



ASSESSMENT OF INTERNAL CONTROL EFFECTIVENESS OF COMMERCIAL BANKS IN ETHIOPIA

A Thesis Submitted to the Graduate program of the Department of
Accounting, School Commerce- Addis Ababa University

In partial fulfilment of the requirements for Degree of Masters of Science -
Msc in Corporate Finance with specialty in investment Management

By

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May, 2025

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May, 2025

Declaration

I hereby declare that this thesis represents my original work and has not been submitted in whole or in part to any other university or institution for academic credit. All sources of information and references used in this study, including works by other authors, have been duly acknowledged and cited appropriately throughout the document.

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Date of submission: May, 2025

Certification

This is to certify that **Moa Kedida** has carried out his research work on the topic- Assessment of Internal Control Effectiveness of Commercial Banks in Ethiopia. The work is original and is suitable for submission for the award of Masters of Science - in Corporate Finance with specialty in investment Management

Advisor

Name: Dakito Alemu (PhD)

Signature:  _____

Date: 6/03/25

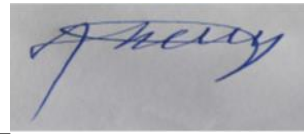
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Signature

Acknowledgements

First and foremost, I extend my heartfelt gratitude to the Almighty God, for without His grace and guidance, none of this would have been possible.

Secondly, I am deeply grateful to my advisor, Dr. Dakito Alemu, for his unwavering support, patient guidance, and the invaluable time he dedicated to helping me throughout this research journey.

Thirdly, I would like to express my sincere appreciation to my instructors Dr. Tankir, Dr. Mengistu, and Dr. Birhanu for their dedication, commitment, and the knowledge they imparted during the three years I spent under their guidance.

Last but certainly not least, I wish to thank my family, friends, and the staff of the commercial banks who participated in the questionnaires for this research. Their moral and material support, as well as their encouragement, were instrumental in the successful completion of this work.

Abstract

This study assesses of the internal control in Ethiopian commercial banks, emphasizing their role in ensuring financial sustainability. Focusing on 10 out of 30 banks categorized by size, the research employed a descriptive design and collected primary data via questionnaires from 226 staff (91% response rate) across key departments, analyzed using SPSS version 27. Findings revealed that while internal controls aligned with the COSO Framework were generally effective, effectiveness varied among banks, offering insights for improvement in enhancing overall effectiveness of internal control due to the nature of the riskiness of the banking sectors and its impact on financial performance.

Keywords: Internal controls, Ethiopian banks, COSO framework

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List of Acronym

1. **(3LoD)**-The three Lines of Défense
2. **ANOVA** - Analysis of Variance
3. **ATM** - Automated Teller Machine
4. **BBC** - British Broadcasting Corporation
5. **CA** - Control Activities
6. **CBE** - Commercial Bank of Ethiopia
7. **CE** - Control Environment
8. **COSO** - Committee of Sponsoring Organizations of the Treadway Commission
9. **CRM** - Customer Relationship Management (In a Bank, Customer relationship managers are responsible recruiting and serving Banks Customer)
10. **Fintech** - Financial Technology
11. **GDP** - Gross Domestic Product (implied in economic growth discussions)
12. **HSBC** - Hongkong and Shanghai Banking Corporation
13. **IAC** - Information and Communication
14. **IAS** - International Accounting Standards
15. **IC** - Internal Control
16. **IFAC** - International Federation of Accountants
17. **IFRS** - International Financial Reporting Standards
18. **IIA** - Institute of Internal Auditors
19. **MA** - Monitoring Activities
20. **MFI**s - Microfinance Institutions
21. **NBE** - National Bank of Ethiopia
22. **RA** - Risk Assessment
23. **SC** - Share Company (used in Ethiopian context for companies like Cooperative Bank of Oromia S.C.)
24. **SD** - Standard Deviation
25. **SPSS** - Statistical Package for the Social Sciences
26. **US** - United States
27. **USA** - United States of America

List of Figures/Tables/Charts:

1. Diagram for the five COSO Components/framework- Committee of sponsoring organizations,2017
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CHAPTER ONE

1 Introduction

“Internal control is a process, effected by a bank’s Executives, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance. Internal control is a process, rather than a structure. It is not a distinct activity disconnected from the rest of business activities, rather is an integral part of those activities. It is a dynamic, continuing series of activities planned, implemented and monitored by the board of directors and management at all levels within an organization. Only part, not all, of internal control consists of policies and procedures. Policies are bored or management statements about what should be done, and may even be unwritten and implied by management’s actions. Procedures are the actions that implement a policy, or how it should be done. Internal control provides only reasonable assurance, not absolute assurance, with regard to achievement of the organization’s objectives. External events can interfere with achievement of objectives, no matter how good is the system of internal control”. Bangladesh Bank. (2016). Guidelines on Internal Control and Compliance in Banks. Dhaka, Bangladesh: Bangladesh Bank.

An Internal control is an activity taken by executive boards, top managements and other concerned staff to manage risk to meet the organizational objectives and goals. It is a comprehensive idea that covers entire organizational policy, procedures, methods established by an organization to achieve its business goal and objectives. (Institute of Internal Auditors (IIA, 2012))

Internal control is a process caused by the board of directors, senior management and other personnel. It is not only a procedure or policy that is accomplished at a certain point in time, but rather it is consciously process for operations. The top managements are responsible for creating the appropriate culture to enable an effective internal control process and for monitoring its effectiveness on an ongoing basis; however, each individual within an organization must take part in the process. The key purpose of internal control process is, efficient and effectiveness of activities (operational objective), reliability, completeness and timeliness of financial and management information (reporting objectives) and compliance with applicable laws and regulations (Compliance objectives). Basel Committee on Banking Supervision. (1998). International Convergence of Capital Measurement and Capital Standards. Basel: Bank for International Settlements

The internal Control Process has been an instrument for minimizing occurrence of frauds, misuse and mistakes, has become more all-embracing, and expresses all the numerous risks faced by banks. It is now accepted that, comprehensive internal control process is very basic to a Banks's capability to attain its principal objectives, and to sustain its pecuniary feasibility. Internal Control problems are common in banking sector, and that permit rascal traders to cause huge financial losses to banks. In 2012 HSBC the largest financial institution in Europe acknowledged having poor money laundry controls and was subsequently find fined \$ 1.9billion after U.S senate in investigations. (University of Primorska, Koper, Slovenia. (2021). Workshop Paper)

In contemporary world, companies, organizations financial institutions like Banks have faced so many crises and failures. Organizations face internal and external threats that need method to support them in achieving business objectives. "Due to Accounting and auditing scandals, deficits, inadequacies and deceitful activities in financial reporting, accounting, auditing, corporate governance lapse and internal control not effective" (International Journal of research in social Science. (2020). Internal control, a process designed to prove reasonable confidence over the achievements. There are their lines of defense in which organization to achieve its objectives by reducing/avoiding risk associated with an organization. These are first line of defense (which own, manage and control risks), second line of defense (Risk, control and compliance function) monitor, control in support of managements. Third line of defense (Internal Audits), they provide assurance for the board of directors and senior managements concerning effectiveness of managements of risk and control (Committee of sponsoring organizations of tread way commission, 2015)

The banking business in the world has experienced significant failures and crisis in recent years. Bank failure is greater concern to government and respective countries central banks, due to its multiplier effects on national Economy and acts as catalyst for financial crises (Basel, 2004). If there is ineffective internal control, there is common to see huge financial losses to the banks. All over the world corporations, Institutions and banks have faced crises and failures at different time that leads them to suddenly collapse. Organizations, comply with the enactments of strategies to resist the wind blow by players in the similar commercial sector. Institutions face internal and external pressers that involve methods to support them with containing to be vigorous and remain significant in the in-business field. An organization's top management is accountable for plan, be able to manage the effectiveness of internal control system. The management of the organization must be sure that, the

correct internal control and internal control system is in place, and that they are performing as intended (Tamer Aksoy and Abullahai Mohammed, 2020). If robust internal control is not implemented, Ethiopian Banks may not be excluded from banking failure.

The importance of strong internal controls In Ethiopian Financial institution cannot be overstated, in 2024, the case of the African Union, the 6 million US dollar transfer attempted fraud from Commercial Bank of Ethiopia highlights the vulnerabilities that can arise when internal controls are either inadequate or improperly implemented. The attempted fraud emphasizes the importance of Evaluations of internal control effectiveness to address emerging risks and fraud in Ethiopian Commercial Banks. (African Union. (2024). There is also an increase in sophisticated scams in assassination with the significant digital banks in Ethiopia. By the same year (2024), There was also reports from Commercial bank of Ethiopia, technical glitch in which almost more than 40 million dollar was withdrawn (National Bank of Ethiopia. (2024)

A drastic surge in mobile banking fraud is putting a record number of users at risk, the Federal Police Crime Investigation Bureau said. While the problem is becoming normal across the financial sector, the Commercial Bank of Ethiopia (CBE) has become the main target of fraudsters (Reporter news, June 2022). Therefore, evaluation of internal control effectiveness of Commercial Banks in Ethiopia is not an option but mandatory if wished to have sound and sustainable financial sectors. Therefore, “evaluating an effectiveness’ internal control system is the back bone of every organization, the breakdown of which leads to the failure of organizations”. (Tekalign Negash, 2018).

1.1 Statement of the Problem

A system of effective internal control is a critical components of bank management and foundation for the safe and sound operation of banking organizations. The interests in the internal control in banking business are due to significant losses incurred by several banking organizations evidence (2008/2009) worldwide financial crisis. In Ethiopia Banks are facing frauds and financial losses due to ineffective internal control mechanisms (NBE financial stability report, 2024). It is essential for each organization should establish a proper and efficient internal control framework to confirm that the company is managed and overseen in a responsible and careful manner (Rokeya Sultana & Muhammad Enamu Hague, 2011)

Failure of Internal control system and the eventual sidestepping internal control system and escape of internal controls by company executives accounts for failures and corporate company collapse,

Enron and WorldCom in United states of America (USA), Parmalat in Europe and other companies in the world (Amudo and Inango, 2009).

Banks are Financial Institutions which involve with different risks. So, the concern of effective internal control system, good governance, transparency of all financial activity and liability in the direction of its stockholders and regulators have necessary options to guarantee smooth performance of banking industries. An effective internal control and compliance system has become critical in order to maintain effective risk management practices and to assure the sustainability of banking industry. In today's Banking Business, digital banking fraud is a major international industry in which sophisticated criminal groups employ increasingly sophisticated tools – and frequently collude with corrupt bank staff – to steal very large sums. This in turn has pushed up the liabilities that banks must absorb to cover the losses their customers suffer due to fraud. Due the aggressive technological advancements and the development of Fintech as part of financial inclusions and national bank of Ethiopia's new strategy toward digitalization in financial industry, there is an expansion of frauds in Ethiopian banks.

“In large financial organizations in Europe, due to ineffective money laundering control installed in the bank, they were fined \$ 1.9 billion in 2012 after U. S senator investigated”. (BBC, 2012). The Ethiopian Banking industry is not without subjected to bank failures or fraudulent. Commercial banks in Ethiopia lost close to two billion Birr due to fraudulent activities, according to study conducted by ministry of justice showed (Addis Fortune. (2024). Ethiopia. Addis Ababa: Addis Fortun. The Commercial bank of Ethiopia, the state-owned bank was reported a loss of 801.4 million birr due to fraudulent or system glint (Addis standard March, 2024). According to National bank of Ethiopia announcement, Ethiopian banks are at operational risk due to fraudulent activities and threats from employees and outsiders are rising. The money lost to fraud and fake documents has nearly doubled in just one year, reaching one billion birrs (NBE, Financial Stability Report, 2024). Ethiopian Banks lost 1.3 billion in 2024 which was 300 million increments from 2023. (NBE, Stability report,2024). In 2022, the worst year, the fraud report was 2 billion. (Ministry of Justice,2022)

In spite of the significance of strong internal control systems in alleviating operational risks and ensuring financial stability within the banking sector, there remains a lack of comprehensive assessment of the usefulness of internal controls in all commercial banks in Ethiopia. With the increasing complexities of banking operations and evolving regulatory requirements the adequacy

and efficiency of internal control mechanisms within commercial banks have become critical concern. A Research conducted on internal control effectiveness According to Feregenet Manahel (2016) was focused only on Commercial bank of Ethiopia, which ignored other private commercial banks operating in the country. As indicated on literature reviews, most of research conducted on internal controller effectiveness were not complete, some on few commercial banks and others even focused on individual commercial banks in Ethiopian. The overall effectiveness of internal controller based on the five COSO Framework did not addressed so far. Research by Alemayehu Getaneh in 2016 on policy bank addressing the five COSO framework, Development bank of Ethiopia, the internal control system of the bank was not effective while article, Hawasa city Commercial Bank, Assessing the Effectiveness of the Internal Control System in the Commercial Banks of Ethiopia shows effectiveness. Here the researcher addressed all COSO components in this work.

In this studying researcher focused on Assessments of the effectiveness and implementation of internal control with 5 components of internal control as defined by COSO, the researcher consider effectiveness of employee competencies to implement effective internal control by each commercial banks in Ethiopia banks, Risk assessments, control activities, Communication and monitoring and Manager competency is needed to produce qualified accounting information, Knowledge and skills in appropriate areas are needed in improving the internal control effectiveness.

This research examined all five COSO components by conducting a study across 10 purposively selected commercial banks in Ethiopia. A total of 28 questionnaires were distributed to each respondent to evaluate their internal control systems. Prior to this study, there was limited understanding or evidence about the effectiveness of internal controls in these institutions. This research now serves as a foundational cornerstone for future studies, paving the way for more comprehensive evaluations involving the entire population of commercial banks in Ethiopia

1.2 Research Questions

Based on objectives and statement of the problems, the research questions were

1. What is the nature of the existing control environment in commercial banks, and how does it influence operational effectiveness?
2. To what extent are the risk assessment procedures implemented by commercial banks in Ethiopia adequate in identifying and mitigating potential risks?

3. How effective are the monitoring processes and control activities, such as regulations, procedures, and internal control systems, in ensuring compliance and operational efficiency within commercial banks?
4. Are controls activities in mitigating identified risks and ensuring compliance with regulations are adequate?
5. How is information captured, communicated, and utilized for decision-making processes within commercial banks, and what impact does this have on organizational performance?

1.3 Objective of the Study

The general objective of the study was Assessment of Internal Control Effectiveness of Commercial Banks in Ethiopia

Specific Objectives are

- To examine the nature of existing control environment in commercial banks
- To evaluate the adequacy of risk assessment procedures implemented by commercial banks in Ethiopia
- To evaluate Control activities like regulations, procedures and internal control relevant documents/systems
- To review the processes and procedures in place for monitoring internal controls on an ongoing basis
- Evaluate how information is captured, communicated, and used for decision-making within the banks

1.4 Significance of the study

Assessing the Ethiopian private bank's internal control system will benefit management of the bank to generate fresh concepts or innovative thoughts regarding effectiveness of internal controls as to attain better performance through reducing frauds and jeopardies. The study helps the regulatory compliances for better guidelines and strengthen over all banking system. The research also benefits banking professionals, auditors and consultants by enhancing their understanding of best practices in internal control system.

According to the latest forecast by the Ministry of Planning and Development, Ethiopian economic growth was 8.1 percent in 2023-24, and expected to grow by 8.4 percent in 2024-25. (Ethiopian

Economic Stability report by NBE, 2024). This robust economic growth may be subjected to financial frauds which may be resulted from poor internal Control in financial institutions. Due to significant failures of internal control system and risings of Frauds there is significant operational risk in the Ethiopian commercial banking industry, and it is expected to rise further in the short to medium term. Incidents of social engineering, insider threats and third-party risks are on the rise. The gross cost of bank fraud and forgeries by 2024/25 increased to 1.3 billion birrs from 1.0 billion birr a year ago. The 1.3-billion-birr fraud was by 28 commercial banks from 31 banks mainly through the use of fake cash notes and cheques, embezzlement, the issuance of unauthorized bank guarantee withdrawals using stolen ATM cards and false calls or texts. This study also contributes to building trust and credibility among stake holders and general public towards each commercial banks. This ultimately help the health growth of banks in all parameter.

1.5 Scope of the study

This study was limited to only commercial banks among financial institutions in Ethiopia and give emphasis to effectiveness of internal control with the key internal control components of each commercial banks. The reason why only commercial banks considered in financial industry is that, they are well structured and lead by strong board member at a top and competent executives and other senior officials. These commercial banks were analyzed and addressed in research regarding their internal control effectiveness.

1.6 Limitation of the study

The study used stratified sampling since total population of commercial banks in our country subdivided in to three (Large, medium and small, NBE, 2024). This divides the whole population survey by developing a structured questionnaire to gather information from stakeholders within the banks, such as department heads/directors, internal auditors, internal controllers/compliance officers and other operational staffs. The greatest challenge during this research preparation was on data collection. Most bank official do not cooperate with the researcher for responses. Some of respondents were not responded to researcher questionnaires on time due to various reasons.

The researcher addresses secondary sources of data, like Yearly published bullet and banks website for corporate governance and board structure of the commercial banks. The researcher addressed the respondents by different approaches like convincing team leader/office leader the importance of the topic to each line of defenses in each commercial banks. The lack of responses from some participants

and the incomplete collection of secondary data may have obscured the true effectiveness of internal controls in commercial banks. If all targeted respondents had participated and provided secondary data freely, the overall findings on the effectiveness of commercial banks' internal controls might have been different.

1.7 organization of the study

The research paper has five chapters. Chapter one contains introduction, objective, statement of the problem, significant of the research, limitation of the research, scope of the study and organization of the study. Chapter 2 detail Literature reviews (theoretical conceptual and empirical studies, chapter three, research methodology and method of data analysis. Chapter four contain presentation of research findings and chapter five has research finding summary, conclusion and recommendations

CHAPTER TWO

2. Literature Review

2.1 Introduction

This chapter offers a comprehensive and critical examination of both theoretical and empirical literature relevant to the area of study. It aims to establish a solid foundation by reviewing existing scholarly work and practical research findings related to the topic under investigation. The chapter begins by exploring various definitions and conceptual understandings of internal controls, highlighting their significance in organizational governance and risk management. It further delves into the fundamental components of internal control systems as widely recognized in the literature, including elements such as the control environment, risk assessment, control activities, information and communication, and monitoring. In addition, the chapter investigates how internal control systems are implemented and practiced within the context of commercial banks in Ethiopia. This includes an analysis of the current practices, and effectiveness of internal controls in the Ethiopian banking sector, providing insights into the operational realities faced by these financial institutions

2.2 Theoretical Reviews

2.2.1 Definition of Internal Controls

Internal Control is a process and rightly defined as, it is not an end it self but a means to an end (COSO, 1992). It is a “process effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of three objectives namely effectiveness and efficient of operation, reliability of financial reporting, compliance with applicable laws and regulations” (COSO, Internal Control-Integrated framework, 1992)

An Internal control is an activity taken bay board of directors, top managements and other personnel to manage risk to meet the organizational objectives and goals. It is a comprehensive idea that covers entire organizational policy, procedures, methods established by an organization to achieve its business goal and objectives. (Institute of Internal Auditors (IIA, 2012))

Internal Controllers are accounting and auditing process used in a company’s finance department that ensures the integrity of financial reporting and regulatory compliance. It is mechanism, rules and procedures implemented by leaders of organization to ensure the integrity of financial and accounting information, promote accountability and prevent frauds. (Will Kenton, 2024).

“The internal control process, which historically has been a tool for minimizing occurrences of fraud, misuse and errors, has become more all-embracing, addressing all several risks confronted by banking organizations. Strong Internal control process is important to banks’ ability to attain its established purpose, and to sustain its financial sustainability. Internal Control consist of five interconnected elements. These are Control Environment, Risk Assessment, control activities, information and communication and monitoring activities” (Basel, 1998)

Broadly, Internal Control refers to system of policies, procedures and practices organizations adopted to prevent, detect and respond to issues, errors and irregularities. It can be effective in addressing corrupt conduct, poor employee performance or failure to accomplish important organizational goals. (Basel Institute on governance. 2022). Every organization has goal, struggles to accomplish. In quest of the goals, Company face obstacles which may threaten the achievements of their intended purpose. The possible events conditions create risks a company must recognize, investigate, describe and report. The COSO framework, principles recommend an organization to implement effective internal control to meet the desired result stated in strategy objectives (COSO, 2015). Sound internal control process is critical to bank’s ability to meet its established goals and to maintain financial viability.

Internal Control represents moral responsibility to understand and comply with organizations policy and procedures, as well as to hold every one accountable. It is process designed to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operations, reliability of financial reports and compliance with applicable laws and regulations to the business. Internal Control is a process, means to an end not an end in itself, involves policies, manuals and peoples in an institution. It can be expected to provide only reasonable assurance to an institution's management regarding achievement of operational, financial reporting, and compliance objectives. (Michigan Tech). It is the responsibility of executives (board of directors) to instill measure in structure that will guarantee effectiveness internal control system to be in activities. Except proper internal controls are in installed organizations might not able to meet its goal by preventing possible frauds. Hence effective Internal Controlees to be placed at early as possible.

“International Accounting Standards (IAS) classifies internal controls as a strategy of organization, segregation of duties., control of documents, safeguarding of assets, competence of staff, arithmetic and accounting controls, recording and record keeping, supervision, authorization and approvals, vocation and rotation of duties, cost feasibility, routine and automatic check” (Mr. Asiligwa, G.

Rennox,2017).Internal Control is a process designated to deliver reasonable assurance that management accomplishes effective as well as efficient operations trustworthiness of financial reporting and amenability with pertinent decrees and procedures (Grant, Miller, & Alali, 2008)

“Internal Control is a crucial aspect of an organization’s governance system and ability to manage risk. It ensures the achievement of organization’s goals and creating, enhancing and protecting stockholder value” (IFAC, 2012). ‘ “A system of effective internal controls is a critical component of bank management and a foundation for the safe and sound operation of banking organizations. A system of strong internal controls can help to ensure that the goals and objectives of a banking organization will be met, that the bank will achieve long-term profitability targets, and maintain reliable financial and managerial reporting” (Basel, 1998). Internal Controls are processes designed and caused by those charged with governance, management, and other personnel to provide rational assurance about the entity goal achievement. Due to complexity and bulkiness of bank transactions, banks can create vulnerable transaction of systematic nature. For these reasons the role of internal controller in banks are very crucial (Olatunji,O.C (2009)).

Internal control emphasis on the attainment of organizations objectives and missions. Internal Control is vital parts of an entity management framework. It helps managements to oversee and manage their corporate risk and create fundamentals to meet entities objectives while creation refining and ensuring the price of stakeholders (IFAC, 2011).Since the COSO framework is widely used to support management's assertion on the effectiveness of internal controls over financial reporting, and the possibility of significant effort necessary to meet the elevated expectations, it is highly encouraged that the entity should begin moving forward with urgency towards its application. Internal Control system ensure management fulfil their duties to stakeholders in the right manner; ensure transparency in financial statements and law abiding (COSO, 2014). COSO developed the framework in response to senior executives’ need for effective ways to better control their enterprises and to help ensure that organizational objectives related to operations, reporting, and compliance are achieved. The adopted framework has become the most widely used internal control framework in the U.S. and has been adapted or adopted by numerous countries and businesses around the world.

“Any organization (Including any appropriate Executives) are accountable for design, manage and the effectiveness of internal control system. The management shall be certain that, the right internal controls and internal control system are in place and they are performing as planned. The COSO

framework which boost the probabilities of attaining a companies' goal by effectively and efficiently developing and maintaining internal control systems was introduced (COSO, 2011) hence the application of COSO creates a suitable platform for risk management as the company's activities develop" (Tamer Askoy & Abdullai Mohammed,2020).

"Internal control is the steps taken by a company in mission to defend its resources against fraud, inefficiency and waste as well as certifying transparency in accounting reporting" (Mayo & BPP, 1988). Internal Controls are important part of risk management and assessment. (COSO Frame work). Hence, banking supervision through guidance for sound risk management, The Basel Committee issued framework for the evaluation of internal control. An Effective internal control is a critical component of management and base for safe and sound operation of banking business. (Basel, 1998). Internal Control in a bank is to support banks for better performances through the use of resources to enhance communications better internally and external stack holders to adhere with valid laws and regulations. Due to significant losses incurred by banks, The Basel Committee, together banking supervision throughout the world has focused on importance of sound internal controls. Internal control integrated framework referred to as COSO, classifies an organizations internal control system in to five integrated components which must be built in to business process across the entity, in its effort to achieve objectives.

There are their lines of defense in which organization achieve its objectives by reducing/avoiding risk associated with an organization. These are first line of defense (which own, manage and control risks), second line of defense (Risk, control and compliance function) monitor, control in support of managements. Third line of defense (Internal Audits), they provide assurance for the board of directors and senior managements concerning effectiveness of managements of risk and control. "The first line of defense lies with the business and process owners whose actions generate and/or succeed the risks that can enable or prevent an organization's goals from actually attained. This includes taking the right risks, the first line owns the risk, and the design and execution of the organization's controls to respond to those risks. It includes management controls and internal control measures.

The second line is put in place to support management by bringing proficiency, process excellence, and management monitoring alongside the first line to help confirm that risk and control are effectively managed. The second line of defense roles are separate from the first line of defense but are still under the control and track of senior management and typically perform some management

functions. The second line is essentially and/or oversight function that owns many features of the management of risk. It includes financial controls, security, risk management, quality inspection and compliance. The third line delivers assurance to senior management and the board over both the first- and second-lines' exertions reliable with the hopes of the board of directors and senior management. The third line of defense is naturally not allowed to perform management functions to protect its neutrality and organizational independence. In addition, the third line has a primary reporting line to the board. As such, the third line is an assurance not a management function, which separates it from the second line of defense. Internal Audit is found in this line of defense". (Committee of sponsoring organizations of tread way commission, 2015).

The five COSO components are

1. Control environment
2. Risk assessment
3. Control activities
4. Information and communication
5. Monitoring activities



(Committee of sponsoring organizations, 2017).

The COSO components include:

Control Environment which is a pointer of the level of control realization of the organization. It is the foundation for all the other components providing way, discipline, and structure. Risk Assessment denotes the identification and analysis of appropriate risks in attaining companies target or objectives. This component forms the basis for how risks should be identified, managed, and reported. Control

Activities are rooted in the operational and financial processes and confirm that required actions are taken. Information and Communication identifies, captures, and communicates upstream and downstream data and information. Monitor states to the process that assesses and evaluates process effectiveness, efficiency and compliance in addressing the internal control objectives. Included within the monitor component of COSO is the responsibility to report on the company's internal control position (John Wiley & Sons.Inc. Internal Controls policies and procedures, Hoboken, New Jersey, 2009)

2.2.2 Control Environment (CE)

While the 5 COSO framework components are so important, control environment is the basis for all the frameworks. The control environment reflects the general attitude, awareness, and actions of the board of directors and management's concerning regarding the importance of control activities. Generally, control environment offers discipline and structure for the banks. (University of Primorska, Koper-Slovenia by Tim Sovaniskyi, 2021). Control environment is the set of standards, processes and structures that provide the basis for carrying out internal control across the organizations. The top management establish the tone at the top regarding the importance of internal control with expected standards of conduct and strengthens expectations at the various level of organizations. The control environment encompasses the integrity and ethical values of company, the parameters allowing the management to carry out its governance oversight responsibilities, the company structures and task of authority and responsibility, the process of attracting, emerging and absorbent competent individuals and thoroughness around performance measures, encouragements and rewards to drive accountability for performance. The resulting control environment has a prevalent impact on the overall system of internal control. (COSO, 2009).

The Uk Corporate governance code recommends that, board of director should maintain sound risk management internal control system. Risk management is the process by which executive management, under board supervision, Identifies the risk arising from business and establishes the priorities for control and particular objectives. The elements of internal control are integrity and ethical value of personnel, commitment to competence, board of directors and audit committee participation, overall influence of management philosophy and operating style, appropriate and adequate organizational structures, clear assignment of authority and responsibility and effective human resource policy and procedure (University of Primorska, Koper-Slovenia by Tim

Sovaniskyi,2021).Control Environment is the structure and discipline which ensures internal controls objectives are achieved (Whitting and Pany, 2006).It is the pivot, around which the other internal control rotate.

“The board of directors and senior management are responsible for promoting high ethical and integrity standards, and for establishing a culture within the organization that emphasizes and demonstrates to all levels of personnel the importance of internal controls. All personnel at a banking organization need to understand their role in the internal controls process and be fully engaged in the process”. (Basel, Principle 3)Internal control possible averts errors plus frauds by means of inspecting and improving managerial and financial reporting methods (Rae and Subramanian, 2008).The proper and effective internal controls are industrialized and employed in financial sectors for soundly and prudently manage risks, to provide dependable and complete system in place to appropriately monitor the effectiveness of controls (Guidelines on internal controls and compliance in Bangladesh Bank, 2016).The elements of control environment are Integrity and ethical values of personal, commitment to competence, board of directors and/or audit committee. “Control Environment which is an pointer of the level of control realization of the company. It is the basis for the other components frameworks providing direction, discipline, and structure. (John wiley and Sons.Inc. Internal Controls Policies and Procedures “. (2009))

2.2.3 Risk Assessment (RA)

Risk assessment is the process by the board and management use to identify and analyze risks which could prevent banks in achieving the desired objectives. The assessment should assist Risk assessment is the process the board and management use to identify and analyze risks that could keep the bank from achieving planned objectives. The assessment should help determine what the risks are, how they should be managed, and what controls are needed to determine what the risks are, how they should be managed, and what controls are desirable. (University of Primorska, Koper-Slovania by Tim Sovaniskyi, 2021).” Risk Assessment comprises a formal process for identifying and assessing risks negatively affecting the achievement of objectives” (IFC, 2021). An effective internal control system requires a material risk that adversely affect the organizations from achievement of goals should be recognized and continually assessed. Whereas Risk assessment involves identifying potential errors and establishing procedures, policies, and controls to detect and prevent these errors. "From the perspective of internal control, a risk assessment should pinpoint and analyze both internal

and external factors that could negatively impact a banking organization's ability to achieve its performance, information, and compliance goals."(Basel, 1998).

The COSO framework calls for companies to have a dynamic risk assessment program that considers significant changes in business and adapts to internal, external and emerging risks. To achieve such dynamic risk assessment process, inputs for business units and appropriate levels of management should be formally captured as part of risk assessment and scoping process, including the initial and continues assessment of fraud risks, complex non routine processes, process requiring the “hand-off” of data between departments, manual process on end users computing tools, potential changes in the internal control environment, emerging risks and issues at peer organizations and industry (COSO-takeaway for banking and other financial Instiotutions,2015). Risk assessment is the process the Executives and management-staff use to identify and analyze risks that could keep the bank from achieving desired objectives. The assessment should help determine what the risks are, how they should be managed, and what controls are needed. This is due to a change in the Banks’s operating environment, new staff, new or restored information systems, rapid growth, new technology or expanded line of business, products, or activities, mergers or other corporate restructuring and changes in accounting requirements (University of Primorska, Koper-Slovania by Tim Sovaniskyi,2021).

Risk assessment is a method employed by management to identify and analyse risks that could threaten the achievement of an organization’s goals. According to COSO (2013), the dimensions of risk assessment include specifying goals, recognizing and classifying risks, managing changes, and evaluating risk returns. An effective internal control system continuously identifies and assesses all material risks that could negatively impact the bank’s objectives. This process must consider both internal and external factors. Internal factors encompass the complexity of the organizational structure, the nature of the bank’s activities, the quality of personnel, organizational changes, and employee turnover. External factors involve fluctuating economic conditions, industry changes, socio-political realities, and technological advancements.

“The risk assessment conducted by Internal Audit fluctuates from the business risk management process, which primarily emphases on reviewing business strategies designed to enhance the risk/reward trade-off across various areas of the bank. In contrast, Internal Audit’s risk assessment emphasizes all risk areas, particularly compliance with regulatory requirements, as well as social,

ethical, and environmental risks that affect the banking industry” (University of Primorska, Koper-Slovenia, by Tim Sovaniskyi, 2021).

Banks are risk taking ongoing business. Therefore, risks are being recognized and continually assessed. The risk assessment shall be conducted at individual business level and across spectrum of activities and subsidiaries of the consolidated banking organizations. Effective risk assessment addresses both measurable and non-measurable aspects of risks and weighs costs of controls against the benefits they provide. Effective risk assessment involves identifying and evaluating both internal and external factors that could negatively impact the achievement of a bank’s goals. Internal factors involve the intricacy of the organization's structure, the type of activities the bank engages in, the competence of its staff, shifts in organizational setup, and the rate of employee turnover. External factors include variations in economic conditions, transformations within the industry, and progress in technology. This evaluation should be performed both at the level of individual business units and across the diverse activities and subsidiaries within the consolidated banking organization. It can be carried out using various methods and should address both measurable and non-measurable aspects of risks. Additionally, it should weigh the costs of controls against the benefits they provide. (Base, 1998).

In the spirit of continuous improvement, companies should periodically reassess their system of internal control over external reporting to identify opportunities to improve its efficiency and effectiveness. Organizations must confirm that their internal control systems remain applicable in today's developing business landscape. Significant changes in business models, such as the improved use of shared services, dependance on outsourced service providers, intensified regulatory requirements, over-dependence on technology, and heightened stakeholder expectations, have substantially elevated business risks (COSO Framework & SOX Compliance, 2013)

The organization stipulates purposes with adequate precision to permit the identification and assessment of risks relating to the purposes, identifies risks affecting the attainment of its purposes across the organizations and analyzes risks as a basis for determining how they should be managed, contemplates the potential for fraud in assessing risks affecting the achievement of its purposes, identifies and assesses changes that could significantly impact the system of internal control (COSO,2013). Risk Assessment involves identifying and evaluating potential risks that could impact the achievement of objectives. This element serves as the foundation for determining how risks

should be recognized, addressed, and communicated. (John Wiley and Sons, Inc. Internal Controls Policies and Procedures, (2009))

2.2.4 Control Activities

Control activities encompass the policies, procedures, and practices put in place to ensure that bank employees adhere to directives from the board and management. These activities are designed to help the board and management effectively manage and mitigate risks that could impact the bank's performance or lead to financial losses. Policies governing control activities should also ensure that bank officers responsible for internal control functions, alongside their operational duties, do not evaluate their own work. (University of Primorska, Koper-Slovenia by Tim Sovaniskyi, 2021). Control Activities refer to the measures implemented via policies and procedures to ensure that management's directives for mitigating risks, which could hinder the achievement of objectives, are effectively executed. These activities are carried out across all organizational levels, integrated into various stages of business processes, and applied within the technology infrastructure. (IFC, 2021). Control Activities are policies, procedures and practices implemented by organizations or supervising organizations to ensure bank personnel carry out board and management directives. This ensures that the board and management effectively manage and mitigate risks that could impact the bank's operational performance or lead to financial losses. Policies regulating control activities should guarantee that bank employees responsible for internal control, alongside their primary duties, do not assess their own work. (University of Primorska, Koper-Slovenia by Tim Sovaniskyi, 2021).

“A strong Internal Control is to meet banks goals and objectives in long term, profitability and reliable financial and managerial reporting are accord. The system of effective internal control also ensures banks are comply with internal Policy and procedures and external rule and regulations. Control environment must be a vital part of daily banking operations. Effective internal control system requires that an appropriate control structure is set up where internal control practice defined at every business level, there shall be top level review and appropriate activity controls for different department/divisions” (Basel, 1998)

A robust internal control system and an effective fraud prevention mechanism are essential for the efficient mobilization of savings and their allocation to productive investments, fostering growth and development. These systems also help achieve key objectives such as profitability, solvency, and, over time, restore the lost confidence of customers and lenders. It is primarily the responsibility of

management to establish and maintain such internal controls, with the primary goal of minimizing and preventing fraud within the bank. However, it is important to recognize that fraudulent activities in banks often arise from lapses or inadequacies in these controls, which can manifest in various forms. Control activities are reviews of operating performance, reporting's of exceptions and approvals and authorizations for transactions and activities. Segregations of duties to reduce a person's opportunity to commit and conceal fraud or errors. And also design methods and use documents and records to help ensures that transactions and events are recorded. There must be an independent check on whether jobs are getting done and recorded amounts are accurate (Controller's Handbook, 2001).

The Companies Choose and implement control activities that will minimizing risks affecting the achievement of its objectives to acceptable levels, develops general control activities using technology to support the achievement of objectives and deploys control activities through policies that establish what is expected and procedures that put policies into action (COSO,2013). Control Activities are rooted in the operational and financial processes and guarantee that required actions are taken.

2.2.5 Information and Communication

"Information and Communication involve the ongoing, cyclical process of delivering, exchanging, and acquiring essential information. Management collects, generates, and utilizes pertinent and high-quality information from both internal and external sources to facilitate the effective operation of other internal control components.". (IFC, 2021). In effective internal control system requires adequate and comprehensive internal financial, operational and compliance data external market information about event and conditions that are relevant in decision making. Effective internal control requires a placement of reliable information system that covers all substantial activity of banks. The system may use electronic data which must be protected and supervised autonomously and supported by eventuality measures. Internal information is part of a record-keeping process that should include established procedures for record maintenance. Banks should establish and maintain management information system to store and communicate information through electronic and no electronic means (COSO, 1998)

Accounting, information and communication systems identify, capture and exchange information in a form and time frame that capacitate bank staff to carry out their responsibility. Accounting system

are including methods and records that identify, assemble, analyze, classify, record and report truncations. Information system produces reports of finance, operations, risk management and compliances that enables managements and boards to manage the bank properly. Communication systems communicate information in the all-bank departments and other stockholders ((Tim Sovanisky, 2021)

Organizations must confirm that their internal control systems persist most important in contemporary business model. The business model has changed intensely including for better use of shared services from outsourced service providers. Regulations have also strengthened on companies over dependance on technology, improved stockholders' expectations to reduce ever growing business risk. Whether manual or automated, information enables the entities people to capture and exchange the information needed to conduct, manage and control its operations. The information and communication component are comprised of both internal (Management and governances) and external (shareholders, prospective investors or creditors). The organization acquires, generates, and utilizes pertinent and high-quality information to facilitate the operation of internal control (IC). It ensures internal communication of essential information needed to support IC's functioning, including its objectives and duties, and engages with external parties on issues impacting the effectiveness of internal control. (COSO, 2013). Information and Communication recognizes, captures, and communicates upstream and downstream data and information.

2.2.6 Monitoring activities

"Monitoring activities involve continuous or periodic assessments to determine whether the five components of internal control are sufficient and operating effectively" (IFC, 2021)." The bank's internal control effectiveness should be continuously monitored, with key risks integrated into daily operations. Regular evaluations should be conducted by business lines and internal audit. A thorough and independent internal audit of the control system must be performed by qualified, well-trained staff who are operationally independent. The internal audit function, as part of monitoring the control system, should report directly to the board of directors, its audit committee, and senior management. Any internal control weaknesses, whether identified by business lines, internal audit, or other control personnel, should be promptly reported to the relevant management level and resolved without delay. Significant control deficiencies must be escalated to senior management and the board of directors" (Base, 1998)

Monitoring provides oversight of banks control system enactment. Management monitors internal controls whether the implemented internal control align with objectives or to take corrective actions if not. Self-assessment is one of oversight mechanisms to check implemented internal control is as per desired (University of Primorska, Koper-Slovenia by Tim Sovaniskyi, 2021). Ongoing monitoring should be part of normal course of daily operations and activities. Internal and external audit functions, as part of monitoring system, may offer independent assessment of quality and effectiveness of a control system's design and performance.

Strong Internal Control typically, incorporate qualified personnel, effective risk identification and analysis, clear designation and appropriate separation of responsibilities, accurate and on time information flow and established monitoring and follow up process (Controller's Handbook,2001). "The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning, evaluates and communicates IC deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of director" (COSO, 2013). Monitoring is the process of assessing and evaluating the effectiveness, efficiency, and compliance of processes in achieving internal control objectives. As part of the COSO framework's monitoring component, it also includes the responsibility to report on the organization's internal control status.

Risk and fraud are distinct concepts, and fraud warrants specific attention. Typically, three key elements must align for fraud to take place: motivation, opportunity, and personality. Motivation often stems from situational pressures, such as financial needs, personal gratification, or the desire to avoid failure. Opportunity arises when there is access to a situation conducive to committing fraud, which could be due to gaps in internal controls, operational necessities, and proximity within the work environment, management practices, or corporate culture. Personality involves an individual's traits or behaviors that indicate a readiness to engage in fraudulent activities. This often requires a certain level of moral flexibility, where personal integrity can be compromised to rationalize the fraud, possibly driven by circumstances like providing for one's family or covering medical expenses..

"Preventing fraud is more challenging than managing risk. Influencing an individual's motivation to commit fraud is particularly difficult, as most employees do not share such intentions. While personality traits can occasionally be altered through training and awareness initiatives, addressing

the opportunity for fraud is the most straightforward and impactful approach. This can be achieved by establishing and enforcing robust internal control systems. Although the potential for fraud cannot be entirely eradicated, the likelihood of it occurring can be significantly reduced through thoughtful programs that foster a culture of vigilance and ensure timely and appropriate actions are taken at the necessary levels” (John Wiley & Sons. Inc. Internal Controls policies and procedures Hoboken, New Jersey, 2009)

2.3 Empirical review.

2.3.1 Control Environment

As research study by Rokeya Sultan and Muhammad Emanuel, in ASA University Review, Vol. 5 No. 1, January–June, 2011, some banks are highly emphasized on long term profit and operational goals, takes less business risk in their decision making, others moderately emphasize, Management group is not dominated by one or few individual, they take a little bit business risk in their decision making and the other banks management is moderately dominated by one or few individuals such as Islamic Bank Ltd.'s management that takes moderate business risk to achieve their objectives. As research conducted on Bank Financial “case study of Beige Capital savings and Loan LTD” by Abena Anane Kwayie in Kenya 2015, considering all COSO frame works. The five COSO were addressed. Control Environment: All staffs were conscious of existing internal control system in Beige Capital. The internal control covers preventative, detective and directive policies. The Executive memberships are exclusively authorized to initiate policies on internal controls and confirm that they are fully implemented by the organization managements. The result displays that, overall mean of the control environment shows compliance in practices of control environment. The control environment is the foundation of all the control components, the board members and senior management must be setting the right tone at the top, giving direction to the rest of the company on the relevance of effective internal controls.

As study on effectiveness of internal control system of Ghanain banks considered control environment and monitoring activities by (Joseph Nattrtey, 2014) depicted the control environment and the monitoring activities work in bike to emphasize the whole system of control in a company. The control environment is the basis of all the control components, the Board directors and senior managements have responsibility in setting the right tone at the top, giving direction to the rest of the organization on the importance of effective internal controls. The study shows that, control environment is effective in most Ghanaian Banks and banks listed on the Ghana Stock Exchange effectively control their environment. The study highlights several key points: management recognizes the significance of internal controls, the board of directors has a comprehensive understanding of these controls and demonstrates this effectively, and the expectations of both management and the board are reflected in the organization's policies. While regular employee evaluations are documented and accessible to employees, they may not occur frequently or may have some gaps. Despite this, the top management of the banks strongly supports integrity and ethical

values. Employees undergo periodic training, are aware of their responsibilities, and understand the disciplinary consequences of failing to meet their duties.

According to a survey conducted by Mahmut Burak on effectiveness of internal control system in Turkish Banking industry in 2011, the absence of adequate management oversight and accountability, along with the failure to foster a vigorous internal control culture within the bank, are serious issues. In every occurrence, significant losses can be drawn back to management's negligence and leniency toward the bank's control culture, inadequate guidance and supervision by the board of directors and senior management, and the lack of clearly defined roles and responsibilities that establish management accountability. Additionally, these cases highlight the absence of proper incentives for management to enforce strong line supervision and sustain a high level of control awareness across business unit.

According to Journal Article by Aksoy and Abdullai Mohammed, using the three COSO framework from the five. Internal control systems in Ghanaian listed banks have been found to be effective and aligned with the COSO internal control framework and its core principles. For these systems to perform effectively, banks must have a comprehensive understanding of their control environment and monitoring activities, which ensures automatic effectiveness. Among the five fundamental components of the internal control framework, the control environment serves as the central pillar, around which the other 4 components, risk assessment, control activities, information and communication, and monitoring activities revolve. Accordingly, the effectiveness of these four components is totally dependent on the strength of the control environment. A study focusing on Ghanaian commercial banks evaluated the control environment of internal controls and found positive results, with mean scores ranging from 3.95 (SD = 0.599) to 4.95 (SD = 0.925). Additionally, an overall average mean of 4.24 indicates that the majority of respondents strongly agree that the control environment in these banks is highly effective (Ayagre et al., 2014).

A study conducted by Wendmagegn Teshome four years ago on nine commercial banks in Ethiopia revealed that the internal control environment in these banks was effective, with a mean score of 4.228 and a standard deviation of 1.028. As the study conducted by Teaklign Negash on assessments of Internal Control in commercial banks, it is not only human development that has to be strengthening and should be company primary concern but also the controlling environment and mechanisms should be for keeping and protecting the company vital assets from fraud perpetrators.

The Management should identify and assess control risks, in place strategies of identifying risks and response and reduce risks. Control activities refer to the specific methods and procedures used to establish and maintain internal controls. Effective internal control requires the consistent application of these methods and procedures to ensure proper implementation.

As study of effectiveness of Internal Control system in selected Banks in Saudi Arabis by Raj Bahadur Sharma & Mabil Ahmed M.Senan, reflects, if employees of the bank takes the control environment designed for banks, it would enhance the robustness of the system of Internal Control system. Effectiveness of Internal control system helps the auditors to see the duty of each staff has been defined there by quacking his/her work as to which to ask questions and on what to ask questions as the need arise. As research conducted by Wendimagegn Teshome 2021, titled effect of internal control on operational performance in five commercial banks, those certain sellected banks have effective control environment which indicate stack holders are playing their important role in the bank.

2.3.2 Risk Assessment

Risk assessment involves identifying potential errors and implementing procedures, policies, and controls to detect and prevent these errors. It also includes the identification and analysis of risks that could impact the achievement of objectives (Frazer, 2012). According to research conducted by Tamer Aksoy and Abdullai Mohammed on the assessment of internal control effectiveness in Ghanaian banks, banks identify and evaluate risks that may hinder the attainment of their goals, both internally and externally. They periodically assess their exposure to fraud by engaging experts from audit and internal control units to prevent or address fraudulent activities. The study found that the risk assessment of internal controls in Ghanaian commercial banks had positive mean scores of 4.00 and above, with standard deviations (SD) ranging from 0.604 to 0.928. Additionally, an average mean score of 4.14 suggests that, to a significant extent, the monitoring activities of internal controls in these banks are effective, though not as effective as the other two components of internal control.

The management of the bank ensure that, procedures and policies of each bank are followed and audited periodically as well as making funds are properly allotted, spent and any deviations are communicated to board of directors. The banks Management drawn specific measures to ensure easy reports of the actual or suspected and other illegal irregularities that can affect the reputations or

financial position of the bank. As study by Tekalign Negash, 2018, Risk assessment is responsibility of senior management.

Management must identify and evaluate control risks arising from internal control failures. It is essential to establish strategies for risk identification, systems to address risks, and measures to mitigate them. Consequently, banks should ensure they have well-designed strategies for identifying risks and robust systems in place to effectively respond to and reduce those risks. As study by Tamer Aksoy and Abdullahi Mohammed in 2020 on internal control effectiveness, the findings displays that the banks have specified purposes. Banks identify and evaluate risks, both internal and external, that could hinder the achievement of their objectives. They regularly conduct assessments of potential fraud exposure by engaging experts from audit and internal control teams in discussions to prevent or address fraudulent activities. Management establishes a clear framework for allocating resources effectively to mitigate these risks. As research conducted by Wendimagegn Teshome 2021, The study highlights that the five commercial banks have established clear criteria for identifying the risks most critical to their operations. They have also implemented robust mechanisms to mitigate these critical risks that may arise during their business activities. Furthermore, the banks demonstrate effective risk assessment procedures, reflecting the successful application of attribution and reliability theory in their internal control systems.

A study conducted on risk assessment evaluations in five selected commercial banks found that the risk assessment processes were relatively effective, with a mean score of 3.517 and a standard deviation of 1.127. According to a survey conducted by Mahmut Burak on effectiveness of internal control system in Turkish Banking industry in 2011, Insufficient identification and evaluation of risks associated with certain banking activities, whether on- or off-balance sheet, have been a significant issue. Numerous banking organizations that experienced substantial losses failed to properly recognize and assess the risks linked to new products and activities. Additionally, they often neglected to update their risk assessments when there were significant shifts in the business environment or conditions. Many instances demonstrate that control systems effective for traditional or straightforward products are often inadequate when dealing with more complex or sophisticated financial instruments

2.3.3. Control Activity

Control activities incorporate various methods, such as preparing accurate reports, updating documentation, authorizing transactions, conducting independent appraisals, and other related tasks. Control activities are specific methods and procedures of implementing internal control. As per research studied by Tekalign Negash, on effective of internal Control system in Hawasa Branch Commercial Bank effective internal control has a list of those methods and procedures that are to be implemented consistently and proved that, there is an effective control activity in CBE. As study by Tamer Aksoy and Abdullahi Mohammed in 2020 on internal control effectiveness, the management of the banks ensures that branch operations adhere to the established procedures and policies of each bank by conducting regular audits. They also monitor the proper allocation and utilization of funds designated for branches, reporting these activities to the board of directors. Specific mechanisms are in place to facilitate the reporting of actual or suspected illegal or irregular activities that could harm the bank's reputation or financial standing. Furthermore, the banks regularly assess their internal controls in compliance with Bank of Ghana regulations and share the findings with the board of directors.

The significance of internal control has grown immensely in light of recent scandals. Today, it serves as a crucial safety and assurance mechanism for all stakeholders, including business-related parties, information users, and investors. It plays a vital role in achieving business objectives, ensuring reliable financial reporting, and adhering to legal regulations, while promoting accuracy, honesty, transparency, accountability, ethical practices, and a culture of internal control. Additionally, it supports sustainability and competitiveness. The internal control system is also essential for effective administration, corporate governance, and customer relationship management (CRM) in any organization, including banks, when properly implemented. Thus, ensuring the effectiveness of the internal control system and aligning it with the COSO internal control framework is critical for success.

A study conducted by Abena Anane Kwayie in 2015 on the Bank Financial case study of Beige Capital Savings and Loan LTD in Kenya revealed that the organization had documented objectives for all key activities, with representation from all employee levels in setting these objectives. Relevant information about Beige Capital's operations was identified and regularly reported. The company's benchmarks and priorities were communicated to external groups. Furthermore, the study

highlighted that customer complaints were taken seriously, with appropriate actions taken to address them.

As study by Aslilingwa, G.Rennox in 2017, on the effect of internal control on financial performance in Kenya Banks, To manage control activities effectively, it is essential to clearly separate roles, provide employees with training on accounting and financial management systems, address weaknesses through corrective measures, maintain a well-organized chart of accounts, protect access to sensitive information and assets, monitor expenditures, conduct departmental budget reviews with explanations for variances, and perform regular external audits. However, the practice of employees cross-checking each other's work was not widely adopted.

According to research conducted by Fekadu Bekele on assessment of internal control in Microfinance in Addis Ababa (2021), Monitoring is significant if the microfinance is to realize its objectives, helps to evaluate its quality performances and control effectiveness in achieving set objectives. Regarding control activities, quality and continues supervisions is provided to ensure internal control objectives are achieved by ensuring completeness and accuracy of information processing, actions are taken to address risks in that no one individual should control all key aspects of a transaction or event. A research study by Abane Anane, 2015, on effectiveness of internal control, control activities at Beige Capital is concerned, there is an established system designed to safeguard assets and prevent theft. As research conducted by Wendimagegn Teshome 2021, titled the study examines the impact of internal control on operational performance in five commercial banks on maintain effective control activities, and their reporting systems undoubtedly outline the responsibilities of each department within the operational structure. This is supported by the strong agreement of respondents to the established framework. However, the findings also disclose uncertainty regarding whether sufficient information is identified and communicated in a timely manner to enable employees to effectively carry out their responsibilities in the selected banks. In their 2020 study, Tamer Aksoy and Abdullahi Mohammed assessed the monitoring activities of internal control within Ghanaian listed banks. The findings revealed positive outcomes, with mean scores ranging from 4.23 (SD = 0.611) to 4.35 (SD = 0.843). With an overall average mean of 4.27, the results show that the majority of respondents largely agreed that the monitoring activities in these banks were effective.

2.3.4 Information and Communication of IC's

A study conducted by Aslilingwa, G., & Rennox (2017) on the impact of internal control on financial performance in Kenyan banks found that the system confirms the identification, capture, and dissemination of timely, relevant, and reliable information to key stakeholders. The research highlighted that effective communication flow permits employees to understand management's expectations while enabling management to address employees' concerns. Employees reported that relevant information is shared with staff as well as vital external groups, including updates on legal requirements, regulatory improvements, economic changes, and other external factors that could influence the organization's objectives.

According to a 2021 study by Wendimagegn Teshome titled Impact of Internal Control on Operational Performance in Five Commercial Banks, the findings shows that respondents recognized the presence of effective information and communication systems in the selected banks. A 2011 survey conducted by Mahmut Burak on the effectiveness of internal control systems in the Turkish banking industry showed substantial issues in communication between different levels of management, mainly in the upward reporting of problems. For internal controls to function effectively, it is vital that policies and procedures are clearly communicated to all employees involved in relevant activities. However, the survey found that some banks experienced losses because employees were either uninformed of or did not fully understand the bank's policies. In several cases, critical information about not appropriate activities, which should have been intensified through the organizational hierarchy, was not reported to the board of directors or senior management until the issues had escalated significantly. Additionally, management reports were sometimes not complete or inaccurate, presenting an overly positive view of the bank's situation, which further hindered effective decision-making.

2.3.5 Monitoring:

According to a 2014 journal article by Joseph Nattrtey on the effectiveness of internal control systems in Ghanaian banks, the study indicates that the monitoring activities within these systems were effective. The findings highlighted that the banks' monitoring efforts primarily focused on several key areas: an independent internal audit unit that empirically assesses the control systems, periodic engagement of external evaluators for impartial reviews, and the management's capability to confirm timely remediation of identified deficiencies. This suggests that Ghanaian banks have

applied robust mechanisms to continuously evaluate the performance of their internal control systems. The monitoring component plays an important role in verifying the presence and proper functioning of controls. If deficiencies are detected, they are on time reported to the relevant personnel responsible for addressing them. Overall, the monitoring activities confirm that the internal control process remains dynamic and continuous, maintaining its effectiveness over time.

According to a 2011 survey by Mahmut Burak on the effectiveness of internal control systems in the Turkish banking industry, audit programs and monitoring activities were found to be insufficient or ineffective. In many illustrations, auditors failed to thoroughly identify and report control weaknesses in problem banks. Additionally, even when issues were reported, there was no recognised mechanism to confirm that management addressed and corrected these deficiencies. In contrast, a 2021 study by Wendimagegn Teshome, titled *The Impact of Internal Control on Operational Performance in Five Commercial Banks*, painted the presence of internal audit departments at all levels within Beige Capital to oversee operations. The findings showed that periodic internal reviews are conducted to assess the implementation and effectiveness of the internal control system across departments.

According to full length research conducted by Siyanbola Trimisiu Tunji, 2013, the existence of effective internal controls system has positive effects on fraud prevent in banks. The research by Dr Abdulsattar A.Jabbar in 2017 on Jordan Commercial Banks, the mean value for internal control system was 4.37, while the control environment was 4.46, Risk Assessment 4.36, Control Activities 4.28, Information and Communication 4.37 and Monitoring mean 4.35. (Dr.Abdulsattar A.jabbar Alkubaisi, 2017). As of June 30, 2023, Ethiopia has 31 domestic banks operating in the country. These include the Development Bank of Ethiopia, which functions as a development financial institution (policy bank), three full-fledged interest-free banks, and five banks that recently transitioned from microfinance institutions (MFIs), and the remaining 22 commercial banks, among which is a large state-owned commercial bank. (NBE, April 2024)

2.4 COSO Governance and Culture for Ethiopian Commercial Banks

The bank executives hold the responsibility for overseeing the organization’s Compliance and Ethics program, while management is tasked with designing and implementing the program. This expectation of board oversight is emphasized in Compliance and Ethics program standards established in various countries. Due to the potential complexity of such programs, it is often suggested that the board delegate oversight responsibilities to a dedicated board-level standing

committee, similar to how audit oversight is typically assigned to an audit committee. This delegation allows the committee to offer adequate time to oversight duties, which the full board may not have the capacity to do. As previously mentioned, the term “board” refers to either the full board of directors or a board-level committee tasked with overseeing the Compliance and Ethics program (COSO, 2020). In line with these principles, the National Bank of Ethiopia has mandated commercial banks to establish Compliance Committees and Audit Committees to ensure that directors achieve their oversight responsibilities for the banks’ operations (NBE, Corporate Governance/9/2024).

Regarding to the culture,” Ensure the board is well-informed and approves a code of conduct and other essential compliance policies. Clearly outline expectations regarding ethics and compliance within the code of conduct, and mandate training on the code and ethical decision-making for all employees, including board members. Continuously monitor and assess the organizational culture. Establish objectively measurable compliance metrics linked to performance reviews and compensation, where applicable. Implement meaningful incentives to encourage consistent adherence to the culture and ethics training program. Incorporate references to organizational values, expectations, and the significance of ethics in leadership communications” (COSO, 2020). For Ethiopian Commercial Banks, revised Corporate Governance 2024, aims to introduce stronger governance measures to contribute to balanced risk-taking and enhancing business prudence and corporate accountability with the ultimate objective of realizing long-term shareholder value, as well as customer and other stakeholder interests. (NBE, Corporate Governance, 2024)

2.5 Research Gap

Previous research on internal control effectiveness has largely concentrated on individual commercial banks or specific components of internal control systems, failing to provide a comprehensive evaluation across the broader banking sector. For instance, Feragenet Manahale (2016) assessed internal controls within a single institution, the Commercial Bank of Ethiopia (CBE). Similarly, Tekalign Negash (2018) limited his study to commercial banks operating in Hawassa City. Furthermore, there has been limited exploration of the applicability of the comprehensive COSO framework within Ethiopian commercial banks. This study aims to address these gaps by providing a holistic assessment of internal control effectiveness across multiple commercial banks in Ethiopia, with the goal of contributing to sustainable financial performance in the sector.

2.6 Conceptual Framework

A conceptual framework outlines the key concepts, variables, and relationships guiding the research. For this study, the framework is structured around internal control systems (ICS) and their effectiveness in Ethiopian commercial banks, based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) model, which is widely recognized in internal control assessment.

Control Effectiveness=	Control Environment (COSO,2013; Basel Committee 2020)
	Risk Assessment (COSO,2013; Basel Committee 2020)
	Control Activities (COSO,2013; Basel Committee 2020)
	Information and Communications (COSO,2013; NBE, Guidelines,2021)
	Monitoring (COSO,2013; NBE, Guidelines,2021)

Source: COSO, 2013; Base Committee, 2020 and NBE, Guidelines, 2021

Control Effectiveness =
f(Control Enviroment, Risk Assesment, Control Activty, Information and Communication, Monitoring)+error

CHAPTER THREE

3. Research Methodology

This chapter covers the research approach and design, sampling techniques and procedures, determination of sample size, sources of data, data collection methods, and the approach to data analysis.

3.1 Research design and approach

This study was Assessment of the effectiveness of internal control systems within commercial banks in Ethiopia, with a specific focus on the application of the five COSO (Committee of Sponsoring Organizations of the Treadway Commission) components. Internal control systems are essential for organizations to achieve their operational objectives, ensure accurate reporting, and maintain compliance with regulatory requirements. The research primarily examines the applicability of the COSO frameworks in the context of Ethiopian commercial banks, providing insights into its implementation and effectiveness in meeting organizational goals.

The study used descriptive research design to analyze data that were collected from the sample. Mugenda (2003) explains that a descriptive design involves using indicators to describe a specific sample, providing clear and detailed information about its elements without altering or interfering with them. The researcher chose a descriptive research design because the aim was to describe and evaluate the existing situation, particularly focusing on the internal control systems of commercial banks and assessing their level of effectiveness across the operations under study. The research utilized a mixed-methods approach to comprehensively examine the effectiveness of internal controls within Ethiopian commercial banks.

3.2 Target Population Size

The researcher uses stratified sampling techniques that divided the population into various distinct based on certain characteristics that are relevant to the research. The target population of this study is 30 commercial banks in Ethiopia (large, medium and small) commercial banks as per NBE classification by National Bank of Ethiopian in April, 2024. National Bank of Ethiopia (nbe.gov.et).

As per NBE classification Commercial Bank of Ethiopia the state-owned commercial bank was classified as the only large bank in the country, medium banks are Awash, Dashen, Abysinia,

Cooperative Bank of Oromia and Hibret Bank. There are 24 banks classified in to small commercial banks by NBE.

As of June 30, 2023, Ethiopia has 31 domestic banks operating in the country. These include the Development Bank of Ethiopia, which functions as a development financial institution (policy bank), three full-fledged interest-free banks, and five banks that recently transitioned from microfinance institutions (MFIs), and the remaining 22 commercial banks, among which is a large state-owned commercial bank. (NBE, April 2024)

3.3 Sampling Techniques

Non probability sampling techniques was used due to researcher deliberate picks for sample size based on year of formation, The target group and commercial banks addressed under this study are commercial bank of Ethiopia (the large bank) three medium commercial banks (cooperative bank of Oromia, Awash bank and Dashen bank will be selected as sample from five banks categorized under medium banks by NBE. Six small commercials were selected from 24 total populations. This accounts 25% of total small commercial banks. Namely (Wogegan Bank, Oromia Bank, Zemen Bank, NIB bank, Lion and Bunna Bank) will be selected. The six small banks are selected based on their years of establishments, paid up capital, total assets and their accessibility or their branch expansions.

	Name of Commercial Banks	Established Year	Size
3	NIB	2003	small
2	Abay Bank	2010	small
3	Addis International Bank	2011	small
4	Amhara Bank	2022	small
4	Awash International Bank	1994	Medium
5	Bank of Abyssinia	1996	Medium
6	Berhan International Bank	2010	small
7	Bunna International Bank	2009	small
8	Commercial Bank of Ethiopia (State Bank)	1963	Large
9	Cooperative Bank of Oromia	2005	Medium
10	Dashen Bank	1995	Medium

11	Global Bank Ethiopia	2012	small
12	Enat Bank	2013	small
13	Lion International Bank	2006	small
14	Oromia International Bank	2008	small
15	Hibret Bank	1998	Medium
16	Wegagen Bank	1997	small
17	Zemen Bank	2008	small
18	Development Bank of Ethiopia	1901	Policy Bank
19	ZamZam Bank	2021	small
20	Hijra Bank	2021	small
21	Siinqee Bank	2021	small
22	Shabelle Bank	2021	small
23	Ahadu Bank	2022	small
25	Goh Betoch Bank SC	2021	small
26	Tsedey Bank	2022	small
27	Tsehay Bank	2022	small
28	Gadaa Bank SC	2022	small
29	Amhara Bank	2021	small
30	Rammis Bank	2022	small

Table 3.1: Each Bank Website and NBE stability report 2024

The total population figures for selected commercial banks, as provided by their respective human resource departments or processes, are presented in the table below. The table also displays the average human resource allocation for each department within these commercial banks. The sampling technique was non-probability sampling called purposive sampling which was more convenient to get realizable data. In doing so, the researcher will avoid any bias and attempt to get better representative. The study focused on employees of risk and compliance departments, internal audit process, Finance/treasury, customer account operation departments and high-grade branches. From the total employee of each department having a position above officers' title, random sampling method was used to get exact value of sample respondents.

Human Power strength for Selected Commercial Banks

	Department/process	Compliance/Internal Control	Internal Audit	Finance Process	Operations	Big Grade Branch
1	Awash	16	14	12	9	20
2	Buna	8	5	7	7	8
3	Commercial Bank of Ethiopia	28	29	24	22	23
4	CoopBank	14	13	10	12	13
5	Dashen	15	14	11	13	14
6	Lion	9	5	9	7	10
7	NIB	7	6	7	8	10
8	Oromia Bank	8	7	8	6	9
9	Wogagen	7	5	7	7	9
10	Zemen	7	6	9	7	9
	Total	119	104	104	98	125

Table 3.2: Total Population-Human power strength for selected Commercial banks

Determining sample Size.

From the total population, simple random sampling was used to determine the sample size of each respondent from each departments/sub-process. Krejcie and Morgan's (1970) table for determining sample size provides a simplified way to determine the required sample size for a given population to ensure that the sample adequately represents the population. The table was based on the following formula

$$n = (x^2 Np(1 - P) \cdot) / (e^2 (N - 1) + x^2 p(1 - P))$$

n=Sample Size

N=Population Size

e=Acceptable Sample error

x^2 =Chi-Square of degree of freedom 1 and confidence 95 % =3.841

P=Proportion of population 9 (if unknown, 05)

Based on data obtained from each Bank’s Human resource department,550 total populations were included in which 226 sample size was taken. Using above formula, Krejcie and Morgan created a table that directly provides the sample size for a range of population sizes, eliminating the need for researchers to perform the calculations manually. Therefore, based on the table for determining

sample size for research activities, the minimum sample size for a population of 550 is 226 (at $\pm 5\%$ margin of error) Krejcie & Morgan (1970).

Determining sample Size.

Departments	total Employee in the department	Krejcie & Morgan (1970) for 550 population	Sample Size Calculation	Sample Size
Risk and Compliance Process	119	226	$226/550*119$	49
Internal Audit Process	104		$226/550*104$	43
Finance Process	104		$226/550*104$	43
operation services	98		$226/550*98$	40
Big branches	125		$226/550*98$	51
	550	226		226

Table 3.3. Sample Size distribution per departments.

Responses of Sample against distribute questionaries

Commercial Banks	Total Distributed	Returned	Returned Percentage
CBE	30	26	87%
Cooperative Bank of Oromia	25	25	100%
Awash Bank	25	25	100%
Dashan Bank	19	10	53%
Lion International	20	20	100 %
Oromia Bank	27	27	100%
NIB	19	17	89 %
Zemen Bank	20	20	100%
Bunna Bank	16	12	75%
Wogagen	25	24	96%
Total	226	205	91%

Table 3.4 Sample Size and percentage of Respondents

3.3 Data source and Collection Method

For this study, primary data sources were used. Primarily data were obtained through self-administered survey questioners, in which questions were distributed to all respondents of each bank for responses using Likert scales through online survey google sheet. The data were organized under six parts and distributed to purposively selected respondents with the expectations of getting real data from respondents.

Most of the respondents were directly or indirectly participated on internal control of their banks. These respondents were first line of defenses (Finance department-the department which balance asset liability of the bank), Operation Wings-The department which responsible for daily activates of commercial bank and responsible for banking operations and High Grade branches, which involved in both international and domestic banking transactions. , From second line of defense Risk and compliance departments (Internal controllers) and risk professional were the source of data for this research paper. From third line of defense, internal audit department (Auditors) were the principal respondents

3.4 Method of data analysis

The data for this study were gathered from 10 commercial banks using an online Google Form specifically designed for this purpose. The researcher targeted five key departments within these banks and distributed the questionnaire to a total of 226 individuals. Out of these, 205 respondents completed and submitted their responses, resulting in a high response rate (91%). The collected data were then analysed using the latest version of SPSS (Statistical Package for the Social Sciences), a widely used software for statistical analysis. The researcher employed an Analysis of Variance (ANOVA) test to examine and compare the variances of responses across different groups or conditions relative to their respective means. ANOVA is a statistical method used to determine whether there are any statistically significant differences between the means of three or more independent (unrelated) groups. In this context, the researcher aimed to assess whether the variability observed in the responses was due to genuine differences between the groups or simply due to random chance

To present the findings, the researcher employed various statistical tools, including frequency tables and percentages, which helped in organizing and visualizing the data effectively. These quantitative results were further enriched with qualitative explanations to provide deeper insights and context. By

integrating qualitative interpretations with the numerical data, the researcher was able to give meaning to the findings and explain their broader implications. This mixed-method approach ensured a comprehensive understanding of the data, combining the precision of quantitative analysis with the depth of qualitative insights.

3.5 Data Reliability and Validity.

Reliability

Reliability assesses the degree to which multiple researchers would reach the same conclusion or finding using a study's design and methods (McDonald et al., 2019).

Validity

The term validity refers to the integrity of a research process and the precision with which research findings are drawn from the collected data (Motulsky, 2021).

While reliability is concerned with the replicability of a finding, validity is concerned with the accuracy or correctness of a research finding (McDonald et al., 2019). A research finding is valid if it accurately presents the perspectives of the researcher, the participants, and the reviewers (Creswell & Poth, 2018). The study used data source triangulation by conducting Questionnaires with various participants in data collection Directors, Division managers/senior Managers, senior internal control actors, officers, Finance professionals, branch Managers and internal auditors. The researcher collected questionnaires from 10 commercial banks of 205 respondents. As reviewed responses in detail. Initially the researcher has sent questioner to 15 banker and validity test was as follow

Reliability Statistics		
COSO Frameworks	Cronbach's Alpha	N of Items
Control Environment	.761	7
Risk Assessment	.807	4
Control Activity	.774	8
Infor & Communication	.73	4
Monitoring	.791	5

Table 3.5. Data Survey 2024

As shown in Table 3.5, the Cronbach's Alpha result for each COSO framework was above .7 which was considered acceptable. The Cronbach's Alpha coefficient ranges from 0 to 1, with values of .70 or higher usually considered acceptable (Cicchetti, 1994). This threshold is based on Nunnally's (1978) recommendation and has been adopted as the standard cutoff in 44% of relevant studies (Lance, Butts, & Michels, 2006).

CHAPTER FOUR

4. Data Analysis, Presentation and Discussion

4.1 Introduction

This chapter aims to present an analysis and discussion of the findings derived from the collected data, utilizing descriptive statistics generated through SPSS. The responses from participants are examined and interpreted across six key sections: (1) respondents' background, including education and experience, along with demographic details; (2) the control environment of internal control; (3) risk assessment within internal control; (4) control activities of internal control; (5) information and communication systems of internal control; and (6) monitoring activities of internal control. Each section provides a detailed exploration of the data to offer insights into the research outcomes.

The COSO framework consists of five key components: control environment, risk assessment, control activities, information and communication, and monitoring activities. In this study, all five components were thoroughly addressed. The control environment serves as the foundation of an organization's internal control system, supporting and influencing the other four components. Each component was examined and discussed in relation to the research questionnaires to provide comprehensive insights.

4.1.1 Respondents profile for Assessment of internal Control Effectiveness in Commercial Banks in Ethiopia

a. Gender Distributions of the respondents:

Gender Distributions of the respondents

		Gender			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	37	18.0	18.0	18.0
	male	168	82.0	82.0	100.0
	Total	205	100.0	100.0	

Table 4.1. Source: Questionnaires and SPSS output (2025). a gender distribution of respondents

Out of a targeted sample of 226 respondents on Effectiveness of their banks Internal Control, the researcher successfully collected data from 205 banking professionals holding various positions within the industry. As detailed in Table 3, the gender distribution among the respondents revealed that 18% were female, while 82% were male. This distribution demonstrates that both genders were adequately represented in the study, as illustrated below.

b. Academic qualification of the respondents:

		Qualification			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	BA/BSC	81	40	40	40
	MBA/MA/ MSC	124	60	60	100.0
	Total	205	100.0	100.0	

Table 4.2. Questionnaires and SPSS output (2025) Education/Qualifications of the respondents.

The analysis of this variable shown that the majority of respondents have Masters of Business/Masters of Science which accounts 60% and remaining were BA degree graduated which is 40%, This result indicates that the banks have skilled man power and it also increases the response rate for the study Evaluation of internal control effectiveness in commercial banks in Ethiopia.

c. Experiences or year of service in the banks of the respondents:

Service year in Bank

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 up to 5	56	27.3	27.3	27.3
	11 up to 15	59	28.8	28.8	56.1
	16 up to 20	8	3.9	3.9	60.0
	6 up to 10	76	37.1	37.1	97.1
	above 20	6	2.9	2.9	100.0
	Total	205	100.0	100.0	

Table 4.3. Source: Questionnaires and SPSS output (2025) Service year in banks.

Year of service/experience of the respondents in the bank has been considered and shown in the following table, Table 6. From the total respondents 27% have less than 5-year experience in the bank, 37% of the respondents have 6 to 10 years in the bank, 29% of them have 11 to 15-year experience, 4% of them have 16 to 20 years and the rest respondents 3% have the higher experience in the bank which is above 20 years. The table indicates that majority of the respondents (66%) have more than 6 years working experience or Bank industry have experienced professionals.

4.1.2 Control Environment (CE)

This segment of the research aimed to evaluate the control environment within the Ethiopian banking sector. The control environment includes the foundational standards, processes, and structures that support the implementation of internal controls throughout an organization. The board of directors and senior management play a crucial role in setting the tone at the top, stressing the significance of internal controls and the expected standards of conduct. These expectations are reinforced by management across all organizational levels. Key components of the control environment include the organization's integrity and ethical values, the framework that enables the board of directors to fulfill its governance duties, the organizational structure and the delineation of authority and responsibilities, the processes for recruiting, developing, and retaining skilled personnel, and the rigor applied to performance metrics, incentives, and rewards to foster accountability. The resulting control environment exerts a comprehensive influence on the overall internal control system (Internal Control Integrated Framework, 2012).

In this section of the questionnaires were intended to evaluate the environment of the internal control system found in the 10 Commercial Banks selected for this purpose. The control environment questions have included seven interrelated points as discussed below.

Descriptive Statistics Control environment of internal control systems

	N	Minimum	Maximum	Mean	Std. Deviation
our bank has a code of conduct to guide behavior, activities and decision making	205	1	5	4.16	.894
Our Bank closely monitors the implementation of Internal Controls.	205	1	5	4.11	.791
The board, Management and employee of our bank demonstrate a commitment to ethical behavior and integrity	205	1	5	3.99	.869
Our bank has an objective, independent and active audit committee	205	1	5	4.03	.877
Our staff are in charge of perform their responsibilities as per the regulations, policies and procedures	205	1	5	3.54	1.182
Our Bank provides feedback to the junior officers about the operation of the Internal Controls.	205	1	5	3.61	.956
The control environment in our bank is enough to attain the banks objectives	205	1	5	3.47	.999
Valid N (list wise)	205			3.84	.938

Table 4.4. Source: Questionnaires and SPSS output (2025)

On the above table 4.4 the SPSS result showed that, the mean score for most of control environment components were above 3.54. Control environment of each commercial banks in Ethiopian is effective. This indicates a generally positive perception of control environment in the entire commercial banks in Ethiopia. The highest mean (4.16) was scored on the banks code of conduct, behavior, activities and decision making. The lowest mean score (3.47) was recorded on the statement “over control environment in commercial banks is enough to attain the banks objectives”. Here, the

mean score of 3.47 for the overall control environment's adequacy in achieving bank objectives shows a need for further attention to ensure the control environment is robust enough to support the bank's goals.

Based on questionnaires' and statistics received from bank professionals, on the control environment of COSO framework components, the bank has established a strong foundation for its control environment with a clear code of conduct, active monitoring, and a commitment to ethical behavior while improvements on areas of staff engagement to perform fairness responsibilities as per the internal and external regulations, policy and procedures, and overall control environment to attain maximum level of desired banks objectives. Average respondent for control environment as general with the above seven questioner was 3.84 which was almost similar with agree. But the results were not the same for all commercial banks. In Ghanaian commercial banks, the control environment yielded a mean score ranging between 4.13 and 4.3, with a standard deviation of 0.58 to 0.76. This suggests that the internal control systems, particularly in the control environment, were significantly more effective in Ghana compared to Ethiopian commercial banks. The higher scores reflect a stronger foundation for internal controls in Ghana, highlighting a notable contrast with the performance of Ethiopian banks in this area

Bank industry Control Environment

Bank Name	Frequency	Average of Mean	St. deviation
Awash Bank	25	3.94	1.014
Bunna Bank	12	3.69	.87
CBE	26	3.91	1.17
Coopbank	25	3.6	.911
Dashen Bank	10	3.94	.924
Lion Bank	20	3.91	.97
NIB	16	3.75	.791
Oromia Bank	27	3.86	.791
Wogagen Bank	24	3.8	.721
Zemen Bank	20	3.9	.97
Total	205	3.84	.91

Table 4.5. SPSS generated data. Commercial banks Control environment

The SPSS results for the banking industry reveal that the average respondent scores for Awash Bank and Dashen Bank were 3.94, while Cooperative Bank (Coopbank) and Bunna Bank scored 3.60 and 3.69, respectively. Across all banks, the average respondent scores were below 4, indicating room for improvement. This underscores the importance of conducting regular assessments and evaluations to identify and address potential weaknesses in the control environment, ensuring its continued effectiveness over time.

In alignment with the literature review, this study's findings on the control environment of the COSO framework resonate closely with the work of Fikru Worku (2018), which examined the effectiveness of internal control systems in detecting and preventing fraud within the Ethiopian banking industry. Fikru Worku's research concluded that the overall control environment was effective across nine commercial banks, a result that parallels the outcomes observed in this study regarding the control environment component.

4.1.3 RISK ASSESSMENTS (RA)

“Risk assessment is a continuous and evolving process aimed at identifying and evaluating risks that could hinder the achievement of objectives. It involves examining risks across the entire organization in relation to predefined risk tolerances. As a result, risk assessment serves as the foundation for deciding how to manage these risks. A key prerequisite for risk assessment is setting objectives that are aligned across various levels of the entity”. (Internal Control Integrated Framework, 2012).

Banks inherently operate in a risk-driven environment, making it crucial for them to establish robust internal control systems that consistently identify and evaluate these risks. From an internal control standpoint, conducting a comprehensive risk assessment includes recognizing and analyzing both internal and external factors that could potentially hinder the bank’s ability to achieve its performance goals, safeguard information integrity, and ensure regulatory compliance. This ongoing evaluation is important for maintaining stability and fostering sustainable growth within the organization objective (Basel Committee of Banking Supervision, Basel,1998)

Risk assessments become a vital part of internal control system. The management is responsible to identify and assess control risk caused by insufficiency of internal control system. The study examined various variables to understand how the banking sector identifies, analyzes, and manages risks linked to overall bank operations. It focused on whether commercial banks have effective strategies for risk identification, systems to respond to risks, and measures to mitigate risks. The

research also explored whether banks have proper plans for risk identification and if employees are involved in setting organizational objectives related to risk occurrence and response. The findings and analysis from the questionnaires on this topic are presented below

Descriptive Statistics evaluation of effectiveness of Risk Assessments					
	N	Minimum	Maximum	Mean	Std. Deviation
The bank has designed an appropriate strategy of identifying risks.	205	1	5	3.98	.754
Our Bank identifies risks that affect achievement of the objectives in a timely manner	205	2	5	3.87	.803
Our Bank has in place mechanisms of mitigating critical risks that may arise during the course doing business	205	1	5	3.89	.749
Our Bank has a criteria for ascertainment of the risks that are most critical to the organization	205	1	5	3.90	.834
Valid N (list wise)	205			3.91	.78

Table 4.6. Source: Questionnaires and SPSS output (2025)

From above table 11 SPSS output, there was no one who strongly disagree on banks identifies risks that affect achievement of the objectives in timely manner. The mean responses for risk assessments ranges from 3.87 to 3.98 which average is approximately 3.91 (agree). We can consider that risk assessments are effective in commercial banks of Ethiopia.

Regarding the four risk assessments outlined in Table 10, respondents generally agreed (mean = 3.98; SD = .754) that the chosen commercial banks have developed appropriate strategies for identifying risks. These banks are able to recognize risks that could hinder the achievement of their purpose in a timely manner, as reflected by a mean of 3.87 and a standard deviation of .803. Additionally, the 10 selected commercial banks have established mechanisms to mitigate critical risks that may arise during business operations, with respondents agreeing to this statement (mean = 3.89; SD = .749). Respondents also agreed (mean = 3.90; SD = .834) that these banks have standards in place to regulate which risks are most critical to the organization. These findings propose that the banks in the study

have effective risk assessment procedures, demonstrating the successful application of attribution and reliability theory. However, the results were not uniform across all 10 commercial banks in the sample, and further explanations are provided below.

Commercial bank’s SPSS result computed from each bank’s Risk assessment manually

Bank Name	Frequency	Average of Mean	St. deviation
Awash Bank	25	3.85	1.02
Bunna Bank	12	3.73	.67
CBE	26	4.35	.68
Coopbank	25	3.54	.82
Dashen Bank	10	4.1	.74
Lion Bank	20	4.07	.65
NIB	16	3.62	.75
Oromia Bank	27	3.84	.81
Wogagen Bank	24	3.88	.69
Zemen Bank	20	4.03	.65
Total	205	3.84	.748

Table.4.7. Questionnaires and SPSS output (2025)

Respondents of all commercial Banks regarding Risk assessment, the average mean for questions related with risk assessments approximately between 3.54 to 4.35. The maximum (4.35 average response from CBE while 3.54 was response of cooperative bank of Oromia). For commercial banks mentioned above (CBE, Zemen,Wogage,Lion,Dashe and Awash) the respondents approximately agree to the questionnaires and the score is above the mean average for each questionnaire. Responses for Cooperative bank of Oromia, Nib International bank, Bunna and Oromia bank are below average mean. This indicate the risk assessments for all commercial banks are effective for all commercial banks but needs robust risk identifications mechanisms to prevents risks that affect achievements of objectives in timely manner for banks response below the average (agree).

The other information we can grasp from SPSS result is that, most of respondent’s data were overwhelmed around the mean since standard deviations for each risk assessments questionnaires are small. As we can see from appendixes, responses for all questions were starts from disagree to

strongly agree except for Awash bank which starts from strongly disagree and has huge standard deviations of all commercial banks (1.02)

4.1.4 Control Activities (CA)

After an organization has set its goals, created an ethical control environment, and conducted or started a risk assessment, the COSO framework delves deeper. Control activities refer to the processes, actions, and communications carried out to reduce risks and ensure robust internal controls. These activities are specifically designed and implemented to tackle the risks identified during the risk assessment process. (Fundamentals of the COSO Framework, Building Blocks for Integrated Internal Controls, Audit Boards, 2024).

There are three main types of control activities:

Preventive Controls: These aim to stop errors or irregularities before they happen. Examples include authorization processes, separation of duties, and physical safeguards for assets.

Detective Controls: These are intended to identify errors or irregularities after they have occurred. Examples include reconciliations, audits, and performance evaluations.

Corrective Controls: These are designed to address errors or irregularities once they have been detected. Examples include remedial action plans and follow-up procedures.

Organizations often use technology to improve the effectiveness and efficiency of control activities. Automated controls, such as system-based authorizations and electronic reconciliations, can minimize human error and enhance control reliability. Additionally, data analytics and continuous monitoring tools offer real-time insights into control performance and potential issues. (Fundamentals of the COSO Framework, Building Blocks for Integrated Internal Controls, Audit Boards, 2024). The survey results are summarized in the table below.

Table. 4.8. Source: Questionnaires and SPSS output (2025).

From above Table 4.8 SPSS result, the mean and standard deviations of respondents range from (mean=4.06 standard deviation=.829) and (mean=3.36 standard deviation1:017) respectively. Respondents rated their level of agreement on all criteria related to control activities on a scale from 1 to 5. The average score across the 8 questions concerning control activities was calculated to be 3.69, indicating that respondents generally agreed about the effectiveness of control activities within

Control Activity Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
S.No_	205	1	205	103.00	59.323
The bank has clear separations of roles	205	1	5	3.98	.874
Staffs are trained to implement the accounting and financial Management system (IFRS)	205	1	5	3.36	1.017
Corrective action is taken to address weakness	205	1	5	3.65	.876
It is Possible for one staff to have access to all valuable information without consent from the senior staff.	205	1	5	3.39	1.012
Departments undertake budget reviews and variance from budgeted expenditure are explained.	205	1	5	3.66	.885
Controls are in place to check on incurring expenditure in excess of allocated funds.	205	1	5	3.66	.817
Our security system identifies and safeguards the Banks assets	205	1	5	3.83	.898
Our Banks financial statements are regularly audited externally.	205	1	5	4.06	.829
Valid N (list wise)	205			3.69	.901

their respective banking industries. The highest mean of the respondents was on banks financial statements regular audit. In this case commercial; banks in Ethiopia used to regular audit of their financial statements. But the SPSS result was not the same for all commercial banks discussed so far.

The questionnaires like, Separation of roles, security system strength in identifying and safeguarding banks asset and regular audits of financial assets score mean are above average score of control activities (3.98, 3.83 and 4.06) respectively. Remaining questions, namely, Control activities have been implemented to monitor and prevent spending above the approved budget limits. Departments regularly conduct budget reviews, and any deviations from the planned expenditures are systematically justified. Additionally, safeguards are in place to confirm that no single employee can access all sensitive information without prior authorization from higher-ranking staff, Corrective action is taken to address weakness, and Staffs are trained to implement the accounting and financial Management system (IFRS) results are below mean of Control activity result (3.36,3.65,3.39,3.66 and 3.66 respectively).The lowest record was noted on Staffs training on implementation of international financial reporting system (IFRS).In Commercial banks need to do more on IFRS training and implementation to be more effective in this scenario. The detail of each SPSS result for specific commercial banks discussed so far presented as follows.

Bank Name	Frequency	Average of Mean	St. deviation
Awash Bank	25	3.69	1.072
Bunna Bank	12	3.79	.791
CBE	26	3.86	.90
Coopbank	25	3.26	1.05
Dashen Bank	10	4.15	.59
Lion Bank	20	3.92	.69
NIB	16	3.47	.73
Oromia Bank	27	3.59	.86
Wogagen Bank	24	3.62	.80
Zemen Bank	20	3.92	.69
Total/Average of Each Bank	205	3.7	.81

Table. 4.9. Source: Questionnaires and SPSS output (2025). Commercial Banks

The above table 4.9 shows, control activities of commercial banks in Ethiopian are effective with the maximum response was from Dashen bank with average mean 4.15 and SD-0.59. This mean Dashen bank is the most effective in control activities. The lowest mean (nearly neutral) was identified in cooperative bank of Oromia with average mean 3.26 and SD 1.05. The second least small mean is Nib International bank with 3.47 and .73 SD. When implementation of control activities- COSO

framework evaluated, Coopbank and NIB bank were the banks in which control activities were weak. Both banks need to revise their banks control activities to implement COSO framework. Over all commercial banks have an effective control activity frame as indicated by overall mean value of 3.7 and standard deviation value of .81

4.1.5 Information and Communication (IAC)

An effective internal control system necessitates the accessibility of comprehensive and accurate internal financial, operational, and compliance data, as well as relevant external market information to support decision-making. This information must be reliable, timely, easily accessible, and presented in a reliable format. The system depends on on dependable information systems that cover all critical activities of the bank. These systems, including those managing electronic data, must be secure, independently monitored, and supported by strong contingency plans. Additionally, effective communication channels are essential to ensure that all staff fully understand and comply with policies and procedures related to their roles, and that pertinent information is conveyed to the appropriate personnel. (Basel, 1998)

Information and Communication, Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Our Bank has identified individuals who are responsible for coordinating the various activities within the bank	205	1	5	3.88	.800
All the employees understand the concept and importance of internal control including the division of responsibilities	205	1	5	3.61	.900
in our bank Communication helps to evaluate how well the guidelines and policies of the bank are working and are implemented	205	1	5	3.92	.707
In our bank Sufficient information is identified and communicated in a timely manner to enable people perform their responsibilities	205	1	5	3.75	.939
Valid N (list wise)	205			3.79	.836

Table.4.10. Source: Questionnaires and SPSS output (2025). Commercial Banks

Based on the data presented in the table, respondents confirmed a clear understanding (mean = 3.88; SD = 0.800) that the selected commercial banks have designated individuals responsible for coordinating various activities within the banks. Additionally, respondents agreed (mean = 3.61; SD = 0.900) that employees in these banks recognize the concept and importance of internal control, including the division of responsibilities. Communication played a significant role in helping the selected private commercial banks assess the effectiveness of their guidelines and policies, as reflected by a mean value of 3.92 and a standard deviation of 0.707 for this statement.

However, the results indicate uncertainty regarding whether sufficient information is identified and communicated in a timely manner to enable employees to fulfil their responsibilities effectively. This is evidenced by a mean value of 3.75 and a standard deviation of 0.935. Despite this, information and communication are clearly conveyed to stakeholders of the selected commercial banks. The data further discloses that these banks maintain effective information and communication systems, with an average mean value of 3.79 and an average standard deviation of 0.836. The effectiveness was not the same for each selected commercial banks. Here is the result of SPSS for Selected Commercial Banks.

10 Commercial Banks, Information and Communication Result

Bank Name	Frequency	Average of Mean	St. deviation
Awash Bank	25	3.82	.83
Bunna Bank	12	3,31	.71
CBE	26	4.10	.78
Coopbank	25	3.46	.92
Dashen Bank	10	4.23	.62
Lion Bank	20	4.00	.77
NIB	16	3.51	.73
Oromia Bank	27	3.71	.77
Wogagen Bank	24	3.78	.69
Zemen Bank	20	4.00	.77
Total/Average of Each Bank	205		

Table.4.11. Source: Questionnaires and SPSS output (2025). Commercial Banks

As the output of selected commercial banks for Information and communication shows, Dashen Commercial Bank of Ethiopia, Zemen Bank and Lion banks information and communication were effective (definitely agree responses) with respond mean (4.23, 4.1,4 and 4 respectively) while Awash bank, Oromia Bank and Wogagen banks respondents responses were approximately agree regarding information and communications mean (3.82,3.71 & 3,78 respectively) .Nib Bank’s respondents regarding this COSO components was neither agree nor neutral with mean of 3.51. Bunna Bank and Cooperative bank of Oromia’s respondents were nearly neutral with mean 3.33 and 3.46. Bunna and Cooperative Bank of Oromia need to work on the implementation and effectiveness of information and communication components of COSO framework. In both commercial Banks, addressing information and communication part of the framework is expected.

4.1.6 Monitoring Activities of IC’s (MA)

The bank's internal controls should be continuously monitored to ensure their overall effectiveness. This monitoring process should contain the regular assessment of key risks as part of daily operations, periodic evaluations by business lines, and internal audits. A full and effective internal audit of the internal control system must be directed by operationally independent, well-trained, and competent staff. The internal audit function, which plays a key role in monitoring the internal control system, should report directly to the board of directors or its audit committee, as well as to senior management. Any internal control insufficiencies, whether acknowledged by business lines, internal audit, or other control personnel, should be on time reported to the appropriate management level and addressed in a timely manner. Significant deficits should be escalated to senior management and the board of directors (Basel, 1998). According to Coffin (2003), monitoring involves activities and procedures aimed at evaluating the effectiveness of the internal control system in achieving the organization's financial reporting objectives. The results and interpretation of the survey are presented as follows.

Monitoring activities of Internal Control Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
S.No_	205	1	205	103.00	59.323
Our Bank has assigned responsibilities for the timely reviews of the audit reports and resolution of any non-compliance items noted in the audit reports	205	1	5	3.86	.748
in my Bank there are independent processes, checks and evaluation of control activities on an ongoing basis	205	1	5	3.85	.835
Monitoring has helped in assessing the quality of performance of the bank over time	205	1	5	3.96	.779
In our bank an internal review of implementation of the internal control system in departments is conducted periodically to ascertain its effectiveness.	205	1	5	3.88	.798
Management is closely monitoring the implementation of the internal control system in our bank.	205	1	5	3.79	.806
Valid N (list wise)	205			3.86	.793

Table.4.12. Source: Questionnaires and SPSS output (2025). Commercial Banks

As can be observed from above table 4.12 Commercial Bank overall result for monitoring and actives shows an effectiveness of internal control with average mean 3.86 and average standard deviation .79. Specific to question on Bank assigned responsibilities for the timely reviews of the audit reports and resolution of any non-compliance items noted in the audit reports was average mean and standard deviations 3.86 and .748 respectively (Mean=3.86 & Std=.748). The responses of bankers starts from strongly disagree (1) to strongly agree (5). The SPSS analysis indicates that within the selected commercial banks, there are independent processes, ongoing checks, and continuous evaluation of control activities with average mean 3.85 and standard deviation .835. Monitoring has effectively helped in assessing the quality of performance of the bank over time with mean 3.96 and standard

deviation.779. Regarding internal review of application of the internal control system in divisions conducted periodically to establish its effectiveness, the SPSS result displays a mean of 3.88 and standard deviation .798 which imply effectiveness. Regarding the statement of management is closely monitoring the implementation of the internal control system in our bank, the result of SPSS shows a mean 3.79 and standard deviation of 0.80. However, the result for monitoring activities for all Commercial Banks were not the same. The following table shows the detail of each selected Commercial banks result regarding this COSO framework.

According to Fikru Worku (2018), the monitoring activities of internal control (I.C.) in 9 selected commercial banks demonstrate effectiveness of Internal Control, with a mean score of 3.96. This finding aligns closely with the results of the current study, indicating a consistent level of effectiveness in monitoring practices

Bank Name	Frequency	Average of Mean	St. deviation
Awash Bank	25	3.98	.79
Bunna Bank	12	3,75	.59
CBE	26	4.15	.72
Coopbank	25	3.46	.95
Dashen Bank	10	4.12	.59
Lion Bank	20	3.90	.73
NIB	16	3.74	.65
Oromia Bank	27	3.91	.77
Wogagen Bank	24	3.90	.77
Zemen Bank	20	3.9	.73
Total/Average of Each Bank	205		

Table 4.13. Source: SPSS result for Monitoring activities for internal control activities.

According to the SPSS results presented in Table 4.13, the majority of commercial banks demonstrated effective monitoring of internal control activities, as indicated by mean scores exceeding 3.7. Among these, Commercial Bank and Dashen Bank recorded the highest mean scores of 4.15 and 4.12, respectively. This indicates that the majority of respondents strongly agreed that effective monitoring activities on internal control are in place within their respective commercial banks, while only a small number of respondents expressed disagreement with the monitoring

practices across the 10 banks. However, the Cooperative Bank of Oromia demonstrated the lowest level of effectiveness, with a mean score of 3.46 and a standard deviation of 0.95.

4.2 Assessment of Internal Control Effectiveness in Ethiopian Commercial Banks

Based on data driven against the five COSO frameworks in commercial banks of Ethiopia and its applications; internal control is a tool to mitigate or reduce risks that adversely affect in meeting banks objectives/goals. The Internal control effectiveness is based on the comprehensive applicability's of these five COSO frameworks. Control means setting of standards, processes, and structures that provide the basis for carrying out internal control across the organization (banks). The banks management has significant roles regarding the effectiveness of internal controls.

Based on the five COSO Framework, commercial banks of Ethiopia's internal control effectiveness are depicted as

Assessment of Internal Control Effectiveness in Ethiopian Commercial Banks

COSO Components	No_ Respondents	No_ Questions	Mean	St. Deviation
Control Environment	205	7	3.84	.938
Risk Assessment	205	4	3.91	.782
Control Activities	205	8	3.69	.901
Information and Communication	205	4	3.79	.836
Monitoring Activities	205	5	3.86	.793
Total/average	205	28	3.81	.850

Table 4.17. Source: Over all COSO framework Components and effectiveness of IC

The overall internal control in 10 selected Commercial banks in Ethiopia is effective with the five COSO framework components. The overall mean is 3.81 which approximately 4 (agree). This means, majority of respondents are agreed on the components of internal control effectiveness in their respective bank. From five COSO framework components, Control Environment which is a fundamental of all Control Component having 3.84 a mean response or agree from 205 respondents. This indicate, Control environment is effective in commercial banks of Ethiopia.

A 2019 study by Tekalign Negash, conducted on commercial banks in Hawassa to assess the effectiveness of internal controls, reported an average mean score of 3.98 based on responses from

57 participants. The other, a 2020 study by Tamer and Abullai, focusing on commercial banks in Ghana, found an average mean score of 4.24 for the control environment, indicating a higher level of effectiveness in Ghanaian banks. When compared to the findings from Ghana, the study suggests that commercial banks in Ethiopia are less likely to have equally effective internal control systems.

Risk Assessment of COSO component with the highest mean score of 3.91 in this study, highlighting its critical role in internal control effectiveness. This finding aligns with the research conducted by Tekalign Negash (2019) on commercial banks in Hawassa City, which reported a similarly high mean score of 3.87 for Risk Assessment. Additionally, a 2020 study by Tamer and Abullai on commercial banks in Ghana further supports this observation, revealing an even higher mean score of 4.1, underscoring the consistent importance of Risk Assessment in ensuring robust internal control systems across different contexts

This leads us to conclude that Ethiopian banking industry has effective internal control with mean of 3.81 and SD of 0. 850. The research journal by Tekalign (2019) on Assessment of effectiveness of internal control Commercial bank Hawasa City. The Maximum mean is identified on Monitoring actives while the relatively lower mean on control activities. This does not mean internal control is equally effective (does not have nearly the same mean and standard deviation) for all Commercial Banks.

The following section shows the detail of 10 commercial banks overall effectiveness. The result that has been taken from Appendix.

Bank Name	No-of questionaries'	Average of Mean	St. deviation
Awash Bank	28	3.88	0.97
Bunna Bank	28	3.68	0.75
CBE	28	4.03	0.89
Coopbank	28	3.45	0.95
Dashen Bank	28	4.1	0.78
Lion Bank	28	3.88	0.89
NIB	28	3.62	0.76

Table 4.18. Source: Over all 10 Commercial Banks COSO framework results taken from SPSS result

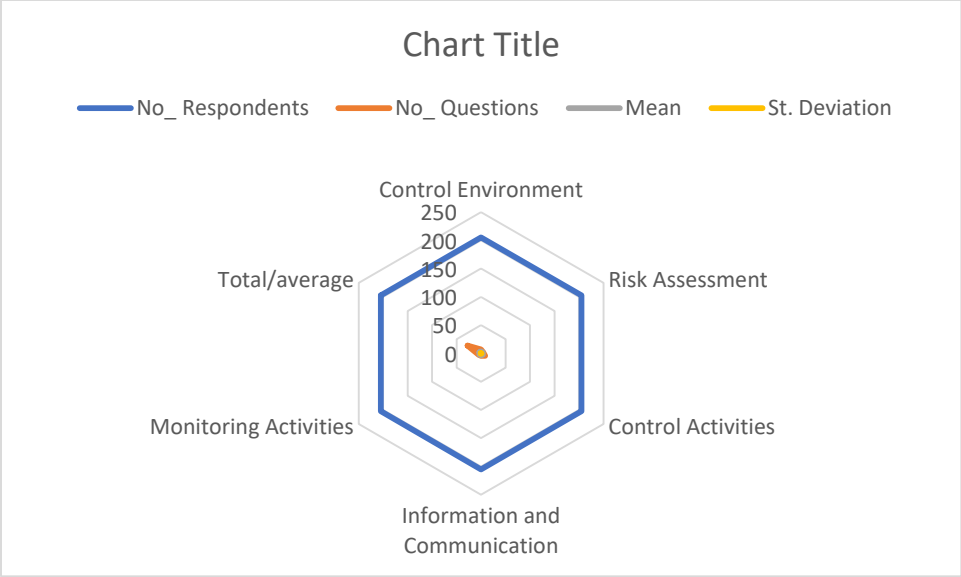
Oromia Bank	28	3.77	0.88
Wogagen Bank	28	3.78	0.75
Zemen Bank	28	3.94	0.87
Total/Average of Each Bank	28	3.81	.850

As evident from the table above, the effectiveness of internal control systems, assessed using the five COSO framework components, varies across commercial banks in Ethiopia. Dashen Bank emerges as the most effective, with an average response score of 4.1, indicating strong internal control practices. It is closely followed by the Commercial Bank of Ethiopia (CBE), which has a mean score of 4.03 and a standard deviation of 0.892, reflecting consistent and reliable internal control systems. On the other hand, the Cooperative Bank of Oromia (Coopbank) was identified as the least effective, with a mean score of 3.45, which falls close to the neutral range, and the highest standard deviation of 0.95, suggesting greater variability in respondents' perceptions.

The evaluation of the five COSO component frameworks for Coopbank revealed that the bank's overall effectiveness is relatively low compared to other institutions. The scores for each component were as follows: Control Environment (CE) = 3.6, Risk Assessment (RA) = 3.54, Control Activities (CA) = 3.26, Information and Communication = 3.46, and Monitoring Activities (ICA) = 3.46. These scores, which are close to the neutral value of 3 on the Likert scale, show that the bank's performance in these areas is suboptimal. Among these components, Control Activities (CA) scored the lowest at 3.26, stress it as the least effective area. This suggests that the bank's control mechanisms are inadequate and require immediate attention from management to address the identified weaknesses and improve overall effectiveness. The second least effective bank is NIB International Bank, with a mean score of 3.62 and a standard deviation of 0.76, indicating relatively weaker internal control effectiveness compared to its peers.

4.2.1 Comparison between Kenya Commercial Banks, Ghanaian Commercial Banks and Ethiopian Commercial Banks.

When compared with Ghanaian and Kenya Commercial banks, Ethiopian commercial banks are still less effective, Ghanaian and Kenya Commercial banks COSO Components were above 4 while in Ethiopian Commercial banks average mean is 3.81.



Radar Plot for COSO Components

Based on the data analysis and alignment with the COSO framework, it can be concluded that the overall effectiveness of internal control systems in Ethiopian commercial banks is generally effective. While most banks demonstrate strong adherence to internal control standards, there is room for improvement in certain institutions, particularly the Cooperative Bank of Oromia and NIB International Bank, to enhance their internal control mechanisms and align more closely with industry best practices.

Comparison of Kenyan’s,Ghana and Ethiopian Banks

COSO Comp, Framework	Kenya Bank	Ghana	Ethiopian
Researcher Name	Mr. Asiligwa, G.Rennox(2017)	Yakubu, Mubarik & Jamaldeen 2017)	
Control Environment (CE)	4.20	4.23	3.84
Risk Assessment (RA)	4.13	4.05	3.91
Control Activity (CA)	4.17	4.15	3.69
Infor & Communication	4.13	4.22	3.79
Monitoring	4.3	4.27	3.81

Table 4.19-Data Taken from Research Result Kenya,Ghana and Ethiopia

The research conducted by Asiligwa, G. on Kenyan commercial banks (2017) and by Yakubu et al. on Ghanaian commercial banks (2017) demonstrates the establishment of a strong COSO framework, with average response rates exceeding 4. In contrast, the applicability of the COSO framework in Ethiopian commercial banks was rated below 4 but above 3.6. This indicates that the internal control systems in the selected commercial banks in Ethiopia are less effective compared to those in the two aforementioned African countries (Ghana and Kenya). To enhance internal controls, Ethiopian commercial banks should strive to develop a stronger COSO framework. Additionally, the National Bank of Ethiopia should encourage and enforce the adoption of the latest COSO guidelines and ensure rigorous supervision to improve compliance and effectiveness

CHAPTER FIVE

5. Conclusion and Recommendations

In this chapter, the summary of research findings, conclusions, and recommendations will be addressed based on the main findings discussed in chapter four

5.1 Summary of Findings

The primary objective of this study was to evaluate the effectiveness of internal control systems in commercial banks operating in Ethiopia. To achieve this goal, the researcher formulated specific research objectives aligned with the five components of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework. These objectives guided the development of a structured questionnaire and informed the adoption of a descriptive research design for the study. The study focused on a sample of 10 commercial banks, selected from a total population of 30 commercial banks in Ethiopia as of April 2024. To ensure the reliability of the data, a purposive sampling technique was employed to select 205 employees from five key departments: risk and compliance, internal audit, finance, banking operations, and one large-grade branch.

The data collection process was carefully designed to minimize bias by targeting professional bankers and staff members with a strong understanding of internal control systems. Both qualitative and quantitative data were collected, with the latter being analysed using descriptive statistics. The data were coded and processed using the Statistical Package for the Social Sciences (SPSS version 27). The researcher utilized the latest version of SPSS to analyse the data, presenting the results in tables that included frequencies and percentages. Qualitative explanations were provided to complement the quantitative findings, offering deeper insights into the implications of the data.

The study employed descriptive statistics to evaluate the effectiveness of the five COSO components of internal control: control environment (CE), risk assessment (RA), control activities (CA), information and communication (IAC), and monitoring activities (MA). A total of 226 questionnaires were distributed to banking professionals, achieving a response rate of 91% (205 responses). The questionnaire included 28 items specifically designed to assess the COSO framework, with questions distributed as follows: 8 items for CE, 4 for RA, 8 for CA, 4 for IAC, and 5 for MA. Responses were collected using a 5-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). A score of 5 indicated strong agreement with the effectiveness of internal controls in their respective

banks, while a score of 1 reflected strong disagreement. This approach allowed for a nuanced understanding of respondents' perceptions regarding the effectiveness of internal control systems in Ethiopian commercial banks.

The findings of the study reveal that internal control systems in commercial banks in Ethiopia are generally effective. The analysis focused on evaluating the effectiveness of internal controls in 10 purposively selected commercial banks, using the five components of the COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework as the benchmark. The results demonstrated that, in nearly all the commercial banks examined, the average (mean) responses from participants regarding the five COSO components exceeded 3.5, which falls within the "agree" range on the Likert scale. This indicates a strong consensus among respondents that internal controls in these banks are functioning effectively. Reviewing the frame work, Commercial banks are more effective in Risk Assessments (Mean=3.91 and Std=.782) & Monitoring Activities (Mean=3.86, Std=.836) while Control activities and information and communication are the least effective (Mean=3.69, Std=.901 & 3.79, Std=.836) respectively. From 10 Commercial Banks, Dashen bank and Commercial bank of Ethiopia (CBE) are the most effective commercial banks in Internal control implementation with mean and std (4.1,4.01 and .78,0.89) respectively.

However, one exception was observed in the case of the Cooperative Bank of Oromia S.C., where the mean response was approximately 3.45, placing it in the "neutral" range. This suggests that the internal control effectiveness in this particular bank is perceived as less robust compared to the others. To address this gap, the Cooperative Bank of Oromia S.C. should take proactive measures to strengthen its internal control systems. Specifically, the bank should aggressively reassess and reinforce its internal control mechanisms to ensure they align with the COSO framework and meet the standards of effectiveness demonstrated by its peers in the industry. This would help enhance the bank's operational efficiency, risk management, and overall financial performance.

5.2 Conclusion

The following conclusions were driven from the findings:

Based on the findings of the study, it can be concluded that the effectiveness of internal control systems in the 10 commercial banks examined is generally supported by the evidence gathered across the five key components of the COSO framework: control environment, risk assessment, control activities, information and communication, and monitoring. The analysis indicates that these components collectively contribute to the overall effectiveness of internal controls in the surveyed banks. Specifically, the study highlights that risk assessment and monitoring activities are particularly strong and effective within the commercial banking sector in Ethiopia. These components demonstrate a high level of maturity and alignment with best practices, reflecting the banks' ability to identify, evaluate, and manage risks, as well as to continuously monitor and improve their internal control systems. Reviewing the frame work, Commercial banks are more effective in Risk Assessments (Mean=3.91 and Std=.782) & Monitoring Activities (Mean=3.86, Std=.836) while Control activities and information and communication are the least effective (Mean=3.69, Std=.901 & 3.79, Std=.836) respectively.

However, the study also reveals that control activities, information, and communication are relatively less effective when compared to the other three COSO components. While these elements are still functional, they do not meet the same level of effectiveness as risk assessment and monitoring. This suggests that there is room for improvement in areas such as the implementation of specific control procedures, the accuracy and timeliness of information dissemination, and the effectiveness of communication channels within the banks. Strengthening these areas could further enhance the overall internal control framework and ensure a more balanced and comprehensive approach to risk management and operational efficiency. When compared with Kenya and Ghanian Commercial Banks, Ethiopian Commercial banks exhibit less effective in COSO framework Components.

When examining the performance of individual banks, the study identifies notable variations in internal control effectiveness. Dashen Bank and the Commercial Bank of Ethiopia emerge as the top performers, demonstrating highly effective internal control systems. These banks exhibit strong adherence to the COSO framework, with robust practices across all five components. On the other hand, Cooperative Bank of Oromia and NIB International Bank are found to be less effective in

comparison. These banks may need to prioritize improvements in their internal control mechanisms to align with the standards set by their peers and to ensure greater operational resilience.

Additionally, the study notes that the standard deviation values for all commercial banks and across the COSO components are less than 1. This indicates that the data points are closely clustered around the mean, reflecting a high level of consistency in respondents' perceptions and minimal variability in the findings. This low level of dispersion further reinforces the reliability of the study's conclusions and suggests that the results are representative of the overall state of internal control effectiveness in the Ethiopian commercial banking sector.

5.3 Recommendation

Based on the findings of the study, the following recommendations are proposed to enhance the evaluation and implementation of internal control effectiveness in Ethiopian commercial banks. These recommendations are directed at bank management, as the responsibility for establishing and maintaining effective internal control systems primarily lies with top management.

Strengthening Internal Control Frameworks for Small Banks

This research paper does not include all commercial banks in its study. Small banks, which are often in their infancy, require robust internal control systems to navigate the dynamic and evolving financial sector. The National Bank of Ethiopia should proactively update COSO frameworks and Basel Accord guidelines to strengthen the resilience and stability of small, medium, and large banks alike.

Management should prioritize the development and full implementation of robust internal control systems across all levels and structures of their banks. This includes ensuring that internal control mechanisms are not only designed but also effectively operationalized to address risks, improve operational efficiency, and safeguard assets. Since internal control is an ongoing process, management must continuously monitor and update these systems to adapt to evolving challenges and regulatory requirements.

Enhancing Communication and Awareness:

Effective communication is critical to the success of internal control systems. Management should ensure that all bank staff are well-informed about internal control policies, procedures, and their roles in maintaining them. Regular training and awareness programs should be conducted to keep employees updated on best practices and emerging risks. This is particularly important in the context of Ethiopia's ongoing digital banking transformation, where new risks and vulnerabilities may arise.

Leveraging Digital Transformation:

As Ethiopian commercial banks increasingly adopt digital banking operations, management must ensure that internal control systems are effectively integrated into these digital platforms. This includes implementing controls to address cybersecurity risks, data privacy concerns, and operational challenges associated with digital banking. A strong internal control framework will not only enhance the resilience of digital banking systems but also build customer trust and confidence.

Preparing for staff and Control system Future Financial Markets:

Management should proactively prepare for the implementation of effective and robust internal control systems to meet the demands of Ethiopia's evolving financial markets. This includes anticipating regulatory changes, technological advancements, and emerging risks. By doing so, banks can position themselves as sustainable financial intermediaries and solid supporters of business creation in Ethiopia.

Focusing on Continuous Improvement:

Internal control systems should not be static; they must evolve to address new challenges and opportunities. Management should establish mechanisms for regular evaluation and improvement of internal control processes. This includes conducting periodic audits, risk assessments, and performance reviews to identify gaps and implement corrective actions.

In conclusion, the implementation of effective internal control systems is essential for the long-term success and sustainability of Ethiopian commercial banks. By taking proactive measures to strengthen internal controls, enhance communication, and adapt to digital and market changes, bank

management can ensure their institutions remain resilient, competitive, and supportive of Ethiopia's economic growth.

5.4 Future Research Direction

This study focused on specific work units within commercial banks, examining five key departments: risk and compliance, internal audit, finance, banking operations, and one large-grade branch across 10 commercial banks in Ethiopia with over 10 years of operational experience, classified by the National Bank of Ethiopia. While this focused approach provided valuable insights, it also identified areas for further research. Future studies should expand the scope to include a wider range of departments and a more diverse sample of banks, including newer institutions and those with less operational experience.

Additionally, as digital banking transforms Ethiopia's financial sector, there is a pressing need for research on the effectiveness of internal control systems in this context. Future studies should explore challenges and opportunities related to cybersecurity, data privacy, and the integration of digital platforms into traditional banking operations. By addressing these gaps, researchers can provide a more comprehensive understanding of internal control effectiveness, offering insights to enhance resilience and efficiency in an increasingly digitalized financial environment. This study serves as a foundational reference for such future investigations.

Blockchain technology is reshaping the business landscape, necessitating the adoption of more dynamic and robust internal controls. However, managing and controlling blockchain transactions presents unique challenges, requiring organizations to adapt their internal control frameworks to ensure security, transparency, and efficiency in this evolving digital environment.

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Annex.1.-Questionnaires’

Questionnaires for the assessment of Internal Control effectiveness, Case study in Commercial Banks of Ethiopia

Dear Respondents

My name is Moa Kedida, I am currently carrying out study for the purpose of doing my paperwork/thesis for requirement for award of Master of Science in corporate finance with specialty in investment management at Addis Ababa University, School of commerce.

The objective of this study is to assess the internal control effectiveness, case study commercial banks of Ethiopia. You have been selected to participate in the study due to the importance of your role/position in this paperwork (Purposely selected). The information you provide will only be used for this study and will be treated utmost confidentiality; individual responses will not be identified in this paperwork.

I. Demographic Information

- 1. Sex Male Female
- 2. Qualification Diploma Degree MBA/MA/MSc PHD
- 3. Position Director Senior manager/Division Senior officer/officer Branch Manager other -----
- 4. Service year in Bank 1-5 6-10 11-15 16-20 21-25 above 26

II. Effectiveness of internal Control in your bank based on Internal Control Components

To what extent do you agree/disagree with the following five Likert scale statement regarding your bank internal control? (Write 1=strongly disagree,2=disagree,3=neutral,4=agree and 5=strongly agree

s.no_	1. Control Environment	1	2	3	4	5
C1	our bank has a code of conduct to guide behavior, activities and decision making					
C2	Our Bank closely monitors the implementation of Internal Controls.					

C3	The board, Management and employee of our bank demonstrate a commitment to ethical behavior and integrity					
C4	Our bank has an objective, independent and active audit committee					
C5	Our staff are in charge perform their responsibilities as per the regulations policies and procedures					
C6	Our Bank provides feedback to the junior officers about the operation of the Internal Controls.					
C7	The control environment in our bank is enough to attain the bank's objectives					
2. Risk assessment of IC's						
R1	The bank has designed an appropriate strategy of identifying risks.					
R2	Our Bank identifies risks that affect achievement of the objectives in a timely manner					
R3	Our Bank has in place mechanisms of mitigating critical risks that may arise during the course doing business					
R4	Our Bank has a criteria for ascertainment of the risks that are most critical to the organization					
3. Control activities of IC's						
CA1	The bank has clear separations of roles					
CA2	Staffs are trained to implement the accounting and financial Management system (IFRS)					
CA3	Corrective action is taken to address weakness					
CA4	It is impossible for one staff to have access to all valuable information without consent from the senior staff.					
CA5	Departments undertake budget reviews and variance from budgeted expenditure are explained.					

CA6	Controls are in place to check on incurring expenditure in excess of allocated funds.					
CA7	Our security system identifies and safeguards the Bank's assets					
CA8	Our Bank's financial statements are regularly audited externally.					
4. Information & communication of IC's						
I1	Our Bank has identified individuals who are responsible for coordinating the various activities within the bank					
I2	All the employees understand the concept and importance of internal control including the division of responsibilities					
I3	Communication helps to evaluate how well the guidelines and policies of the bank are working and are implemented.					
I4	Sufficient information is identified and communicated in a timely manner to enable people perform their responsibilities					
5. Monitoring activities of IC's						
M1	Our Bank has assigned responsibilities for the timely reviews of the audit reports and resolution of any non-compliance items noted in the audit reports					
M2	There are independent processes, checks and evaluation of control activities on an ongoing basis					
M3	Monitoring has helped in assessing the quality of performance of the bank over time					
M4	An internal review of implementation of the internal control system in departments is conducted periodically to ascertain its effectiveness.					

M5	Management is closely monitoring the implementation of the internal control system in our bank.					
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Source: **Questionnaires adapted from:**

- ✓ Mr. Asiligwa, G. Rennox. (2017). the Effect of Internal Controls on the Financial Performance of Commercial Banks in Kenya.
- ✓ Wendmagegn Teshome Geleo ethiopian. (2021). The impact of internal control on the Operational performance of selected private Commercial banks in Ethiopia
- ✓ Feragenet Manahela .(2016). Assessment of internal control in commercial bank of Ethiopia
- ✓ Fikru Worku. (2018). The Effectiveness of Internal Control System in Detection and prevention of Fraud in Ethiopian Banking Industry

Annexes.1.2

Awash Bank	N	Minimum	Maximum	Mean	Std. Deviation
our bank has a code of conduct to guide behavior, activities and decision making	25	3	5	4.44	0.651
Our Bank closely monitors the implementation of Internal Controls.	25	3	5	4.36	0.638
The board, Management and employee of our bank demonstrate a commitment to ethical behavior and integrity	25	1	5	3.96	1.098
Our bank has an objective, independent and active audit committee	25	1	5	4.32	0.852
Our staff are in charge of perform their responsibilities as per the regulations, policies and procedures	25	1	5	3.68	1.180
Our Bank provides feedback to the junior officers about the operation of the Internal Controls.	25	1	5	3.40	1.323
The control environment in our bank is enough to attain the bank's objectives	25	1	5	3.48	1.358
The bank has designed an appropriate strategy of identifying risks.	25	1	5	4.00	0.816
Our Bank identifies risks that affect achievement of the objectives in a timely manner	25	1	5	3.64	1.186
Our Bank has in place mechanisms of mitigating critical risks that may arise during the course doing business	25	1	5	3.80	1.190
Our Bank has a criteria for ascertainment of the risks that are most critical to the organization	25	1	5	3.96	0.889
The bank has clear separations of roles	25	1	5	4.04	1.136
Staffs are trained to implement the accounting and financial Management system (IFRS)	25	1	5	3.40	1.528
Corrective action is taken to address weakness	25	1	5	3.60	1.225
It is impossible for one staff to have access to all valuable information without consent from the senior staff.	25	1	5	3.20	1.258
Departments undertake budget reviews and variance from budgeted expenditure are explained.	25	1	5	3.64	0.757
Controls are in place to check on incurring expenditure in excess of allocated funds.	25	1	5	3.68	0.748
Our security system identifies and safeguards the Bank's assets	25	1	5	3.88	0.971
Our Bank's financial statements are regularly audited externally.	25	1	5	4.08	0.954
Our Bank has identified individuals who are responsible for coordinating the various activities within the bank	25	3	5	3.96	0.735
All the employees understand the concept and importance of internal control including the division of responsibilities	25	1	5	3.68	1.030
in our bank Communication helps to evaluate how well the guidelines and policies of the bank are working and are implemented	25	1	5	3.76	0.831

In our bank Sufficient information is identified and communicated in a timely manner to enable people perform their responsibilities	25	1	5	3.88	0.726
Our Bank has assigned responsibilities for the timely reviews of the audit reports and resolution of any non-compliance items noted in the audit reports	25	1	5	3.84	0.850
in my Bank there are independent processes, checks and evaluation of control activities on an ongoing basis	25	1	5	3.92	0.909
Monitoring has helped in assessing the quality of performance of the bank over time	25	1	5	4.08	0.909
In our bank an internal review of implementation of the internal control system in departments is conducted periodically to ascertain its effectiveness.	25	3	5	3.96	0.611
Management is closely monitoring the implementation of the internal control system in our bank.	25	3	5	4.08	0.702
Valid N (listwise)	25			107.72	27.06
				3.85	0.97
Bunna Bank	N	Minimum	Maximum	Mean	Std. Deviation
our bank has a code of conduct to guide behavior, activities and decision making	12	2	5	3.83	0.718
Our Bank closely monitors the implementation of Internal Controls.	12	2	5	3.75	0.754
The board, Management and employee of our bank demonstrate a commitment to ethical behavior and integrity	12	2	5	3.75	0.965
Our bank has an objective, independent and active audit committee	12	3	5	3.92	0.793
Our staff are in charge of perform their responsibilities as per the regulations, policies and procedures	12	1	5	3.75	0.965
Our Bank provides feedback to the junior officers about the operation of the Internal Controls.	12	2	5	3.75	0.754
The control environment in our bank is enough to attain the bank's objectives	12	1	5	3.08	1.165
The bank has designed an appropriate strategy of identifying risks.	12	3	5	3.83	0.577
Our Bank identifies risks that affect achievement of the objectives in a timely manner	12	2	5	3.67	0.778
Our Bank has in place mechanisms of mitigating critical risks that may arise during the course doing business	12	3	4	3.75	0.452
Our Bank has a criteria for ascertainment of the risks that are most critical to the organization	12	2	5	3.67	0.888
The bank has clear separations of roles	12	4	5	4.17	0.389
Staffs are trained to implement the accounting and financial Management system (IFRS)	12	2	5	3.75	1.055
Corrective action is taken to address weakness	12	2	5	3.75	0.754
It is impossible for one staff to have access to all valuable information without consent from the senior staff.	12	2	5	3.17	1.115

Departments undertake budget reviews and variance from budgeted expenditure are explained.	12	3	5	4.00	0.739
Controls are in place to check on incurring expenditure in excess of allocated funds.	12	2	5	3.67	0.985
Our security system identifies and safeguards the Bank's assets	12	3	5	3.75	0.622
Our Bank's financial statements are regularly audited externally.	12	3	5	4.08	0.669
Our Bank has identified individuals who are responsible for coordinating the various activities within the bank	12	1	5	3.33	1.231
All the employees understand the concept and importance of internal control including the division of responsibilities	12	2	4	3.25	0.622
in our bank Communication helps to evaluate how well the guidelines and policies of the bank are working and are implemented	12	3	4	3.83	0.389
In our bank Sufficient information is identified and communicated in a timely manner to enable people perform their responsibilities	12	2	4	2.83	0.718
Our Bank has assigned responsibilities for the timely reviews of the audit reports and resolution of any non-compliance items noted in the audit reports	12	2	4	3.83	0.577
in my Bank there are independent processes, checks and evaluation of control activities on an ongoing basis	12	2	4	3.75	0.622
Monitoring has helped in assessing the quality of performance of the bank over time	12	2	5	3.92	0.793
In our bank an internal review of implementation of the internal control system in departments is conducted periodically to ascertain its effectiveness.	12	3	4	3.75	0.452
Management is closely monitoring the implementation of the internal control system in our bank.	12	3	4	3.50	0.522
Valid N (listwise)	12			103.08	21.06
				3.68	0.75
Commercial Bank of Ethiopia	N	Minimum	Maximum	Mean	Std. Deviation
our bank has a code of conduct to guide behavior, activities and decision making	26	1	5	4.08	1.230
Our Bank closely monitors the implementation of Internal Controls.	26	1	5	4.19	1.059
The board, Management and employee of our bank demonstrate a commitment to ethical behavior and integrity	26	1	5	4.04	1.076
Our bank has an objective, independent and active audit committee	26	1	5	4.04	1.148
Our staff are in charge of perform their responsibilities as per the regulations, policies and procedures	26	1	5	3.35	1.573
Our Bank provides feedback to the junior officers about the operation of the Internal Controls.	26	1	5	3.92	1.017
The control environment in our bank is enough to attain the bank's objectives	25	1	5	3.76	1.128

The bank has designed an appropriate strategy of identifying risks.	26	3	5	4.46	0.582
Our Bank identifies risks that affect achievement of the objectives in a timely manner	26	2	5	4.23	0.815
Our Bank has in place mechanisms of mitigating critical risks that may arise during the course doing business	26	2	5	4.23	0.765
Our Bank has a criteria for ascertainment of the risks that are most critical to the organization	26	3	5	4.50	0.583
The bank has clear separations of roles	26	2	5	4.50	0.812
Staffs are trained to implement the accounting and financial Management system (IFRS)	26	1	5	3.35	1.198
Corrective action is taken to address weakness	26	2	5	3.92	0.891
It is impossible for one staff to have access to all valuable information without consent from the senior staff.	26	1	5	3.15	1.047
Departments undertake budget reviews and variance from budgeted expenditure are explained.	25	2	5	3.92	0.759
Controls are in place to check on incurring expenditure in excess of allocated funds.	26	3	5	3.88	0.711
Our security system identifies and safeguards the Bank's assets	26	1	5	4.15	1.008
Our Bank's financial statements are regularly audited externally.	26	2	5	4.08	0.796
Our Bank has identified individuals who are responsible for coordinating the various activities within the bank	26	3	5	4.19	0.634
All the employees understand the concept and importance of internal control including the division of responsibilities	26	1	5	3.85	0.967
in our bank Communication helps to evaluate how well the guidelines and policies of the bank are working and are implemented	26	2	5	4.19	0.694
In our bank Sufficient information is identified and communicated in a timely manner to enable people perform their responsibilities	26	2	5	4.19	0.849
Our Bank has assigned responsibilities for the timely reviews of the audit reports and resolution of any non-compliance items noted in the audit reports	26	3	5	4.08	0.560
in my Bank there are independent processes, checks and evaluation of control activities on an ongoing basis	26	2	5	4.04	0.774
Monitoring has helped in assessing the quality of performance of the bank over time	25	3	5	4.28	0.678
In our bank an internal review of implementation of the internal control system in departments is conducted periodically to ascertain its effectiveness.	26	2	5	4.35	0.797
Management is closely monitoring the implementation of the internal control system in our bank.	26	2	5	4.00	0.800
Valid N (listwise)	23			112.92	24.95
				4.03	0.89

Cooperative Bank of Oromia	N	Minimum	Maximum	Mean	Std. Deviation
our bank has a code of conduct to guide behavior, activities and decision making	25	1	5	4.00	1.000
Our Bank closely monitors the implementation of Internal Controls.	25	1	5	3.96	0.735
The board, Management and employee of our bank demonstrate a commitment to ethical behavior and integrity	25	1	5	3.72	0.843
Our bank has an objective, independent and active audit committee	25	1	5	3.40	1.041
Our staff are in charge of perform their responsibilities as per the regulations, policies and procedures	25	1	5	3.52	1.046
Our Bank provides feedback to the junior officers about the operation of the Internal Controls.	25	2	5	3.72	0.737
The control environment in our bank is enough to attain the bank's objectives	25	1	4	2.92	0.997
The bank has designed an appropriate strategy of identifying risks.	25	1	5	3.76	0.831
Our Bank identifies risks that affect achievement of the objectives in a timely manner	25	2	5	3.28	0.936
Our Bank has in place mechanisms of mitigating critical risks that may arise during the course doing business	25	2	5	3.60	0.707
Our Bank has a criteria for ascertainment of the risks that are most critical to the organization	25	2	5	3.52	0.823
The bank has clear separations of roles	25	1	5	3.76	1.012
Staffs are trained to implement the accounting and financial Management system (IFRS)	25	1	5	3.04	0.978
Corrective action is taken to address weakness	25	1	4	2.96	1.020
It is impossible for one staff to have access to all valuable information without consent from the senior staff.	25	1	5	3.16	1.068
Departments undertake budget reviews and variance from budgeted expenditure are explained.	25	1	4	2.96	1.020
Controls are in place to check on incurring expenditure in excess of allocated funds.	25	1	5	3.20	1.041
Our security system identifies and safeguards the Bank's assets	25	1	5	3.40	1.118
Our Bank's financial statements are regularly audited externally.	25	1	5	3.64	1.114
Our Bank has identified individuals who are responsible for coordinating the various activities within the bank	25	2	5	3.72	0.737
All the employees understand the concept and importance of internal control including the division of responsibilities	25	1	5	2.96	1.136
in our bank Communication helps to evaluate how well the guidelines and policies of the bank are working and are implemented	25	1	5	3.84	0.898
In our bank Sufficient information is identified and communicated in a timely manner to enable people perform their responsibilities	25	1	5	3.32	0.945

Our Bank has assigned responsibilities for the timely reviews of the audit reports and resolution of any non-compliance items noted in the audit reports	25	1	5	3.44	1.003
in my Bank there are independent processes, checks and evaluation of control activities on an ongoing basis	25	1	5	3.58	0.881
Monitoring has helped in assessing the quality of performance of the bank over time	25	1	5	3.52	1.122
In our bank an internal review of implementation of the internal control system in departments is conducted periodically to ascertain its effectiveness.	25	1	5	3.44	0.917
Management is closely monitoring the implementation of the internal control system in our bank.	25	2	5	3.32	0.852
Valid N (listwise)	25			96.66	26.56
				3.45	0.95
Dashen Bank	N	Minimum	Maximum	Mean	Std. Deviation
our bank has a code of conduct to guide behavior, activities and decision making	10	3	5	4.30	0.823
Our Bank closely monitors the implementation of Internal Controls.	10	3	5	4.30	0.823
The board, Management and employee of our bank demonstrate a commitment to ethical behavior and integrity	10	3	5	4.20	0.632
Our bank has an objective, independent and active audit committee	10	3	5	4.20	0.789
Our staff are in charge of perform their responsibilities as per the regulations, policies and procedures	10	1	5	3.40	1.430
Our Bank provides feedback to the junior officers about the operation of the Internal Controls.	10	1	5	3.30	1.160
The control environment in our bank is enough to attain the bank's objectives	10	2	5	4.00	0.816
The bank has designed an appropriate strategy of identifying risks.	10	3	5	4.20	0.919
Our Bank identifies risks that affect achievement of the objectives in a timely manner	10	3	5	4.20	0.632
Our Bank has in place mechanisms of mitigating critical risks that may arise during the course doing business	10	3	5	4.20	0.632
Our Bank has a criteria for ascertainment of the risks that are most critical to the organization	10	3	5	3.80	0.789
The bank has clear separations of roles	10	4	5	4.40	0.516
Staffs are trained to implement the accounting and financial Management system (IFRS)	10	3	4	3.70	0.483
Corrective action is taken to address weakness	10	3	5	4.00	0.667
It is impossible for one staff to have access to all valuable information without consent from the senior staff.	10	3	5	4.20	0.632

Departments undertake budget reviews and variance from budgeted expenditure are explained.	10	3	5	4.10	0.568
Controls are in place to check on incurring expenditure in excess of allocated funds.	10	3	5	4.00	0.667
Our security system identifies and safeguards the Bank's assets	10	3	5	4.30	0.675
Our Bank's financial statements are regularly audited externally.	10	4	5	4.50	0.527
Our Bank has identified individuals who are responsible for coordinating the various activities within the bank	10	4	5	4.50	0.527
All the employees understand the concept and importance of internal control including the division of responsibilities	10	3	5	4.00	0.667
in our bank Communication helps to evaluate how well the guidelines and policies of the bank are working and are implemented	10	3	5	4.20	0.632
In our bank Sufficient information is identified and communicated in a timely manner to enable people perform their responsibilities	10	3	5	4.22	0.667
Our Bank has assigned responsibilities for the timely reviews of the audit reports and resolution of any non-compliance items noted in the audit reports	10	4	5	4.40	0.516
in my Bank there are independent processes, checks and evaluation of control activities on an ongoing basis	10	4	5	4.40	0.516
Monitoring has helped in assessing the quality of performance of the bank over time	10	4	5	4.10	0.316
In our bank an internal review of implementation of the internal control system in departments is conducted periodically to ascertain its effectiveness.	10	2	5	3.70	0.823
Management is closely monitoring the implementation of the internal control system in our bank.	10	3	5	4.00	0.816
Valid N (listwise)	10			114.82	19.66
				4.10	0.70
Lion Bank	N	Minimum	Maximum	Mean	Std. Deviation
our bank has a code of conduct to guide behavior, activities and decision making	20	1	5	3.90	1.119
Our Bank closely monitors the implementation of Internal Controls.	20	2	5	4.30	0.733
The board, Management and employee of our bank demonstrate a commitment to ethical behavior and integrity	20	2	5	4.20	0.951
Our bank has an objective, independent and active audit committee	20	2	5	3.40	0.768
Our staff are in charge of perform their responsibilities as per the regulations, policies and procedures	20	1	5	3.25	1.410
Our Bank provides feedback to the junior officers about the operation of the Internal Controls.	20	1	5	3.25	1.142
The control environment in our bank is enough to attain the bank's objectives	20	3	5	3.95	0.686

The bank has designed an appropriate strategy of identifying risks.	20	2	5	3.95	0.745
Our Bank identifies risks that affect achievement of the objectives in a timely manner	20	3	5	4.25	0.550
Our Bank has in place mechanisms of mitigating critical risks that may arise during the course doing business	20	3	5	3.95	0.510
Our Bank has a criteria for ascertainment of the risks that are most critical to the organization	20	3	5	4.00	0.725
The bank has clear separations of roles	20	1	5	3.85	0.745
Staffs are trained to implement the accounting and financial Management system (IFRS)	20	3	4	3.80	0.410
Corrective action is taken to address weakness	20	2	5	3.85	0.671
It is impossible for one staff to have access to all valuable information without consent from the senior staff.	20	1	5	3.60	1.095
Departments undertake budget reviews and variance from budgeted expenditure are explained.	20	3	5	3.95	0.686
Controls are in place to check on incurring expenditure in excess of allocated funds.	20	3	5	3.90	0.641
Our security system identifies and safeguards the Bank's assets	20	3	5	4.15	0.671
Our Bank's financial statements are regularly audited externally.	20	3	5	3.90	0.657
Our Bank has identified individuals who are responsible for coordinating the various activities within the bank	20	1	5	3.90	0.788
All the employees understand the concept and importance of internal control including the division of responsibilities	20	2	5	3.90	0.718
in our bank Communication helps to evaluate how well the guidelines and policies of the bank are working and are implemented	20	3	5	4.15	0.587
In our bank Sufficient information is identified and communicated in a timely manner to enable people perform their responsibilities	20	1	5	3.90	0.999
Our Bank has assigned responsibilities for the timely reviews of the audit reports and resolution of any non-compliance items noted in the audit reports	20	2	5	3.85	0.745
in my Bank there are independent processes, checks and evaluation of control activities on an ongoing basis	20	2	5	4.00	0.725
Monitoring has helped in assessing the quality of performance of the bank over time	20	3	5	3.90	0.510
In our bank an internal review of implementation of the internal control system in departments is conducted periodically to ascertain its effectiveness.	20	1	5	3.95	0.826
Management is closely monitoring the implementation of the internal control system in our bank.	20	1	5	3.75	0.851
Valid N (listwise)	20			108.70	21.67
				3.88	0.77
NIB bank	N	Minimum	Maximum	Mean	Std. Deviation

our bank has a code of conduct to guide behavior, activities and decision making	16	3	5	4.19	0.544
Our Bank closely monitors the implementation of Internal Controls.	16	2	5	3.75	0.683
The board, Management and employee of our bank demonstrate a commitment to ethical behavior and integrity	16	2	5	3.81	0.911
Our bank has an objective, independent and active audit committee	16	3	5	4.13	0.500
Our staff are in charge of perform their responsibilities as per the regulations, policies and procedures	16	2	5	3.81	0.911
Our Bank provides feedback to the junior officers about the operation of the Internal Controls.	16	2	5	3.38	0.885
The control environment in our bank is enough to attain the bank's objectives	16	1	5	3.19	1.109
The bank has designed an appropriate strategy of identifying risks.	16	2	4	3.63	0.806
Our Bank identifies risks that affect achievement of the objectives in a timely manner	16	2	4	3.56	0.727
Our Bank has in place mechanisms of mitigating critical risks that may arise during the course doing business	16	2	4	3.50	0.730
Our Bank has a criterion for ascertainment of the risks that are most critical to the organization	16	2	5	3.81	0.750
The bank has clear separations of roles	16	1	5	3.40	1.056
Staffs are trained to implement the accounting and financial Management system (IFRS)	16	1	4	3.07	1.033
Corrective action is taken to address weakness	16	2	4	3.27	0.704
It is impossible for one staff to have access to all valuable information without consent from the senior staff.	16	2	4	3.44	0.814
Departments undertake budget reviews and variance from budgeted expenditure are explained.	16	3	5	3.88	0.719
Controls are in place to check on incurring expenditure in excess of allocated funds.	16	2	5	3.63	0.719
Our security system identifies and safeguards the Bank's assets	16	2	4	3.38	0.719
Our Bank's financial statements are regularly audited externally.	16	2	5	3.75	0.856
Our Bank has identified individuals who are responsible for coordinating the various activities within the bank	16	1	5	3.53	0.915
All the employees understand the concept and importance of internal control including the division of responsibilities	16	2	4	3.53	0.640
in our bank Communication helps to evaluate how well the guidelines and policies of the bank are working and are implemented	16	2	4	3.47	0.640
In our bank Sufficient information is identified and communicated in a timely manner to enable people perform their responsibilities	16	2	5	3.53	0.743
Our Bank has assigned responsibilities for the timely reviews of the audit reports and resolution of any non-compliance items noted in the audit reports	16	2	4	3.67	0.617

in my Bank there are independent processes, checks and evaluation of control activities on an ongoing basis	16	2	5	3.73	0.799
Monitoring has helped in assessing the quality of performance of the bank over time	16	3	4	3.73	0.458
In our bank an internal review of implementation of the internal control system in departments is conducted periodically to ascertain its effectiveness.	16	2	5	3.67	0.816
Management is closely monitoring the implementation of the internal control system in our bank.	16	3	5	3.93	0.594
Valid N (listwise)	16			101.35	21.40
				3.62	0.76
Wogagen Bank	N	Minimum	Maximum	Mean	Std. Deviation
our bank has a code of conduct to guide behavior, activities and decision making	24	3	5	4.21	0.588
Our Bank closely monitors the implementation of Internal Controls.	23	2	5	3.87	0.757
The board, Management and employee of our bank demonstrate a commitment to ethical behavior and integrity	24	1	5	3.83	0.816
Our bank has an objective, independent and active audit committee	24	2	5	3.96	0.690
Our staff are in charge of perform their responsibilities as per the regulations, policies and procedures	24	3	5	3.96	0.550
Our Bank provides feedback to the junior officers about the operation of the Internal Controls.	24	2	5	3.46	0.833
The control environment in our bank is enough to attain the bank's objectives	24	2	5	3.33	0.816
The bank has designed an appropriate strategy of identifying risks.	24	2	5	4.00	0.590
Our Bank identifies risks that affect achievement of the objectives in a timely manner	24	2	5	3.83	0.637
Our Bank has in place mechanisms of mitigating critical risks that may arise during the course doing business	24	3	5	3.96	0.624
Our Bank has a criteria for ascertainment of the risks that are most critical to the organization	24	1	5	3.75	0.944
The bank has clear separations of roles	24	2	5	3.75	0.847
Staffs are trained to implement the accounting and financial Management system (IFRS)	24	1	5	3.17	1.007
Corrective action is taken to address weakness	24	2	4	3.63	0.576
It is impossible for one staff to have access to all valuable information without consent from the senior staff.	24	1	5	3.30	0.974
Departments undertake budget reviews and variance from budgeted expenditure are explained.	24	1	5	3.46	1.021
Controls are in place to check on incurring expenditure in excess of allocated funds.	24	1	5	3.42	0.974

Our security system identifies and safeguards the Bank's assets	24	3	5	3.96	0.475
Our Bank's financial statements are regularly audited externally.	24	3	5	4.29	0.550
Our Bank has identified individuals who are responsible for coordinating the various activities within the bank	24	3	5	3.88	0.537
All the employees understand the concept and importance of internal control including the division of responsibilities	24	2	5	3.67	0.702
in our bank Communication helps to evaluate how well the guidelines and policies of the bank are working and are implemented	24	2	4	3.75	0.608
In our bank Sufficient information is identified and communicated in a timely manner to enable people perform their responsibilities	24	2	5	3.83	0.917
Our Bank has assigned responsibilities for the timely reviews of the audit reports and resolution of any non-compliance items noted in the audit reports	24	2	5	3.83	0.761
in my Bank there are independent processes, checks and evaluation of control activities on an ongoing basis	24	2	5	3.79	0.833
Monitoring has helped in assessing the quality of performance of the bank over time	24	2	5	4.17	0.717
In our bank an internal review of implementation of the internal control system in departments is conducted periodically to ascertain its effectiveness.	24	1	5	3.88	0.797
Management is closely monitoring the implementation of the internal control system in our bank.	24	2	5	3.83	0.761
Valid N (listwise)	24			105.76	20.90
				3.78	0.75
Zemen Bank	N	Minimum	Maximum	Mean	Std. Deviation
our bank has a code of conduct to guide behavior, activities and decision making	20	1	5	3.90	1.119
Our Bank closely monitors the implementation of Internal Controls.	20	2	5	4.30	0.733
The board, Management and employee of our bank demonstrate a commitment to ethical behavior and integrity	20	2	5	4.20	0.951
Our bank has an objective, independent and active audit committee	20	2	5	4.20	0.768
Our staff are in charge of perform their responsibilities as per the regulations, policies and procedures	20	1	5	3.25	1.410
Our Bank provides feedback to the junior officers about the operation of the Internal Controls.	20	1	5	3.60	1.142
The control environment in our bank is enough to attain the bank's objectives	20	3	5	3.95	0.686
The bank has designed an appropriate strategy of identifying risks.	20	2	5	3.95	0.826
Our Bank identifies risks that affect achievement of the objectives in a timely manner	20	3	5	4.25	0.550

Our Bank has in place mechanisms of mitigating critical risks that may arise during the course doing business	20	3	5	3.95	0.510
Our Bank has a criteria for ascertainment of the risks that are most critical to the organization	20	3	5	4.00	0.725
The bank has clear separations of roles	20	1	5	3.85	0.745
Staffs are trained to implement the accounting and financial Management system (IFRS)	20	3	4	3.80	0.410
Corrective action is taken to address weakness	20	2	5	3.85	0.671
It is impossible for one staff to have access to all valuable information without consent from the senior staff.	20	1	5	3.60	1.095
Departments undertake budget reviews and variance from budgeted expenditure are explained.	20	3	5	3.95	0.686
Controls are in place to check on incurring expenditure in excess of allocated funds.	20	3	5	3.90	0.641
Our security system identifies and safeguards the Bank's assets	20	3	5	4.15	0.671
Our Bank's financial statements are regularly audited externally.	20	3	5	4.30	0.657
Our Bank has identified individuals who are responsible for coordinating the various activities within the bank	20	1	5	3.90	0.788
All the employees understand the concept and importance of internal control including the division of responsibilities	20	2	5	3.90	0.718
in our bank Communication helps to evaluate how well the guidelines and policies of the bank are working and are implemented	20	3	5	4.15	0.587
In our bank Sufficient information is identified and communicated in a timely manner to enable people perform their responsibilities	20	1	5	4.05	0.999
Our Bank has assigned responsibilities for the timely reviews of the audit reports and resolution of any non-compliance items noted in the audit reports	20	2	5	3.85	0.745
in my Bank there are independent processes, checks and evaluation of control activities on an ongoing basis	20	2	5	4.00	0.725
Monitoring has helped in assessing the quality of performance of the bank over time	20	3	5	3.95	0.510
In our bank an internal review of implementation of the internal control system in departments is conducted periodically to ascertain its effectiveness.	20	1	5	3.95	0.826
Management is closely monitoring the implementation of the internal control system in our bank.	20	1	5	3.75	0.851
Valid N (listwise)	20			110.45	21.75
				3.94	0.78
Oromia Bank	N	Minimum	Maximum	Mean	Std. Deviation
our bank has a code of conduct to guide behavior, activities and decision making	27	3	5	4.52	0.580

Our Bank closely monitors the implementation of Internal Controls.	27	2	5	4.22	0.641
The board, Management and employee of our bank demonstrate a commitment to ethical behavior and integrity	27	3	5	4.11	0.506
Our bank has an objective, independent and active audit committee	27	1	5	4.07	0.917
Our staff are in charge of perform their responsibilities as per the regulations, policies and procedures	27	1	5	3.48	1.051
Our Bank provides feedback to the junior officers about the operation of the Internal Controls.	27	1	5	3.59	0.971
The control environment in our bank is enough to attain the bank's objectives	27	2	5	3.04	0.898
The bank has designed an appropriate strategy of identifying risks.	27	2	5	3.89	0.751
Our Bank identifies risks that affect achievement of the objectives in a timely manner	27	2	5	3.78	0.698
Our Bank has in place mechanisms of mitigating critical risks that may arise during the course doing business	27	1	5	3.81	1.001
Our Bank has a criteria for ascertainment of the risks that are most critical to the organization	27	2	5	3.89	0.801
The bank has clear separations of roles	27	3	5	4.15	0.602
Staffs are trained to implement the accounting and financial Management system (IFRS)	27	1	5	2.89	1.050
Corrective action is taken to address weakness	27	1	5	3.81	0.879
It is impossible for one staff to have access to all valuable information without consent from the senior staff.	27	2	5	3.44	0.934
Departments undertake budget reviews and variance from budgeted expenditure are explained.	27	1	5	3.48	0.935
Controls are in place to check on incurring expenditure in excess of allocated funds.	27	2	5	3.56	0.801
Our security system identifies and safeguards the Bank's assets	27	1	5	3.52	0.975
Our Bank's financial statements are regularly audited externally.	27	3	5	3.93	0.781
Our Bank has identified individuals who are responsible for coordinating the various activities within the bank	27	2	5	3.93	0.675
All the employees understand the concept and importance of internal control including the division of responsibilities	27	2	5	3.48	0.975
in our bank Communication helps to evaluate how well the guidelines and policies of the bank are working and are implemented	27	3	5	3.93	0.550

In our bank Sufficient information is identified and communicated in a timely manner to enable people perform their responsibilities	27	2	5	3.52	0.893
Our Bank has assigned responsibilities for the timely reviews of the audit reports and resolution of any non-compliance items noted in the audit reports	27	2	5	4.07	0.616
in my Bank there are independent processes, checks and evaluation of control activities on an ongoing basis	27	1	5	3.67	1.038
Monitoring has helped in assessing the quality of performance of the bank over time	27	2	5	4.07	0.730
In our bank an internal review of implementation of the internal control system in departments is conducted periodically to ascertain its effectiveness.	27	2	5	3.96	0.649
Management is closely monitoring the implementation of the internal control system in our bank.	27	2	5	3.78	0.847
				105.59	22.74
				3.77	0.81