



**Assessment of internal control system in selected micro
finance institution in Addis Ababa.**

**A RESEARCH THESIS SUBMITTED TO THE DEPARTMENT OF
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**Assessments of internal control system in selected Micro finance institutions
(Case of Selected Micro Finance Institutions)**

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Declaration

I, Ashenafi Jemal Hussen declare that, this paper prepared for the partial fulfillment of the requirements for Masters of Business Administration in Finance entitled “Assessment of internal control system in selected Micro finance institutions” is prepared with my own effort. I have made it independently with the close advice and guidance of my advisor.

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Certification

This is to certify that Ato Ashenafi Jemal Hussen has carried out this research work on the topic entitled “Assessments of internal control system in selected Micro finance institutions” under my supervision. This work is original in nature and it is sufficient for submission for the partial fulfillment for the award of Masters of Business Administration in Finance.

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ABSTRACT

Current business trends have made it imperative for almost all organization to maintain an internal control system. Internal control system is one of the important functions of every business enterprise to detect accuracy & reliability of financial reporting, misuse of assets, ensuring efficiency of operations and adherence to rules and regulation. Micro finance institutions have a critical role on the growth and development of a country by providing different financial services to the poor and low income people in both rural and urban area. The previous studies on micro finance institution showed that the main problem of micro finance institution were weakness of their internal control system. This study focused on assessment of the internal control system in the micro finance institution to identify the possible areas of deficiencies in the system. The population for the study was made of the nineteen (19) micro finance institutions in Addis Ababa of which three (3) of them was selected as a sample using a purposive sampling techniques based on the year of establishment and the number of branch they have in Addis Ababa. The study used survey method of data collection through questionnaires to employees of the institution and semi-structured interview with the institution management. The data gathered from the respondent was analyzed and interpreted by the help of SPSS software program with the help of bar frequency table, minimum & maximum value, mean and standard deviation. The result indicated that internal control in the institution is satisfactory. Though risk assessment elements with the average mean value of 3.81 is better in the institution, there is adequate control environment, control activity, information & communication and monitoring activity components in the institution. Hence, it needs commitment from both the institution management and responsible authority to improve those specific areas of deficiencies in the internal control elements indicated in the final chapter of the study.

Key word: *internal control system, micro finance.*

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Acronyms

ADSC	ADDIS CREDIT AND SAVING INSTITUTION
AEMFI	ASSOCIATION OF ETHIOPIAN MICRO FINANCE INSTITUTION
COSO	COMMITTEE OF SPONSORING ORGANIZATION TRADE WAY COMMISSION
GAO	GENERAL ACCOUNTING OFFICE
MFI's	MICRO FINANCE INSTITUTIONS
NBE	NATIONAL BANK OF ETHIOPIA
NMF	NISIR MICRO FINANCE
IT	INFORMATION TECHNOLOGY

CHAPTER ONE

1.1 Background of the Study

Every organization both profit and non-profit making organization has its objectives and goal in mind to achieve. For an organization to carry out its business there must be some factors put in place for the smooth running of the business operation. Those factors of productions are material, machine, money and human resource etc.... these factors of production need to be well co-ordinated in order for the success of the organization. Although the size and scope of the organization have sometimes made it difficult for the executors to exercise personal and first hand supervision, a system of effective internal control system is critical components of a company managements and a foundation for the safe and sound operation of the organization. Bologna & Lindquist (1995) stressed that sufficient internal control is critical for the prevention of economic losses resulting from embezzlement and fraud.

The internal control system is the major part in any organization. “Internal control is the process designed and affected by those charged with governance, management and other personnel to provide reasonable assurance about achievement of entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. (COSO integrated frameworks, 1992)

Financial sector is unique sector in the economy. It provides different kind of services to the customers and handles massive volume of funds daily. All activities in the economy depend on the strength and stability of the banking sector. Due to these facts the necessity of internal control system in the banks cannot undermine. A system of tough internal controls can support to ensure that the goals and objectives of banks will be met, that the bank will help to attain long-term profitability targets, and maintain reliable financial and managerial reporting. Such a system can also help to ensure that the bank will comply with laws and regulations as well as policies, plans, internal rules and procedures and decrease the risk of unexpected losses or damage to the bank’s reputation. This help bank’s Board of directors and management to safeguard the bank’s resources, produce reliable financial reports and comply with laws and regulations. Meantime it

supports to reduce possibilities of substantial errors and irregularities and assists in their timely detection when they do occur. Also this control system may discover mistakes caused by personal distraction, carelessness, error in judgment or unclear instructions in addition to frauds or deliberate non-compliance with policies (Basle committee, Framework for internal control system in banking organization, September 1998). In the past decade, internal control failures were the reason for the most explosive accounting scandals of the world (Kratz, 2008). The Enron is the best example in the United States. Before Enron collapse in 2001, the company stated earnings of \$200 million and according to the stock market was worth billions of dollars. Conversely, the stock price of Enron was driven up by fraudulent accounting practices and earnings management (Kratz, 2008). End of the similar year, it declared that it had overstated its earnings over the last four years and owed about \$6 billion to its lenders. Many of investors lost their money; employees lost their jobs and even employee's pensions evaporated after the collapse because the company's pension scheme had invested in its own shares. (Kratz, 2008) highlights that top ten frauds of the world as Enron (America), WorldCom (America), Bank of Credit and Commerce International (United Kingdom) , Suprime Mortgage (America), Bernie Madoff (America), American International Group (America), Barlow Clowes (United Kingdom), Fannie Mae & Freddie Mac (America), Daewoo Group (South Korea) and Satyam Computers (India) respectively. Though, those companies encountered of the frauds indeed they might have internal audit and external audit and other relevant controlling systems. Unfortunately, no one able to disclosure the real situation in those firms till their bankrupt. So there is a problem with existing controlling systems or using them in the organizations.

In Ethiopian context, Research on micro finance institution showed that there is weak internal control system in their operation (Dr. Woldey A, 2001; Yigirem K, 2010; Micro finance transparency, 2011). This weakness in internal control system can caused serious damage to the financial institutions in particular and it hurt the development of the country in general. So, it is imperative to formulate and implement effective internal control system in the organization. Hence the need for this study was to assess the effectiveness of internal control system of selected micro finance institution in Ethiopia.

1.2 Background of micro finance institution in Ethiopia

Different authors and organizations have defined Microfinance institutions in different ways. However, the concept or the meaning of the definitions is usually the same in which microfinance refers to the provision of financial services; primarily savings and credit to the poor and low income households that don't have access to commercial banks service (Dr. joy Clancy and Dr, A.L. Kooijman Van Dijk, 2010).

Ethiopian Proclamation No. 626/2009 defines micro financing business as “the provision of financial services like accepting savings, extending credit, drawing and accepting drafts, providing money transfer services and others specified in the Article 3(2) of the proclamation.

The development of microfinance industry in Ethiopia can be traced back to the early 1970s, when NGO's in Ethiopia were delivering relief and development services such as emergency food, education, water and medicine to the underprivileged. NGO's were directly funding micro credit services as part and bundle of their relief programs.

It is believed that the provision of micro credit to poor households would increase their assets and income (Abebe Tiruneh, 2008). As a result, microfinance credit is considered as one of the methods of alleviating poverty. Since in the mid- 1980s, many non-governmental organizations in Ethiopia have started providing micro-credit to poor households for income generating activities. Since 1994, recognizing the importance of Microfinance facility, the present government issued a proclamation that laid down the framework for Licensing and Supervision of the Business of Microfinance Institutions (MFIs) in July 1996, through Proc. No. 40/1996. The objectives of the proclamation were;

- (a) To provide a legal framework that brings the activities of MFIs within Ethiopia's monetary and financial policies
- (b) To provide a legal framework for the promotion of MFIs.

The proclamation allows MFIs to undertake both financial and non-financial activities. The licensing and supervision of MFIs enhanced the status of MFIs as it authorized them to, among many other things, legally accept deposits from General Public (hence diversify their sources of fund), draw and accept deposits, and manage funds for Micro Finance businesses .Presently,

there are around 35 MFIs operating throughout the country licensed under The National Bank of Ethiopia and 19 in Addis Ababa.

For this study, the researcher select three micro finance institutions namely Addis Credit and saving association S.co, Aggar micro finance institution s.co and Nisir micro finance s.co.

1.3 Statements of the problem

The growth and development of any business organizations are highly depends on the effective and efficient implementation of internal control system. According to the COSO (1992), internal control should be designed to provide reasonable assurance regarding prompt detection of unauthorized acquisition and use or disposal of assets. The cause for corruption and misuse of resource is mainly failure of internal control. There have been many incidences of fraud and embezzlement in recent time partly due to ineffective internal control system in the operation of financial institutions (Kratz, 2008).

Microfinance institutions have a critical role on the growth and development of a country by providing different financial services to the poor and low income people in both rural and urban area (Wilson, 2003). However, the researcher has read a thesis on factors of micro finance problem and challenge by (Dr.) Woldey Ameha (2001), a research paper by Ebisa, Getachew and Fikadu (2013) published on journal of business and economic development on filing the breach: Microfinance and an article on micro finance sector challenges and problem by Sintayehu Desalegn (2014) published on journal of economics and sustainable development depicted that Ethiopian micro finance institutions have weak internal control system. Also the researcher hasn't seen internal controller at Branches to perform daily or weekly transaction audit rather they are found in head office and As far as the research is concerned, the work done in this area is limited.

This and other related problem inspired the researcher to assess the internal control practice of Ethiopian microfinance institution and also find out the adequacy of their internal control system by selecting some microfinance institution which is found in Addis Ababa.

1.4 Research Question

This research is intended to assess the following research questions:

1. Do control environment elements exist in the institutions internal control system?

2. Do risk assessment elements exist in the institutions internal control system?
3. Do information and communication elements exist in the institutions internal control system?
4. Do control activities elements exist in the institutions internal control system?
5. Does self-assessment (monitoring activities) affect the effectiveness of the institutions internal control system?
6. Where is/are area/s of deficiency in internal control system of the institutions?

1.5 objective of the research

The general objective of the study was to assess the internal control system of Ethiopian micro-finance institutions.

The specific objectives of the study were included the following:

- ✓ To determine the existence of control environment that affects internal control system.
- ✓ To evaluate the risk assessment process of micro finance institution.
- ✓ To evaluate information and communication system that affect internal control system.
- ✓ To find out control activities that affects the internal control system.
- ✓ To find out self-assessment (monitoring) activities that affects the internal control system.
- ✓ To recommend the appropriate policy measure that will improve the effectiveness of internal control system in managing risks.

1.6 significance of the study

The motivation of this research work is to evaluate the effectiveness of the internal control systems. The outcomes of the study will support the Ethiopian micro finance institutions to put in place activities for their day to day management of safeguarding assets, prevention and detection of frauds, errors and irregularities. Also, it is hoped that findings from this study will confirm or refute the present perception about the effectiveness of internal control in Ethiopian microfinance institutions. This will provide the institution to redefine approaches that would facilitate the success of its objectives. So, this research work provides a basis or conceptual frameworks against which microfinance institutions could assess their internal control system and judge their effectiveness. Which means this study provides common language, understanding and practical way for microfinance institutions to assess and improve their internal control system.

The result of this study will help for those researchers who want to further examine the internal control system effectiveness on organizational performance on advance level.

1.7 Scope of the study

The researcher believes that the finding of this study would have been more productive if it has been conducted on all microfinance institutions which are found in Ethiopia. But, due to availability and convince of the data collection it is limited to incorporate the micro finance institutions which are found in Addis Ababa. This research work evaluated the internal control system of Ethiopian microfinance institutions by selecting three micro finance institutions which is found in Addis Ababa (which is Addis credit and saving associations, Agar microfinance institutions and Nisir micro finance institutions). So, the scope of this research paper was limited to micro finance institutions which are found in Addis Ababa.

1.8 Limitation of the study

Even though this research is to assess the effectiveness of internal control on micro finance institution, the scope of the research were limited to generalize the findings, there are also limitation on local studies on micro finance internal control system, to minimize this limitation the researcher tried to review related sectors research which was issued in abroad. There are also data constraints, in terms of interviews questions where only one management of the selected micro finance institution have willing to respond the interview question. This make the researcher unable to made valid conclusion on the study.

1.9 Organization of the study

These research works were organized into five chapters. The first chapter deals the Background of the study, Statement of the problem, Research questions, Research objectives, Significance of the study, Scope of the study, Limitation of the study and Organization of the study.

Chapter two deal with the related literature.it contains background of the organization, definition of internal control system, purpose of internal control system, types of internal control system, components of internal control system, principles of internal control system, cost-benefit analysis of internal control system, limitation of internal control system, empirical review, conceptual frameworks and operationalization of the variables. Chapter three deal the methodology use to collect and analysis the data. Chapter four deal the analysis of the data and finally chapter five deals the summary, conclusion and recommendations.

CHAPTER TWO LITERATURE REVIEW

2. INTRODUCTION

The chapter takes a critical look on the nature and circumstance of internal control. The review of related literature in a research study is a search for the discovery of existing information on a given research problem. In this study, related literature that highlight properly internal control system has been reviewed to enable and enhance our understanding of the research work so that the intended aims and objectives of the research can be met.

2.1 Internal Control

The United Kingdom Auditing practices committee (1979) defined internal control as “the whole system of control established by management in order to carry on the business of any enterprise in an orderly and effective manner to ensure adherence to managerial policies and directives, safeguard the assets, ensure the completeness and accuracy of the records, the prevention and detection of errors and fraud, and the timely preparation of financial information”

According to statement of accounting standards, (SAS, No 55) internal control is the combined plan, method and procedures which can safeguard the firm’s assets, promote operational efficiency and encourage adherence to prescribed policies.”

Also according to Robertson and Davis (1988:169) “internal control system is a set of client procedures both computerized and manual imposed on the accounting system for the purpose of preventing, detecting and correcting errors and irregularities that might enter the system and thereby affect the firm’s financial statement.

Internal control can be defined as “a system of procedures implemented by company management. It is designed to follow objectives as: safeguard assets, encourage employees to follow company policy, promote operational efficiency, ensure accurate, reliable accounting records and comply with legal requirements.” (Harrison et al. 2011, 237.)

Large number of studies made on internal control. However, we use an internal control definition made by Committee of Sponsoring Organizations of the Tread way Commission (COSO, 1992) and auditing practice board (APB, 1999). According to them internal control is a process, effected by an entities board of directors, managements and other personnel, designed to provide reasonable assurance regarding the achievement of organizations objectives in the effectiveness

and efficiency of operations, reliability of financial and management reporting, compliance with organizational rule & regulation and protect the organizations reputation.

The Committee of Sponsoring Organizations of the Tread way Commission (COSO) is one of the main sources providing frameworks and guidance on enterprise risk management, internal control and fraud avoidance (COSO 2011).

In accounting and auditing, internal control is defined as a process affected by an organization's structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives. It is a means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources, both physical (e.g., machinery and property) and intangible (e.g., reputation or intellectual property such as trademarks). At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. At the specific transaction level, internal control refers to the actions taken to achieve a specific objective (e.g., how to ensure the organization's payments to third parties are for valid services rendered.) Internal control procedures reduce process variation, leading to more predictable outcomes (Anderson, 2008).

Internal Control Reference Guide (2002) defines internal control as a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

The Internal Control Reference Guide (2002) added that several key points should be made about this definition and this includes the following points:

- People at every level of an organization affect internal control. Internal control is, to some degree, everyone's responsibility. Within the organization, administrative employees at the department-level are primarily responsible for internal control in their departments.

□ Effective internal control helps an organization achieve its operations, financial reporting, and compliance objectives. Effective internal control is a built-in part of the management process (i.e., plan, organize, direct, and control). Internal control keeps an organization on course toward its objectives and the achievement of its mission, and minimizes surprises along the way. Internal control promotes effectiveness and efficiency of operations, reduces the risk of asset loss, and helps to ensure compliance with laws and regulations. Internal control also ensures the reliability of financial reporting (i.e., all transactions are recorded and that all recorded transactions are real, properly valued, recorded on a timely basis, properly classified, and correctly summarized and posted).

□ Internal control can provide only reasonable assurance - not absolute assurance - regarding the achievement of an organization's objectives. Effective internal control helps an organization achieve its objectives; it does not ensure success. There are several reasons why internal control cannot provide absolute assurance that objectives will be achieved: cost/benefit realities, collusion among employees, and external events beyond an organization's control.

According to A. H. Millichamp (2002), Internal Control System is defined as the whole system of controls, financial and otherwise, established by the management in order to carry on the business of safeguard the assets and secure as far as possible the completeness and accuracy of the records. He further analyzed the redefinition as follows;

1. The whole system: internal control can be seen as a whole or single system. The whole is more than the sum of parts.
2. Financial and otherwise: the distinction is not important. Perhaps the financial would include the use of control accounts and otherwise may include physical access restrictions to computer terminals.
3. Established by Management: internal controls are established by management, either through consultant (external) or internal through internal audit.
4. Ensure Adherence to Management Policies: management has express policies such as budget and the adherence of budget can be achieved through the procedures such as variance analysis.

5. Safeguard Assets: allowing assets to be stolen or broken is unacceptable and procedures are always put in place to safeguard assets.

6. Secure completeness: to check that transactions are duly recorded, checking that all goods leaving the factory must have a delivery not attached to it.

However, in the context of this research work internal control shall be defined as recommended by COSO (1992) that is a process affected by an entity's board of directors, management and other personal, designed to provide reasonable assurance regarding the achievement of objectives in the following categories.

- Effectiveness and efficiency of operations
- Reliability and accuracy of financial reporting
- Compliance with applicable laws and regulations.

2.2 Purpose of Internal Control

According to Hevesi (2005), while the overall purpose of internal control is to help an organization achieve its mission, internal control also helps an organization to:

- i. Promote orderly, economical, efficient and effective operations, and produce quality products and services consistent with the organization' mission.
- ii. Safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud.
- iii. Promote adherence to laws, regulations, contracts and management directives.
- iv. Develop and maintain reliable financial and management data, and accurately present that data in timely reports.

2.3 Types of Internal Control Systems

Different writers have come with different types of internal control systems. Milichamp (2002) puts the types of internal controls as; Safeguarding assets, Separation of duties, supervision, Verification, Approval and authorization, Documentation, Safeguarding Assets, and Reporting. However, many other authors such as Galloway (1994), and Zabihollah (2002), the state

university of New York and di Napoli (2005) have agreed that the types of internal controls includes directive controls, preventive controls, compensating controls, detective controls, and corrective actions. These types of internal controls are explained below.

2.3.1 Detective Controls

Detective controls attempt to detect errors or irregularities which have already occurred. Reviews, analyses, reconciliations, periodic physical inventories, audits and surveillance cameras are all examples of detective controls

2.3.2 Preventive Control

Preventive controls attempt to deter or prevent undesirable events from occurring. They are proactive controls that help to prevent a loss. Examples of preventive controls are separation of duties, proper authorization, adequate documentation, and physical control over assets.

2.3.3 Compensating Controls

Compensating controls are intended to make up for a lack of controls elsewhere in the system. For example, firms with an electronic database could maintain a hard copy of the client list in the office library. Such a list would compensate for downtime in electronic systems and difficulties in locating client names in an electronic system. While the list would have to be reprinted from time to time to add new clients would mitigate some of the obsolescence that exists with hard copies.

2.3.4 Directive Controls

Directive control is used to ensure a clear direction and derive to achieve desired objectives. It is related with motivating the people and gives them a clear sense. It may include staff training and awareness.

2.4 Internal control framework by COSO

In 1992, the Committee of Sponsoring Organizations of the Tread way Commission (COSO) issued *Internal Control – Integrated Framework* to help businesses and other entities with their internal control systems. Nowadays the framework has been used as rule, regulation and policy, by thousands of companies around the world.

The components of internal control are not different in many sources. Some sources refer them the elements or frameworks while some other refers it standards of internal control.

The Committee of Sponsoring Organizations of the Tread way Commission (COSO, 1994), act of Sarbanes Oxley, AICPA (American institute of certified public accountants) and General accounting office (GAO) claim effective internal control should primarily have five elements namely:

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

1. Control Environment.

Control environment is the establishment of an atmosphere in which people can conduct their activities and carry out their control effectively (Beneish et al, 2008). Control environment reflects the overall contribution by the board of director and management towards the necessary discipline and the appropriate structure for ensuring proper internal controls over the organization operation (Internal control reference, AMF 2004). The philosophy and management style, organizational structure, methods of imposing control, assignment of authority and responsibility are all key aspects of the control environment (Jones, 2007). Likewise, COSO (2004) looks at the ethical environment of an organization to encompass aspects of upper management's tone in achieving organizational objectives, their value judgments and management styles. COSO argue this component is the foundation for all other components of internal control, providing both discipline and structure to the organization. Ethical business practices, management philosophy and a sense of business integrity all play key parts in the control environment component.

The control environment represents the control atmosphere for the entity and is the foundation for the other components (Nicolaisen, 2004). He further considers the factors relating to the control environment to include the integrity, ethical values, and competence of employees and management, management's philosophy and operating style, the manner in which authority and

responsibility are assigned, the organization and development of employees, and the attention and direction of the board of directors towards organizational success. Lou (2008) concurs that higher level administrators of an organization are responsible for establishing the appropriate control environment.

According to Basle committee on banking supervision (1998) and general accounting office (2005), the essential components of an effective control environment include:-

- Commitment to integrity and ethical values
- Establishment of standard of conduct and adherence to it
- Establish structure, responsibility and authority
- Assignment of responsibility and delegation of authority
- Commitment to competence
- Establishment of expected competency, recruitment, development & retention of competent personnel and define succession plan.
- Enforce accountability

2. Risk assessment

Once an effective control environment has been established, management should assess risks to achieving objectives. Risk Assessment is estimating the likelihood and impact of internal control risks from internal and/or external sources to a given area.

According to Lannoye (1999) this component of internal control highlights the importance of management carefully identifying and evaluating factors that can preclude it from achieving its mission.

According to Amudo and Inanga (2009), every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. A precondition to risk assessment is the establishment of clear, consistent agency goals and objectives have been set, the agency needs to identify the risks that could impede the efficient and effective achievement of those objectives at the entity level and the activity level.

Internal control should provide for an assessment of the risks the agency faces from both internal and external sources. Once risks have been identified, they should be analyzed for their possible

effect. Management then has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives of efficient and effective operations, reliable financial reporting, and compliance with laws and regulations.

Community Associations Institute (CAI, 2003) described risk assessment as identification of potential misstatements and designing controls to prevent or promptly detect of misstatements. Risk assessment is the process used by an organization (management) to decide how it will deal with the risks that pose a threat to achieving its objectives (Furrugia 2002). According to Meisser, (2003) risk assessment is the component related to the identification of risk, analysis of risk and management of risk. Risk assessment entails to identification and prioritization of objectives, the identification of risks and assessment of their likelihood and impact, Jones (2007).

According to Basle committee on banking supervision (1998) and general accounting office (2005), the essential components of an effective Risk assessment include:-

- Defining organizational objective and risk tolerance
- Identify, analyze and respond to risks
- Assess fraud risks
- Identify, analyze and respond to changes

3. Control activity.

Control Activities are all the policies, procedures, techniques, and mechanisms (the day-to-day processes) management delegates and enforces to address known or perceived control risks based on the Risk Assessment.

According to Walker (1999) control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation.

Under Act of Sarbanes Oxley act (SOX, 2002) Control activities are the policies and procedures that assist in ensuring that management directives are successfully implemented. They provide the means to address the various risks that may hinder the achievement of the organization's

objectives. In essence, control activities are established in response to perceived risks. Junner, (1993) described Control activities as policies and procedures that help ensure that management directives are carried out. They help ensure that necessary activities are taken to address risks to achievements of the entity's objectives. Control activities occur throughout the organization at all levels and all functions.

Control activities include range of activities; authorization, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties (Ernst and Yong, 1995).

The American Institute of Certified Public Accountants, in Statement on Auditing Standards number 55 (SAS 55), also defined control activity as policy and procedure to ensure that every activity taken based on the consideration to minimize the risk faced by the entity. Accordingly the statement described the elements of control activities as Proper authorization of transaction, Design and use of adequate documents and records to help ensure the proper recording of transactions and events.

According to Basle committee on banking supervision (1998) and general accounting office (2005), the essential components of an effective control activity include:-

- Design appropriate control activities
 - ✓ Authorization and approval
 - ✓ Review and reconciliation
 - ✓ Physical count
 - ✓ Custody and exchange of assets
 - ✓ Training and supervision.
- Segregation of duties
- Design information technology infrastructure
- Design security management
- Implement control activities

4. Information and communication

This is one of the internal control systems that involves the procedure of identifying, capturing and exchanging information on a timely basis to enable the organization to accomplish its stated objectives

Effective communications should occur in a broad sense with information flowing down, across, and up the organization. Information flow is essential to effecting control, information about an organization's plan, control environment, risks, control activities and performance must be communicated up, and access an organization (Ruttrman Working Group, 1994). Reliable and relevant information flow both internal and external sources must be identified, captured, processed and communicated to the people who need it in a form and time frame that is useful (Chambers 1995). Lamoye (2005) for the control system to be effective and efficient, there should be relevant and reliable information which should be recorded and communicated to management and other personnel within the organization. To carry out the internal control and operational duties and responsibilities, the information should be timely and should go to those who need it and in the right form. All personnel do understand their roles in the control system, how roles relate to others and their accountability through the information and communication systems.

According to (Guy et al., 1999), effective information technology management is critical to achieving useful, reliable, and continuous recording and communication of information. Moreover, the system should be communicated to everyone in the organization.

According to Basle committee on banking supervision (1998) and general accounting office (2005), the essential components of an effective control activity include:-

- Identification of information requirements
- Obtain reliable data from reliable source
- Data processed into quality information
- Communication within the entity (internally)
- Communication outside the entity (externally)

5. Monitoring;

Due to the continuous nature of internal control processes, management and oversight bodies should regularly perform assessments of how well control activities are working to prevent risks from causing failure of the department to meet any of its operational, reporting, and compliance objectives.

Monitoring is the process that assesses the quality of internal controls over time. It involves assessment by appropriate personnel of the design and operations of controls on a timely basis and taking necessary actions.

Simmons M.R (1995) Monitoring can be done through on going activities or separate evaluations. Ongoing monitoring procedures are built into normal recurring activities of an organization.

Monitoring is the process of assessing the quality of internal control performance over time. Monitoring involves assessing the design and operation of controls on a timely basis and taking corrective actions as needed. Spencer (2003) used quote “hundreds killed by doctors relying on out dated manuals” from New Times (1997) to elaborate how necessary to update an internal control is within the organizations.

According to Basle committee on banking supervision (1998) and general accounting office (2005), the essential components of an effective control activity include:-

- Establishment of a baseline
- Internal control system monitoring
- Evaluation of results and identify issues
- Reporting of issues to the concerned body
- Taking Corrective action

2.5 Principles for the assessment of internal control system

The Basel committee on banking supervision has issued frameworks for the evaluation of internal control system in financial institution. A system of effective internal control is a critical component of bank management and a foundation for the safe and sound operation of banking

organization. The framework was issued on the base of the five components of internal control system: control environment, risk assessments, control activities, information and communication and monitoring activities.

Management oversight and the control culture (principle 1-3)

The board of directors should have responsibility for approving and periodically reviewing the overall business strategies and significant policies of the bank.

Senior management should have responsibility for implementing strategies and policies approved by the board; developing processes that identify, measure, monitor and control risks incurred by the bank

The board of directors and senior management are responsible for promoting high ethical and integrity standards, and for establishing a culture within the organisation that emphasises and demonstrates to all levels of personnel the importance of internal controls.

Risk Recognition and Assessment (Principle 4)

An effective internal control system requires that the material risks that could adversely affect the achievement of the bank's goals are being recognised and continually assessed. This assessment should cover all risks facing the bank and the consolidated banking organisation (that is, credit risk, country and transfer risk, market risk, interest rate risk, liquidity risk, operational risk, legal risk and reputational risk). Internal controls may need to be revised to appropriately address any new or previously uncontrolled risks.

Control Activities and Segregation of Duties (Principle 5&6)

Control activities should be an integral part of the daily activities of a bank. An effective internal control system requires that an appropriate control structure is set up, with control activities defined at every business level. These should include: top level reviews; appropriate activity controls for different departments or divisions; physical controls; checking for compliance with exposure limits and follow-up on non-compliance; a system of approvals and authorisations; and, a system of verification and reconciliation.

An effective internal control system requires that there is appropriate segregation of duties and those personnel are not assigned conflicting responsibilities. Areas of potential conflicts of interest should be identified, minimised, and subject to careful, independent monitoring.

Information and communication (Principle 7-9)

An effective internal control system requires that there are adequate and comprehensive internal financial, operational and compliance data, as well as external market information about events and conditions that are relevant to decision making. Information should be reliable, timely, accessible, and provided in a consistent format.

An effective internal control system requires that there are reliable information systems in place that cover all significant activities of the bank. These systems, including those that hold and use data in an electronic form, must be secure, monitored independently and supported by adequate contingency arrangements.

An effective internal control system requires effective channels of communication to ensure that all staff fully understand and adhere to policies and procedures affecting their duties and responsibilities and that other relevant information is reaching the appropriate personnel.

Monitoring Activities and Correcting Deficiencies (Principle 10-12)

The overall effectiveness of the bank's internal controls should be monitored on an ongoing basis. Monitoring of key risks should be part of the daily activities of the bank as well as periodic evaluations by the business lines and internal audit.

There should be an effective and comprehensive internal audit of the internal control system carried out by operationally independent, appropriately trained and competent staff. The internal audit function, as part of the monitoring of the system of internal controls, should report directly to the board of directors or its audit committee, and to senior management.

Internal control deficiencies, whether identified by business line, internal audit, or other control personnel, should be reported in a timely manner to the appropriate management level and addressed promptly. Material internal control deficiencies should be reported to senior management and the board of directors.

Evaluation of Internal Control Systems by Supervisory Authorities

Principle 13: Supervisors should require that all banks, regardless of size, have an effective system of internal controls that is consistent with the nature, complexity, and risk inherent in their on- and off-balance-sheet activities and that responds to changes in the bank's environment and conditions. In those instances where supervisors determine that a bank's internal control system is not adequate or effective for that bank's specific risk profile (for example, does not cover all of the principles contained in this document), they should take appropriate action.

2.6 Cost- Benefit Analyses

The design of the internal control system is a function of the resources available, meaning there must be a cost-benefit analysis in the design of the system. The cost of internal control must not exceed benefits to be obtained, (Lannoye, 2009). The precise measurement of cost is generally not possible. Even though the relationship between cost and benefit is a basic decisive factor to be considered in designing internal control system, the challenge is to find a balance between excessive control which is costly and counterproductive and too little control which exposes the organization to increased and unnecessary risk. Management is responsible for maintaining effective internal control and has the final decision regarding the cost versus benefits on internal control (Lannoye, 2009).

2.7. Limitation of Internal Controls

Internal control systems cannot guarantee that an organization will meet its objectives. Instead, internal control can only be expected to provide reasonable assurance that a company's objectives will be met. (Hughes G, 2007).

The effectiveness of internal controls depends on the competency and dependability of the organization's people. Limitations of internal control include faulty human judgment, misunderstanding of instructions, errors, management override of controls, and collusion. (Loustea, 2006); Further, because of cost-benefit considerations, not all possible controls will be implemented. Because of these inherent limitations, internal controls cannot guarantee that an organization will meet its objectives.

Deficiency of internal control is not arguable because if people are involved in every part of internal control. However well designed, internal control systems are still vulnerable. Thus the presence of internal controls is no guarantee that their objectives will be fulfilled. The following are the summarized areas of internal control limitations based on (COSO, 1992, SOX 2002.)

- Abuse of authorization responsibilities
- Collusion between two or more members of staff negating the segregation of duties
- Collusion with interests outside the entity like suppliers
- Failure of top management to act decisively on breaches of internal control systems
- Destruction of evidence by those responsible for abuses

A number of deficiencies indicate poor or inadequate internal control procedures or policies. According to Bradford (1997) the deficiencies can be categorized into three groups: deficiencies in the design of the internal control structure, deficiencies in the operation of the structure, and all other deficiencies.

2.7 Empirical Studies

Oyoo Otieno Collins (2014) conducted a research focused on effect of internal control on financial performance of micro finance institutions in Kisumu central constituency in Kenya. The researcher used internal control components; control environment, control activities and information & communication as independent variable, financial performance as dependent variable and governmental policies, leadership and outreach as intervening variable. The study was conducted by descriptive research design. Both primary and secondary source of data were used. The study conclude that the micro finance institution in Kisumu have effective internal control system as supported by the study findings of clear segregation of roles, supervision, training and commitment of management, proper communication channels, management information system, strong internal audit and clear policies & procedures.

Gathoni (2013) conducted a study focused on the factors affecting sustainability of micro credit group in Kalama Ward-Machakos in Kenya. Data was collected mainly by use of questionnaires had both closed and opened ended questions. Out of the 2287 clients in Machakos region which comprised of 183 active groups and 40 inactive groups, 330 clients were considered and applied

stratified random sampling. The study concluded that policy and internal control are the foundation of strong groups and forms the basis of partnership with service providers.

Muraleetharean (2012) conducted a study on internal control and its impact on financial performance of the micro finance in Jaffna district in India. The study examined whether the internal control system leads to increased and better financial performance of the micro finance. In his study, internal control was measured by control environment, risk assessment, control activities, information & communication and monitoring activities. Financial performance was measured by profitability, liquidity and efficiency. Data was collected by use of questionnaires, observation and interview and 181 samples were selected from employees in the office. The study concluded that there was a strong relationship between internal control and financial performance.

Sultana and Haque (2011) conducted a research for on Evaluation of Internal Control Structure: Evidence from Six Listed Banks in Bangladesh. They have evaluated effectiveness of the established internal control systems in listed banks in Bangladesh. The result indicates that almost all the banks in the sample achieved most of components of internal control. But some of banks have lacking about some of the control components. This shows that more or less the current internal control structure is effective for all the sample banks used in the study.

William & Kwasi in 2013 have done research on the significance of internal control in the rural banking sector, they wanted to examine whether effective internal control system is adopted by the bank in the Eastern Region of Ghana. The population for this study includes internal auditors, management, account personnel, and other staff in the bank. The employees at senior level, middle levels and lower levels were included in the study too. The study concluded that the internal control systems assist management and auditors in executing their duties, The internal controls are established by management by adopting policies and procedures with each system of control having specific functions to perform, The computers should be provided with passwords to provide security for the information's of the bank to prevent fraudulent acts, Auditors should employ professional judgment to assess and design audit risk procedures in order to minimize audit risks, Substantive test should be used by auditors to appraise the performance of internal accounting controls and identified weaknesses communicated.

Karagiogos, Drogalas, Dimou (2008) have studied the Effectiveness of Internal Control System in the Greek Bank Sector. The objective of the study is to highlight the interaction between components of internal control and effectiveness of internal auditing. They have considered control environment, risk assessment, information and communication system, control activities and monitoring as internal control components and independent variables. The effectiveness of internal auditing used as the dependent variable. The results indicated that all components of internal control is vital in the effectiveness of internal audit and consequently in the business survival and success.

Olatunji (2009) conducted a research on determining the impact of internal control on the overall management of Nigerian banks. Fifty branches of Wema bank PLC selected as sample of the study and descriptive and inferential statistical methods used to analyze the gathered data. Two hypotheses were tested to determine the correlation between frauds and internal control system and it concluded that the management of bank should establish and practice the sound internal control system to avoid the frauds. It also recommended functioning adequate internal control system, effective internal audit department, proper attention for cash, attractive pay packages, good management and formulation of good personnel and recruitment policies.

The study on evaluation of internal control system of banks in Nigeria is done by Charles, in 2011. The study expected to find out that whether the established internal control systems in the bank are sound enough to detect and prevent frauds. Five banks in Nigeria focused for the study. The study concluded that the banks have sound internal control systems as there is positive relation between the presence of internal control system and the effectiveness in the management, the efficiency in the operations, the reliability of the financial and management reporting system, the compliance by banks in Nigeria with applicable laws and regulations. But most of the internal control staff had complained of lack of promotion, poor welfare and training, function of good corporate governance by these banks is not yet at its best, they can still do better.

2.9 Conceptualization Framework.

Conceptual framework presents the relationship between independent variable and dependent variable for this study. The presence of effective internal control system is the dependent variable and control environment, risk assessment, control activity, information & communication and monitoring activity is an independent variable. The dependent variable is achieved by the presence and power functioning of all the prescribe independent variable in relation to organizational objectives.

2.10 Operationalization

Table2.1 operationalization

Concept	Variable	Indicator	Measurement
Effectiveness of Internal control	Control Environment	<input type="checkbox"/> Effective policies and practices for human resources. <input type="checkbox"/> Authority and responsibility that is clearly defined. <input type="checkbox"/> Organizational structure that enables the management of the institution.	Questionnaire 5 Point Scale
	Risk-Assessment	<ul style="list-style-type: none"> ▪ Definition of organizational objectives ▪ Identification, analysis and response to risks ▪ Fraud detection ▪ Change in operating environment 	Questionnaire 5 Point Scale
	Information and Communication system	<ul style="list-style-type: none"> ▪ Use of quality information ▪ Communication internally ▪ Communication externally 	Questionnaire 5 Point Scale
	Control Activities	<ul style="list-style-type: none"> ▪ Design appropriate control activity ▪ Segregation of duty ▪ Design activity for information system ▪ Implement control activates 	Questionnaire 5 Point Scale
	Self-assessment	<ul style="list-style-type: none"> ▪ Establishment of a baseline ▪ Evaluation of issues ▪ Corrective action 	Questionnaire 5 Point Scale

CHAPTER THREE

RESEARCH METHODOLOGY

Introduction

This chapter presents the activities and processes that were undertaken to gather data for the research work. It gives full details of how data are collected and processed for this research work. The discussions were concentrated on the following: Research design, Population under study, sampling techniques, sources of data, research instruments, and method of data analysis.

3.1 Research Design

This study was conducted using descriptive research design. Mugenda (2003) defines descriptive research design as a process of collecting data in order to answer questions concerning the current status of the subjects in the study and it determines and reports the way things are. This research design was chosen because it applied closely to the research objectives of this study.

3.2 Population under Study

According to Mason et al. (2007), the population of a study is the collection of all possible individuals, objects or measurements of interest. Nowadays there are 35 micro finance institutions are operated in Ethiopia (NBE web site). Out of these 35 micro finances 19 of them are established and operated in Addis Ababa and surrounding area of Addis Ababa region. Hence, the target population of this study was the 19 micro finance institutions which were registered by national bank of Ethiopia.

3.3 Sample

Due to time and other resources, the researcher selected 3 micro finance institutions which were established and operated in Addis Ababa. These micro finance institutions are Addis credit and saving institution, agar micro finance institutions and Nisir micro finance institutions. The sample for this study consists of the list of permanent employees namely managers, internal auditors, accountants and junior officers (clerk) in each branch of the sample. The reason behind selecting single respondent in each operational area is because micro finance institution has one manager, one accountant, if there, one internal auditor and not more than three junior officers (clerk). So, it is important to select one junior officer with the manager, accountant and auditors

to keep the result of the paper valid. Total of 58 respondents are involved in the study. 40 from Addis credit and saving association, 12 From Agar micro finance and 6 from Nisir micro finance institutions.

3.4. Sample selection criteria

The researcher selects those sample micro finance institutions based on year of establishment; Addis credit and saving (1998), Agar MFIs (2004) and Nisir MFIs (2014). Those selected micro finance institution represents the other institutions which were established in the early period and recent period in order to assess the Ethiopian micro financial institutions internal control system set up as a whole.

The other reason for chosen those micro finance institution was they have more branches in Addis Ababa than the other which was established in the same periods. Addis credit have 10 branches and 104 sub branches, Agar micro finance have 10 branches and Nisir Micro finance have 4 branches.

3.5 Sources of Data

This research work has been largely based on primary data. Primary data was sourced from the staff (Administration, Accounting, Internal Audit and clerk), of selected micro-finance institution of Ethiopia through questioners and interviews.

3.6 Data Collection

This research was intended to assess internal control systems in micro-finance institution of Ethiopia. That was a fact finding exercise, thus survey method of data collection were employed to collect data.

A survey is a means of questioning a respondent via a collection of questions and instruction for both the respondent and the interviewers. (Cooper and Schindler, 2001) A structured questionnaire and interview were therefore designed to collect the data.

3.6.1 Questionnaire

Questionnaire is a series of questions asked to individuals to obtain useful information about a given topic. When properly construct and responsibly administer, questionnaires are a vital instrument by which statements can be make about specific groups or people or entire populations.

Questionnaires are frequently used in social research. They are a valuable method of collecting a wide range of information from a large number of individuals, often referred to as respondents. Adequate questionnaire construction is critical to the success of a survey. Inappropriate questions, incorrect ordering of questions, incorrect scaling, or bad questionnaire format can make the survey valueless, as it may not accurately reflect the views and opinions of the participants. A useful method for checking a questionnaire and making sure it is accurately capturing the intended information is to pre-test among a smaller subset of target respondents.

The questionnaire contains both closed-ended and open-ended questions. The open-ended questions allow the respondents to share as much information as possible in an unconstrained manner. The closed-ended questions, on the other hand, involve “questions” that will answer by simply checking a box or circling the proper response from a set of options that will provide. While the closed-ended questions allow for easier analysis of the data due to standardized questions, their main limitation is that they allow the researcher to determine only what the respondents are doing and not how or why they are doing it.

For this study, 33 questions were prepared and distributed to 58 respondents to assess the internal control system in Ethiopian micro finance institutions.

3.6.2 Interviews

An interview is a conversation in which the interviewer questions the interviewee in order to gain information. Interviews can be formal or informal, structured or unstructured. They can be conducted one-to-one or in groups, face to face or by telephone.

Interviews are a very common research tool in the social sciences, and as such, attract a great deal of commentary and discussion.

For this study, Interviews were hold with the internal auditors or management of the institutions which are found in Head Office in order to get detail information on the internal control issues.

3.7 Data analysis and interpretation

Data obtained from respondents have been analyzed by using the Statistical Package for the Social Sciences (SPSS) software programmed. The result was presented by using statistical tools such frequency table, mean, percentage, maximum and minimum value and standard deviation. Descriptive statistics were use to analyze the data.

3.8 Five point Likert Scale

In this research one of the ordinal measures called “**Five Point Likert Scale**” were used. A Likert scale consist of a series of evaluative statements concerning an attitude object; respondents are asks to rate the object on each statements using a five point as follows.

Strongly agree 5

Agree 4

Neutral 3

Disagree 2

Strongly disagree 1

3.9 Ethical Considerations

Ethical consideration is a major part of this research process. The principal underlying research are universal and concern issues such as honesty and respect of individuals in the study (Welman and Kruger , 2005). First the researcher seeks authorization from the top management of the micro finance institutions. The researcher structured the questionnaires in such a way that there is no mention of the interviewee’s name.

Ethical considerations were also taken care of by the researcher briefing the respondents as to the purpose of the research, their relevance in the research process and expectation from them.

CHAPTER FOUR
DATA ANALYSIS AND INTERPRETAION

INTRODUCTION

This chapter presents the analysis and interpretation of data which were collected from questionnaires and interviews. It has two parts. The first part presents respondents profiles including sex, educational status, field of study and working experience. The second part presents information of the institutions based on the questionnaires distributed and interview made with respondents.

4.1 Respondents profile

4.1.1 Gender categories of the respondents

Table 4.1 Gender category of the respondent

Sex	Frequency	Percent	Valid Percent	Cumulative Percent
Male	39	67	67.2	67.2
Female	19	33	32.8	100.0
Total	58	100.0	100.0	

Source; survey result and own computation

As indicated in the above graph, 67% of the respondents are male and the remaining 33% of the respondents are female. The gender proportion showed that both female and male were participated in this particular study.

4.1.2 Educational status

Table 4.2 educational status of the respondent

Educational background	Frequency	Percent	Valid Percent	Cumulative Percent
Diploma	16	28	27.6	27.6
Degree	40	69	69.0	96.6
master's degree	1	2	1.7	98.3
above master	1	2	1.7	100.0
Total	58	100.0	100.0	

Source; survey result and own computation

Figure 4.2 above summarized the respondent's educational status. About 28% of the respondents are Diploma holder, 69% of the respondents are first Degree holder and the remaining 3% of the respondents have master and other qualification. This result indicate that more than 70% of the respondents have first degree and above. So, we can conclude that the respondents have adequate educational qualification to understand internal control system

4.1.3 Field of study

Table 4.3 Field of studies of the respondent

Field of study	Frequency	Percent	Valid Percent	Cumulative Percent
accounting and finance	45	78	77.6	77.6
Management	8	14	13.8	91.4
information technology	2	3	3.4	94.8
Economics	2	3	3.4	98.3
other filed	1	2	1.7	100.0
Total	58	100.0	100.0	

Source; survey result and own computation

Figure 4.3 summarize the respondent's specialized field of study. Out of the total 58 respondents, 78% are studied accounting, 14% are studied management and the remaining 8% of the respondents studied MIS, Economics and banking and finance. From this result we can conclude that more than 90% of the respondents were familiar with the concepts of internal control system in their studies.

4.1.4 Year of experience in the institutions

Table 4.4 year of experience in the institution

Years	Frequency	Percent	Valid Percent	Cumulative Percent
two year and less	15	26	25.9	25.9
above two and below five	13	22	22.4	48.3
above five and below ten	13	22	22.4	70.7
above ten	17	29	29.3	100.0
Total	58	100.0	100.0	

Source; survey result and own computation

The above figure summarize the respondent year of experience in the institutions. Out of the total respondent, 26% of the respondent has less than 2 years, 22% has more than 2 year and less than 5 year, 22% has more than 5 year and less than 10 years and 29% of the respondent has more than 10 years. From the result we can conclude that more than 74% of the respondent has work experience of two years and more.

4.1.5 Present place of assignment

Table 4.5 place of assignment of the respondent

present place of assignment	Frequency	Percent	Valid Percent	Cumulative Percent
administrative department	16	27.6	27.6	27.6
audit department	10	17.2	17.2	44.8
accounting department	16	27.6	27.6	72.4
other department	16	27.6	27.6	100.0
Total	58	100.0	100.0	

Source; survey result and own computation

Figure 4.5 summarize respondent present place of assignment. About 28% of the respondents are working in administrative department, 28% is in accounting department, 28% is as junior officer (clerk or teller) and the remaining 17% are working in audit department.

4.2 Variable analysis

Here, the researcher tried to analyse the variables. To do this the researcher prepared 33 questions and distributed to 58 respondents of the selected micro finance institutions. All of the questionnaires were returned for response rate of 100%. The objectives of this study was the assessments of internal control system via the five criteria of control environments, risk assessments, control activities, information & communication and monitoring Activities that were provided by COSO report in 1992.

4.2.1 Control environment

Control environment concerns the establishment of an atmosphere in which people can conduct their activities and carry out their control responsibilities effectively (Beneish et al, 2008). it indicates the general atmosphere of internal control which includes the policies and procedures of internal control, management structure, competence of employees and discharging responsibility and other.

The survey made is based on those components of control environment and the result is scaled as follow.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
1. The Management commitment to integrity and ethical behaviour is consistently and effectively communicated throughout the institutions both In word and deeds.	58	2	5	3.81	.783
2. The institution has a standard code of conduct that has been communicated to all staff.	58	1	5	3.95	.867
3. The institution management reinforces standard of conduct throughout the institutions.	58	1	5	3.67	.735
4. The institution has well defined organizational structure.	58	1	5	4.50	.800
5. The institution organizational structure and lines of authority clearly understand by the employees.	58	2	5	3.74	.739
6. The management review and modify the organizational structure of the institution in light of anticipated changing condition or revised priority.	58	2	5	3.76	.683
7. The institution has a clear definition of assignment of responsibility and delegation of authority.	58	1	5	4.09	.923
8. The management establish expected competency to carryout assigned responsibility.	58	1	5	3.88	.751
9. The institutions provide mentoring and training opportunities needed to attract, develop and retain competent personnel.	58	1	5	3.21	.789
10. The institution policy includes succession plan for senior management and contingency plan for assignment of responsibility important for internal control system.	58	1	5	3.59	.750
11. The institutions structure and tone at the top help to establish and enforce individual accountability for performance of internal control responsibility.	58	1	5	3.66	.947
12. The institution management oversees and communicates with staff about workload and stress relief opportunities.	58	1	5	3.33	1.033
Valid N (listwise)	58			3.76	

Table 4.6 Descriptive Statistics on Control environment (Source; survey result and own computation)

The overall mean of the control environment assessment can be 3.76 which indicate an agreement of the control environment elements practice in the micro finance institution.

The highest mean of 4.50 indicate that large amount of the respondent agreed that there is a well-defined organizational structure in their institutions with 93% agree or strongly agree. The survey result also showed that micro finance institution has a clearly defined assignment of responsibility and delegation of authority with Mean Value of 4.09. The respondents also gave majority agreements on the establishment of standard of conducts in the institution with mean value of 3.95. The respondents also agreed that there are established expected competence for each role, secession plan for senior managements, enforcements of accountability of every activities and management's commitment to integrity & ethical values in work places with mean value of more than 3.5 for each components of control environment element. But, Minimum Mean Value of 3.21 with 13.8% disagrees and 50% neutral in this category indicate that there is a problem for improvement in employee's treatments like training and mentoring. From the table respondents are not sure in communication with the manager in terms of work load and stress relief opportunities which have highest standard deviation 1.033.

4.2.2 Risk Assessment

The second component of internal control system is "Risk Assessment". Risk assessment is identifies and analyze the relevant risks that prevents the achievement of institutional objectives.

The management is responsible to identify and assess control risk caused by failure of internal control system. There should be strategy of identifying risks, system to respond to risks and reduce the risks. The survey result and analysis on these issues is presented below.

Below table shows risk assessment statistical description and analysis.

	N	Minimum	Maximum	Mean	Std. Deviation
13. Management defines risk tolerances for the defined objectives.	58	1	5	3.32	.817
14. Management ensures that risk identification considers both internal and external factors and their impact on the achievement of objectives.	58	1	5	3.86	.826
15. The institution has designed internal controls that mitigate the identified risks.	58	1	5	3.88	.938
16. The institutions follow established policies, procedure and process to periodically reconcile physical assets with the accounting records to detect fraudulent activities.	58	2	5	4.07	.746
17. The institution has a mechanism to identify and react to risk presented by change which occurred internally and externally.	58	2	5	3.64	.742
Valid N (listwise)	58			3.808	

Table 4.7 Descriptive Statistics on Risk assessment (own data analysis, SPSS Results)

The overall mean of risk assessment could be 3.808. This result indicates the respondent agreement of risk assessments practices in the micro finance institution. The highest mean 4.07 with 55% of the respondent agree and 27.6% of them strongly agree indicate majority of the respondent agree that there is institutional policy and procedure to periodically reconcile physical assets with the accounting records to protect fraudulent activity. The respondents also agreed that the institution design appropriate internal control system based on the identified risks and in the process of identifying the risk, the managements considered both internal and external factors with Mean values of more than 3.8 with 74% of the respondent are agree or strongly agree. The survey results also showed that there are a mechanism to identify and respond to risks emerged from changes inside and outside the institution. But the respondents less agreed on institutional risk tolerance establishment with minimum mean of 3.32 with 31% of respondents are neither agrees nor disagreeing these risk assessment elements.

4.2.3 Control activities

Control activities are all policies, procedures and techniques that management delegate and enforces to address known or perceived risks based on the risk assessments. Designing and implementing appropriate control frameworks are crucial for detecting and preventing risks that deny achieving organizational objectives. Below table shows survey results of the respondents on control activities in micro finance institutions.

Table 4.8 Descriptive Statistics on control activities (own data analysis)

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
18. Management designs appropriate control activities in response to the institutions objectives and risks to achieve an effective internal control system.	58	1	5	3.93	.896
19. Management control activities consider all the relevant business process, information technology and location where control activities are needed.	58	2	5	3.72	.744
20. The institutions periodically review system privilege and access control to determine whether system privilege and access controls are appropriate.	58	1	4	3.10	.931
21. The institution has policies and procedure addressing proper segregation of duties among the tasks.	58	1	5	3.86	.805
22. Control activities employed by the institutions include authorization, approval, comparison and supervisory controls.	58	1	5	3.17	.704
23. The institution has a written policy and procedures manual.	58	2	5	4.52	.682
24. The institution maintains policy and procedure to facilitate the recording and accounting of transaction in compliance with laws and regulation.	58	2	5	4.33	.781
Valid N (listwise)	58			3.80	

The overall mean of control activity assessment is 3.80 which indicate there are majority agreements of control activity element practice in the institutions. The highest mean of 4.52 with 92.8% strongly agree or agree and minimum standard deviation of 0.682 indicate that majority of the respondents agreed there are written policy and procedure manual in the institution. This is very crucial for employees of the institutions to perform their tasks based on written manuals and crucial for managements to enforce accountability of employee's activities. They were also highly agreed that policy and procedure that help the employee to perform their tasks in compliance with laws and regulations.

The survey result also showed that there is proper segregation of duties in the institution. This is important to prevent a fraud which is occurred by assigning two or more tasks for single employees. The respondent also agreed that the managements of the institution design the control activities based on the institution objectives and the risk identified in order to achieve organizational objectives.

The survey shows minimum mean of 3.10 with more than 69% of the respondents are strongly disagree or disagree or neutral for the existence of information technology in the institutions. This indicates that there are fewer agreements on institutions information technology infrastructure. The respondent gives for this particular question minimum of 1 and maximum of 4. The respondents also give less agreement on institutions uses control activity like authorization, verification and supervision with mean value of 3.17.

4.2.4 Information and Communication

Information and communication is a component of internal control system which captures and communicate pertinent and timely information in a form that enables the board, management, and employees to carry out their responsibilities. The table below shows the result of the survey which is collected from the respondents.

	Descriptive Statistics				
	N	Minimum	Maximum	Mean	Std. Deviation
25. The institution consider both internal and external source of data when identifying relevant information to use in the operation of internal control.	58	2	5	3.86	.782
26. There is a mechanism to quickly disseminate critical information throughout the institutions when necessary.	58	1	5	3.78	.796
27. Every transaction are clearly recorded and classified in order to provide reliable information to stakeholders.	58	1	5	3.64	.693
28. The institution has process in place to communicate relevant and timely information to external partners.	58	1	5	3.48	.822
29. The accounting department has produced timely report to internal body and external party.	58	1	5	3.98	.805
Valid N (listwise)	58			3.74	

Table 4.9 Descriptive Statistics on information and communication (own data analysis)

From the survey result the overall mean of information and communication assessment is 3.74 this indicate that the respondents are nearly agreed the practice of information and communication in the institutions. The highest mean of 3.98 with 80% of the respondents agree or strongly agree indicate the majority respondents agreement on timely publication of report by the accounting department in the institutions. They are also agreed that the institution can produce relevant information by considering internal and external data with a mean value of 3.86. The survey result also showed that there is a mechanism to quickly communicate important information for employees of the institution with mean value of 3.78.

However, the respondents nearly not sure on the existence of processes or departments that has a duty on communication with external parties with a mean value of 3.48 with 53.5% of the respondents are neutral or disagree or strongly disagree.

4.2.5 Monitoring

Self-assessment or monitoring is intended to provide an oversight function in assessing the performance of the organization control systems. Board of directors and management constantly review internal controls for their proper functioning and for modifications to the internal control systems when deemed necessary. The table below shows the result of the survey which is collected from the respondents.

	Descriptive Statistics				
	N	Minimum	Maximum	Mean	Std. Deviation
30. Management establishes a baseline to monitor the internal control system.	58	2	5	3.84	.644
31. Management has process in place to assess whether controls within each of the four components of internal control are present and functioning as intended.	58	1	5	3.72	.812
32. Management takes adequate and timely action to correct deficiency reported by the internal audit function, financial and programmatic monitoring activities.	58	2	5	3.90	.788
33. The institution periodically evaluates business process such as cash management, procurement etc...	58	1	5	3.72	.744
Valid N (list wise)	58			3.795	

Table 4.10 Descriptive Statistics on information and communication (own data analysis)

From the above descriptive statistic table, with the overall mean value of 3.795, we can conclude that majority of the respondents are nearly agreed the practice of self-assessment in the institutions. The respondent nearly agreed that there is a bench mark in evaluation of internal control system which is important to evaluate the expected from the actual performance, the presence of a department which monitors the other four elements of internal control components, evaluation of business process and taking corrective action when there is deficiency in the internal control system.

4.3 Interview analysis

The researcher has planned to interview 3 selected managers of the institutions. But, it is possible to interview manager of Addis credit and saving institutions of Kolfe branch. The other two managers from agar and Nisir micro finance institutions are not willing to have interview with the researcher.

The interview made with the manager of Addis credit and saving association on the effectiveness of micro finance institution internal control system to identify the areas of deficiencies. The major areas of question were: the control environments of the institution, the responsibility to design and implement the internal control system, types of internal control system, adequacy of documents on internal control, information and communication and control activities used by the institution.

The researcher prepared 7 interview question related to internal control system which exists in the institution.

With respect to the internal control system environment of the institution the interviewee agreed that micro finance institution has an internal control system which is implemented based the institutions policy and procedure to prevent and detect illegal activities within the institution. The responsibility of establishing and implementing the system has been given to the managements of the institutions.

The interviewee also agreed they always try to implement preventive type of internal control in order to protected problem before it exists. But, if it is occurred we try to detect and correct as much as possible with the help of about fifteen (15) internal auditors which are found in his

institutions. Out of these 15 internal controllers 10 of them are found in each sub city of Addis Ababa to audit each branches and sub branches and five of them are found in Head Office level.

The interviewee believes that the institution has adequate policy and procedure for the internal control he said yes; we have enough policy and procedure of internal control system for now and give no further explanation.

With respect to information technology infrastructure, the interviewee said information technology in his institution is at infant stage and still they use manual recording system. But he said they try to develop and implement a new system, this can be a new scenario in micro finance level and they try to change everything like human resource recording system, transaction recording system and rise customer satisfaction level.

With respect to control activities which the institution apply, the interviewee reply that they have used different control procedures such as Authorization and verification of transaction, use of safety vault in branches and Segregation of duty between tasks.

The interviewee believes that the institution has adequate information and communication mechanisms. He stressed that the institution used both oral communications during meetings and written communication system through distribution of circulars for internal communication and prepared different accounting reports for external communications.

4.4 Summary analysis

According to statement of accounting standards (SAS), internal control is the combined plan, method and procedures which can safeguard the firm asset, promote operational efficiency and encourage adherence to prescribed policies. In today's highly competitive business environment, internal control plays an important role for the achievement of organizational objectives. The broad objectives of this study were assessing the effectiveness of internal control system in selected micro finance institutions in Addis Ababa. These research objectives are answered by formulating specific research questions. To answer these questions the researcher employee survey method of data collections which include questionnaires and interview. The questionnaires are analysed by descriptive statistics by employing frequency table, percentage, mean and standard deviation of the respondents. The interview question results are described in

subsequent paragraph. The summary analysis section combined both the questionnaires' and interview analysis.

Q.1 Dose control environment affect the effectiveness of the institutions internal control system?

Regarding control environment, the result indicates majority of the respondent agreed the existence of all elements of control environments including the presence of defined organizational structure, assignment of responsibility and delegation of authority, existence of code of conducts and institutional integrity and ethical behaviours all of these components have scored mean value of more than 3.8.

However, it is worth mentioned that regarding employee mentoring and training and communication with staff about workload and stress relief opportunities further improvement must be achieved. The interview results regarding control environment indicates that there are full practices of control environment elements. But, lack of human resource developments made the employees the institution dissatisfied in terms of training and developments.

In general the control environment of micro finance institutions are effective and contain all elements except human resource developments.

Q.2 Dose risk assessment affects the effectiveness of the institutions internal control system?

Regarding the risk assessments practice, majority of the respondents agreed that there is institutional policy and procedures to periodically reconcile physical assets with the accounting records. The interview results also support these results. The institutions have reconciled the physical cash with the accounting record every week and at the end of each month. Other elements of risk assessments are practiced in the institutions as indicated the mean results in table 4.2.1.

Q.3 Dose information and communications system affect the effectiveness of institutions internal control system?

Regarding information and communication practice, majority of the respondents agrees the importance of information and communication practice for the smooth running of operations. As

per the survey results all of this variable elements are existed in the institutions. The interview results also support the presence of proper information and communication in the institutions.

Q.4 Dose control activities affects the effectiveness of the institution internal control system?

Regarding control activities the institution implements different types of control procedures that detect and address known or perceived risks based on the risk assessments. The survey result indicates that there is written policy and procedure manuals; the duties are properly segregated and designing of proper control activity in response of identified and anticipated risk. The interview results also support the implementation of different control activities to detect and protect frauds, except lack of information technology infrastructure.

Q.5 Dose monitoring activities affects the effectiveness of the institutions internal control system?

Regarding monitoring activities, the respondent agree the importance of self-assessments of the institutions internal control starting from formulating benchmark for evaluation of the performance and evaluating the above four elements of internal control system elements.

Q.6 Where is/are areas of deficiency in the internal control system of the institutions.

With regards to this question, almost all elements of the internal control system were practiced in the institutions. However, some elements needs improvements including human resource developments, in uses technological systems, employees understanding of institutions risk tolerance in relation with objectives and communication with external parties.

CHAPETR FIVE

CONCLUSION AND RECOMMENDATIONS

The main purpose of this chapter, summary, Conclusion and recommendation, is giving summary of entire findings of the research based on Data Analysis and Presentation. And further, researcher will suggest recommendation to implement in the institution to enhance the effectiveness of the internal control system.

5.1. Summary

According to statement of accounting standards (SAS), internal control is the combined plan, method and procedures which can safeguard the firm assets promote operational efficiency and encourage adherence to prescribed policies. In today's highly competitive business environment, internal control plays an important role for the achievement of organizational objectives. The broad objectives of this study were assessing the effectiveness of internal control system in selected micro finance institutions in Addis Ababa. These research objectives are answered by formulating specific research questions. To answer these questions the researcher employee survey method of data collections which include questionnaires and interview. The questionnaires are analysed by descriptive statistics by employing frequency table, percentage, mean and standard deviation of the respondents. The interview question results are described in subsequent paragraph. The study used five independent variable namely control environment, risk assessment, control activities, information and communication and monitoring in order to assess the effectiveness of internal control system in the micro fiancé institution. The study found that most elements of the five variables are implemented in the institutions. However, some elements were needs some improvements which are mentioned in the recommendation part.

5.2 Conclusion

This section presented the finding of this research paper from collected data through questionnaire and interview. The study was conducted for assessment of internal control system on selected micro finance institutions of Ethiopia based on independent variables: control environment, risk assessment, control activity, information and communication and monitoring activity.

As far as the control environment concerned, majority of respondents are nearly agreed in the practice of control environment elements including integrity and ethical behaviour in the work place, formulation of organizational structure, formulation of standard code of conduct, establishment of competence in every position and creating accountability in execution of internal control activities. But, there are rooms for improvement in the area of employee treatment. As per the survey result employee training and mentoring activities and revision work load area needs improvements.

As far as risk assessment concerned, majority of the respondents are nearly agreed in the practice of risk assessment elements including identification, analyzing and responding of risks which occur from internal, external and change of environments. But, the respondents are in doubt of the concept of risk tolerance in the institution.

As far as control activity concerned, majority of the respondents agreed the practice of appropriate control activity in the institutions. It includes establishment of written manual, segregation of duty for each tasks, preparation of policy and procedure for recording of transaction in compliance with laws and regulation. But, there are rooms for improvement in the area of IT infrastructure. Almost all micro finance institution has manual stock card recording system and lack modernize IT system. For this reason most of the respondents are new for system privilege and access control terms.

As far as information and communication concerned, majority of the respondents agreed the practice of information and communication elements in the institution. It includes identification of information requirements; obtain relevant data from reliable sources and processed into information and communication to the one who needs this information internally and externally. But, they are not sure the existence of a process for performing these tasks as a department.

As far as self-assessment concerned, majority of the respondent agreed the practice of self-assessment elements in the institutions which includes establishments of baseline in the evaluation of performance and taking corrective action when deviation is occur from the base line.

5.3 Recommendations

There is no absolute guarantee from internal control that organizational objectives will be achieved because internal control is designed, operated and monitored by human beings and it provide reasonable assurance for the achievement of objectives. However, it is possible to improve internal control effectiveness through continuous monitoring, assessing changing risks, designing sound control methods, and with good communication in the organization. From the result of this study it is not possible to conclude that the internal control system of micro finance institution is strong and effective. The researcher finds out areas which needs due emphasis and improvement in order to have efficient and effective internal control system.

The following recommendations are offered to assist in improving the effectiveness of internal control system in the institutions.

- ✓ The managements of Micro finance institution need to provide on the job training to the employees of the institution in order to develop the knowledge and skills of the employee.
- ✓ The managements of the institution should revise the workload periodically and give stress relief opportunities to the employees of the institution.
- ✓ They need to have internal controller in each branch of the institutions in order to check the recording and compliance of transactions independently.
- ✓ They need to inform the organizational objectives and its related risk tolerance to the employees of the institution.

- ✓ They need to develop and implement their own IT infrastructure in order to ensure the accuracy and speed recording of transaction, keep the data safe and minimize stationary costs, sharing documents including policy and procedure across branch etc....
- ✓ They need to establish a process or departments to communicate information with the external parties.
- ✓ Finally they need to have kind and motivated employee to give information about the institution in case when they needed by the researcher.

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Appendix 1.

Interview Question

Q.1 Do you think your institution has effective internal control system environment?

Q.2 who has a responsibility to establish and implement the internal control system?

Q.3 what type of internal control are practiced in your institution?

Q.4 do you believe your institution have adequate policy and procedure document on internal control?

Q.5 what do you think about information and communication technology in your institution?

Q.6 what types of control activities used in your institution?

Q.7 is there adequate information and communication mechanism in your institution?

Appendix 2

Control environments

1. **The Management & Board of Directors commitment to integrity and ethical behaviour is consistently and effectively communicated throughout the institutions both In word and deeds.**

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	5	8.6	8.6	8.6
neutral	9	15.5	15.5	24.1
Valid agree	36	62.1	62.1	86.2
strongly agree	8	13.8	13.8	100.0
Total	58	100.0	100.0	

2. **The institution has a standard code of conduct that has been communicated to all staff.**

	Frequency	Percent	Valid Percent	Cumulative Percent
strongly disagree	1	1.7	1.7	1.7
disagree	1	1.7	1.7	3.4
Valid neutral	14	24.1	24.1	27.6
agree	26	44.8	44.8	72.4
strongly agree	16	27.6	27.6	100.0
Total	58	100.0	100.0	

3. **The institution management reinforces standard of conduct throughout the institutions.**

	Frequency	Percent	Valid Percent	Cumulative Percent
strongly disagree	1	1.7	1.7	1.7
neutral	22	37.9	37.9	39.7
Valid agree	29	50.0	50.0	89.7
strongly agree	6	10.3	10.3	100.0
Total	58	100.0	100.0	

4. The institution has well defined organizational structure.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	1	1.7	1.7	1.7
disagree	1	1.7	1.7	3.4
neutral	2	3.4	3.4	6.9
agree	18	31.0	31.0	37.9
strongly agree	36	62.1	62.1	100.0
Total	58	100.0	100.0	

5. The institution organizational structure and lines of authority clearly understand by the employees.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid disagree	3	5.2	5.2	5.2
neutral	16	27.6	27.6	32.8
agree	32	55.2	55.2	87.9
strongly agree	7	12.1	12.1	100.0
Total	58	100.0	100.0	

6. The management review and modify the organizational structure of the institution in light of anticipated changing condition or revised priority.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid disagree	3	5.2	5.2	5.2
neutral	13	22.4	22.4	27.6
agree	37	63.8	63.8	91.4
strongly agree	5	8.6	8.6	100.0
Total	58	100.0	100.0	

7. The institution has a clear definition of assignment of responsibility and delegation of authority.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	2	3.4	3.4	3.4
disagree	2	3.4	3.4	6.9
neutral	4	6.9	6.9	13.8
agree	31	53.4	53.4	67.2
strongly agree	19	32.8	32.8	100.0
Total	58	100.0	100.0	

8. The management establish expected competency to carryout assigned responsibility.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	1	1.7	1.7	1.7
disagree	1	1.7	1.7	3.4
neutral	11	19.0	19.0	22.4
agree	36	62.1	62.1	84.5
strongly agree	9	15.5	15.5	100.0
Total	58	100.0	100.0	

9. The institutions provide mentoring and training opportunities needed to attract, develop and retain competent personnel.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	1	1.7	1.7	1.7
disagree	8	13.8	13.8	15.5
neutral	29	50.0	50.0	65.5
agree	18	31.0	31.0	96.6
strongly agree	2	3.4	3.4	100.0
Total	58	100.0	100.0	

10 The institution policy includes succession plan for senior management and contingency plan for assignment of responsibility important for internal control system.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	1	1.7	1.7	1.7
disagree	2	3.4	3.4	5.2
neutral	21	36.2	36.2	41.4
agree	30	51.7	51.7	93.1
strongly agree	4	6.9	6.9	100.0
Total	58	100.0	100.0	

11. The institutions structure and tone at the top help to establish and enforce individual accountability for performance of internal control responsibility.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	2	3.4	3.4	3.4
disagree	4	6.9	6.9	10.3
neutral	15	25.9	25.9	36.2
agree	28	48.3	48.3	84.5
strongly agree	9	15.5	15.5	100.0
Total	58	100.0	100.0	

12. The institution management oversees and communicates with staff about workload and stress relief opportunities.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree	3	5.2	5.2	5.2
disagree	8	13.8	13.8	19.0
neutral	21	36.2	36.2	55.2
agree	19	32.8	32.8	87.9
strongly agree	7	12.1	12.1	100.0
Total	58	100.0	100.0	

Risk Assessment

14. Management ensures that risk identification considers both internal and external factors and their impact on the achievement of objectives.

	Frequency	Percent	Valid Percent	Cumulative Percent
strongly disagree	1	1.7	1.7	1.7
Disagree	2	3.4	3.4	5.2
Neutral	12	20.7	20.7	25.9
Agree	32	55.2	55.2	81.0
strongly agree	11	19.0	19.0	100.0
Total	58	100.0	100.0	

15. The institution has designed internal controls that mitigate the identified risks.

	Frequency	Percent	Valid Percent	Cumulative Percent
strongly disagree	2	3.4	3.4	3.4
Disagree	2	3.4	3.4	6.9
Neutral	11	19.0	19.0	25.9
Agree	29	50.0	50.0	75.9
strongly agree	14	24.1	24.1	100.0
Total	58	100.0	100.0	

16. The institutions follow established policies, procedure and process to periodically reconcile physical assets with the accounting records to detect fraudulent activities.

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	2	3.4	3.4	3.4
Neutral	8	13.8	13.8	17.2
Agree	32	55.2	55.2	72.4
strongly agree	16	27.6	27.6	100.0
Total	58	100.0	100.0	

17. The institution has a mechanism to identify and react to risk presented by change which occurred internally and externally.

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	3	5.2	5.2	5.2
Neutral	21	36.2	36.2	41.4
Valid Agree	28	48.3	48.3	89.7
strongly agree	6	10.3	10.3	100.0
Total	58	100.0	100.0	

Control activities

18. Management designs appropriate control activities in response to the institutions objectives and risks to achieve an effective internal control system.

	Frequency	Percent	Valid Percent	Cumulative Percent
strongly disagree	1	1.7	1.7	1.7
Disagree	4	6.9	6.9	8.6
Neutral	7	12.1	12.1	20.7
Valid Agree	32	55.2	55.2	75.9
strongly agree	14	24.1	24.1	100.0
Total	58	100.0	100.0	

19. Management control activities consider all the relevant business process, information technology and location where control activities are needed.

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	4	6.9	6.9	6.9
neutral	14	24.1	24.1	31.0
Valid agree	34	58.6	58.6	89.7
strongly agree	6	10.3	10.3	100.0
Total	58	100.0	100.0	

20. The institutions periodically review system privilege and access control to determine whether system privilege and access controls are appropriate.

	Frequency	Percent	Valid Percent	Cumulative Percent
strongly disagree	4	6.9	6.9	6.9
Disagree	7	12.1	12.1	19.0
Neutral	29	50.0	50.0	69.0
Agree	15	25.9	25.9	94.8
strongly agree	3	5.2	5.2	100.0
Total	58	100.0	100.0	

21. The institution has policies and procedure addressing proper segregation of duties among the tasks.

	Frequency	Percent	Valid Percent	Cumulative Percent
strongly disagree	2	3.4	3.4	3.4
Disagree	1	1.7	1.7	5.2
Neutral	8	13.8	13.8	19.0
Agree	39	67.2	67.2	86.2
strongly agree	8	13.8	13.8	100.0
Total	58	100.0	100.0	

22. Control activities employed by the institutions include authorization, approval, comparison and supervisory controls.

	Frequency	Percent	Valid Percent	Cumulative Percent
strongly disagree	1	1.7	1.7	1.7
Disagree	6	10.3	10.3	12.1
Neutral	34	58.6	58.6	70.7
Agree	16	27.6	27.6	98.3
strongly agree	1	1.7	1.7	100.0
Total	58	100.0	100.0	

23. The institution has a written policy and procedures manual.

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	1	1.7	1.7	1.7
neutral	3	5.2	5.2	6.9
Valid agree	19	32.8	32.8	39.7
strongly agree	35	60.3	60.3	100.0
Total	58	100.0	100.0	

24. The institution maintains policy and procedure to facilitate the recording and accounting of transaction in compliance with laws and regulation.

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	2	3.4	3.4	3.4
neutral	5	8.6	8.6	12.1
Valid agree	23	39.7	39.7	51.7
strongly agree	28	48.3	48.3	100.0
Total	58	100.0	100.0	

Information and communication

25. The institution consider both internal and external source of data when identifying relevant information to use in the operation of internal control.

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	4	6.9	6.9	6.9
neutral	10	17.2	17.2	24.1
Valid agree	34	58.6	58.6	82.8
strongly agree	10	17.2	17.2	100.0
Total	58	100.0	100.0	

26. There is a mechanism to quickly disseminate critical information throughout the institutions when necessary.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid				
strongly disagree	1	1.7	1.7	1.7
disagree	1	1.7	1.7	3.4
neutral	17	29.3	29.3	32.8
agree	30	51.7	51.7	84.5
strongly agree	9	15.5	15.5	100.0
Total	58	100.0	100.0	

27. Every transaction are clearly recorded and classified in order to provide reliable information to stakeholders.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid				
strongly disagree	1	1.7	1.7	1.7
disagree	2	3.4	3.4	5.2
neutral	16	27.6	27.6	32.8
agree	37	63.8	63.8	96.6
strongly agree	2	3.4	3.4	100.0
Total	58	100.0	100.0	

28. The institution has process in place to communicate relevant and timely information to external partners.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid				
strongly disagree	1	1.7	1.7	1.7
disagree	3	5.2	5.2	6.9
neutral	27	46.6	46.6	53.4
agree	21	36.2	36.2	89.7
strongly agree	6	10.3	10.3	100.0
Total	58	100.0	100.0	

29. The accounting department has produced timely report to internal body and external party.

	Frequency	Percent	Valid Percent	Cumulative Percent
strongly disagree	1	1.7	1.7	1.7
disagree	1	1.7	1.7	3.4
neutral	10	17.2	17.2	20.7
agree	32	55.2	55.2	75.9
strongly agree	14	24.1	24.1	100.0
Total	58	100.0	100.0	

30. Management establishes a baseline to monitor the internal control system.

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	1	1.7	1.7	1.7
neutral	14	24.1	24.1	25.9
agree	36	62.1	62.1	87.9
strongly agree	7	12.1	12.1	100.0
Total	58	100.0	100.0	

31. Management has process in place to assess whether controls within each of the four components of internal control are present and functioning as intended.

	Frequency	Percent	Valid Percent	Cumulative Percent
strongly disagree	1	1.7	1.7	1.7
disagree	2	3.4	3.4	5.2
neutral	17	29.3	29.3	34.5
agree	30	51.7	51.7	86.2
strongly agree	8	13.8	13.8	100.0
Total	58	100.0	100.0	

32. Managment takes adequate and timely action to correct deficiency reported by the internal audit function, financial and programmatic monitoring activities.

	Frequency	Percent	Valid Percent	Cumulative Percent
disagree	3	5.2	5.2	5.2
neutral	12	20.7	20.7	25.9
Valid agree	31	53.4	53.4	79.3
strongly agree	12	20.7	20.7	100.0
Total	58	100.0	100.0	

33. The institution periodically evaluates business process such as cash management, procurement etc...

	Frequency	Percent	Valid Percent	Cumulative Percent
strongly disagree	1	1.7	1.7	1.7
disagree	1	1.7	1.7	3.4
Valid neutral	17	29.3	29.3	32.8
agree	33	56.9	56.9	89.7
strongly agree	6	10.3	10.3	100.0
Total	58	100.0	100.0	

Appendix 3

Micro Finance institution in Addis Ababa

Institutions	Year of Establishment
Specialized financial and promotional MFIs	1997
Addis credit and saving association s.co	1998
Vision MFIs	1998
Gasha MFIs	1998
Africa village MFIs	1998
Poverty reduction and community improvement MFIs	1999
Meklit MFIs	2000
Eshet MFIs	2000
Metemamen MFIs	2002
Agar MFIs	2004
Letta MFIs	2004
Harbu MFIs	2005
Digaf mfi's MFIs	
Lefayda credit and saving MFIs	2007
Tesfa MFIs	2008
Dynamic MFIs	2009
Nisir MFIs	2014
Rays MFIs	2014
Awach MFIs	

Source: Association of Ethiopian micro finance institution (AEMFI).