ST MARY'S UNIVERSITY

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ASSESSMENT OF INTERNAL CONTROL SYSTEM IN

ETHIOIPA INSURANCE CORPORATION

By

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Declaration

I, the undersigned, declare that this thesis is my original work and has not been presented for a Degree in any other university, and that all source of materials used for the thesis have been duly Acknowledged.

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Abstract

The study aimed to assess whether there is an effective internal control, identify areas of deficiency, and there to indicate areas of emphasis to improve the internal control in Ethiopian insurance corporation.To achieve the objectives the survey method is employed in mixed approach. The population of this study is the employees of EIC. All the six branches of EIC were taken to be sample in which 420 employees are the total population. Among these population sample size of 120 were taken based on the approach of Dixon C and B .Leach (1978). Key informants were taken to be managers of the six districts purposively. Questionnaire was distributed to 120 respondents, from them 115 have returned the questioners and in-depth interview was held with key informants. The Data from the questionnaire was analyzed using simple statistics such as frequency percentage and mean using SPSS results. Using both approaches of research the internal controls in EIC were not effective enough to achieve the control objectives. The result indicates that the risk assessment component of internal control is notpracticed in EIC. There is also inadequate control environment, control activities and inadequate flow of information and communication in EIC. Generally, the study has implied that EIC needs an improvement in its internal control system.Finally the researcher recommended that the human power of EIC has to understand the policies, regulation and procedures in the corporation. Moreover, it was recommended that there should be a clear line of responsibility, asset register and adequate documentation should be maintained in EIC, Good information flow and line of communication, control system effectiveness should be evaluated against clearly established criteria financial authorities to take corrective controls in a repeated failure of the system.

List of Abbreviations

COSO: Committee of Sponsoring Organizations of the Tread way Commission

EIC: Ethiopian Insurance Corporation

IC: Information and Communication

ICS: Internal Control System

MO: Monitoring

OFAG: Office of Federal Audit General

RA: Risk Assessment

SAS: Statement on Auditing Standards

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The aim of every profit-making organization is to earn profit, stay in business for a long time, meet customers' demand and expectations, pay their debts when they fall due and satisfy the aims of stakeholders. These objectives are easily achieved if the owner and manager of the company is the same person. However, as the business grows and expands, the need for additional employees arises and the owner employs more and more people to help manage the company. This gradually results in what is called in business terms "separation of ownership and control" (Smith, 1776) as cited in D. Annen (2010). At this point, the owner realizes that precautions must be taken to protect the company as well as the interest of the owner. The issue of ownership and control becomes more complicated if a company is big and listed on a recognized stock exchange. That is, a company with much more capital investment both in cash, assets and personnel. Thus, the owners need an assurance that the intended objectives of the company would be achieved, assets of the company would be protected from theft and mismanagement, the accounting information would be received on time and that they would be accurate and reliable.

The Ethiopian insurance corporation (EIC) describes itself that it changes its strategy of accounting before the industry does so that the corporation could go with the changes. The change initiatives that are expected to transform the Corporation and also move it one step closer to its vision to become a world class insurer have been relentlessly undertaken during the reporting periods. The Corporation has been carrying out these initiatives in two main areas. The

business process reengineering (BPR) study conducted by the Corporation with the aim of bringing radical shift in the process of service delivery and hence zenith in customer satisfaction was fully completed and put into operations starting from 1st April 2011. As a result, the Corporation was able to see some major shifts in service delivery and hence customer satisfaction and is still working on some areas where there is a need for improvement and adjustment for further results (EIC annual report, 2011/12).

An organization needs to understand its mission and articulate it clearly. This makes it easier to recognize the risks associated with the mission. Once an organization identifies its mission, it can begin its risk assessment by listing the possible risks that threaten the business with the aim of identifying high priority risks and focusing on those first. Internal control on the other hand, is "the whole system of controls, financial and otherwise, established in order to provide reasonable assurance of: (a) effective and efficient operation; (b) internal financial control; (c) compliance with laws and regulations" (CIMA, 2006).

The formality, structure and nature of a company's system of internal control will generally vary with the type of sector or industry, size of the company and the level of public interest in it. Since profits are in essence the reward for successful risk-taking, the purpose of an internal control system is to help manage and control risk appropriately rather than to eliminate it as indicated in the Turnbull Report (ICAEW, 1999) as cited in D. Annen (2010). Thus, control mechanisms should be incorporated into the business plan and embedded in the day-to-day activities of the company.

1.2 Statement of the Problem

The growth and development of the financial institutions are dependent on the effective and efficient management of its internal system. As a matter of fact, objective setting is considered a

precondition to internal control. By setting objectives, management can then identify risks to the achievement of those objectives. To address these risks, management of organizations may implement specific internal controls. The effectiveness of internal control can then be measured by how well the objectives are achieved and how effectively the risks are addressed(Milichamp, 2002).

More generally, setting objectives, budgets, plans and other expectations establish criteria for control. Control itself exists to keep performance or a state of affairs within what is expected, allowed or accepted. Control built within a process is internal in nature. It takes place with a combination of interrelated components - such as social environment effecting behavior of employees, information necessary in control, and policies and procedures. Internal control structure is a plan determining how internal control consists of these elements (Lannoye, M.A 1999).

The concepts of corporate governance also heavily rely on the necessity of internal controls. Internal controls help to ensure that processes operate as designed and that risk responses (risk treatments) in risk management are carried out. In addition, there needs to be in place circumstances ensuring that the aforementioned procedures will be performed as intended: right attitudes, integrity and competence, and monitoring by managers (Mili champ, 2002).

To ensure the effective and efficient managements of credit delivery and recovery of all facilities granted at expiry, internal controls are normally put in place. In the financial sector to enhance the effectiveness and efficiency on internal control systems various legislations have been put in place.

Notwithstanding, internal controls only provide reasonable assurance, not absolute assurance. This is because it is people who operate the internal controls, breakdowns can occur, human error, deliberate circumvention, management override, and improper collusion among people who are supposed to act independently can cause failures of the internal control to achieve objectives (Lannoye, M.A 1999).

Within existing Ethiopian government development goals and transformation plan, executives frequently warn that corruption and rent seeking is one of the threats for this plan and its implementation. For example, the OFAG report to parliament of FDRE government for the budget year 2004/2005 and previous budget years uncovered several weaknesses of internal control maintained and executed by government agencies and, particularly on internal control related to use of budget and authorization of asset acquisitions. During 2003/2004 Ethiopian budget year the report revealed only 44% of audited public government institutions were provided unqualified audit report, while 35% were provided similar audit opinion during 2004/2005(OFAG Audit report,2005). The report finally asserts that it is a threat for the government to meet its set development goals and objectives.

The interest of the researcher to focus on EIC emanates from the fact that EIC is one of the institutions where there is high transaction and financial activities. Moreover, EIC is one of the institutions which lacks attention of researchers in its internal control system(Office of Federal Audit General, 2016).In addition the study area is the best knowledge area of the researcher and wants to contribute for the improvement of the internal control system of the corporation with the provision of the output of this thesis. Based on the above fact, this research try to assess the extent of the internal controls and effectiveness of internal controls in risk management in the financial institutions with a particular reference to Ethiopian Insurance Corporation.

1.3 Objective of the Study

1.3.1 General Objective

The general objective of this research is to assess the internal control system of the accounting in Ethiopian Insurance Corporation.

1.3.2 Specific Objective

More specifically this research has the following objectives

1. Examine the control environment of EIC for internal control.
2. Reveal the level of risk assessment for internal control in Ethiopian Insurance Corporation.
3. Examine the control and monitoring activities of internal Controls in EIC.
4. Show the level of information and communication practiced to improve the effectiveness of internal controls.

1.4 Scope of the Study

This study is about the internal control of EIC including control environment, control and monitoring activities, and information and communication system and risk assessment. The study is limited within the population of employees of EIC. EIC is one of the institutions where there is high transaction and financial activities. Moreover, EIC is one of the institutions which lack attention of researchers in its internal control system.

Though it's very important to cover the insurance industry as a whole, because of the limitation of time, this study has considered only the case of the Ethiopian Insurance Corporation. Even though the corporation faced many problems (OFAG, 2016), it is too difficult to incorporate and

discuss all the problems of the corporation in this study. Therefore considering the nature of sensitivity this research study is delimited to the internal control.

1.5 Significance of the Study

This research work will provide a basis or a standard against which companies could assess their internal control system and judge their effectiveness. In other words, the study is to provide common language, understanding and a practical way for companies to assess and improve their internal control systems.

The previous studies focused on banks but not on insurance companies as well as some focused on only analysis of financial performance not on the internal control. Therefore, this study is expected to provide empirical evidence on the internal control of the Ethiopian Insurance Corporation (EIC). Furthermore, many parties would benefit from the results that will emerge from the results of the study. Administration interested in identifying internal control of EIC to take the necessary actions to improve the performance of the company and choose the right decisions. Financial institution agency interested in knowing the internal audit accounting to take the necessary measures to avoid crises of the bankruptcy in the company.

This study can contribute potentially serve as a stepping stone for further research in the area.

1.6 Organization of the Paper

The study is organized into five chapters. Chapter one is the introductory chapter that covers the Background of the study, statement of problem, objective, significance, scope and organization of the study. Chapter two is review of relevant literature. Concepts and Theoretical Framework: Chapter three is the methodology section. It focuses on the research design, population, sampling, research instruments, data collection, and data analysis. Chapter four is presentation of

data and analysis of results, findings and discussions. And finally Chapter five is the conclusion

and recommendation.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

This chapter focuses on related literatures on internal control systems. It has both theoretical and empirical review. The theoretical review includes definition, objectives, types and components of internal control system while the empirical part presents different studies in related fields with their findings.

2.1 Definition of Internal Control

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. (COSO Definition of Internal Control) 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. Internal control is a key element of the Foreign Corrupt Practices Act (FCPA) of 1977 and the Sarbanes-Oxley Act of 2002, which required improvements in internal control in United

States public corporations. Internal controls within business entities are also referred to as operational controls.

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.

Besides, Alan G. Hevesi (2005) also defined internal control as the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives and mission.

The term internal control encompasses all the methods, procedures and arrangements adopted within an organization to ensure as far as possible the safeguarding of assets, the completeness, accuracy and liability of the accounting records and the promotion of operational efficiency and adherence to management policies (Okai, 1996).

2.2 Internal Control Objectives

Internal Control objectives are desired goals or conditions for a specific event cycle which, if achieved, minimize the potential that waste, loss, unauthorized use or misappropriation will occur. They are conditions which we want the system of internal control to satisfy. For a control objective to be effective, compliance with it must be measurable and observable . Internal Audit evaluates Mercer's system of internal control by accessing the ability of individual process controls to achieve seven pre-defined control objectives. The control objectives include authorization, completeness, accuracy, validity, physical safeguards and security, error handling and segregation of duties.(Alan G. Hevesi2005)

2.3 Types of Internal Control Systems

Different writers have come with different types of internal control systems. Mili champ (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 Dr Lousteau (2006), the state of New York and diNapoli (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 Directive Controls

Directive Controls relate to policies and put in place by top management to promote compliance with independence rules. To ensure compliance with directive controls, a clear, consistent message from management that policies and procedures are important must permeate the organization. They provide evidence that a loss has occurred but do not prevent a loss from occurring. Examples of detective controls are reviews, analyses, variance analyses, reconciliation, physical inventories, and audits. However, detective controls play critical role providing evidence that the preventive controls are functioning and preventing losses. Control activities include approvals, authorizations, verifications, reconciliation, and reviews of performance, security of assets, segregation of duties, and controls over information systems (Di Napoli, 1999).

2.3.2 Preventive Control

Preventive controls relate to measures taken by a firm to deter noncompliance with policies and procedures. 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 (Dr Lousteau, 2006)

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 Detective Controls

Directive controls are aimed at uncovering problems after they have occurred. Although necessary in a good internal control system, detection of an independence violation after the fact is less desirable than prevention in the first place. Detective controls rarely work well as a deterrent in the absence of severe penalties (Dr Lousteau, 2006).

2.4 Components of Internal Control

COSO defines internal control as having five components:

- Control Environment-sets the tone for the organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control.
- Risk Assessment-the identification and analysis of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed

- Information and Communication-systems or processes that support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities

- Control Activities-the policies and procedures that help ensure management directives are carried out.

- Monitoring-processes used to assess the quality of internal control performance over time

According to the COSO framework, internal controls are put in place not only to help companies reach profitability goals and achieve their missions, but also to minimize surprises along the way. An internal control system enables management to deal with quickly changing economic and competitive environments, market changes such as shifting customer demands and priorities and restructuring. So what then is internal control? There seems to be no distinct answer to this question. It could mean different things to different people, which could be a factor of confusion among business people, legislators, regulators and others. Misunderstandings and different expectations could easily lead to problems within organizations and these problems could get even more apparent when the term, if not clearly defined, is written into laws, regulations and or other official documents. The COSO report deals with the needs and expectations of managers and others and describes internal control in order to establish a common definition that serves the needs of different parties and to provide a standard against which organizations can assess their control systems and determine how they can be improved. According to the report everyone in the organization is responsible for the internal control, yet in different ways.

Management is responsible for the establishment of internal control policies and procedures. Management is again accountable to the board of directors, who is responsible for providing governance, guidance and oversight and all personnel are responsible for reporting problems, such as policy violations or illegal actions.
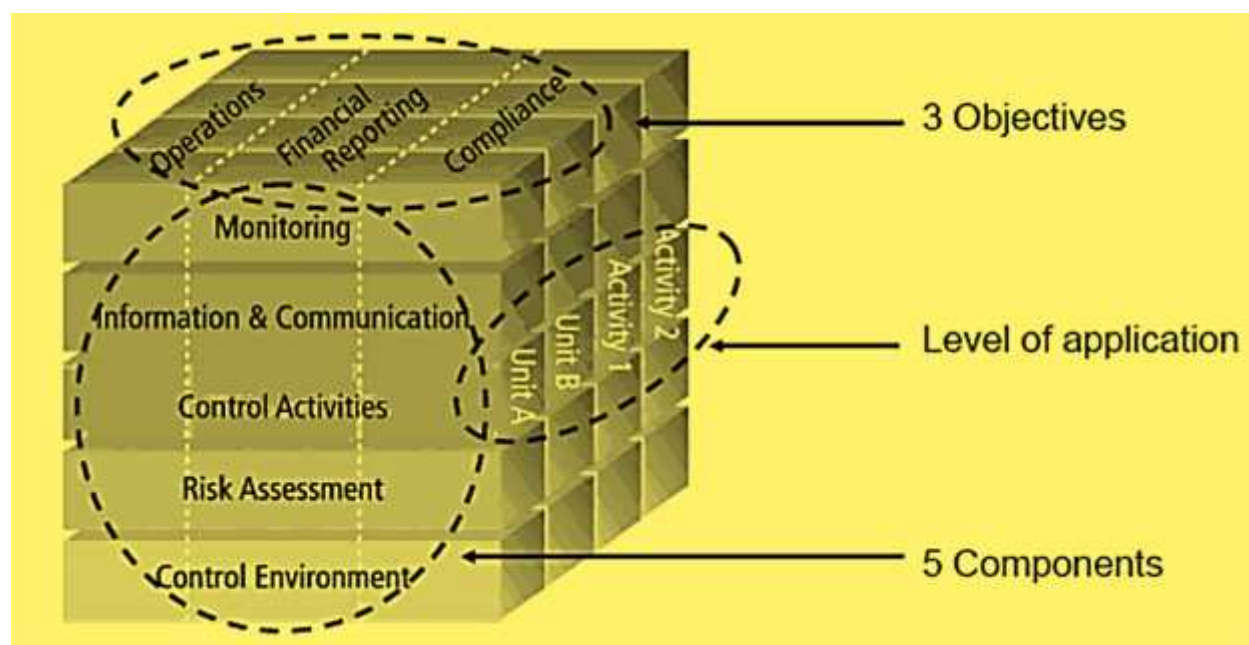
Figure 1: The COSO Internal Control

Source: Adapted from the 2004 COSO

Traditionally, the accounting profession's definition of internal control was focused on financial reporting and compliance aspects of control. However, the definition provided by AICPA in 1949 includes operational, financial reporting and compliance aspects of internal control (Mautz and Winjum, 1981). This definition was amended in 1958 and 1972 successively and then separated these controls into accounting controls and administrative controls. AICPA directs accountants and auditors' attention on traditional accounting controls such as authorization,

segregation of duties, cross-checking, in order to minimize litigation risks. This narrows the focus of control. The reason(s) for restricting accountants and auditors' responsibility to accounting and administrative controls is much of a debate. As a result of technological advancements and changing management techniques, organizations employ less people and are therefore less able to perform many internal accounting controls, for example, layers of authorization, cross-checking, segregation of duties, supervision et cetera. A range of control elements are therefore required in order for internal controls to be effective.

The COSO framework (see figure 1) shows three objectives: Operations (which has to do with how effective and efficient an entity uses its resources), Financial Reporting (which deals with the preparation of reliable financial statements) and Compliance (which relates to an organization's compliance with applicable laws and regulations). The framework also identifies five basic control components: Control Environment, Control Activities, Risk Assessment, Information and Communication, Monitoring and the different units of application. The objectives show what an organization strives to achieve and the components show what is needed to achieve these objectives at different levels of the organization. All the components are related to each objective. For example, when talking about the reliability of financial reporting, all the five components must be present and functioning effectively in order to conclude that an organization's internal control over reliable financial information is effective.

Effective internal control requires a strong control environment under which the other components are implemented. The principles underlying good control and commitment to sound control compliance must be present so as to ensure healthy interactive control structure. Risk assessment forms the basis for determining where internal control activities are needed. This

enables the organization to focus on those risks that will impact on the overall success of the firm. Communicating information resulting from the exercise of internal controls keeps key personnel and management informed of potential problems. An effective monitoring system is an ongoing assessment Programmed that oversees the design, implementation and effectiveness of controls in mitigating risks.

Internal control must also be tailored to meet the needs of the individual business. This is because the more elaborate andorganizations control systems, the greater the cost (IRM et al., 2002). The scandals of recent years emphasized the need to evaluate, scrutinize and reformulate control systems of checks and balances in order to guide corporate executives and persons in decision-making. Therefore as much as an organization would like to implement appropriately derived control measures; it must also consider the amount of money involved in implementing such measures.

Finally, there is the need for companies to have a risk protection strategy (Chorafas, 2008). Insurance is known to be one of the methods used by companies as risk financing in order to obtain financial protection against the impact of risks. However, it must be noted that losses such as organizational reputation and employee morale are uninsurable and difficult to regain once they are lost. Therefore, organizations must put in effort to maintain their reputation and goodwill.

2.4.1 Control Environment

This sets the tone for the organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control. The control environment reflects the board of directors' and management's commitment to internal control. It provides discipline and structure to the control system. Elements of the control environment include the organization

structure of the institution, management's philosophy and operating style, the integrity, ethics, and competence of personnel, the external influences that effect the organization's operations and risk management practices, the attention and direction provided by the board of directors and its committees and the effectiveness of human resources policies and procedures. (Administrator of National Banks, Comptroller's Hand Book 2001), (Hevesi, 2005) however considers the Control environment to be the attitude toward internal control and control consciousness established and maintained by the management and employees of an organization. It is a product of management's governance that is its philosophy, Style and supportive attitude, as well as the competence, ethical values, integrity and morale of the people of the organization. The control environment encompasses the attitudes and actions regarding control.

This environment sets the organizational tone, influences control consciousness, and provides and foundation for an effective system of internal control. The control environment also provides the discipline and structure for achieving the primary objectives of internal control (Lannoye,M.A- 1999). Flowing from the above the board of directors should show concern for integrity and ethical values. There must be a code of conduct and/or ethics policy and this must be adequately communicated to all levels of organization. Also there must be a structure appropriate, which is not dominated by one or a few individuals and an effective oversight by the board of directors or audit committee. Management also needs to put a mechanism in place to regularly educate and communicate to management and employee the importance on internal controls, and to raise their level of understanding of controls.

2.4.2 Risk Assessment

This is the identification and analysis of relevant risks to the achievement of objectives, forming a basis for how the risks should be managed. 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. Risk assessment is a systematic process for integrating professional judgment about probable adverse conditions and events, and assessing the likelihood of possible losses (financial and non-financial) resulting from their occurrence.

The second internal control standard addresses risk assessment. 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.

Risk Identification: Management should perform a comprehensive analysis of identifiable risk, including all risks associated with department-wide and activity level objective (derived from the organization's mission). The activities analyzed should include those that support both financial and nonfinancial objectives. Management must consider the significant interactions with external organizations as well as those internal to their organization at both the department-wide and activity levels. Several means of risk identification can be used, including; management planning conferences, strategic planning, periodic reviews of factors effecting department's activities, changing needs or expectations of agency officials or the public and natural catastrophes. (Lannoye M.A,1999).

Risk Analysis: After identifying department-wide and activity level risk, management should perform a risk analysis. The methodology may vary since risks are difficult to quantify; however, the process generally includes the following:

- Estimating risk significance • assessing likelihood/frequency of occurrence
- Considering how to manage risk

Risk with little significance and low probability of occurrence may require special attention. After assessing the significance and likelihood of risk, management must determine how to control it. Approaches may differ among agencies, but they must be designed to maintain risk within levels deemed appropriate by management, considering the concepts of reasonable assurance and cost-benefit. Once implemented, the approach should be continually monitored for effectiveness. (Lannoye, M.A 1996)

Managing Risk during Change: When change occurs in an organization it often affects the control activities that were designed to prevent or reduce risk. In order to properly manage risk, management should monitor any change to ensure that each risk continues to be managed as change occurs. Management should inform employees responsible for managing the organization's most critical risks about any proposed changes that may affect their ability to manage those risks. Managers should continually monitor the factors that can affect the risks they have already identified as well as other factor that could create new risks. (Walker, 1999).

2.4.3 Control Activities

The policies and procedures that help ensure management directives are carried out. According to the Administrator of National Banks, (2001), control activities are the policies, procedures, and practices established to help ensure that an organization's personnel carry out board and management directives at every business level through the organization. These activities help

ensure that the board and management act to control risks that could prevent an organization from attaining its objectives. The New York State comptroller (1999) defined control activities as tools – both manual and automated – that help identify, prevent or reduce the risks that can impede accomplishment of the organization's objectives. Management should establish control activities that are effective and efficient.

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.

2.4.4 Information and Communication

According to the fourth internal control standard, for an agency to run and control its operations, it must have relevant, reliable information, both financial and non-financial, relating to external as well as internal events. That information should be recorded and communicated to management and others within the agency who need it and in a form and within a time frame that enables them to carry out their internal control and operational responsibilities. Information and communication are essential to effective control. Information about an organization's plans, control environment, risks, control activities, and performance must be communicated up, down, and across an organization. Reliable and relevant information from both internal and external sources must be identified, captured, processed, and communicated to the people who need it in a form and timeframe that are useful (Steihoff, 2001).

According to the comptroller's Handbook (2001), accounting, information, and communication systems capture and impart pertinent and timely information in a form that enables the board,

management, and employees to carry out their responsibilities. Accounting systems are the methods and records that identify, assemble, analyze, classify, record, and report on transaction. Information and communication systems enable all personnel to understand their roles in the control system, how their roles relate to others, and their accountability. The entity must be able to prepare accurate and timely financial report including interim reports. The board of directors and management must ensure that they receive accurate and timely information to allow them to fulfill their responsibilities. Management must also provide written job descriptions and reference manuals that describe the duties of personnel.

2.4.5 Monitoring

Monitoring is the assessment of internal control performance over time; it is accomplished by ongoing monitoring activities and by separate evaluations of intern control such as self-assessments, peer reviews, and internal audits. The purpose of monitoring is to determine whether internal control is adequately designed, properly executed, and effective. Internal control is adequately designed and properly executed if all five internal control components (Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring) are present and functioning as designed (Springer, 2004). Periodic evaluations of internal control are made and personnel, in carrying out their regular duties, obtain evidence as to whether the system of internal control continues to function. Management should implements internal control recommendations made by internal and independent auditors, corrects known deficiencies on a timely basis, and responds appropriately to reports and recommendations regulators. There must also an internal audit function that management uses to assist in their monitoring activities. In Ghana Health service there is the internal audit and monitoring units that carries out the functions of monitoring internal controls.

2.5 Importance of Risk Management and Internal Control Systems

Risk is defined as the combination of the probability of an event and its consequences (IRM et al., 2002). According to ICAEW (1999), risk is defined as real or potential events which can reduce the likelihood of achieving business objectives. The term involves the potential for both gain and exposure to loss. Risk management and internal controls are means by which businesses' opportunities are maximized and potential and material losses are reduced.

An organization sets strategic and operational objectives and then manages the risks that threaten these objectives. Internal control is put in place to help manage risks and increase shareholders' value. Risks can be managed by transferring them to third parties such as an insurance company. The environments in which organizations operate are evolving constantly and as such, the risks facing these organizations change too. Therefore, a company's systems of risk management and internal control must be responsive to these changes in order to be successful. Important elements of a sound internal control system are effective financial controls, including the management of proper accounting records. Since risks exposed to a company cannot be completely eliminated, the role of internal control is to help manage and control these risks appropriately. They make sure that organizations are not exposed to avoidable risks and that financial information received and used both in the company and by the public is accurate and reliable. Therefore, a company's internal control systems play a key role in the management of risks that significantly affect the achievements of operational, financial reporting and compliance objectives.

2.6 Problems Related to Internal Control Systems

In spite of modern business planning models and methods adopted by many organizations, risk assessment is performed non-systematically and intuitively and the risk management plan is not

prepared at all (Collier et al., 2007). Due to this, problems are solved once they arise, usually rather too late. Notwithstanding the notion of risk as an event having a potential negative impact on business objectives, an integrated risk management system is to assess positive outcomes as well. In view of risks exposed to business goals, organizations develop and implement systems of internal controls, which act as preventive measures. It is therefore important to assess whether internal controls that are put in place and the related risks are adequately linked. Companies face lots of challenges when it comes to risk management and the implementation of internal control systems.

Among the problems are lack of technical knowledge; the process of risk management lacks a clear definition and has a low level of formalization, managers and individual units of the organization have different understanding of risks and their assessment criteria, high cost of information and high costs attributed to internal controls exceed the impact of a respective risk, processes of achieving compliance with external requirements (namely, those set by supervisory bodies, a controlling company, et cetera) are expensive and sometimes ineffective.

There is a misunderstanding as to whether risk management is a sub-division of internal control or vice versa or they go together. The management of risks is very important and significant to the achievement of business objectives and therefore plays a key role in a company's system of internal control and corporate governance. Leitch (2004) published an article on Risk Management versus Internal Control. In this article, he noted that there is no difference between these two topics in principle. He went on to point out that the scope of each phrase seems to be getting wider. However, there are big differences in emphasis, with many practical implications. In the researcher's opinion, the management of risks and their control measures are inseparable. First, risks must be identified, assessed, then managed and mitigated by putting in place or

implementing a strong system of internal control. As a result of separation of ownership from control, both the corporate world and governments turn to risk management and internal controls to give calm and reassurance (Collier et al., 2007).

2.7 Empirical Review

Researches of internal control have not been done in Ethiopian Insurance Corporation yet. However, different researchers have studied on internal control of different business organizations. These studies have been reviewed empirically and presented as follows.

Despite rare studies on internal control in Ethiopia, several investigations were made in world to evaluate internal control of businesses and governmental institutions. Accordingly Ronald (2011) evaluated internal Control Weaknesses in Local Government. Towns and villages account for more than 1,400 municipal government entities in New York State constituted in the study. The study focused on the internal control issues identified in an extensive, ongoing series of audits of towns and villages undertaken by the New York State Comptroller's Office. All towns and villages audit reports issued by the office were examined. These general internal control audits were used to identify towns and villages with internal control weaknesses. The budgets of the towns reviewed were limited to an examination of the annual budget for the following year, reviewing the reasonableness of projected revenues and expenditures, the proper use of accumulated fund balance, and general financial condition of the municipality (especially deficit issues).

Endashaw Zeleke (2015) has studied on Internal Control and Its Contributions to Organizational Efficiency and Effectiveness on Yes Brands Food and Beverage Plc. to study if there is an appropriate internal control. Based on the Control Environment of Internal Control Systems the result showed that 100% agreement that all the respondents agreed that there an internal control

system at Yes Brands Food and Beverage PLC.Information and Communication of Internal Control Systems was studied by Edenshaw Zeleke and the result showed that Ta 100% of the respondents agreed that they receive relevant information regarding legislation, regulatory developments economic changes, or external factors that may affect the organization. They also agreed that key information about the organization's operations are identified and regularly reported. Customers' complaints are taking seriously and investigated upon (Endashaw, 2015). Endashaw has finally concluded that periodic review internal control system in the organization that provides relevant and credible information that can use to target assistance and inform future assessments. Periodic review activities were conceived to have significant effects on the objectives of the organization.

Ndungu Hannah has studied The Effect of Internal Controls on Revenue Generation in the case of the Nairobi Enterprise and Services Limited. The result has shown that the study revealed that UNES reviews its ICS when need arises. The system helps in ensuring that correct and accurate information is maintained thus minimizing opportunities for fraud. Inventory, moveable assets and operations in new units need more attention. The study revealed also that audit committee adequately maintains a direct line of communication with the entity's external and internal auditors. There were formalized policies and procedures for all major operations of the entity and policies. The Management is committed to the operation of the system and provides feedback to the officers about the operation of the system Ndungu Hannah (2013).

Ndungu has concluded that there were honest and fair dealings with all stakeholders for the benefit of the organization. The study revealed that changes to the prescribed billing amount require the approval of an authorized individual. Reconciliation is done monthly to reconcile separate records and properly resolve any difference. Procedures exist to prevent the interception

or alteration by unauthorized persons of billings or statements before posting. There are independent process checks and evaluations of controls activities on ongoing basis. Internal reviews of implementation of internal controls in units are conducted periodically (Ndungu, 2013).

Fraud and deception seem to be overall something that a willing and determined person will find a way to commit. Therefore, it is not valid to say that a corporate internal control system would prevent fraud. Nevertheless, internal control is something that minimizes the opportunity and in such it is a necessity for all companies to have.

In this case, Jenna Saarni (2012) has studied on Financial Fraud - Importance of an Internal Control System to find out how accountants and managers should be controlled and/or motivated to conduct ethical behavior in financial accounting, so that companies would produce truthful and reliable financial records. According to a definition represented by Glader, a consultant from BDO Oy, internal control should provide added value to the organization and improve its operations (24 Apr 2012). All of the survey respondents confirmed that their companies' internal control does this. In more precise, according to what was answered, the controls make it possible to provide high-quality service globally, set standard operating principles and ways of working according to policies and guidelines, which brings efficiency, and keeps employees sharp with internal activities. In addition, the different control activities make accurate, relevant and timely reporting possible (Saarni, 2012). According to the theory behind the Fraud Triangle, all of three components of opportunity, motivation and rationalization, need to be in place for fraud to happen (Harrison et al. 2011, 234; Ernst & Young 2009, 1) as sited in Jenna Saarni (2012). The components, which explicitly need more consideration include the internal environment, event identification, information and communication, and possibly monitoring. When analyzing the

data represented by the interviewees, it becomes apparent how interrelated the different components are in practice. In all of the cases it seems the internal environment sets the base, as well as the limitations to event identification, and information and communication.

DessalegnGetie has also studied on Antecedents and Organizational Performance Implication of Internal Audit Effectiveness based on evidence of Ethiopia to examine internal audit practices in selected Ethiopian organizations to identify country- and organization-level contextual influences on internal audit effectiveness. Results of canonical analysis suggest that IA effectiveness, as measured by IA proficiency, IA independence and objectivity, scope of IA work, quality of IA planning and execution, and quality of IA reporting and follow up, is significantly associated with a set of organization-level context factors. These factors are organizational category, organizational size, and organizational policies authorizing IA, organizational risk exposure, auditee cooperation, and internal-external audit linkages. IA proficiency, scope of IA work and IA planning and execution appear to be higher in organizations where organizational policy authorizing IA is clearly defined and organizational risk exposure and internal-external audit linkages are stronger (Dessalegn Getie 2015).

Temesgen states in his research that Lack of adequate qualifies insurance professionals is also the current challenge of the insurance industry. Insurance companies in Ethiopia start out insurance transaction with little understanding of it. This is because there is little specialized training in the subject of insurance. As result, insurance companies lack experienced and qualified staff. This makes insurance companies inefficient while determining risks and giving professional insurance services to their customers Temesgen (2015). The current existence of fast economy growth in the country creates an opportunity to the insurance companies to expand their business throughout the country by creating additional insurance customers and additional

revenue. The existing economic growth in the country is creating a number of business transactions and projects which require insurance covers. This makes insurance companies to expand their business coverage in the country and able to have higher income generated from the economy (Temesgen, 2015).

Alaudin et al. (2006) focused on management control systems, justice and trust in the Malaysian Islamic banks with the help of a questionnaire and interview and examined the documents relating to the concepts of justice and trust. Due to the inherently complex nature of the internal control process, a study by O'Leary et al. (2006) spread itself across a broad range of auditing, accounting and general business areas, and stated that an adequate system of internal control is considered critical for good corporate governance.

Tekalign (2011) investigated if the existing internal control in public enterprises in Ethiopia contributing to accounting fraud. The survey instruments on 11major public enterprises in Addis Ababa were conducted using self-administered questionnaires to auditors and accountants. Frauds were represented as any violation of principles, manipulation of sales, expenses or inventories. The result indicated that the respondents believe the existed internal controls were sufficient to keep possibility of accounting fraud to reasonably low level. Even though the internal control would detect accounting fraud, respondents require codes of conduct and employees training as additional tool to detect fraud events.

2.8 Summary &Knowledge Gap

In general the literature indicates that organizations should invest heavily on the internal control and used to improve the quality of their internal control systems. The devotion of resources, knowledge, time and human power is needed for a number of reasons, notably: good internal

control is good business by itself. It helps organizations ensure that operating, financial and compliance objectives are met.

Literatures indicate that there are different types of internal control. While most of the classifications are based on purposes of the controls, some other classifies them based on the control methods applied in the system. However, the objectives of every internal control system were to achieve organizational efficiency and effectiveness, meet corporate objective and ensure adherence to rules and regulations.

Internal control is integration of elements which are used to operate and control its system. The common elements/frame works are control environment, control activities, risk assessment, information and communications and monitoring. Control environment is the atmosphere or the stone at the top of internal control system. Control activities are policies and procedures used to operate the internal control system. Identifying risks caused by failure of internal control and an inherent risk of the system also a standard of ICS. A flow of communication by financial reports and accounting system plays role in effective internal control.

Monitoring is done continuously by external auditors, internal auditors and management; to review and evaluate the effectiveness of internal control, if corrective actions are required. Internal control is not without limitation. Obviously ICS cannot guarantee an absolutely free of errors and fraud performances. The system is designed and operated by people, who can cause failure of internal control by inherent nature of errors or an intentional collusion. The judgment whether internal control is dependent on the objective of the internal control and criteria's established by management. COSO set criteria's to evaluate effectiveness of internal control, in addition to existence of the standards of the control. The result of effective internal control is resulted in effectiveness in achieving objectives and efficiency in the process of operating the

controls and being economical. This measure has been referred by several scholars as VFM. The empirical literature indicated that; though internal control is reasonably a preventive shield of fraud and misappropriation of stewards of resources, several reported cases of multibillion dollar fraud and reporting scandals over the world have so far refueled public policy debates on internal control, that internal control become an issue of considerable interest to policy makers and management to avoid those fraud. Thus the studies reviewed internal control of organizations, and government units ICS in essence of preventing fraud. Therefore it is not in doubt that studies and continuous improvements of ICS are needed in individual organization and in the country in summative to achieve the planned objective. The context in Ethiopia doesn't seem sufficient in exploring internal control effectiveness of the government units, private organization and not for profit organizations. Particularly taking into consideration the recent reports of OFAG in government units, it is an area to put an intensive effort and contribute to the foundation of the development objective underway.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter outlines and explains the methodology employed to address the research questions. This includes the research design, population under study, sample size, instrument used in the study and method of data analysis.

3.1 Research Design

A research design is the logic that links the data to be collected (and conclusions to be drawn) to the initial questions of a study (or a strategy or plan of action that links methods to outcomes) (Creswell, 2003). This research is intended to find out how effective internal control systems in the Ethiopian Insurance Corporation in reducing risks and ensuring effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws. This is a fact finding exercise, thus the survey method of data collection was employed to collect data of both quantitative qualitative nature. 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 was therefore designed to collect the data.

The study employed a combination of quantitative and qualitative approaches. The use of quantitative and qualitative methods in the study is considered to help counter-balance the limitations of one approach with the strengths of the other and enhance reliability of the results (Grix 2004; Dornyei 2003; Rudestam&Newtom 2001;Punch 1998;Jicks 1979). Specifically, qualitative methods enable flexible and detailed exploration of issues in a broader context while quantitative methods help to make statistical inferences about the relationships between variables (Creswell 2009; Punch 1998). This approach enables detailed interpretation to enrich

understanding of the results (Gillham, 2000). Both qualitative and quantitative data normally serve to achieve various purposes. As Miles and Huberman (1994, p. 42) comment: Both [quantitative and qualitative data] can be productive for descriptive, reconnoitering, exploratory, inductive, and opening purposes.

3.2 Population & sampling technique

This study is about the internal control system of EIC and the population of this study is the employees of the corporation. Due to time and financial capacity of the researcher, the sample frame has been brought to the branches of the corporation in Addis Ababa. The corporation has six districts in Addis Ababa. Using Census can reduce the sampling error as the statistics and parameters become the same. A statistic is a characteristic of a sample, whereas a parameter is a characteristic of a population (C.R. Kothari, 2004). Due to this all the six districts have been taken be sample sample.

The other stage of sampling among the population of each districts According to the annual report of the corporation each branch has on average of 70 employees and a total of around 420 (EIC annual report, 2015/16). Among these employees sample has been taken for survey as stated below.

Another data sources are key informants. Key informants were taken to be the managers of each branch purposively because they are considered to know the overall performance of the internal control system. According to Schwandt (1997), the objective of the *purposeful sampling* strategy is to select participants because "there may be a good reason to believe that what goes on there is critical to understanding some process or concept, or to test or elaborate some established theory".These purposively selected managers were interviewed semi-structured questions regarding the specific objective of the research.

3.3 Sample Size

According to research scholars, sample shouldn't be too large to be economical and shouldn't be too small to keep validity of findings. Accordingly this study will use two sampling stages. The first one is to sample out the branches which was stated above and secondly the number of respondents within the branches.

The sample size was determined by using the following formula (Dixon C and B .Leach, 1978).

$$n' = \frac{n}{1 + \frac{n}{N}}$$

Where $n = \frac{z^2 p}{d^2}$ and

n is the desired sample size when the population is greater than 10,000.

n` is number of sample size when population is less than 10,000.

Z is 95% confidence limit i.e.1.96.

P is 0.1 (proportion of the population to be included in the sample i.e. 12.5%).

qIs 1-p or 1-0.125 i.e. 0.875.

N is total number of population

d   is margin error or degree of accuracy desired (0.05).

$$n = \frac{1.96^2 * 0.125 * 0.875}{0.05^2} = 168.07$$

$$n' = \frac{n}{1 + \frac{n}{N}}$$

$$n' = \frac{168.07}{1 + \frac{1\ .0}{4}} = \frac{168.07}{1.4} = 120.05$$

Rounded to 120

So, the researcher has taken 120 samples among the total population and equally distributed in each branch. A purposive sampling technique was used to arrive at the figure as those employees. Among 20 questionnaire distributed to respondents, five were not collected and lost during data collection. So the analysis was held based on 115 effectively collected cases.

3.4 Research Instruments

Survey for the quantitative strategy was used through distributing self-administered questionnaires to internal auditors of the sis districts. Questionnaire and interview schedules were administered to the staff of Ethiopian Insurance Corporation. The questionnaire were developed from pre-made questionnaire for equivalent organization with little modification (Tsedal Lemi 2015).

The questionnaires were prepared with a Likert-Scale method to achieve the specific objectives and the data from the interview help to cross-check the result in the quantitative method. Moreover an in-depth interview were held with the managers of the six districts of EIC in Addis Ababa. In addition to that a review of related literature on internal auditing and internal control systems were also used to gather information for the research work.

3.5 Methods of Data Analysis

SPSS software were used to analyze the data. In analyzing the data, frequency tables were used as the analytical techniques. Frequency, mean, standard deviation and percentage (simple statistics were used to analyze the result from the questionnaire). The data analysis is based on the reply by the respondents on their degree of agreement or disagreement with each of the questions on a five-point Likert response scale (Likert, *R. A.* 1932) that ranged from 5 "strongly agree (scored as 5) to "strongly disagree" (scored as 1). The expected mean for an effective internal control component is 5 or close to 5. However the analysis is based on how the mean

response of the respondents is close to this expected value. A large amount of researchers use this methodology, because it is relatively easy for respondents to use, and responses from such a scale are likely to be reliable (Balzan and Baldacchino, 2007; Lam and Kolic, 2008).

Qualitative explanations weremade of quantitative data to give meaning to them as well as explain their implications. Moreover the in-depth interview was analyzed with the tape-record from the interviewee and interpreting the data. From these appropriate recommendations were made on the findings of the research.

The analysis of the survey was done based on the standards of equivalent questionnaire. According to Best, (1977), the score from 1-1.80 is lowest, from 1.81-2.61 is lower, from 2.62-3.41 is average/moderate, from 3.42-4.21 is good/high, and 4.22-5 is considered verywell. The results were presented in chapter four of the study.

CHAPTER FOUR

DATA PRESENTATION & ANALYSIS

The previous chapter discussed appropriate methodologies of assessment of internal control. This chapter presents the result and analysis of the survey method and semi structured interview. So, this chapter provides information on the data collection procedure adopted, analysis of the data and findings. The responses from the respondents are described and analyzed.As stated earlier the general objective of this research is to assess the internal control system in EIC with the variables prepared in the questionnaire. The questionnaire is Likert Scale type with the value of the following:5=Strongly Agree, 4=Agree, 3= Neutral, 2= Disagree, 1= Strongly Dis Agree. In the analysis, the mean values, standard deviation, percentage and frequency are used.

4.1Background Information on Respondents

With a questionnaire as the main research tool to gather data from the respondents, the first section was intended to gather data on the background of the respondents. Frequency tables are used in analyzing the data gathered from the respondents. It is necessary to analyze the demographic profile of the respondents to validate reliability of data collected. Accordingly the respondents were asked to respond to their gender category, year of experience, level of education and field of qualification and level of income. The information processed by SPSS is summarized as follows.

4.1.1 Sex Distribution & marital status of Respondents

Table 4.1: sex and marital status of respondents

Category		Frequency	Percentage	Cumulative percentage
Male		66	57.4	57.4
Female		49	42.6	100
Total		115	100	100
marital status	Married	66	57.4	57.4
	divorced	49	42.6	100.0
	Total	115	100.0	

Source (own survey, 2017)

Out of 115 respondents interviewed 57.4% were male and 42.6% female as indicated on table 4.1. The sex distribution showed that both male and female were represented in the study as shown above. This enables the researcher that there is no bias in the survey instrument related to the gender of the respondents. The study also took interest of the marital status of the respondents. Of the 115 respondents interviewed, 57.4% of them were married and 42.6% are single. This is indicated in table 4.1 above. Educational Level of Respondents

Table 4.2: ***Educational Attainment of Respondents***

		Frequency	Percent	Valid Percent	Cumulative Percent
Educational Attainment of Respondents	Diploma	3	2.6	2.6	2.6
	first degree	94	81.7	81.7	84.3
	second degree	16	13.9	13.9	98.3
	PhD and above	2	1.7	1.7	100.0
	Total	115	100.0	100.0	

Source (own survey, 2017)

Another commitment of employees to competence that contributes to effectiveness of internal control is the level of education the employees possesses. This competence is referred to as academic competence. The control environment component of internal control system reveals that a good education level has a positive impact on effectiveness of internal control. As summarized in the above table, almost all the respondents (97.4%) were qualified in degree and above which is favorable. This is an indication that the respondents are also at adequate education level to understand the concept of internal control system.

The analysis of this variable revealed that the majority of respondents (81.7%) have both first degree, 13.9% had second degree. Only 1.7% of the respondents were found to be PHD while the rest 2.6% are diploma. So majority of the respondents are first degree qualified.

4.1.3 Field of Profession & Year of Service

Table 4.3: Field of Profession & Year of Service

		Frequency	Percent	Cumulative Percent
Field of Profession	Management	24	20.9	20.9
	Accounting	48	41.7	62.6
	Economics	25	21.7	84.3
	Other	18	15.7	100.0
	Total	115	100.0	
Year of Service	<5	31	27.0	27.0
	5-10	37	32.2	59.1
	10-15	32	27.8	87.0
	>15	14	12.2	99.1
	22.00	1	.9	100.0
	Total	115	100.0	

Source (own survey, 2017)

Internal control is primarily the responsibility of management. The broader category of internal control is operational and accounting control. Obviously the respondents with knowledge of management and accounting understand the concept of internal control system than others. Thus the survey made to assess the areas of qualification of the respondents presented in table 4.3 indicated that 41.7% of the respondents were qualified in accounting and 20.9% were qualified in management. This means the respondents had at least had the theoretical education on the concept of internal control. Other 21.7% of the respondents were with economics back ground.

Experience is one of the competences to understand internal control in a company. Experience also referred to as professional competence. In the literature it is indicated that commitment to this competence by employees is one part of effective control environment in internal control system. The more experienced employees are the more they understand about the internal control

they execute. Out of the survey, 40.9% of the respondents as indicated in table 4.3 were experience with years more than 10. The remaining 32.2% were at least has an experience between 5 to 10 years. This indicates that the employees working in the key areas of internal control system are well experienced both to respond to the questionnaire, and to understand or implement the control system.

4.1.4 Job Position &level of income

Table 4.4: Job Position & level of income of respondents

		Frequency	Percent	Cumulative Percent
Job Position	Junior	40	34.8	34.8
	Senior	49	42.6	77.4
	Managerial	19	16.5	93.9
	Other	7	6.1	100.0
	Total	115	100.0	
level of income	<5000	22	19.1	19.1
	5000-10000	9	7.8	27.0
	10000-15000	83	72.2	99.1
	>15000	1	.9	100.0
	Total	115	100.0	

Source (own survey, 2017)

The job position of respondents also were assessed and the survey result were found as shown in the table above. About 65.2% of the respondents were found senior. The more senior the respondents the more they know the system of the corporation. Another factor is the income of respondents. The more their more precise is their response and 80.9% of the respondents were found earning more than 5000 birr monthly.

Interviewees were also asked if there are sufficient personnel who are competent and knowledgeable to manage the organization's risk management activities. Three of the

interviewees doubt that that there are sufficient personnel who are competent and knowledgeable to manage the organization's risk management activities. While the rest three disagree with competence of manpower but there is the risk management department. Interviewees were asked to discuss on policies and procedures that exist in the organization to provide that decisions are made with appropriate approvals. The response shows that there is policy and procedures but not implemented. The corporation's accounting systems are not properly managed and report company transactions in accordance with the proper accounting standard as the per the interview data.

In general the respondents profile indicates that the respondents were good enough to respond to the questionnaire and they had the knowledge and experiences to understand internal control system in their organization.

4.2 Control Environment in EIC

Control environment considered as a tone on the top in internal control system. It indicates the general atmosphere of internal control which includes the policies and procedures of internal control, management structure, reporting structure, competence of employees and discharging responsibility and others. The survey made is based on those components of control environment and the result is scaled as follows.

Table 4.5: clear separation of responsibility & strength of internal control in EIC

		Frequency	Percent	Cumulative Percent	Mean, St. deviation
There is clear separation of roles and responsibilities in EIC	Strongly Disagree	11	9.6	9.6	3.06, 1.129
	Disagree	29	25.2	34.8	
	Neutral	23	20.0	54.8	
	Agree	45	39.1	93.9	
	Strongly Agree	7	6.1	100.0	
	Total	115	100.0		
There is a strong internal control systems in Ethiopian Insurance Corporation	strongly disagree	13	11.3	11.3	3.04, 1.119
	disagree	22	19.1	30.4	
	neutral	35	30.4	60.9	
	Agree	37	32.2	93.0	
	strongly Agree	8	7.0	100.0	
	Total	115	100.0		

Source (own survey, 2017)

As indicated in above table the mean value of the response computed based on Likert scale indicated the average agreement of respondents on existence and practice of each element of internal control. In an effective control environment a separation of roles has to obtain company objective. The result of the survey is not in line with this theory which is indicated by mean value of 3.06. This means the result of the survey shows a moderate value of the respondents' survey and they are neutral that the clear line of responsibility enables achievement of objectives. Respondents were also asked if there is there is a strong internal control systems in Ethiopian Insurance Corporation. The mean value is obtained to be 3.04 which indicates the agreement of respondents with a moderate strength. This shows still there are many employees who disagree with the existence of strong internal control system. This result shows an implication of the clarity of separation of roles and responsibilities and strong internal control systems in Ethiopian Insurance Corporation is yet to be improved.

Table 4.6: personnel communication and presence of documented procedures

		Frequency	Percent	Cumulative Percent	Mean, St. deviation
All important expectations or "policies" are formalized and communicated to the personnel	Strongly Disagree	8	7.0	7.0	3.05, 1.122
	Disagree	35	30.4	37.4	
	Neutral	25	21.7	59.1	
	Agree	37	32.2	91.3	
	strongly agree	10	8.7	100.0	
	Total	115	100.0		
There are documented policies, procedures and guidelines in the corporation	strongly dis agree	6	5.2	5.2	3.81, .987
	disagree	4	3.5	8.7	
	Neutral	20	17.4	26.1	
	Agree	60	52.2	78.3	
	strongly agree	25	21.7	100.0	
	Total	115	100.0		

Source (own survey, 2017)

With the above two questionnaires the survey shows in line with theoretical concept as the mean values are greater than three. Important expectations or "policies'' need to be formalized and communicated to the personnel and survey with mean vale 3.05 shows somehow it is moderate. Existence of documented policies, procedures and guidelines in the corporation was also asked and mean value of 3.81 was obtained which is good.

The result implies a good condition of the corporation in the presence of documented policies, procedures and guidelines in the corporation while moderate in communication and formalizing expectations to the employees is moderate.

Table 4.7: report structure and awareness of employees about guidelines of operation

		Frequency	Percent	Cumulative Percent	Mean, St. deviation
The reporting structure is clearly specified	Strongly Disagree	8	7.0	7.0	3.18, .996
	Disagree	18	15.7	22.6	
	Neutral	40	34.8	57.4	
	Agree	43	37.4	94.8	
	Strongly agree	6	5.2	100.0	
	Total	115	100.0		
All employees in charge of the corporations operations are aware of the guidelines of the operation	Strongly Disagree	6	5.2	5.2	2.84, .951
	Disagree	40	34.8	40.0	
	Neutral	39	33.9	73.9	
	Agree	26	22.6	96.5	
	Strongly Agree	4	3.5	100.0	
	Total	115	100.0		

Source (own survey, 2017)

From the table it is also indicated that there is a doubt by the respondent's whether there is clear reporting structure (mean 3.18) and this element also indicated deviation (0.996). The reporting structure is clearly specified in some extent but it needs improvement now and then. All employees in charge of the corporations operations has to be aware of the guidelines of the operation system in the corporation. But the survey result shows a mean value which is not in line with this theory and has an implication of inefficiency of the corporation in terms of these variables.

The consciousness of employees was asked for interviewees and lack of awareness of employees was raised as a reason that makes them less conscious. One of the interviewees also said that there is no clear operation procedure as the organization has not strong mechanism so that

employees are less conscious. This seem a reason that makes respondents in the survey disagreed with the presence of clear operational procedure.

Table 4.8: staffs' respect to regulations and environment to attain the corporation's objectives

		Frequency	Percent	Cumulative Percent	Mean, St. deviation
All staff in charge perform their responsibilities as per the regulations and guidelines	Strongly Disagree	6	5.2	5.2	2.93, .979
	Disagree	37	32.2	37.4	
	Neutral	35	30.4	67.8	
	Agree	33	28.7	96.5	
	Strongly Agree	4	3.5	100.0	
	Total	115	100.0		
The control environment in your corporation is enough to attain the corporation's objectives	Strongly Disagree	9	7.8	7.8	2.82, .960
	Disagree	35	30.4	38.3	
	Neutral	42	36.5	74.8	
	Agree	26	22.6	97.4	
	Strongly Agree	3	2.6	100.0	
	Total	115	100.0		

Source (own survey, 2017)

No doubt that staff in charge perform their responsibilities as per the regulations and guidelines in theoretical aspect. But the result above shows that a mean value of respondents to be 2.93 which shows the result is moderate for the variable ifstaff in charge perform their responsibilities as per the regulations and guidelines. The implication from this result is that there is something that the corporation is expected to work on the improvement of the staffs' respect to regulations and environment to attain the corporation's objectives.

The control environment in in a company need to be enough to attain the corporation's objectives. The practical aspect of the corporation under study revealed this is not the case.The mean 2.82 implies that majority of respondents were not agreed that the control environment in

the corporation was enough to attain the corporation's set objectives. Rather it shows a moderate value.

An interview made with six managers in EIC branches on the effectiveness of internal control in EIC is objected to identify the areas of deficiencies in internal control in the Corporation. The major areas of questions were; effectiveness of the components of internal control system, factors that affect internal control, Criteria to evaluate internal control and the areas of weaknesses observed in EIC. The discussion from the interview is presented below.

In the first place the interviewees were asked whether internal control system (the control environment, control activities, risk assessment, information and communication, and monitoring) of the corporation is well designed to achieve the corporation's objectives. Accordingly the interviewee's response was in line with the data obtained from the result. All the interviews agree that the internal control components are weakly implemented. Here it is good to present one of the interviewee's quote.

There is no well-designed internal control system in the corporation. There is risk management department but it is for the sake of nominee as it is not structured well. As well, the implementation of regulations and internal control systems remain on paper. Due to the weakness of the internal control system there is an increased rent-seeking behavior within the corporation (interview, 2017).

The data from the interview is coherent with the survey result as the two results shows the weakness of the presence of well-designed and implementation of internal control components.An interview result related to practice of control environment indicates also area of weakness in this area. Particularly the interviewees" claim; there lacks competence of employees

in assigning responsibility. Overall both the survey result and the interview imply there is no enough evidence to ascertain the control environment practice is effective.

4.3 Risk assessment of internal control systems

Risk assessments become an integral part of internal control system. The management is responsible to identify and assess control risk caused by failure of internal control. There should be strategies of identifying Risk, system to respond to risk and reduce the risk. The survey result and analysis on this issue therefore; is presented as follows.

Table 4.9: risk identification and overall strategies of risk

		Frequency	Percent	Cumulative Percent	Mean, St. deviation
The corporation has designed an appropriate strategy of identifying risk**s.**	Strongly Disagree	9	7.8	7.8	3.19, 1.034
	Disagree	17	14.8	22.6	
	Neutral	40	34.8	57.4	
	Agree	41	35.7	93.0	
	Strongly Agree	8	7.0	100.0	
	Total	115	100.0		
Overall strategies for managing important risks are established	Strongly Disagree	9	7.8	7.8	2.88, .980
	Disagree	30	26.1	33.9	
	Neutral	46	40.0	73.9	
	Agree	25	21.7	95.7	
	Strongly Agree	5	4.3	100.0	
	Total	115	100.0		

Source (own survey, 2017)

From the table it shows that was some employee strongly agreed that there exists appropriate strategy of identifying risks (8 respondents). The corporation has sufficiently designed appropriate strategy of identifying risk and no sufficient system designed to respond to risk (3.18 &2.88) respectively showing moderate value with an implication of the need to better design of risk identification and overall strategies of risk.

The interviewees regarding the measures of the corporation to improve internal control was asked and some departments have a trained of giving training but is not adequate while most of the interviewees agreed that there is no improvement of the internal control of the corporation at all. Interviewees were asked if there is a monitoring system in the organization to determine compliance with internal controls and are instances of noncompliance reported to the board.

Three of them said that the audit department always face compliance but not sent to the board. Only one of the respondents agree that the audit compliance is sent to the board. Two of them disagree on that there is a monitoring system in the organization to determine compliance with internal controls and are instances of noncompliance reported to the board.

Table 4.10: information based decision and specific activities' communication

		Frequency	Percent	Cumulative Percent	Mean, St. deviation
The board receive appropriate and current information to make informed and timely decisions	Strongly Disagree	16	13.9	19.1	2.42, 1.076
	Disagree	32	27.8	47.0	
	Neutral	49	42.6	89.6	
	Agree	9	7.8	97.4	
	Strongly Agree	3	2.6	100.0	
	Total	115	100.0		
Specific assignments and activities are identified and communicated to the responsible employees	Strongly Disagree	12	10.4	10.4	2.99, 1.055
	Disagree	22	19.1	29.6	
	Neutral	42	36.5	66.1	
	Agree	33	28.7	94.8	
	Strongly Agree	6	5.2	100.0	
	Total	115	100.0		

Source (own survey, 2017)

Appropriate and current information to make informed and timely decisions should be objective of a company. Specific assignments and activities need to be identified and communicated to the responsible employees also. The survey result shows that the above two points are disagreed with respondents with mean value of 2.42 and 2.99 respectively. In the first variable the mean shows a lower vale while moderate in the second variable. The standarddeviations of the two

points are also 1.076 and 1.055 which are large respectively. Both of the above variables need improvement for the corporation.

4.4 Control activities of internal control systems

Control activities include methods as; preparation of reliable reports, update documentation, authorization of transactions, independent review and others. The result of the survey indicated in the table below shows that the degree of agreement ranged from 1 to 5 by respondents in all criteria's of control activities. The Overall mean of the control activities for the nine questions can be estimated to less than three which is not good.

Table 4.11: detection of illegal activities and review of financial transaction

		Frequency	Percent	Cumulative Percent	Mean, St. deviation
The internal control system of the corporation can reduce and detect fraud, misappropriations & other illegal activities.	Strongly Disagree	14	12.2	12.2	2.89, 1.087
	Disagree	27	23.5	35.7	
	Neutral	36	31.3	67.0	
	Agree	33	28.7	95.7	
	Strongly Agree	5	4.3	100.0	
	Total	115	100.0		
Key managers of the corporation review and approve all financial transactions	Strongly Disagree	15	13.0	13.0	2.76, 1.062
	Disagree	33	28.7	41.7	
	Neutral	34	29.6	71.3	
	Agree	30	26.1	97.4	
	Strongly Agree	3	2.6	100.0	
	Total	115	100.0		

Source (own survey, 2017)

From the table above the respondents agreement on the two questionnaires is as shown by the mean result of respondents (2.89 and 2.76 respectively) which are moderate. This shows that many of the respondents disagree that the internal control system of the corporation can reduce and detect fraud, misappropriations & other illegal activities and Key managers of the corporation review and approve all financial transactions in the corporation. So there is something yet to be done by the corporation.

Table 4.12: segregation of accounting, Authorization, processing, check signing and accounting functions procedure

		Frequency	Percent	Cumulative Percent	Mean, St. deviation
Accounting procedures of in the corporation are Clearly Segregated	Strongly Disagree	9	7.8	10.4	3.03, 1.079
	Disagree	17	14.8	25.2	
	Neutral	42	36.5	61.7	
	Agree	41	35.7	97.4	
	Strongly Agree	3	2.6	100.0	
	Total	115	100.0		
Authorization, processing, check signing and accounting functions are clearly segregated	Strongly Disagree	10	8.7	8.7	3.12. 1.101
	Disagree	24	20.9	29.6	
	Neutral	32	27.8	57.4	
	Agree	40	34.8	92.2	
	Strongly Agree	9	7.8	100.0	
	Total	115	100.0		

Source (own survey, 2017)

Respondents survey result shown that Accounting procedures of in the corporation are Clearly Segregated with the mean agreement of 3.03 but needs improvement as it is a moderate value. More than half of the respondents agree that Accounting procedures of in the corporation are Clearly Segregated. The Authorization, processing, check signing and accounting functions should be clearly segregated theoretically. The survey result shows the mean agreement level of respondents to be 3.12 which is moderate value but it needs improvement yet.

Table 4.13: document based disbursement and presence of up-to-date asset register

		Frequency	Percent	Cumulative Percent	Mean, St. deviation
The corporation invoices or requests for disbursements are backed by appropriate supporting documents	Strongly Disagree	3	2.6	2.6	3.54, .920
	Disagree	6	5.2	7.8	
	Neutral	51	44.3	52.2	
	Agree	36	31.3	83.5	
	Strongly Agree	19	16.5	100.0	
	Total	115	100.0		
There is an up-to-date asset register	Strongly Disagree	8	7.0	7.0	2.88, .925
	Disagree	26	22.6	29.6	
	Neutral	58	50.4	80.0	
	Agree	17	14.8	94.8	
	Strongly Agree	6	5.2	100.0	
	Total	115	100.0		

Source (own survey, 2017)

The mean 3.54 (good value according to Best, 1995) shows that the corporation invoices or requests for disbursements are backed by appropriate supporting documents with low level of

agreement which needs improvement still. Another lower means 2.88 indicated that that there is lack of up to date asset register in the corporation as it is moderate value which needs attention of the corporation.

Table 4.14: disposal of asset and independency of reconciliation

		Frequency	Percent	Cumulative Percent	Mean, St. deviation
The procurement and disposal of assets procedure is strictly followed under the corporation operation systems	Strongly Disagree	10	8.7	8.7	2.81, .907
	Disagree	25	21.7	30.4	
	Neutral	62	53.9	84.3	
	Agree	13	11.3	95.7	
	Strongly Agree	5	4.3	100.0	
	Total	115	100.0		
Corporation reconciliations are prepared by someone independent of the cash receiving, processing and recording activities.	Strongly Disagree	4	3.5	3.5	3.29, .898
	Disagree	11	9.6	13.0	
	Neutral	58	50.4	63.5	
	Agree	31	27.0	90.4	
	Strongly Agree	11	9.6	100.0	
	Total	115	100.0		
Prepared reconciliations are approved by independent officers/supervisors	Strongly Disagree	7	6.1	11.3	2.98, 1.214
	Disagree	18	15.7	27.0	
	Neutral	46	40.0	67.0	
	Agree	28	24.3	91.3	
	Strongly Agree	10	8.7	100.0	
	Total	115	100.0		

Source (own survey, 2017)

Theoretically, procurement and disposal of assets procedure is strictly followed under the corporation operation systems, Corporation reconciliations are prepared by someone independent of the cash receiving, processing and recording activities and prepared reconciliations are approved by independent officers/supervisors. The survey result for prepared reconciliations to be approved by independent officers/supervisors seem not in line with the theoretical frame (mean result 2.98, table 14 above). The survey for procurement and disposal of assets procedure to be strictly followed under the corporation operation systems also shows a mean value of 2.81 which is not in line with the theory. Corporation reconciliations to be prepared by someone independent of the cash receiving, processing and recording activities has surveyed with a mean vale of 3.29 which is moderate. The result shows the attention of the corporation to improve the above variables.

4.5 Information and communication of internal control systems

Based on frameworks of an effective information and communication in an internal control system the survey result and interpretation as presented below.

Table 4.15: stakeholder communication and transaction record

		Frequency	Percent	Cumulative Percent	Mean, St. deviation
Control information's are communicated to all stakeholders.	Strongly Disagree	10	8.7	11.3	2.72, .932
	Disagree	21	18.3	29.6	
	Neutral	64	55.7	85.2	
	Agree	16	13.9	99.1	
	Strongly Agree	1	.9	100.0	
	Total	115	100.0		
Transactions are promptly recorded and classified to provide reliable information	Strongly Disagree	7	6.1	6.1	3.41, 1.016
	Disagree	14	12.2	18.3	
	Neutral	29	25.2	43.5	
	Agree	55	47.8	91.3	
	Strongly Agree	10	8.7	100.0	
	Total	115	100.0		

Source (own survey, 2017)

The means 2.72 for control information to be communicated to all stakeholders shows that the disagreement of respondents as more of the respondents said.

The other variable is transactions to be promptly recorded and classified to provide reliable information and a mean value 3.41which is moderate is slightly different from 3 which imply no convincing numbers of respondents believe that transactions are promptly recorded in the corporation.

Table 4.16: officer's responsibility and understanding of stakeholders by stakeholders

		Frequency	Percent	Cumulative Percent	Mean, St. deviation
The officer's responsibility and the right to access are clearly communicated.	Strongly Disagree	14	12.2	14.8	2.90, 1.177
	Disagree	19	16.5	31.3	
	Neutral	40	34.8	66.1	
	Agree	33	28.7	94.8	
	Strongly Agree	6	5.2	100.0	
	Total	115	100.0		
The consequences of illegal activities are clearly understood by the stakeholders	Strongly Disagree	18	15.7	18.3	2.62, 1.048
	Disagree	18	15.7	33.9	
	Neutral	60	52.2	86.1	
	Agree	13	11.3	97.4	
	Strongly Agree	3	2.6	100.0	
	Total	115	100.0		

Source (own survey, 2017)

The officer's responsibility and the right to access to be clearly communicatedis mandatory in an organization. The consequences of illegal activities also need to be clearly understood by the stakeholders. Having this theoretical background one may expect the corporation under study to be in line with this point. But the survey result of the Likert Scale analysis shows a mean value of 2.90 and 2.62 with a St. Deviation of 1.177 and 1.048 respectively. This shows the moderate value result of the respondents which is not in line with the theoretical assumption that the corporation lacks efficient officer's responsibility and understanding of stakeholders by

stakeholders.Table 4.17: relevant, key information identification and reaction on complains of clients

		Frequency	Percent	Cumulative Percent	Mean, St. deviation
Employees receive relevant information that may affect the corporation	Strongly Disagree	17	14.8	14.8	2.66, 1.042
	Disagree	34	29.6	44.3	
	Neutral	38	33.0	77.4	
	Agree	23	20.0	97.4	
	Strongly Agree	3	2.6	100.0	
	Total	115	100.0		
Key information about your organization's operations is identified and regularly reported	Strongly Disagree	10	8.7	8.7	2.80, 1.002
	Disagree	34	29.6	38.3	
	Neutral	47	40.9	79.1	
	Agree	17	14.8	93.9	
	Strongly Agree	7	6.1	100.0	
	Total	115	100.0		
Client complaints are taken seriously, investigated, and acted upon	Strongly Disagree	21	18.3	18.3	2.74, 1.117
	Disagree	22	19.1	37.4	
	Neutral	43	37.4	74.8	
	Agree	24	20.9	95.7	
	Strongly Agree	5	4.3	100.0	
	Total	115	100.0		

Source (own survey, 2017)

Information communication for employees is one of the important activities in an organization. Identification of key information and importing is also much important factor to be considered. Client complain is also another source of information to dear with and take them for improvement. The mean values of the survey result in the above table (2.66, 2.80 &2.74) show that no significant number of respondents agreed on the points raised as the values are moderate in the lower side. This shows that EIC need much improvement in receiving relevant information that may affect the corporation operation, Key information about the organization's operations need to be identified, regularly reported and Client complaints to be taken seriously, investigated, and acted upon.

The second question of the interview was the possible factors which result in the failure of the internal control of the corporation. The major factors for the internal control were found to be competency of human resource, over all government performance policy such as BPR, improvement, implement and follow up of manual of the corporation.

4.6 Monitoring activities of internal control systems

An ongoing monitoring of internal control is vital to ensure whether internal control is achieving desired objectives. According to Coffin (2003) monitoring entails the activities and procedures designed to assess the effectiveness of the internal control system in achieving the entity's financial reporting objectives. The result and interpretation of the survey is presented as follows.

Table 4.18: monitoring activities and systems

		Frequency	Percent	Cumulative Percent	Mean, St. deviation
Monitoring the internal control system of the corporation is important to achieve the corporation objectives	Strongly Disagree	2	1.7	1.7	3.66, .999
	Disagree	15	13.0	14.8	
	Neutral	26	22.6	37.4	
	Agree	49	42.6	80.0	
	Strongly Agree	23	20.0	100.0	
	Total	115	100.0		
The corporation has monitoring activities in relation to operational activities	Strongly Disagree	4	3.5	3.5	3.29, .816
	Disagree	13	11.3	14.8	
	Neutral	44	38.3	53.0	
	Agree	53	46.1	99.1	
	Strongly Agree	1	.9	100.0	
	Total	115	100.0		
The corporation has continuous monitoring systems	Strongly Disagree	10	8.7	8.7	2.80, .926
	Disagree	29	25.2	33.9	
	Neutral	52	45.2	79.1	
	Agree	21	18.3	97.4	
	Strongly Agree	3	2.6	100.0	
	Total	115	100.0		

Source (own survey, 2017)

Respondents agree that monitoring the internal control system of the corporation is important to achieve the corporation objectives. This is shown in the mean value of the respondents which is slightly different from three in line with the theoretical aspect raised above (3.66). It shows a

good value according to the standards. Respondents' degree of agreement for the question if the corporation has monitoring activities in relation to operational activities is also slightly in line with the theoretical aspect as the mean vale is 3.29 with less St. deviation relatively (0.816) which is moderate. Respondents also were asked if the corporation has continuous monitoring systems. The survey result shown in the above table respondents agreed with a mean value of 2.80 (moderate).

Table 4.19: evaluation and informed decision in the internal control system

		Frequency	Percent	Cumulative Percent	Mean, St. deviation
The corporation routinely evaluate the overall effectiveness of your internal control system	Strongly Disagree	13	11.3	11.3	2.89, .896
	Disagree	14	12.2	23.5	
	Neutral	61	53.0	76.5	
	Agree	27	23.5	100.0	
	Total	115	100.0		
The board receive appropriate and current information to make informed and timely Decisions	Strongly Disagree	11	9.6	9.6	2.80, .887
	Disagree	25	21.7	31.3	
	Neutral	54	47.0	78.3	
	Agree	25	21.7	100.0	
	Total	115	100.0		

Source (own survey, 2017)

The respondents were asked if the Corporation routinely evaluate the overall effectiveness of your internal control system and the result is shown in the above table. The degree of agreement is too low with a mean value of 2.89 (moderate) which is below three. As shown in the table there is no respondent agreed strongly but 13.3% of the respondents dis agreed strongly. So, the

corporation fails to evaluate the overall effectiveness of the internal control system of the corporation.

Interviewees were asked to define the level of internal control in Ethiopian Insurance Corporation. The data has shown that the agreement of interviewees with the presence of internal control. Many of them agree that the corporation is moderate in design of the internal control system but poor in implementation.

Table 4.20: reduction of illegal activities and appropriate actions based on recommendation

		Frequency	Percent	Cumulative Percent	Mean, St. deviation
Internal control monitoring activities of the corporation has reduced the occurrence of illegal activities	Strongly Disagree	4	3.5	3.5	3.07, .934
	Disagree	30	26.1	29.6	
	Neutral	39	33.9	63.5	
	Agree	38	33.0	96.5	
	Strongly Agree	4	3.5	100.0	
	Total	115	100.0		
Appropriate actions are applied based on control findings and recommendations.	Strongly Disagree	15	13.0	13.0	2.97, 1.004
	Disagree	11	9.6	22.6	
	Neutral	54	47.0	69.6	
	Agree	32	27.8	97.4	
	Strongly Agree	3	2.6	100.0	
	Total	115	100.0		

Source (own survey, 2017)

As shown in the table above the survey result for questionnaire if internal control monitoring activities of the corporation has reduced the occurrence of illegal activities, has resulted a mean

value of 3.07 which is a slight agreement with a room for improvement with a moderate value. As shown in the percentage and frequency table the distribution is quite normal which has not shown the agreement of significant number of respondents.

The survey also revealed the dis agreement of respondents in that appropriate actions are applied based on control findings and recommendations. The mean vale of the respondents based on the Likert scale analysis show that 2.97 (moderate value).An estimated overall mean of monitoring components indicate that there are areas of improvements.

Interviewees agree that the general performance of the internal control of the Ethiopian insurance corporation lacks efficiency. They agree that there is claim handling problem, lack of improvement and redesign of the control system. The operational manual of the corporation was said to be old fashioned and it need improvement. One of the interviewees said that mismanagement of motor claim and lack of specification for purchasing the major problems encountered in the corporation. This shows that the weakness of the internal control system in EIC.

4.7 Summary of Findings

In general the control environment of EIC cannot be ascertained as effective because of lack of clear reporting structure; inadequate understanding of rules and regulations by employees that result in failure of an internal control to achieve set objectives.

Control activities are specific methods and procedures of implementing internal control. Effective internal control has a list of those methods and procedures that are to be implemented consistently. In an effective control activities there should be clear procedures of asset procurement and disposal, updated asset register and clear separation of accounting duties.

However these were areas of deficiencies seen on the survey result is; the procurement and disposal of an assets procedure is not followed strictly. The other problems in control procedures were lacks of up to date asset register in the corporation and inadequate segregation of accounting procedures. An interview result is consistent with this finding that interviewees indicated there is poor separation of duties. The auditors explained some practical cases that; employees authorizing transactions are performing accounting duties in the corporation. As clearly indicated from both results the control activities and procedures are not effective in EIC.

To hark back major issues in an effective risk assessment in the literature; risk assessment is responsibility of management. The management should identify and assess control risk caused by failure of internal control. There should be strategies of identifying Risk, system to respond to risk and reduce the risk. EIC has not sufficiently designed appropriate strategy of identifying risk and no sufficient system designed to respond to risk. Though the management is responsible to identify, evaluate and respond to risks, managements of EIC were not performing these risk assessment task. Failure to assess the risks may expose the institutions to face control risk.

According to interviewees' explanation, the risk assessment components of internal control environment, control activities, information and communication and monitoring are practiced in EIC. Risk assessment is new for and requires government institutions to identify possible risks and develop procedures to control the risks. One of the interviewees claims that there is also a deficiency in control environment component of EIC particularly in assigning appropriate employees on appropriate duty. This result is also supported by some responses through open ended questionnaire to respondents who claimed that there is no risk assessment.

In general the interviewees conclude that the internal control in EIC is inconsistent. The major cause for this according to the interviewees is there is insufficient monitoring from government

to make EIC take corrective measures. Accordingly the control environment had basic failures related to reporting structure, assignment of employees to appropriate tasks and a questionable commitment of management towards the internal control. The control activities were not properly functioning in some areas particularly in separation of duties, lack of clear procedure of asset procurement and disposal, finally failure to update asset records.

Risk assessment is found to be almost not in practice in EIC which the possible reason for a recurring failure of the internal control system in EIC. EIC lacked an integrated policy and procedures of risk identification and controls. Essential information is not adequately communicated to all stakeholders in EIC and insufficient accounting records were the problems found related to information and communication. Monitoring was not on continuous basis and rarely takes into account audit findings to take corrective actions.

In a good organization, information system is essential to guide its operation process. Information systems produce reports, containing operational financial and compliance related information that makes it possible to run and control an organization (COSO, 1992). Guy et al (1999), state that the information should be communicated to all stakeholders. Result of the survey indicated that majority of the respondents knows the use of communication in evaluating how well the guidelines of EIC are working.

An effective internal control system communicates information to all stake holders, transactions should be recorded promptly. However the results indicated that information is not communicated to all stakeholders. There lacks a prompt record of transactions in EIC and there is lack of information. The interview results regarding the information and communication is not different from the survey result.In general the information and communication is statistically weak to conclude as effective and not effective enough to attain in EIC.

CHAPTER FIVE

CONCLUSION & RECOMMENDATION

As stated earlier the general objective of this research is to assess the internal control of the Ethiopian insurance corporation. The collected data has been analyzed in the previous chapter. So, the purpose of this chapter is to pinpoint the major findings of the study and indicate recommendations that can help in improvement of internal control system in EIC. Thus the chapter is organized in two sections Conclusion which presents major findings of the study, and recommendation which presents recommendations based on the findings.

5.1 Conclusion

To achieve these objectives a survey method is employed in mixedapproach. The survey method used questionnaires to employees in EIC and analyzed through descriptive statistics analysis. A qualitative research approach used in the study used semi structured interviews with managers in EIC. The questionnaires were aimed to examine whether components of internal controls were adequately practiced in EIC. Using both approaches of research the internal controls in EIC were not effective enough to achieve the control objectives afro mentioned. Particularly the risk assessment is found to be only theoretical and new to EIC. The detailed findings and areas of deficiencies in internal control are summarized as follows.

The competence level of employees practicing internal control in EIC from experiences and academic competence perspective can be concluded as good. The control environment of the

internal control system is inadequate to be judged as effective, particularly; all employees in charge are not aware of the guidelines of EIC. In addition the control environment of EIC lacked a clear line of responsibility and stipulated structure of reporting. The control activities of EIChas also number of deficiencies like lack of updated asset register and documentation, substantial doubt on the separation of duties, and lack of effective procurement and disposal of assets EIC.

The risk assessment is the weakest of the internal control system practice in EIC. Risk assessment is considered to be new for EIC; the managements were not adequately identified risk and developed clear procedures to control risks. Information necessary in EIC are not adequately communicated to all stakeholders and transactions were not promptly recorded. Monitoring is believed help in achievement of objectives; though in EIC the monitoring was not on continuous basis. The monitoring was also not effective because it lacked covering evaluation of the effectiveness of internal control and didn't considered audit findings and recommendations and takes adequate actions.

5.2 Recommendations

There is no absolute guarantee from internal control that organizations objectives will be achieved. This implies the inherent limitations of internal control; that internal control is designed, operated and monitored by employees of an organization. However it is possible to improve internal control effectiveness through continuous monitoring, related risk assessment, designing sound control methods and with good communication in the organization. From the result of this study it is impossible to conclude the internal control systems in EIC are economical, efficient and effective. Both the respondents to questionnaire and the interviewee claim that the system is not good enough to achieve EIC at high standard. As stated by Spencer

(2003) a control environment which is an entire commitment of managements from design of internal control to its monitoring should be strong enough to keep the other components of internal control in line. However, Based on the finding the following are specific areas that need due emphasis to improve the internal control system in EIC.

➢ The human power of EIC as a major component of control environment of the system has to understand the policies, regulation and procedures in the corporation

➢ Internal control is a responsibility of management, employees and other stakeholders. Hence there should be a clear line of responsibility and structure of reporting to discharge any risk of collusion and fraud.

➢ An updated asset register and adequate documentation should be maintained in EIC to achieve effective control of activities

➢ Good information flow and line of communication risk of failure in internal control caused by information gap. Thus necessary information should be communicated to all stakeholders, transactions should be recorded promptly.

➢ The control system effectiveness should be evaluated against clearly established criteria and should be monitored continuously. This is the responsibility of management and internal auditors.

➢ Finally internal control system in EIC is also responsibility of the financial authorities to take corrective controls in a repeated failure of the system.

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A. QUESTIONNARIE

Questionnaire for Internal Control Effectiveness In Case Of Ethiopian Insurance Corporation.

Dear Sir/Madam,

This is a research work being undertaken for the Partial fulfillment of the Requirements for the Award of Master's degree in Accounting and Finance in St. Mary's university. It focuses with the aim of deepening the understanding of internal control and accounting system on Ethiopian insurance corporation. I would be very grateful if you could provide appropriate response to the questions below. Any information given will be kept confidential.

Thank you for your co-operation.

DEMOGRAPHIC INFORMATION

Section I: Background of respondents

1. Gender
   a. Male
   b. Female
2. Educational attainment
   a. Diploma
   b. First Degree
   c. Second degree
   d. above
3. Marital status
   a. Married
   b. Single
4. Field of profession
   a. Management
   b. Accounting
   c. Economics
   d. Other ………………..

5. Year of service in this corporation
   a. <5 years
   b. 6 – 10 years
   c. 11- 15 years
   d. 16 and above

6. Job Position level
   a. Junior
   b. Senior
   c. Managerial
   d. Other…………………..
7. Level of Income
   a. >5,000 birr
   b. 5,000 – 10,000 birr
   c. 10,000 – 15,000 birr
   d. above 15, 000

A. ASSESSMENT OF COMPONENTS OF INTERNAL CONTROL
B. Please, tick an "X" mark in the appropriate box which fits with your degree of agreement;

5 **Control Environment**

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
There is clear separation of roles and responsibilities in EIC					
There a strong internal control systems in Ethiopian Insurance Corporation					
All important expectations or "policies" are formalized and communicated to the personnel					
There are documented policies, procedures and guidelines in the corporation.					
The reporting structure is clearly specified					
All employees in charge of the corporations operations are aware of the guidelines of the operation					
All staff in charge perform their responsibilities as per the regulations and guidelines					
The control environment in your corporation is enough to attain the corporation's objectives					

6   Risk assessment of internal control systems

9. The corporation has designed an appropriate strategy of identifying risks.					
10. Overall strategies for managing important risks are established					
11. The board receive appropriate and current information from the organization's accounting, information and communication systems to make informed and timely decisions					
12. Specific assignments and activities necessary to implement the strategies are identified and communicated to the responsible employees					

7   Control activities of internal control systems

13. The internal control system of the corporation can reduce and detect fraud, misappropriations & other illegal activities.					
14. Key managers of the corporation review and approve all financial transactions					
15. Accounting procedures of in the corporation are Clearly Segregated					
16. Authorization, processing, check signing and accounting functions are clearly segregated.					
17. The corporation invoices or requests for disbursements are backed by appropriate supporting documents.					
18. There is an up-to-date asset register					
19. The procurement and disposal of assets procedure is strictly followed under the corporation operation systems					
20. Corporation reconciliations are prepared by someone independent of the cash receiving, processing and recording activities.					
21. Prepared reconciliations are approved by independent officers/supervisors. independent officers/supervisors.					

8 Information and communication of internal control systems

22. Control information's are communicated to all stakeholders.					
23. Transactions are promptly recorded and classified to provide reliable information.					
24. The officer's responsibility and the right to access are clearly communicated.					
25. The consequences of illegal activities are clearly understood by the stakeholders.					
26. Employees receive relevant information regarding legislation, regulatory developments, economic changes, or similar external factors that may affect the corporation					
27. Key information about your organization's operations is identified and regularly reported					
28. Client complaints are taken seriously, investigated, and acted upon					

9 Monitoring activities of internal control systems

29. Monitoring the internal control system of the corporation is important to achieve the corporation objectives					
30. The corporation has monitoring activities in relation to operational activities					
31. The corporation has continuous monitoring systems					
32. The corporation routinely evaluate the overall effectiveness of your internal control system					
33. The board receive appropriate and current information from the organization's Accounting, information and communication systems to make informed and timely Decisions					
34. Internal control monitoring activities of the corporation has reduced the occurrence of illegal activities.					
35. Appropriate actions are applied based on control findings and recommendations.					

If there is additional information's you want to add, please specify here;

_____

_____

_____

_____

Thank You for your Cooperation!

B. INTERVIEW GUIDE

How do you do sir/madam. First of all I would like to say thank you for your time devotion and willingness to be interviewed. My name isAnteneh Solomon and I am doing my MSc. Thesis. So, this data is required for a research work being undertaken for the Partial fulfillment of the Requirements for the Award of Master's degree in Accounting and Finance in St. Mary's university. This research work will provide a basis or a conceptual framework and standard against which companies could assess their internal control system and judge their effectiveness. In other words, the study is to provide common language, understanding and a practical way for companies to assess and improve their internal control systems. Any information given will be kept confidential.

1. Do you believe the internal control system (the control environment, control activities, risk assessment, information and communication, and monitoring) of the corporation is well designed to achieve the corporation's objectives? How?

2. What are the possible factors that affect internal control system of the corporation?

3. What is your idea about the effectiveness of the internal control of the corporation and where is/are areas of the control you suggest an improvement?

4. How do you define the level of internal control in Ethiopian Insurance Corporation?

5. How conscious are the employees of EIC for internal control of the corporation?

6. Would you please discuss the measures adopted in your corporation to enhance the effectiveness of internal Controls in EIC?

7. Is there a monitoring system in the organization to determine compliance with internal controls and are instances of noncompliance reported to the board?

8. Are there sufficient personnel who are competent and knowledgeable to manage the organization's risk management activities?

9. Would you please discuss on policies and procedures that exist in the organization to provide that decisions are made with appropriate approvals?

10. Do the corporation's accounting systems properly manage and report company transactions in accordance with the proper accounting standard?

Thank you for your time devotion and attention!