not been entirely successful. To address this issue, the bank should be enhancing its recruitment process, prioritizing employee retention strategies and continuously evaluating and improving HR practices.

To protect the bank from fraud, risk-identification strategy should be enhanced and monitored effectively. Such a strategy should include industry best practices as well as new threats and fraudulent activity. By doing so, the bank should improve its ability to identify, analyse, and manage risks. This will not only protect the bank's interests but will also increase trust in its customers and stakeholders.

The study reveals that there is a gap in the continuously identifying and evaluating fraud and other risks. To properly address this issue, banks should focus on enhancing their risk assessment by incorporating advanced technological solutions. Furthermore, it is imperative that banks establish robust internal control systems with clear guidelines and policies for the continuously identifying and evaluating of risks, including bank fraud.

The analysis shows that the bank's mechanism for providing an appropriate response to risks is lacking. It is recommended that the bank take steps in order to successfully handle these issues. It is essential to highlight the potential benefits of the system, outlining its capacity to effectively respond to risks and safeguard the interests of stakeholders. By creating an environment that encourages feedback, the bank should gain valuable insights and identify areas for enhancement.

The study indicates that there is a weakness in the system that is in place to periodically rotate tasks. In order to solve this problem, banks should adopt rotation procedures in order to break any potential patterns or routines that could encourage fraudulent activity. It is imperative that banks understand the significance of changing employee tasks regularly to prevent internal fraud.

The study shows that the bank does not communicate with outside parties about issues that could compromise internal control. Keeping an efficient internal control system requires raising employee understanding of the value and function of external communication. The bank should evaluate its current processes and identify any gaps or shortcomings in its external communication practices. Based on the findings, necessary adjustments and improvements should be implemented to ensure efficient and reliable communication with external parties.

As per the study, there is a gap in post-transaction monitoring technology named Net Guardians Fraud Solution. In order to improve the gap, the bank should apply real-time transaction monitoring technology in addition to the existing technology. Real-time monitoring enables the bank to detect and respond to irregularities or errors immediately, minimizing potential risks and maximizing customer satisfaction.

The study conducted focused on assessing the effectiveness of the internal control system in preventing fraud within Dashen Bank Share Company. However, there are many financial institutions across the country which include, Banks, Microfinance institutions, saving, and Credit associations, and insurance companies. Hence, future research efforts should expand to across various financial institutions within the country by including more variables that determine the effectiveness of internal control.

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## 7. Annex- 1- Questionnaire

**College of Business and Economics**  
**Department of Accounting and Finance**  
**Survey Questionnaire Designed for Dashen Bank Staff**  
**Adopted from Fikru Worku (2018)**

Dear Respondent,

The purpose of this questionnaire is to collect data for a research paper “**Assessment of the Effectiveness of Internal Control System in Prevention of Fraud**”. The study is for the requirement for partial fulfilment of the Master’s Degree (MSc) in Accounting and Finance. Hence, your genuine response to all questions provided is crucial for the success of the research. The information obtained will remain confidential and used only for academic research purposes. Your kind cooperation will have a significant effect on the result of the study.

If there is a question about the questionnaire that needs clarification, please contact me with the contact information provided below.

Thank you for your cooperation!!

Daniel Beyene

0923465179

Danielbeyene37@gmail.com

### Part One - Demographic Information

Please put a – mark on all your responses in the box provided each question.

#### 1. Gender

- Female
- Male

#### 2. Age

- 20 -29 Years
- 30-39 Years
- 40-49 Years
- Above 50 Years

#### 3. Educational Level

- Diploma
- BA/BSc Degree
- MA/MSc
- PhD

#### 4. Service Year within Dashen Bank

- 1 – 5 Years
- 6 - 10 Years
- 11 – 15 Years
- 16 – 20 Years
- Above 21 Years

#### 5. Work Unit

- Internal Audit Office
- Risk and Compliance Management Office

- District Office
- Branch Office

**6. Position Level**

- Professional
- Lower Management
- Middle Management
- Top Management

**Part Two**

Please tick the extent to which you agree with the following statements that describes your opinion of the statement, where: (*Strongly Disagree, Disagree, Neutral, Agree and Strongly Agree*)

<b>The Effectiveness of Internal Control on Fraud Prevention</b>						
		<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
<b>Control Environment</b>						
1	Policies, procedures, and guidelines are in place for all aspects of the Bank's operations.					
2	There is clear separation of roles and responsibilities in the bank.					
3	The Bank has a clear organizational structure.					
4	The bank's internal and external auditors periodically assess the adequacy of the banks internal control system.					
5	The Bank is committed to integrity and ethical values.					
6	The bank is committed to attracting, developing, and retaining competent employees in alignment with its objectives.					
7	Risk management is one of the Bank's strategic pillars.					
<b>Risk Assessment</b>						
8	The bank has designed an appropriate strategy of identifying risks					
9	Fraud and other risks are identified and assessed on an ongoing basis					
10	The bank designed a system to offer appropriate response to risks					
<b>Control Activity</b>						
11	Processes exist for independent verification of transactions					
12	There is a system in place to ensure that duties are rotated periodically					

13	The bank provides adequate physical security for assets subject to theft					
14	There is an up-to-date physical asset register.					
15	Appropriate source documents are maintained for transactions.					
16	The Fraud Management Policy outlines actions to be taken to manage the expansion of fraud in the Bank.					
<b>Information and Communication System</b>						
17	There are established channels of communication within the Bank.					
18	Transactions are promptly recorded and classified to provide reliable information					
19	Information is available on a timely manner					
20	The Bank obtains or generates and uses relevant, quality information to support the functioning of internal control.					
21	The Bank internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.					
22	The Bank communicates with external parties regarding matters affecting the functioning of internal control.					
<b>Monitoring</b>						
23	There is a system to check transactions, records, and reconciliations to ensure that they meet expectations.					
24	There are performance evaluations where employees and supervisors discuss expectations, goal and performance					
25	The Bank performs ongoing evaluations to ascertain whether the components of internal control are present and functioning.					
26	The Bank evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action.					

## Annex -2 - Interview



**Addis Ababa University**  
**College of Business and Economics**  
**Department of Accounting and Finance**

Dear Respondent, I am carrying out an academic research thesis on the Assessment of the effectiveness of internal control over the prevention of fraud, the case of Dashin bank Addis Ababa branches of the banks district. To supplement the data, the study seeks to gather relevant information from all selected managers, auditors and risk analysis staff of the sampled respondents using semi structured interviews.

Please be assured that the information acquired shall be used purely for academic purpose only and will be kept strictly confidential.

Part One: Demographic data

Please put a – mark on all your responses in the box provided each question.

7. Gender

- Female
- Male

8. Age

- 20 -29 Years
- 30-39 Years
- 40-49 Years
- Above 50 Years

9. Educational Level

- Diploma
- BA/BSc Degree
- MA/MSc
- PhD

10. Service Year within Dashen Bank

- 1 – 5 Years
- 6 - 10 Years
- 11 – 15 Years
- 16 – 20 Years
- Above 21 Years

11. Work Unit

- Internal Audit Office
- Risk and Compliance Management Office
- District Office
- Branch Office

12. Position Level

- Professional
- Lower Management
- Middle Management
- Top Management

1. To prevent fraud, what control environments are in place at Dashen Bank, and how do you evaluate their effectiveness?

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2. Does Dashin Bank establish and apply procedures for risk assessment at an organizational level? If yes, please mention some procedures for risk assessment.

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3. What control activities are there for the bank to prevent fraud, and how are they effective? If any, please mention them.

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4. Does the bank gather information and communicate? If you say yes, mention how the bank gathers and communicates the information.

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5. What activities are performed by the bank as part of the monitoring work to prevent fraud?

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6. Do you believe; there is a weak internal control over the prevention of frauds in the bank? explain?

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