

ST. MARY'S UNIVERSITY COLLEGE

FACULTY OF BUSINESS

DEPARTMENT OF ACCOUNTING

**ASSESSEMENT OF INTERNAL CONTROL PRACTICE
OVER LOCAL PURCHASE OF ETHIO TELECOM
(A CASE STUDY IN SOUTH WEST ADDIS ABABA ZONE)**

BY

TEMESGEN ZEMECHA

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FEBRUARY, 2012

SMUC

ADDIS ABABA

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**A SENIOR ESSAY SUBMITTED TO
THE DEPARTMENT OF ACCOUNTING
BUSINESS FACULTY
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**IN PARTIAL FULFILMENT OF THE REQUIREMENTS
FOR THE DEGREE OF BACHELOR OF ARTS IN
ACCOUNTING**

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Advisor	_____	_____
Examiner	_____	_____
Examiner	_____	_____

APPENDIX

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ACRONYMS

ETC	Ethiopian Telecommunications Corporation
ETA	Ethiopian Telecommunications Authority
ICT	Information Communication Technology
ET	Ethio Telecom
SWAAZ	South West Addis Ababa Zone

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DECLARATION

We, the undersigned, declare that this senior essay is our original work, prepared under the guidance of Instructor Wondafrash Mulatu. All source of materials used for the manuscript have been dully acknowledged.

Name	Signature	Place of Submission	Date of Submission
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Tekabe Adugna			
Tewobsta Abera			

This paper has been submitted for examination with my approval as the university college advisor.

Name _____

Signature _____

Date _____

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CHAPTE ONE

INTRODUCTION

1.1 Background

1.1.1 Background of the Study

As companies strive to increase customer value by improving performance while simultaneously reducing costs, most companies are turning their attention to their purchasing. There are three major benefits to be achieved from a focus on purchasing:

- Cost
- Quality
- Technology

As companies spend significant amount from their revenue on goods and services, purchases are clearly a major area for potential cost savings. Purchasing has a major impact on quality of goods and services. A supplier can make or break a company in terms of providing production and services that either exceed their customer's expectation, or fail miserably to meet them. A poor quality product can virtually shut down a company's operation; this implies purchasing can also improve product and process design, and help to introduce new technology into a company's offerings of product and services. In order to carry out the set of objectives discussed above, a strong internal control over purchase should be applied. Therefore, the students the researchers tried to review purchase control mechanisms in Ethio-Telecom (ET), at South West Addis Ababa Zone Office (SWAAZ) and suggest solutions and recommendations which improves the performance of the zone office.

1.1.2 Background of the Organization

The introduction of Telecommunication in Ethiopia dates back to 1894. It was Minilik II the king of Ethiopia, who introduced telephone technology to the country, with the installation of 477 kilometers long telephone and telegram lines from Harrar to Addis Ababa. The technological scheme was provided to contribute to the integration of Ethiopian society when the intensity open wire line system was laid out linking the capital city with all the important administrative towns of the country.

The Imperial Board of Telecommunication of Ethiopia (IBTE), which becomes renamed as Ethiopian Telecommunications Authority (ETA) was also, replaced by Ethiopian Telecommunications Corporations (ETC) by regulation No 10/1996 of the council of Ministers to which all the rights and obligations of the former Ethiopian Telecommunications Authority (ETA) were transferred to the corporation. ETC would operate as a public enterprise with the principal duty of maintaining and expanding telecommunication services in the country and providing domestic and international telephone and other communication services. Ethiopian Telecommunications Corporation rebrands itself as Ethio Telecom on December 2010.

Mission and Vision

Developing and maintaining a modern information communication technology (ICT) infrastructure that is capable of supporting voice, data and video service with equitable distribution and capacitated international connectivity is one of its missions.

1.2 Statement of the Problem

Over the last 15-20 years, purchasing has received much attention from both the financial community and sectors, which have recognized and

written extensively on the changing nature of purchasing. Most companies now define their purchasing organizations as managing the supply chain from defining specifications based on market needs to the delivery and use of the product or service by the ultimate consumer. (<http://www.flexstudy.com/catalog/schpdf.cfm>, Access on July 15, 2011.)

The research paper was concerned with the problem of application on internal control practice over local purchase of Ethio Telecom in the case of South West Addis Ababa Zone (SWAAZ) office. Most of the time government owned organizations are victims of corrupted system of purchasing and needs special attention to enable them establish modern and manageable effective internal control. From this we can understand that the organization gives due attention to its income rather than its expenditure. So internal control keeps an organization on course towards its objectives and the achievement of its mission and minimizes cost along the way.

From our preliminary observation in the zone office, the implementer may not perform according to the requesting department. This created problem on dalliance of purchasing of goods and/or services. Besides, Ethio Telecom has an Audit department which periodically assesses the overall internal activities of the company. Here we have also observed the gap in the internal auditing practice of local purchases, in documentation, in Performa collection and in disbursement activities, which needs a special attention in the internal control procedure.

1.3 Research Questions

The study tried to answer questions raised below in order to produce the reason why purchases are not managed properly.

- ❖ What are the procedures and internal audit practices in effecting payments to the purchased goods and/or services?

- ❖ What are the procedures and documentation in local purchase in the case of Ethio-telecom?
- ❖ What are the major factors considered in local purchase of Ethio Telecom?

1.4 Objectives of the Study

1.4.1 General Objectives

The general objectives of the study were to assess the practice of internal control over local purchase of Ethio Telecom in the case of South West Addis Ababa Zone (SWAAZ) office.

1.4.2 Specific Objectives

- To evaluate the internal audit practice in effecting payments to the purchased goods and services.
- To show the procedures and documentation in local purchase
- To magnify the major factors considered in purchasing goods and services.

1.5 Significance of the Study

As it was stated in the background of the study, attention should be given to the area of purchasing; because timely provision and good purchasing process increases the effectiveness and efficiency of any organization. Therefore:

- ✚ This research provides information about the weak and strong parts of the office's internal control over purchase and tries to recommend how to avoid the weak part of purchasing control.

- ✚ The findings enable what action should be taken by the concerned body to make purchase on time.
- ✚ This research initiates other researchers to do further research.
- ✚ It helps the organization in minimizing costs and ineffective utilization of resources.

1.6 Scope and Delimitations of the Study

This study focused on Ethio Telecom at SWAAZ office. It could be very difficult to show all the activities and practices of all zone offices in this research paper, because the offices in Ethio Telecom are located throughout the country. Instead this paper covers only information related to purchases and its controlling mechanisms in the specified zone office. The study assessed the purchase practices of the past two years, from 2009-2010, and focus on its financial perspective; there is a need to focus on cost.

1.7 Research Design and Methodology

1.7.1 Research Design

The research paper is descriptive type of research. Descriptive research paper writing is a good way to let our readers know what is going on, what should be done or what the right thing may be.

1.7.2 Population and Sampling Techniques

The population from which representative samples consists of managers, supervisors, accountants, purchasers and procurement administrators of the zone office.

The method we used to prepare this research paper was stratified sampling. Stratified sampling technique is one type of random sampling used in heterogeneous type of population. In other words it occurred

when the researcher select sample members or respondents from different departments.

The sample size of each respondent group is limited below.

The sample size of respondent group

Respondents	Population Size	No. of Representatives
Managers	6	2
Supervisors	12	4
Accountants	22	8
Purchasers	3	2
Procurement/facility administrator	15	5
Other administrative staffs	39	9
Total	97	30

1.7.3 Source of Data

- a) Primary sources: Interviewing the zonal Business Partner Manager and distributing questioners for managers, supervisors, accountants, purchasers, procurement/facility administrators and other administrative staffs.
- b) Secondary sources: some of the data for the study has been taken from secondary sources. It includes purchase manual, books and other sources.

1.7.4 Types of Data collection

In conducting this study, both primary and secondary sources of data were used. The primary sources of data can provide first hand

information, and the company's manual and procedures provided additional information as a sources of secondary data.

1.7.5 Methods of Data Collection

As stated above, the primary data which covered the major part of the research findings that would address all the major internal factors was collected through questionnaire and interview. And secondary data was collected /obtained from document analysis, the company's manual procedure, books and other sources.

1.7.6 Data Analysis Method

The natures of data that was gathered are quantitative and qualitative. Thus, descriptive techniques have been used to analyze and interpret. Basically tables are used to provide meaningful and sound conclusion from the analyzed and interpreted information.

1.8 Organization of the Paper

This research paper consists four chapters.

- The first chapter deals about the background of the study, statement of the problem, research questions, objectives of the study, significance of the study, scope of the study, the research design and methodology, limitation(s) of the study and organization of the paper.
- Chapter two presents review of related literature.
- The third chapter focuses on data presentation, analysis and interpretation.
- The fourth chapter presents summary, conclusions and recommendations

CHAPER TWO

REVIEW OF LITERATURE

2.1 Internal Control

Senior executives have been striving in order to have better control in the enterprise they run. Internal control is put in place to keep the company on course towards profitability goals and achievement of its mission, and to minimize surprise along the ways. They enable management to deal with rapidly changing economic and competitive environments, shifting customer demands and priorities, and restructuring for future growth. Internal controls promote efficiency, reduce risk of loss of asset, and help to ensure the reliability of financial statements and compliance with laws and regulations. Because internal control serves many important purposes, there are increasing calls for better internal control systems. Internal control is looked upon more and more as a solution to a variety of potential problems. (Boynton, W.C & Walter G.Kell (2000) pp 112-114).

2.1.1 What is Internal Control?

Internal control means different things to different people. This causes confusion among business people, legislators, regulators and others. Resulting miscommunication and different expectations causes problems with in enterprise. Problems are compounded when the term, if not clearly defined, is written to law, regulation or rule.

Definition: Under the COSO (Committee of Sponsoring Organizations of the Tread way Commission) Internal control –Integrated Framework, a widely –used framework in the United States, internal control is broadly defined as a process, effected by an entity’s board of directors,

management, and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulation.
(http://en.wikipedia.org/wiki/Internal_control ; Ray O. Whittington & Panny (1995) pp 190).

The first category addresses an entity's basic business objectives, including performance and profitability goals and safeguarding of resources. (ibid)

The second relates to the preparation of reliable published foundational statements, including interim and condensed financial statements and select financial data derived from such statements, such as earnings releases, reported publicity. The third deals with complying with those laws and regulations to which the entity is subject. These distinct but overlapping categories address different needs and allow a directed focus to meet the separate needs .Internal controls systems operate at different levels of effectiveness. Internal control can be judged effective in each of the three categories, respectively, if the board of directors and management have reasonable assurance that:

- They understand the extent to which the entity's operations objectives are being achieved.
- Publishes financial statements are being prepared reliably.
- Applicable laws and regulations are being complied with.
- While internal control is a process, its effectiveness is a state or condition of the process at one or more points in time.
(ibid)

Internal control consists of five interrelated components. These are derived from the way management runs a business, and are integrated with the management process. Although the components apply to all entities, small and mid-size companies may implement them differently than large ones. Its controls may be less formal and less structured, yet a small company can still have effective internal control. (Ray O. Whittington & Panny (1995) pp 191).

The components are:

Control Environment

The control environment sets the tone of an organization, infusing the control consciousness of its people. It is the foundations for all other components of internal control. Control environment factors include the integrity, ethical values and competence; board of directors or audit committee; management's philosophy and operating style; organizational structure; human resource policies and practices; and assignment of authority and responsibility. Ray O. Whittington & Panny (1995) pp 191).

Risk Assessment

A precondition to risk assessment is establishment of objectives, linked at different levels and achievement of the objective, forming a basis for determining how the risks should be managed. Mechanisms are needed to identify and deal with the special risks associated with change. (Ray O. Whittington & Panny (1995) pp 192).

Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out. Those policies and procedures help ensure that necessary actions are taken to address the risks that face the organization. Control activities occur through the organization,

at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, recomputations, reviews of operating performance, security of assets and segregation of duties. (Ray O. Whittington & Panny (1995) pp 193).

Information and Communications

Information and communication systems capture, process and report information to be used by parties both within and outside the organization. Pertinent information must be identified, captured and communicated in a form and time frame that enable people to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the business. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to informed business decision-making and external reporting. Effective communications also must occur in a broader sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of needs to be effective communications with external parties, such as customers, suppliers, regulators and shareholders. (Ray O. Whittington & Panny (1995) pp 195).

Monitoring

Internal control systems need to be monitored- a process that assesses the quality of the internal control structure over time. This is accomplished through ongoing monitoring activities; take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risk and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported

upstream, with serious matters reported to top management and the board. There is synergy and linked among these components, forming an integrated system that reacts dynamically to changing conditions. The internal control system is intertwined with the entity operating activities and exists for fundamental business reason. Internal control is most effective when controls are built in to the entity's infrastructure and are a part of the essence of the enterprise."Built in" controls support quality and empowerment initiatives, avoid unnecessary costs and enable quick response to changing conditions. There is a direct relationship between the three categories of objectives, which are what an entity strives to achieve, components which represent and what is needed to achieve the objectives. All components are relevant to each objectives category. When looking at any one category the effectiveness and efficiency of operations, for instance all five components must be present and functioning effectively to conclude that internal control over operations is effective. (Ray O. Whittington & Panny (1995) pp 197).

2.1.2 Functions of Internal Control

Internal control targets, and prevents loss of resources. It can help ensure reliable financial reporting and ensures that the enterprise complies with laws and regulations, avoiding damage to its reputations and other consequences. In sum, it can help an entity get to where it wants to go, and avoid pitfalls and surprise along the way. What internal control cannot do unfortunately; some people have greater, and unrealistic, expectations. They look for absolutes, believing that:

- Internal control can ensure an entity's success-that is, it will ensure achievement of basic business objectives or will, at the least, ensure survival. (Boynton, W.C & Walter G.Kell (2000) pp 112-113).

Even if effective internal control can only help an entity achieve these objectives, it can provide management information about the entity's progress, or lack of it, toward their achievement. But internal control cannot change an inherently poor manager in to a good one. And, shifts in government policy or programs actions or economic conditions can be beyond management's control. Internal control cannot ensure success, or even survival.

- Internal control can ensure the reliability of financial reporting and compliance.(ibid)

2.1.3 Role and Responsibilities

Everyone in organization has responsibilities for internal control.

Management

The chief executive officer is ultimately responsible and should assume "ownership" of the system. More than any other individual, the chief executive sets the "tone at the top" that affects integrity and ethics and other factors of a positive control environment. In large company, the reviewing the way they are controlling the business. Senior managers, in turn, assign responsibility for establishment of more specific internal control policies and procedures to personnel responsible for the unit's functions. In a smaller entity, the influence of the chief executive, often an owner -manager, is usually more direct. In any events, in a cascading responsibility, a manager is effectively a chief executive of his or her sphere of responsibility. Of particular significance are financial officers and their staffs, whose control activities cut across, as well as up and down, the operating and others units of an enterprise. (F.William & J.R. Messier (2003) pp 203).

Board of Directors

Management is accountable to the board of directors, which provides governance, guidance and oversight. Effective board members are objective, capable and inquisitive. They also have knowledge of the entity's activities and environment, and commit the time necessary to fulfill their board responsibilities, management may be in a position to override controls and ignore or stifle communications from subordinates, enabling a dishonest management which intentionally misrepresents results to cover its tracks. A strong, active board, particularly when coupled with effective upward communications channels and capable financial, legal and internal audit functions, is often best to identify and correct such a problem. (F.William & J.R. Messier (2003) pp 204).

Internal Auditors

Internal Auditors play an important role in evaluating the effectiveness of control systems, and contribute to ongoing effectiveness, because of organizational position and authority in an entity; an internal audit function often plays a significant monitoring role. (F.William & J.R. Messier (2003) pp 204).

Other Personnel

Internal control is, to some degree, the responsibility of everyone in an organization and therefore should be an explicit or implicit part of everyone's job description. Virtually all employees produce information used in the internal control system or take other actions needed to effect control. Also, all personnel should be responsible for communicating upward problems in operations, noncompliance with the code of conduct, or other policy violations or illegal actions. A number of external parties often contribute for the achievement of an entity's objectives. External auditors, bringing an independent and objective view, contribute directly through the financial statement audit and indirectly by providing

information useful to management and the board in carrying out their responsibilities. Others providing information to the entity useful in effecting internal control are legislators and regulators, customers and others transacting business with the enterprise, financial analysts, bond raters and the news media. External parties, however, are not responsible for, nor are they a part of, the entity's internal control system. (F.William & J.R. Messier (2003) pp 205).

2.1.4 Limitations of Internal Control

Internal control can do much to protect against both errors and irregularities and ensure the reliability of accounting data. Internal control can also provide only reasonable assurance to management and the board of directors regarding the achievement of an entity's objectives. Reasons for this include the following inherent limitation in any entity's internal control structure:

(Sara Molla, (2007)."**An Assessment of Internal Control Over Receivables**", Unpublished BA paper, University College of St. Mary's, Addis Ababa).

Mistakes in Judgment

Occasionally, management and other personnel may exercise poor judgment in making business decisions or in performing routine duties because of inadequate information, time constraints, or other pressures. (Sara Molla, (2007)."**An Assessment of Internal Control Over Receivables**", Unpublished BA paper, University College of St. Mary's, Addis Ababa).

Breakdowns

Break downs in established controls may occur because personnel may misunderstand instructions or make errors due to carelessness, distractions, or fatigue, temporary or permanent changes in personnel or in system of procedures may also contribute to breakdowns. (Sara Molla, (2007)."**An Assessment of Internal Control over Receivables**". Unpublished BA paper, University College of St. Mary's, Addis Ababa.)

Collusion

Individuals acting together, such as an employee who performs an important control acting with another employee, customer, or supplier, may be able to perpetrate and conceal an irregularity so as to prevent its detection by the internal control structure (e.g. collusion among three employees from the personnel, manufacturing, and payroll departments to initiate payments to fictitious employees, or kickback schemes between an employee in the purchasing department and a supplier or between an employee in the sales department and a customer). (Sara Molla, (2007).”**An Assessment of Internal Control over Receivables**”. Unpublished BA paper, University College of St. Mary’s, Addis Ababa).

Management Override

Management can override prescribed policies or procedures for illegitimate purpose such as personal gain or enhanced presentation of an entity’s financial condition or compliance status. Override practices include making deliberate misrepresentations to auditors and others such as by using false documents to support the recording of fictitious sales transaction. (E.g. inflating reported earnings to increase a bonus pay-out or the market value of the entity’s stock, or to hide violations of debt covenant agreement or non compliance with laws and regulations). (Sara Molla, (2007).”**An Assessment of Internal Control over Receivables**”. Unpublished BA paper, University College of St. Mary’s, Addis Ababa).

Costs versus Benefits

The cost of an entity’s internal control structure should not exceed the benefits that are expected to ensure. Because precise measurement of both costs and benefits usually is not possible, management must make both quantitative and qualitative estimates and judgments in evaluating the cost benefit relationship. (Sara Molla, (2007).”**An Assessment of Internal**

Control over Receivables". Unpublished BA paper, University College of St. Mary's, Addis Ababa).

2.2 Purchasing

Purchasing refers to a function in business where by the enterprise obtains the inputs for what it produces, as well as other goods and services it requires. In larger business, the function is frequently carried out in a purchasing department, headed by a purchasing manager.

Purchasing is the informal name of the department in procurement responsible for issuing purchase orders for goods, including material and equipment. In most corporations, purchasing agents are typically referred to as "Purchasing Specialists or simply as Buyers". Even simple purchasing can involve tradeoffs. What is the quality required? Are there advantages buying fewer or more items? The timing can be critical. Each supplier may have different attributes, capabilities and values. The total cost of acquisition should be considered alongside the total lifetime cost, not just the purchase price. The physical handling of any products should be considered, with links to methods of transport, logistics and warehousing. A key question in procurement is what to buy, given a limited budget. A manager in a health service may have a large choice of possible health technologies, which could be purchased. Is it better to buy an MRI scanner for a hospital or an advertising campaign may wish to choose between buying more fighter aircraft or more tucks. If good data is available it is good practice to make use of economic analysis methods such as cost benefit analysis or cost utility analysis.

An important distinction is between analyses made without risk and those with risk. Where risk is involved, either in the costs or the benefits, the concept of expected value should be employed.

2.2.1 Fundamental Objectives of Purchasing

Fundamental objectives of purchasing may be enumerated as follows:

- I. to maintain continuity of supply to support production schedules,
- II. in doing so, minimum investment in stores and materials inventory must be ensured, consistent with safety and economy,
- III. Duplication of purchases, wastes, obsolescence and costly delays must be avoided.
- IV. Proper quality standards based on suitability criteria must be maintained.
- V. materials must be procured at lowest possible cost, consistent with quality and service requirements, and
- VI. It must maintain, in so far as materials costs are concerned, company's competitive position in the market. (Datta A.K. (2003) pp 56-57).

2.2.2 Types of Purchases

There are two types of purchasing in business world.

1. Purchasing for resale.
2. Purchasing for consumption.

Purchasing for resale is performed primarily by merchants. Purchasing managers who buy materials for consumption or conversion are called industrial buyers or purchasers. This term include buyers for manufacturing firms, service business institution (schools, hospitals, etc), utilities and various government agencies (city, country, state, etc). Although, some of the problems are similar to those of the merchant, for the most part industrial buyers operate very differently in quite different environments. They participate in determining what products their firm should manufacture and which ones should be purchased from outside suppliers. After these decisions have been made an industrial buyer prepares a long-term strategic purchasing plan for major materials, and

researches and monitors appropriate supply markets. She/he plays a major role in qualifying and selecting suppliers, developing mutually profitable ongoing supplier's relationship and coordinating purchases with sales forecasts and production schedules. Most important, these buyers integrate the efforts of their departments with those of the other departments in the firm. (W.Dobler Donald & David N.Burt (1996) pp 18-35).

2.2.3 Purchasing Principles

Be it either a small-scale industry, medium-scale one or a large-scale industry, purchasing is thought to be one of the most important functions. But, it is a supportive function to production and other user departments. Therefore, it follows that it must provide the service efficiently and economically. Industrial purchasing is, however, entirely different from personal buying practices.

Basic principles may be enumerated as follows:

1. Buying the right quality
2. Buying the right quantity
3. Buying at the right price
4. Buying from the right source
5. Buying at the right time and place.

Accordingly, certain procedures have to be followed, although actual practices may vary according to time and place. W.Dobler Donald & David N.Burt (1996) pp 18-35).

Right Quality:-First and foremost, quality must be properly defined. No general description of the material or desired attributes will be sufficient, like 'high quality' or 'poor quality', etc. the definition must be described in the purchase order. This description then becomes the essence of the purchase order. Significant elements like, dimension, physical, chemical and other properties, suitability and purpose must all be clearly stated. (ibid)

Right Quantity:-This is also one of the basic considerations. It has a special meaning in this context, that is to say, what quantity should be purchased at a time. Since quantity is a mathematical measure, there have been many attempts to determine the optimum quantity which is most economical. Besides this, there are many other considerations which have to be taken into account. (ibid)

Right Price:-Price is not just one of the terms and conditions of the purchase order, but is an important economic consideration which is a guiding factor. A most common equation used in this connection is:

$$\text{Value} = \frac{\text{Quantity}}{\text{Price}}$$

This is not just a mathematical formula, but expresses an axiomatic truth that value varies in direct proportion to quality and inversely to the price paid. But where quality is defined in a specification, it is a constant and comparison of value can be made in terms of price alone. It follows, therefore, that the lower the price, the greater the value. (ibid)

Right Source:-Source selection is an important factor. Besides the factors mentioned earlier, reliability and timely delivery have to be seriously reckoned with. Actually, there are four stages of source selection:

- a. Survey stage
- b. Enquiry stage
- c. Negotiation stage
- d. Experience stage.

In purchasing, the starting point is the recognition of the need for a material or a product. Though the exact specifications may or may not be fixed, its general nature and purpose are known. What is available in the market? Who makes such a product? Or, who can make it or supply it

most economically or satisfactorily? All these questions must be answered before a supply order is placed. (ibid)

Right Time:-Right time implies that in order to be effective, purchases should be made, in such a way that stores and materials are made available in time when needed, it being purchasing department's duty to see that the delivery schedule is honored. As such timing is an important element in every purchase order, except when such purchases are made for stock purposes. Even then, in order to get some price advantage when some seasonal purchases are resorted to, timing plays its due role. (ibid)

Right Place: - Right place means right place of delivery. Every purchase contract, in addition to time of delivery, must clearly state the place of delivery and such other terms like free delivery or ex-factory delivery. (ibid)

2.2.4 Common Documents and Records

Proper control over purchases transactions involves the use of several common documents and records including the following; (Boynton, W.C & Walter G.Kell (2000) pp 116-118).

- ***Purchase Requisition***

Written request made by employee to the purchasing department to buy goods and/or services. (ibid)

- ***Purchase Order***

Written request made by purchasing department to another entity to purchase goods and/or services specified in the order. (ibid)

- ***Receiving Report***

Report prepared on the receipt of goods showing the kinds and quantities of goods received from vendors. (ibid)

- ***Vendors' Invoice***

Form stating the items shipped or services rendered, the amount due, and the payment terms. (ibid)

- ***Voucher***

Form indicating the vendor, amount due, and payment date for purchases received. It is used internally as the authorization for recording and paying the liability. (ibid)

- ***Voucher Summary***

Report of total vouchers processed in a batch or during a day. (ibid)

- ***Voucher Register***

Formal accounting record of vouchers recorded for payment. (ibid)

- ***Open Purchase Order File***

Hard copy and/or computer file of purchases orders submitted to vendors for which the goods or services have not been received. (ibid)

- ***Purchase Transaction File***

Computer file containing data for approved vouchers for purchases that have been received. Used to print the voucher register and update the account payable inventory, and general ledger master files. (ibid)

- ***Unpaid Voucher File***

Hard copy files of approved vouchers with supporting documents for goods and/or services. Unpaid vouchers should sum to the balance in the account payable control account. (ibid)

- ***Paid Voucher File***

Holds vouchers and supports documents for vouchers that have been paid. (ibid)

- ***Account Payable Master File***

Computer file containing data on approved unpaid vouchers. May or may not be organized by vendor, Should sum to the balance in the account payable control account. (ibid)

2.2.5 Functions of Purchasing

The process of purchasing transactions involves the following purchasing functions;-

Requisitioning Goods and/or Services

Purchase requisition may originate from stores (the warehouse) for inventoried items or any department for items not inventoried. Most companies permit general authorizations of inventory and raw materials when recorder points are reached, to normal repair and maintenance work, and to similar items. In contrast, company policy frequently requires specific authorization for capital expenditures and lease contracts. Operating within these polices, designated individuals are permitted to initiate purchase requests. Purchase requisition forms may be prepared manually or electronically. Each request should be signed by a supervisor who has budgetary responsibility for the category of expenditure. Because purchase requisitions may originate in any department, they are rarely renumbered. When applicable and prepared properly the purchase requisition represents the start of the transaction trail of documentary evidence in support of management's assertion as to

the existence of occurrence of purchase transactions. (R.J. Baker & Kuehne R.S. (1992) pp 58).

Preparing Purchase Order

Once a purchase requisition has been received, the purchasing department determines the lowest-cost supplier of the merchandise and places an order. This order is document in a purchase order. Purchase orders should contain a precise description of the goods and services desired quantities, price, and vender name and address. Purchase order should be renumbered and signed by an authorized purchasing agent. The original is sent to the vendor and copies are distributed internally to the receiving department, the vouchers payable department, and the department shat submitted the requisition. The quantity ordered is generally obliterated on the receiving department copy, so that receiving clerks will make careful counts when the goods are received. The purchase order also becomes part of the transaction trail of documentary evidence that supports the existence or occurrence assertion for purchase transactions. Keeping appropriate file for purchase orders is mandatory. (R.J. Baker & Kuehne R.S. (1992) pp 59).

Receiving the Goods

A valid purchase order represents the authorization for the receiving department to accept goods delivered by vendors. Receiving department personnel should compare the goods received with the description of the goods on the purchase order, count the goods, and inspect the goods for damage. A renumbered receiving report should be prepared for each order received. In computerized systems, the receiving report may be prepared by using information already in the computer and adding the appropriate receiving date such as quantities received. (R.J. Baker & Kuehne R.S. (1992) pp 59).

Storing Goods/Inventory

Up on delivery of goods to stores or other requisitioning to stores or other requisitioning department, receiving clerks should obtain a signed receipt. Obtaining initials on a copy of the receiving report serves this purpose and provides further evidence for the existence or occurrence assertion for the purchase transaction. The signed receipt also establishes subsequent accountability for the purchased goods. Separation custody of goods received for inventory from other functions involved in purchasing reduces the risk of unauthorized purchased and the misappropriation of goods. The goods should be kept in locked storage areas with limited access and proper surveillance by security personnel. (R.J. Baker & Kuehne R.S. (1992) pp 60).

Preparing the Payment Voucher

Prior to recording purchases vouchers are prepared in the vouchers payable department. Controls over this function and the assertion/specific audit objectives to which they relate include:-

- Establishing the agreement of the details of vendors' invoices with the related receiving reports and purchase orders.
- Determining the mathematical accuracy of the vendors' invoices.
- Preparing renumbered vouchers and attaching the supporting documents (purchase orders, receiving reports, and vendors' invoices)
- Performing an independent check on the mathematical accuracy of the vouchers.
- Coding the account distribution on the vouchers (i.e. indication the asset and expense accounts to be debited. Approving the vouchers for payment by having an authorized person sign the voucher.

Other kinds of supporting documentation such as copies of contracts may be required when the voucher relates to certain types of services or

to leased assets. In other cases, such as monthly utility bills, the vendor's invoice alone may suffice (i.e. there is no monthly purchase order and receiving report). (R.J. Baker & Kuehne R.S. (1992) pp 60).

Recording the Liability

In manual system, copies of the approved unpaid vouchers are sent with the daily voucher summary to the accounting department for recording the voucher register and general ledger. An accounting supervisor should perform an independent check of the agreement of the total of the vouchers recorded by accounting personnel with the daily voucher summary received from vouchers payable. In both manual and computerized system, an accounting supervisor should monitor;-

- The appropriateness of account classifications shown in the voucher register.
- The timeliness of recording by periodically comparing the dates of voucher register entries with dates on copies of the vouchers.

A periodic independent check should also be made of the agreement of the balance of the account payable control account with the sum of the vouchers in the unpaid voucher file in the vouchers payable department. (R.J. Baker & Kuehne R.S. (1992) pp 61).

2.3 Purchase Budget

Many organizations with an institutional framework work as non-profit service organizations. Also many governmental agencies and departments too, have some social objectives. They operate strictly under a separate purchase budget with a view to giving a sense of purpose to their stream of activities. Such a purchase budget separately applied to any unit, or it may form a part of integrated planning for the entire organization. The anticipatory nature of expenditure for purchased materials and stores makes an overriding necessity. It then exerts control

over timely purchases on pre-determined cost bases. This paves the way for better financial planning. But, in order to be effective, it should be closer to actual. For this, however, purchase statistics have to be properly maintained so that actual expenditures can be properly evaluated in the light of pre-determined standards. (Datta A.K. (2003) pp 69)

2.4 Financial Aspects of Purchasing

2.4.1 Accounting Records

- The accounting record for advance payment for cash purchase is:

Account Receivable	xx	
Cash		xx

- The accounting record for the clearance of the advance payment for cash purchase is as follows:

Asset/Expense	xx	
Accounts Receivable		xx

- The accounting record for the recording of the credit purchase is the following:

Asset/Expense	xx	
Account payable		xx

- The record for the settlement of the credit purchase is as follows:

Account payable	xx	
Cash		xx

(ETC 2005, **Financial Procedure Manual**, Addis Ababa, pp. 80-81).

2.4.2 Disbursing Local Purchase

The purchase of goods and/or services by procurement department purchasers shall be supported by appropriate budgetary provisions. The payments mode shall be either advance check payment for local purchase orders or check payment after goods are received. The following

documents shall be available for clearance in terms of payments by the disbursing office.

- Signed purchase order.
- Signed contract agreement.
- Advance request form for advance payments.
- Suppliers invoice and certified receiving report.

(ETC 2005, **Financial Procedure Manual**, Addis Ababa, pp. 80-81).

2.4.3 Cost

In order to survive in the competitive market, firms need to cut the total cost. Purchasing is clearly a major area for potential cost savings. Introduction of integrated supply chain management and relationship gave ample opportunity to achieve cost saving objectives. (Agrawal D.K. (2003) pp 285)

CHAPTER THREE

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

OVERVIEW

This chapter presents the data collected through questionnaire and procedure manual, the analysis made on such data through descriptive analysis technique and the interpretations made on the analysis to spot out major findings on the research area. The data collected, the analysis and interpretations made on the data are presented here under.

3.1. Personal Characteristics of Respondents

In preparing a study stating respondents contribute a lot for the researchers. Accordingly, the following data is collected by the researchers in order to understand their profile.

Table 1: Profile of Respondents

No.		Item	Respondents in	
			Number	Percentage
1	Gender	Male	18	60
		Female	12	40
		Total	30	100
2	Age	<30	8	27
		31-40	18	60
		41-50	4	13
		>50	0	0
		Total	30	100
3	Educational Background	Above Masters Degree	0	0
		Masters Degree	3	10
		Degree	21	70
		Diploma	6	20
		Below Diploma	0	0
		Others	0	0
		Total	30	100
4	Employment Status	Permanent	30	100
		Contract	0	0
		Total	30	100
5	Position	Managers	2	7
		Accountants	8	27
		Supervisors	4	13
		Facility Administrator	5	16
		Purchaser	2	7
		Others Administrative Staffs	9	30
		Total	30	100

As shown in the table1 above; (18) 60 percent of the respondents are male the remaining (12) 40 percent are female, from this we may judge that the company has higher number of male employees. Regarding age of respondents; (8) 27 percent are less than 30 years, (18) 60 percent are between 31 and 40 and (4) 13 percent are between 41 and 50. So this shows that most of the respondents are in the age range between 31 and 40 which is the working age and shows the respondents experience is sufficient for the required information we need.

The table also tries to assess educational background of the respondents in which (3) 10 percent of them are Masters Degree, (21) 70 percent Degree and (6) 20 percent Diploma holders. This implies that the majority of the respondents are Degree holders. Therefore, this helps us in the accuracy of the questionnaires they supposed to fill. With regard to employment status of the respondents, all the respondents included in this study are permanently employed in the company. From these permanent employees we can find actual and deep information rather than from those contract employees.

Finally, from the table above we can see the respondent's position in the company; (2) 7 percent Managers, (8) 27 percent Accountants, (4)13 percent Supervisors, (5) 16 percent Facility Administrators, (2) 7 percent Purchasers and (9) 30 percent other administrative staffs. From this we can understand, other administrative staffs took the highest number of respondent group included in this study. In the researchers view this indicates that all the respondents are primary stakeholders and highly relevant for the study.

3.2. Implementation of Internal Control

Table 2: Responses Regarding Implementation & Involvement of Management Personnel's in Monitoring of Internal Control

How do you rate the implementation of internal control system of Ethio Telecom?	Responses in	
	Number	Percentage
Excellent	0	0
Very Good	0	0
Good	11	36.67
Poor	13	43.33
Very Poor	6	20
Total	30	100
The involvement of management personnel's in monitoring the internal control over local purchase.	Responses in	
	Number	Percentage
Excellent	0	0.00
Very Good	1	3.33
Good	8	26.67
Poor	15	50.00
Very Poor	6	20.00
Total	30	100

As indicated above in table 2 item 1; none of the respondents stated that the implementation of internal control is very good and above, (11)36.67 percent of respondents said good and (19)63.33 percent rated poor. So, this indicates that the implementation of internal control in the organization is under question, which means unless, the company gives due attention for the implementation of the internal control particularly for its purchase, the local purchase will be exhausted for higher embezzlement and corruption. In addition to this, the response we have got from the interview also shows that the internal control system of

Ethio Telecom is not clear and no one can proof whether things are done properly or not.

Table 2 item 2 above states; (1) 3.33 percent of respondents on involvement of management personnel in internal control over local purchase said very good, (8) 26.67 percent of respondents said good and (21) 70 percent rated poor and below. This indicates that the involvement of management personnel in monitoring the internal control over local purchase in the company is poor. If this trend is not changed the purchasing activity may be monopolized by purchase department only, so this may open way for misuse of scarce resources.

3.3. The Level at Which the Budget Section Controls the Approved Budget for Purchase.

Table 3: Responses on Controlling of the Approved Budget for Purchase in Budget Section

The level at which the budget section controls the approved annual budget for purchase.	Responses in	
	Number	Percentage
Excellent	1	3.33
Very Good	19	63.33
Good	8	26.67
Poor	2	6.67
Very Poor	0	0.00
Total	30	100

From the table 4 above; (20) 66.66 percent of the respondents rated the duty of budget section in controlling the approved budget for purchase very good and above, (8) 26.67 percent good and the remaining (2) 6.67 percent poor. So we can understand that the budget section controls the

approved budget for purchases properly. So, this leads in effective utilization of resources in the company.

3.4. Internal Audit Practice & Involvement of Internal Auditors in Disbursing & Purchases Activities

Table 4: Responses on Internal Audit Practice

How do you rate the internal audit practice of Ethio Telecom?	Responses in	
	Number	Percentage
Excellent	0	0.00
Very Good	5	16.67
Good	4	13.33
Poor	17	56.67
Very Poor	4	13.33
Total	30	100
To what extent the internal auditors control the purchasing activities.	Responses in	
	Number	Percentage
Excellent	0	0.00
Very Good	4	13.33
Good	5	16.67
Poor	17	56.67
Very Poor	4	13.33
Total	30	100
How do you rate the involvement of internal auditors in disbursing local purchases?	Responses in	
	Number	Percentage
Excellent	0	0.00
Very Good	3	10.00
Good	6	20.00
Poor	18	60.00
Very Poor	3	10.00
Total	30	100

The above table item 1 shows; (5)16.67 percent of respondents said the internal audit practice of the company is very good, (4) 13.33 percent good, (21) 70 percent poor and below. This figure clearly indicates that the internal audit practice of the company is very weak and there is no internal audit in the zone level. The absence of internal department in the zone office leads in embezzlement not only in purchasing activity but also in the overall operations of the company.

Based on table 4 item 2; (4) 13.33 percent of respondents agreed that the involvement of internal auditors in controlling purchasing activities is very good, (5) 16.67 percent good and (21) 70 percent poor and below. With the stand point of respondents, we can judge there is no interaction of auditors at all in the local purchase of the organization. Furthermore, the response from the interview stated that there is no internal audit department in the zone level. As the procurement procedure manual of the company clearly states, the purchase committees are five in numbers which consists from different departments except the internal audit department. (ETC Procurement Procedure Manual 2004). So, the office should give attention in involving internal auditors as a member of purchase committee to minimize the risk associated with purchasing.

As shown in table 4 item 3 above; only (3) 10 percent of respondents agreed the involvement of internal auditors in disbursing local purchases is very good, (6) 20 percent good and (21) 70 percent poor and below. This shows there is no involvement of internal auditors in disbursing local purchases. Before effecting payment invoices, auditors have to make detail check if not an error may occur in calculating prices against quantity.

3.5. Controls to Prevent Duplicate Payments

Table 5; Responses on Controls to Ensure Duplicate Payments Not to Make

Establishment of controls to ensure duplicate payments is not made.	Responses in	
	Number	Percentage
Excellent	6	20.00
Very Good	11	36.67
Good	12	40.00
Poor	1	3.33
Very Poor	0	0.00
Total	30	100

As presented in table 5; (17) 56.67 percent of respondents responded very good and above on establishment of controls not to made duplicate payments, (12) 40 percent good and (1) 3.33 percent poor and below. So, from this we can guess there is a good system of controls to ensure duplicate payments are not made in the disbursement section. The company uses payment approval seal on each source documents when payments are made, so this eradicates not made duplicate payments.

3.6. Obeying the Policy and Procedure of the Company for Local Purchase.

Table 6: Responses on Local Purchase in Accordance With the Company's Policy and Procedure

Purchasing activity according to the company's policy and procedures.	Responses in	
	Number	Percentage
Excellent	3	10.00
Very Good	16	53.33
Good	8	26.67
Poor	3	10.00
Very Poor	0	0.00
Total	30	100

As presented in table 6; (19) 63 percent of respondents said purchasing activity according to the company’s policy and procedures very good and above, (8) 26.67 percent good and (3) 10 percent poor. From the responds gathered, one can conclude purchasing activities in SWAAZ is carried out according to the company’s policy and procedure. So, this results a healthy purchasing practice.

3.7. Cross Checking Bank Check with Supporting Documents

Table 7: Responses Given on Cross Checking Bank Check with Supporting Documents

The ways that the check signers cross check the accuracy of the figures with supporting documents.	Responses in	
	Number	Percentage
Excellent	3	10.00
Very Good	15	50.00
Good	11	36.67
Poor	1	3.33
Very Poor	0	0.00
Total	30	100

As shown in table 7 above; (18) 60 percent of respondents agreed on cross checking the accuracy of the figures with the necessary supporting documents very good and above, (11) 36.67 percent said good and (1) 3.33 percent poor. In the researchers view, this shows there is a wise cross check of supporting documents before issuing checks. This avoids preparation and issuance of overstated /understated bank checks to the vendors.

3.8. Receiving Goods Requested in a Timely Manner

Table 8: Responses on Purchasing of Goods from Requesting to Receiving the Goods

How fast is purchasing of goods from requesting to receiving the goods?	Responses in	
	Number	Percentage
Excellent	0	0.00
Very Good	9	30.00
Good	13	43.33
Poor	7	23.34
Very Poor	1	3.33
Total	30	100

As shown in table 8 above; (9) 30 percent of respondents said very well with regard to receiving goods in a timely manner, (13)43.33 percent good and (8) 26.67 percent poor and below. This witnesses the timely provision of goods and/or services and there may not be dalliance of activities by shortage of the required materials and tends to reduce price fluctuation.

3.9. Documentation Practice

Table 9: Responses on Documentation Practice of the Company

How do you rate documentation practices in the company?	Responses in	
	Number	Percentage
Excellent	0	0.00
Very Good	1	3.33
Good	9	30.00
Poor	15	50.00
Very Poor	5	16.67
Total	30	100
Comparison of the Performa invoices collected before purchasing of goods and/or services.	Responses in	
	Number	Percentage
Excellent	5	16.67
Very Good	16	53.33
Good	9	30.00
Poor	0	0.00
Very Poor	0	0.00
Total	30	100

Based on the above table item 1; (1)3.33 percent of respondents agreed that documentation practice in the company is very good (9) 30 percent good (20) 66.67 percent poor. With the stand point of respondents, we can judge that there is a poor documentation practice in the company. Good documentation is essential to correct, complete, current, and consistent information effectively to meet stakeholder's requirement. The purchaser may submit or settle an invoice twice if proper documentation is not practiced. So, the company may incur additional costs for a single transaction due to its poor documentation.

Considering the above table item 2; (21) 70 percent of respondents, on comparison of Performa invoices before purchase said very good and

above, and (9) 30 percent good. So this witnesses that comparison of Performa invoices before purchasing was strongly practiced in the company. The company exercises Performa purchases from birr 2001 up to birr 30,000. The purchaser distributes request for quotation for different suppliers and collects from a minimum of three vendors. (ETC Procurement Procedure Manual 2004) So, comparisons of Performa invoices are applied according to the company's procurement manual.

3.10. Checking the Necessary Documents Effectively

Table10: Responses on Checking the Necessary Documents

Effectively

How effective is the company in checking the fulfillment of all the necessary documents to effect payment?	Responses in	
	Number	Percentage
Excellent	5	16.67
Very Good	20	66.66
Good	5	16.67
Poor	0	0.00
Very Poor	0	0.00
Total	30	100
Utilization of sequential and pre-numbered purchase orders.	Responses in	
	Number	Percentage
Excellent	3	10.00
Very Good	16	53.33
Good	10	33.34
Poor	1	3.33
Very Poor	0	0.00
Total	30	100
Consideration of unit price and quantity against total price in the purchase invoice.	Responses in	
	Number	Percentage
Excellent	6	20.00
Very Good	12	40.00
Good	12	40.00
Poor	0	0.00
Very Poor	0	0.00
Total	30	100

Regarding the response in checking the fulfillment of the necessary documents shown in item 1 above; (25) 83.33 percent of respondents said very good and above and (5) 16.67 percent good. This shows that all the necessary source documents are checked very well before payments are made. Having purchase invoices and receiving report documents with the material requisition and purchase request, clearance of advance takes place in the budget and disbursement section by preparing payout order and checked again by accounts control section. After the payout order is approved by the finance and business partner managers the documents are sent to the cashier, from the cashier to accounts section for the preparation of journal vouchers and to record on the daily follow up books.(ETC Procurement Procedure Manual 2004). So, checking the fulfillment of documents help not to pay personal purchases or purchases not directly related to the company's operation.

From table 10 item 2 above; (19) 63.33 percent of the respondents responded very good and above on utilization of sequential and pre-numbered purchase order forms; (10) 33.34 percent said good and (1)3.33 percent poor. This may be a stand point to judge as there is good utilization of pre-numbered purchase orders. The purchaser order is prepared and a copy of it is sent to the supplier and the supplier approves the amounts on the purchase order by putting its seal on it. (ETC Procurement Procedure Manual 2004). So that the original Performa invoice price could not be amended.

As shown in table 10 item 3; (18) 60 percent of respondents said very good and above. The rest (12) 40 percent said good. This clearly indicates that the company has a well organized way of checking unit price and quantity against total price in the purchase invoice. Therefore, this will avoids not making any numerical error in the invoice.

3.11. Segregation of Duties in Purchasing Activities

Table 11: Responses on Segregation of Duties in Purchasing Activities

Segregation of duties in purchasing activities.	Responses in	
	Number	Percentage
Excellent	0	0.00
Very Good	14	46.67
Good	15	50.00
Poor	1	3.33
Very Poor	0	0.00
Total	30	100

As respondents respond on table 11 above; (14) 46.67 percent of them said very good, (15) 50 percent good and (1) 3.33 percent poor. This confirms that segregation of duties in purchasing activities is good in the company. This segregation of duties can strengthen the internal control of activities and help in creating responsible personnel for purchasing activity in the office.

3.12. Activities of Purchase Committee Before & After Purchase

Table 12: Responses on Activities of Purchase Committee Before & After Purchase

How do you rate activities of purchase committee before purchasing?	Responses in	
	Number	Percentage
Excellent	2	6.67
Very Good	14	46.67
Good	13	43.33
Poor	1	3.33
Very Poor	0	0.00
Total	30	100
How do you rate activities of purchase committee after purchasing?	Responses in	
	Number	Percentage
Excellent	0	0.00
Very Good	6	20.00
Good	14	46.67
Poor	8	26.66
Very Poor	2	6.67
Total	30	100

As shown in table 12 item 1 above; response on activities of purchase committee before purchase; (16) 53.34 percent of respondents said very good and above, (13) 43.33 percent good and (1) 3.33 percent poor. This indicates that there is timely involvement of purchase committee before any purchases are made. Their activity is mainly comparing the Performa and selecting the best supplier's price and help in avoiding any mischief in selecting the right supplier.

As shown in table 12 item 2; response on activities of purchase committee after purchase; (6) 20 percent of respondents said very good, (14) 46.67 percent good and 33.33 percent poor and below. So this also indicates that the involvement of purchase committees after purchasing

is good. They check the goods received are in accordance with purchase order, that is the quantity and the quality is per the user's request.

3.13. The Extent to Which the Company Acquires Quality Goods

Table 13: Responses on Acquiring Quality Goods

The extent to which the company acquires quality goods.	Responses in	
	Number	Percentage
Excellent	0	0.00
Very Good	12	40.00
Good	12	40.00
Poor	6	20.00
Very Poor	0	0.00
Total	30	100

Based on the above table (12) 40 percent of respondents agreed that the company acquires quality goods very good, (12) 40 percent good and (6) 20 percent poor. So there is a good practice in acquiring quality of goods during purchasing. This may declare inferior quality goods are not supplied and received.

3.14. Management's Action in Solving Time Taking Purchase

Table 14: Responses on Management's Action in Solving Time Taking Purchase

How do you rate management's action in solving long chain purchases and its impact on cost?	Responses in	
	Number	Percentage
Excellent	0	0.00
Very Good	0	0.00
Good	7	23.33
Poor	17	56.67
Very Poor	6	20.00
Total	30	100

Putting the above table in to consideration, regarding management's action in solving long chain purchases and its impact on cost, none of the respondents has said very good and above, (7) 23.33 percent good and (23) 76.67 percent poor and below. So we can judge that there is a weak interaction of managements in time taking purchase and its impact. As a result, some operations may be delayed due to lack of supplies. Furthermore, due to price fluctuation the company may incur additional costs in relation to local purchase. The management is supposed to minimize the gap in time taking purchase in the office. As the response obtained the management had not been given due attention for the long chain purchases in the zone office.

Finally, from the open ended questions we provided, majority of the respondents put their idea by indicating the absence of internal audit department in the zone offices of Ethio Telecom and also said that the internal control practice of the zone office is weak. Besides, they mention some problems associated with local purchase activities. Some of the problems that the respondents mentioned include:

- Multiple Performa invoices are collected from a single supplier.
- Purchase of similar items may be requested using different material requisition intentionally for the purpose of conversion of the purchase from bidding to direct purchase.
- Potential suppliers may not be differentiated and selected by the company for the purpose of fast and easy delivery of the items.
- Insufficient amount of fund (lack of purchase budget).

CHAPTER FOUR

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter deals with summary, conclusion and recommendations that have been given to Ethio Telecom- South West Addis Ababa Zone Office in relative to internal control practice over local purchase.

4.1 Summary of Major Findings

- Even if Ethio Telecom South West Addis Ababa Zone office makes huge amount of local purchases for its operation, implementation of the internal control system over local purchase is weak. (19)63.33 percent of the respondents replied that the implementation of internal control system over local purchase is less applicable.
- Managements are expected to monitor, lead and coordinate each and every activities of their company. As per (21)70% of the respondent's response, the involvement of management members in SWAAZ office in monitoring the internal control over local purchase is not sufficient enough.
- Internal audit department is available only in the company's Head Quarter. But as far as the zone office operates different activities that need regular follow up. Unfortunately, there is no internal audit department in the zone level. (19) 70 percent of the respondents believed that the internal audit practice of Ethio Telecom is not good.
- (19) 70 percent of the respondents replied that internal auditors are not strongly involved in controlling the purchasing activities and in disbursing local purchases of the office. If internal auditors are involved in disbursement and purchasing activities the office can be protected from different embezzlement and fraud. Here the

rate at which internal auditor's controls purchasing and disbursement activities is not sufficient enough as to minimize such frauds and embezzlement.

- The payment being effected in the zone office is out of the awareness or the involvement of the internal audit department. In short, it doesn't touch the audit department.
- In good documentation practice records should be completed at time of activity or when any action is taken. (20) 66.67 percent of the respondents replied that documentation practice of South West Addis Ababa Zone office is poor.
- The management is supposed to minimize the gap in time taking purchases/ long chain purchases/ in the zone office. (23) 76.67 percent of the respondents replied that, management's action in solving long chain purchase is weak. This indicates that the management had not been given due attention for long chain purchases in the office. In addition, the response from interview shows the major factors for time taking purchases, which includes poor procurement planning, shortage of budget, lack of committee skill and enlargement and rigid ability of purchasing procedure.

4.2 Conclusion

The following conclusions are raised based on the findings.

- The implementation of poor internal control system over local purchase can cause corruption.
- Insufficiency of the involvement of management personnel in monitoring the internal control over local purchase leads the office for unnecessary loss of resources.
- The absence of internal audit department in the zone office has a great impact in purchasing and disbursement activities.

- Due to weak involvement of the management in long chain purchases, this in effect brings a negative impact on the day to day activities of the office.

4.3 Recommendations

Ethio Telecom is a state owned and the sole telecom service provider in the country. The company focuses on providing services like, Fixed telephone, Mobile telephone, Fax, Internet, digital TV services and digital Networking ,etc. Thus, based on the findings the researchers forward the following recommendations and possible solutions for the problems identified.

- Believing that internal control is the backbone of one company, the zone office should have to maintain and implement a well organized internal control system as fast as possible.
- In order to strengthen the internal control system in the office the company should open internal audit department in all zone offices. Opening this department can help to establish a well organized internal control system in purchasing and disbursement activities.
- Before any payments are made the office should maintain a pre-audit system. Because most of the time cash and cash equivalent items are exposed to mischief, so, pre-auditing can play a major role in protecting intentional and unintentional embezzlement and fraud.
- The management should give more attention to change documentation practice of the zone. The company as a whole has to maintain computerized documentation system throughout its branches. Because good documentation is essential to correct, complete, current, and consistent information effectively to meet all users requirement. Furthermore, the company should consider

developing modern approaches to improve its documentation practice.

- In order to give solutions for long chain purchases in SWAAZ office the management should improve its poor procurement planning. In addition to this, sufficient amount of budget should be proposed and approved for all procurements made in the office and should avoid the rigid ability of purchasing procedures. Finally, the management of SWAAZ should build purchase committees which at least include part of management members from the office and to minimize the risks associated with long chain purchases, the committee members have to follow the status of each local purchase activities regularly.