ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

THE ROLE OF INTERNAL CONTROL TOWARDS RISK MINIMIZATION IN THE CASE OF DASHEN BANK S.C

By

AKLILU FISEHA ASEFA

IDNo.SGS/OO64/2007A

Advisor: ASMAMAW GETIE (Asst.Prof)

JUNE 2016
ADDIS ABABA, ETHIOPIA

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APPROVED BY BOARD OF EXAMINERS

______________________	______________________
Dean, Graduate Studies	**Signature**
______________________	______________________
Advisor	**Signature**
______________________	______________________
External Examiner	**Signature**
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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Asst.Prof Asmamaw Getie. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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Name	Signature
St. Mary's University, Addis Ababa	**June,2016**

DEDICATION

This research is dedicated to My brother Getnet Fiseha will always be my right hand Bro.

ACKNOWLEDGMENTS

First I would like to give thank and praise to the Lord Jesus Christ and St.Mary for the completion of this paper who’s been protecting me all the way since I was a little kid and would like to pass my deepest gratitude for my advisor Asst.Prof Asmamaw Getie for the advice he had given me for the completion of this study and also for my Mother Shigult Dessie ,Father Fiseha Asefa , my beloved Sister Genet Fiseha ,Friends and also the staffs of Dashen Bank s.c.

ABSTRACT

The study was conducted to assess the role of internal control towards risk minimization in Dashen Bank s.c. A mixed both exploratory qualitative and conclusive quantitative research designs was employed to achieve the goal of the research and purposive sampling was used in order to get the relevant data from the target population questionnaire and interview method of data collection were used. The data collected using questionnaires were presented using a table on percentage values and the interview were analyzed using descriptive explanations. The findings of the study shows that the role of internal control towards risk minimization in Dashen Bank s.c is in good state even though it still needs an improvement in assessing changes in external environment and changes leadership and also an improvement on assessing incentives, pressures and motives, opportunities and motives and rationalization .The study present some recommendation to improve the problem .These include bank should take into major factors within while assessing incentives and pressures, opportunities and attitude and rationalization, should take in to consideration on assessment of changes in external environment and changes in leadership and the bank should take in to consideration on areas that are high potential risk areas rather than the routine day to day activities.

Keywords; *Internal Control and Risk Minimization*

LIST OF ACRONYMS

BOD- Board of Director

CAD – Cash against Documents

DB - Dashen Bank S.C

ICS – Internal Control System

IP – Invisible Payments

LC - Letter of Credit

NBE – National Bank of Ethiopia

TT - Telegraphic Transfers

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CHAPTER ONE

INTRODUCTION

1.1 Background of the organization

Dashen Bank s.c was established in accordance with monetary and banking proclamation number 83/1994 and the commercial code of 1960. The Bank started operation on September 20, 1995 with initial capital of birr 14,900,000.00 and 11 shareholders.

In the organizational structure of the DB the control department is headed by the controller at the top of the hierarchy which is responsible to the board followed by the Deptuy Controller and then divided in to three divisions that are System, Inspection and Audit. An internal audit control of DB covers all activities performed by the bank. The activities of internal audit of the bank are divided in to two that is pre-audit and post-audit. The pre-audit areas of the bank activities include account opening, loans and advances, payrolls ,foreign outgoing payment transactions opening like LC,TT,CAD,IP whereas the post audit area covers most of the operational activities of the bank like deposits and withdrawals from various types of customer accounts, local money transfers and foreign money transfers Western Union ,Money Gram, X-press Money, Dahabshil, Trans Fast etc and settlement of different international banking transactions imports and exports.

1.2 Background of the Study

Internal control has been recognized in the most organization as one of the most essential ingredients, necessary for the survival of the business enterprise and government agencies. Apart from the problem of scarce resources, organizations run a high risk of fraud, errors, miss appropriation of funds and inefficient and ineffective operations. Step are required therefore to minimize, if not eliminate completely, these risks, by establishing internal control system (Odunayo, 2014).

Internal control systems represent all the approved policies and procedures used by the management in order to achieve an effective management of the business (Damitrascu & lulian,2012). Internal control is the whole system of controls ,financial and otherwise ,established by the management in order to carry on the business of the company in orderly manner ,safeguard its assets and secure as far as possible the accuracy and reliability of its records (Kurt & O Ray, 2000). An organization internal control structure consists of the policies and procedures established to provide reasonable assurance that the organization's related objectives will be achieved (Walter, O Ray, Kurt and Robert, 1989).

Internal control is a process, effected by an entity's board of director, management and other personnel ,designed to proved reasonable assurance regarding the achievement of objectives relating to effectiveness and efficiency of operations, Reliability of financial reporting and Compliance with applicable laws and regulations (Brain, Christopher and Jim, 2013). Operations Objectives related to the effectiveness and efficiency of the entity's operations, including operational and financial performance goals, and safeguarding assets against loss. Reporting Objectives related to internal and external financial and non-financial reporting to stakeholders, which would encompass reliability, timeliness, transparency, or other terms as established by regulators, standard setters, or the entity's policies. Compliance Objectives related to adhering to laws and regulations that the entity must follow (Brain et al., 2007).

Risk management and internal control can be viewed as two sides of the same coin in that risk management focuses on the identification of threats and opportunities, and controls are designed effectively counter threats and take advantage of opportunities (J. Stephen and Vincent, 2015).

For every organization, there are risks that the organizational goals and objectives are not achieved. All efforts aimed at preventing such risks or identifying and correcting such risks are viewed as internal control (Odunayo, 2014).

The role of internal control towards risk minimization was assessed in line with the principles articulated by Commission of sponsoring organization (COSO) of the Tread way commission on the subject matter.

1.3 Statement of the Problem

A risk-based internal control approach allows concentrating on reviewing the major risks to the organization. (Ian et al., 2012) The methodology of internal control concept is founded on risk based concepts. An internal control system select or adapt of companies set up top management it calls for the identification and preliminary assessment of external and internal events that threaten entity objectives (strategic, operational and reporting, compliance, etc.).It is important to note that risk management policies primarily risk measurement (probability and impact), as well as risk appetite, tolerance, and acceptance levels are fundamental in determining the prioritization of risk mitigation or control objectives (Carolyn and Paolo, 2014). Without an effective internal control system companies can confront with loses. Lack of internal controls and their deficient operation make companies vulnerable to a number of risks. Risk is that possibility of loss as the result of mixing of uncertainty (Dumitrascu et al., 2012).

The board of directors should have responsibility for approving and periodically reviewing the overall business strategies and significant policies of the bank; understanding the major risks run by the bank, setting acceptable levels for these risks and ensuring that senior management takes the steps necessary to identify, measure, monitor and control these risks and also provides governance, guidance and oversight to senior management. Board members should be objective, capable, and inquisitive, with a knowledge or expertise of the activities of and risks run by the bank (Basel Committee on Banking Supervision, 1998).

An internal control system in a company gives assurance to the management of the company that it's taking a safe path while moving towards a stated objectives and it keeps getting stronger when it comes to the banking industry. A set up of internal control system being implemented should be one of the major factor that organization should give more attention because of it being all the way giving assurance that whether the organization is taking the safest way to achieve its objectives so that, they want be difficult situation that will create problems in the organizations future. When we came to the internal control being adapted by banks within the industry differs from one bank to another even within the context of our country. The setup of internal control system being implemented by bank should minimize different kinds of risks faced.

1.3.1 Basic Research Questions

To achieve its objective; the study has raised the following questions,

1. How does the organization select and develops control activities that contribute to the mitigation of risks to the achievement of objectives at an acceptable levels?
2. How the organization does consider the potential for fraud in assessing risks?

3. How the organization does identify and analyzes risks as basis for determining how the risks should be managed?
4. How the organization does specify objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives?

1.4 Objectives of the Study

1.4.1 General Objective;

The main objective of the study was assessing the role of internal control towards minimizing different kinds of risks faced by the bank.

1.4.2 Specific Objectives;

The specific objectives of the study include;

1. To determine the organization selection and development of control activities that contributes to the mitigation of risks to the achievement of objectives at acceptable levels.
2. To determine the organization consideration on the potential for fraud in assessing risks.
3. To determine the organization risk identification and analysis as basis for determining how the risks should be managed.
4. To determine the organization specification of objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.

1.5 Scope of the study

The study was important in obtaining a lot of information if it was conducted for all banks in Ethiopia. However, it can be unmanageable for the researcher to include all the banks in Ethiopia. Therefore, this study was delimited to Dashen Bank S.C

1.6 Significance of the Study

The research examined the role of internal control towards risk minimizations. The importance of the study can be viewed from two dimensions; theoretical contribution and practical implementation that the research was conducted with an expectation of DB using the information as decision making tool for future reference of its internal control system setup.

1.7 Limitation of the Study

The limitation faced by the researcher while conducting this research was time and availability of data on the subject matter since there has not been much studies on the subject matter.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Definition of Internal Control

Internal control is a process, effected by an entity's board of director, management and other personnel, designed to proved reasonable assurance regarding the achievement of objectives relating to effectiveness and efficiency of operations, Reliability of financial reporting and Compliance with applicable laws and regulations(Brain et al., 2007).Internal Control an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved which are effectiveness and efficiency of operations, reliability of financial reporting, and Compliance with applicable laws and regulations. (United States General Accounting Office, 1999)

Internal control is a process effected by the board of directors, senior management and all levels of personnel. It is not solely a procedure or policy that is performed at a certain point in time, but rather it is continually operating at all levels within the bank. The board of directors and senior management are responsible for establishing the appropriate culture to facilitate an effective internal control process and for monitoring its effectiveness on an ongoing basis; however, each individual within an organization must participate in the process. (Basel Committee on Banking Supervision, 1998)

Internal control is best regarded as indicating the whole system of controls, financial and otherwise estimated by the management in the conduct of business including internal check, internal audit other forms of control (Spicer and Pegler as cited in D.P.Jain, 2002). Internal control, in a broader term, it generally used to encompass both internal check and internal control (F. Stettler as cited in D.P.Jain, 2002).

Internal control is the whole system of controls ,financial and otherwise ,established by the management in order to carry on the business of the company in orderly manner ,safeguard its assets and secure as far as possible the accuracy and reliability of its records (Council of certified accountants of England and Wales as cited in D.P.Jain, 2002).

Differences of opinion have existed about the meaning and objectives of internal control. Many people interpret internal control as the steps taken by the business to prevent fraud both employee fraud and fraudulent financial reporting. Others, while acknowledging the importance of internal control for fraud prevention, believe that internal control has equal role in assuring over manufacturing and other processes (Kurt and O.Ray Whittington, 2000).

A system of strong internal controls can help to ensure that the goals and objectives of a banking organization will be met, that the bank will achieve long-term profitability targets, and maintain reliable financial and managerial reporting. Such a system can also help to ensure that the bank will comply with laws and regulations as well as policies, plans, internal rules and procedures, and decrease the risk of unexpected losses or damage to the bank's reputation (Basel Committee on Banking Supervision, 1998).

Internal control function activities which are performed under the governance and organizational structure established by the bank's board of directors and senior management and in which each individual within the organization must participate in order to ensure proper, efficient and effective performing of the bank's activities in accordance with the management strategy and policies, and applicable laws and regulations and to ensure the integrity and reliability of accounting system and timeliness and accessibility of information in the data system (Banking regulation and supervision boards, 2001).

Effective internal control system plays an important role in ensuring objective achievement of organizations (Mu'azu et al.,2013). Effective internal control is an integral part of an organization's governance system and ability to manage risk (J. Stephen and Vincent, 2013). A system of effective controls is a critical component of bank management and a foundation for the safe and sound operation of banking organizations. A system of strong internal controls can help to ensure that the goals and objectives of a banking organization will be met, that the bank will achieve long-term profitability targets, and maintain reliable financial and managerial reporting. Such a system can also help to ensure that the bank will comply with laws and regulations as well as policies, plans, internal rules and procedures, and decrease the risk of unexpected losses or damage to the bank's reputation (Basel Committee on Banking Supervision, 1998).

2.2 Objectives of Internal Controls

The objectives internal control are validity, completeness, valuation, classification, timing and properly handling master's files and correctly summarized Posting and summarization (Alvin and James ,1991).

2.3 Elements of Internal Control Structure

The internal control process, which historically has been a mechanism for reducing instances of fraud, misappropriation and errors, has become more extensive, addressing all the various risks faced by banking organizations. It is now recognized that a sound internal control process is critical to a bank's ability to meet its established goals, and to maintain its financial viability (Basel Committee on Banking Supervision, 1998). Internal control varies significantly from one organization to the next, depends on factors as their size, nature of operations, and objectives.

Internal control within an organization includes five components these are the control Environment, Risk Assessment, Information and communication, Controls activities and Monitoring (Kurt and O Ray, 2000).

2.3.1 The Control Environment

The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. The board of directors and senior management establish the tone at the top regarding the importance of internal control and expected standards of conduct (Brain et al., 2007). The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure (Guide line to internal control over financial reporting, www.TheCAQ.org). The foundation components of internal control, which also provides discipline and structure, factors include ethical values and competence (quality) of personnel, direction provided by the board and effectiveness of management (Hong Kong Institute of Certified Public Accountants,2005).

The control environment consists of the actions policies and procedures that reflect the overall attitude of top management, the directors and the owners of the entity about control and its importance to the entity for the purpose of understanding and assessing the control environment, the following are the most important sub-elements the auditor should consider Management philosophy and operating style, Organizational structure, Audit committee, Methods to communicate the assignment of authority and responsibility ,Management control methods, Internal audit function and Personnel policies and procedures (Alvin and James, 1991).

In varying degrees, internal control is the responsibility of everyone in a bank. Almost all employees produce information used in the internal control system or take other actions needed to effect control. An essential element of a strong internal control system is the recognition by all employees of the need to carry out their responsibilities effectively and to communicate to the appropriate level of management any problems in operations, instances of non-compliance with any code of conduct, or other policy violations or illegal actions that are noticed. This can best be achieved when operational procedures are contained in clearly written documentation that is made available to all relevant personnel. It is essential that all personnel within the bank understands the importance of internal control and are actively engaged in the process (Basel Committee on Banking Supervision, 1998).

2.3.2 Risk Assessment

Risk assessment involves a dynamic and iterative process for identifying and analyzing risks to achieving the entity's objectives, forming a basis for determining how risks should be managed. Management considers possible changes in the external environment and within its own business model that may impede its ability to achieve its objectives (Brain et al., 2013). COSO's Enterprise Risk Management (ERM) Framework was published in 2004 and provides guidance to help businesses and other entities develop and apply their ERM activities. The Framework expands on internal control and provides key principles and concepts on the broader subject of ERM. Specifically, the COSO ERM Framework identifies and describes eight interrelated components that are necessary for effective ERM, including internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring. Internal control is an integral part of ERM, which is part of an organization's overall governance arrangements (J. Stephen and Vincent, 2014).

Risk assessment involves the identification and analysis of risks underlying the achievement of objectives, including risks relating to the changing regulatory and operating environment and business strategy, as a basis for determining how such risks should be mitigated and managed (Hong Kong Institute of Certified Public Accountants, 2005).

Banks are in the business of risk-taking. Consequently it is imperative that, as part of an internal control system, these risks are being recognized and continually assessed. From an internal control perspective, a risk assessment should identify and evaluate the internal and external factors that could adversely affect the achievement of the banking organization's performance, information and compliance objectives. This process should cover all risks faced by the bank and operate at all levels within the bank. It differs from the risk management process which typically focuses more on the review of business strategies developed to maximize the risk/reward trade-off within the different areas of the bank. Thus an effective risk assessment identifies and considers internal factors (such as the complexity of the organization's structure, the nature of the bank's activities, the quality of personnel, organizational changes and employee turnover) as well as external factors (such as fluctuating economic conditions, changes in the industry and technological advances) that could adversely affect the achievement of the bank's goals and addresses both measurable and non-measurable aspects of risks and weighs costs of controls against the benefits they provide (Basel Committee on Banking Supervision, 1998).

The risk mitigation or control objectives (hereafter referred to as control objectives) of a given process must be defined strictly on the business and governance objectives. This must be done on a comprehensive basis to guarantee a balanced, consistent approach in the design of the internal controls (Carolyn and Paolo, 2014)

2.3.3 Information and Communication

Information is necessary for the entity to carry out internal control responsibilities in support of achievement of its objectives. Communication occurs both internally and externally and provides the organization with the information needed to carry out day-to-day internal control activities. Communication enables personnel to understand internal control responsibilities and their importance to the achievement of objectives (Brain et al., 2013). Information and communication refers to effective processes and systems that identify capture and report operational, financial and compliance-related information in a form and time frame that enable people to carry out their responsibilities. This includes, in its broadest sense, communication from the top about the importance of control-related matters and the role of individuals, channels for communicating significant information upstream, and also effective communication with external stakeholders (Hong Kong Institute of Certified Public Accountants, 2005). An effective internal control system requires that there are adequate and comprehensive internal financial, operational and compliance data, as well as external market information about events and conditions that are relevant to decision making. Information should be reliable, timely, accessible, and provided in a consistent format. Adequate information and effective communication are essential to the proper functioning of a system of internal control. From the bank's perspective, in order for information to be useful, it must be relevant, reliable, timely, and accessible and provided in a consistent format. Information includes internal financial, operational and compliance data, as well as external market information about events and conditions that are relevant to decision making. Internal information is part of a record-keeping process that should include established procedures for record retention (Basel Committee on Banking Supervision, 1998).

The purpose of an entity's accounting system is to identify, assemble, analyze, record and report the entity's transactions and to maintain accountability for the related assets. An effective accounting system must satisfy all of the seven detailed internal control objectives (Alvin and James, 1991).

2.3.4 Controls Activities

Control activities are the actions established by the policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews. Segregation of duties is typically built into the selection and development of control activities. Where segregation of duties is not practical, management selects and develops alternative control activities (Brain et al., 2013). Control activities comprise a diverse range of policies and procedures that help to ensure that relevant management directives are carried out and any actions that may be needed to address risks to achieving company objectives are taken. These may include approvals and verifications, reviews, safeguarding of assets and segregation of duties. Control activities can also be divided into operations; financial reporting and compliance (Hong Kong Institute of Certified Public Accountants, 2005).Control activities are designed and implemented to address the risks that the bank identified through the risk assessment process described previously. Control activities involve two steps: (1) the establishment of control policies and procedures; and (2) verification that the control policies and procedures are being complied with and it involves all levels of personnel in the bank, including senior management as well as front line personnel (Basel Committee on Banking Supervision, 1998). Control procedures and policies are those policies and procedures, in addition to the sub elements of the control environment and features of the accounting system that management has to meet its objectives. Generally the policies and procedures fall in to the following categories, adequate separation of duties, proper authorization of transactions and activities, adequate documents and records, physical control over assets and records and finally independent checks on performance (Alvin and James ,1991).

Control activities should be an integral part of the daily activities of a bank. An effective internal control system requires that an appropriate control structure is set up, with control activities defined at every business level. These should include: top level reviews; appropriate activity controls for different departments or divisions; physical controls;

checking for compliance with exposure limits and follow-up on non-compliance; a system of approvals and authorizations; and, a system of verification and reconciliation (Basel Committee on Banking Supervision, 1998).

2.3.5 Monitoring

Monitoring entails a process that assesses the quality of the internal control system's performance over time. This is accomplished through ongoing monitoring activities and/or separate evaluations. Deficiencies in internal control should be reported to the appropriate level upstream, which may be, for example, senior management, the audit committee, or the board (Hong Kong Institute of Certified Public Accountants, 2005).

The overall effectiveness of the bank's internal controls should be monitored on an ongoing basis. Monitoring of key risks should be part of the daily activities of the bank as well as periodic evaluations by the business lines and internal audit. The frequency of monitoring different activities of a bank should be determined by considering the risks involved and the frequency and nature of changes occurring in the operating environment (Basel Committee on Banking Supervision, 1998).

2.4 Types of Internal Control

Besides internal check and internal audit, the two important areas of the internal controls are as under:

i) Administrative Control

It refers to the system which is related to decision making processes leading to the management's authorization of transactions.

ii) Accounting Control

It comprises the plan of organization and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records. They are concerned with achieving the following objectives;

a) Transactions are executed in accordance with the management's authorization, i.e .in accordance with the laid down policies and procedures.

b) Transactions are promptly recorded in a proper manner .The purpose is to facilitate the timely preparation and communication of reliable financial information.
c) Accountability for assets is maintained and assets are safeguarded from unauthorized access, use or disposal (kamal and Ashok, 1996).

2.5 Risk

Risk can be defined as the probability of decrease in economic benefit due to a monetary loss or an unexpected expense or loss occurred concerning a transaction (Banking regulation and supervision boards, 2001). Risk refers to the uncertainty that surrounds future events and outcomes (Heinz-Peter Berg, 2010). Each risk in the overall risk model should be explored to identify how it potentially evolves through the organization. It is important to ensure that the risk is carefully defined and explained to facilitate further analysis (Helenne, 2008).

2.5.1 Inherent Risk

The possibility of material misstatement of an assertion before considering the client's internal control is referred to as inherent risk .Factors that affect the inherent risk relate either to the nature of the client and its industry, or to the nature of the particular financial statement account. Business characteristics of the client and its industry affect the inherent risk of the the audit as a whole .Therefore, these characteristics affect the assertion about the number of financial statement accounts .For example, business characteristics such as the following are indicative of high inherent risks;

Inherent risks vary by nature of the account. Assume that in a given business the balance of cash account amounts only one-tenth that of the building account. Does this relationship indicate that the auditor should spend only one tenth as much time in the audit of cash as in the audit of buildings? The answer to this question is no. Cash is much more susceptible to error or theft than are buildings, and the great number of cash transaction affords an opportunity for misstatements to be well known. Inherent risk also varies by the assertion about the particular account. As an example, valuation of assets is often more difficult assertion to audit than is existence of the assets. In general assertions with high inherent risk involves; difficult to audit transactions or balances, complex calculation, difficult accounting issues, significant judgment by management or valuation that vary significantly based on economic factors (Kurt and O Ray,2000).

2.5.2 Control Risk

The risk that a material misstatement will not be prevented or detected on a timely basis by the client's internal control is referred to as control risk. This risk is entirely based on the effectiveness of clients' internal control (Kurt and O Ray, 2000).

2.5.3 Detection Risk

The risk that the auditor fails to detect the misstatement with their audit procedures is called detection risk. In other words, detection risk is the possibility that auditors' procedures will lead them to conclude that a material misstatement does exist. The term audit risk refers to the possibility that the auditors may unknowingly or appropriately modify their opinion on financial statements that are materially (Kurt and O Ray, 2000).

2.6 Fraud

The term 'fraud' commonly includes activities such as theft, corruption, conspiracy, embezzlement, money laundering, bribery and extortion. Fraud essentially involves using deception to dishonestly make a personal gain for oneself and/or a loss for another (Helenne Doody, 2008).Fraud may also take in the form of misuse of expense account, secret commission, false invoicing, electronic and telecommunication fraud, unauthorized use of information, cheque forgery, cheque clone, false financial statements, and so on, but whichever form it takes, the fundamental point is that the banking industry falls victim to fraudulent acts suffers and bears the brunt (Olaoye and Dada,2014). Fraud is rampant in both developed and developing countries and as well varies across places in its magnitude, its sources, the way it manifests itself and in its effects on administrative performance and development (Nwankwo, 2013).

A major reason why people commit fraud is because they are allowed to do so. There are a wide range of threats facing businesses. The threat of fraud can come from inside or outside the organization, but the likelihood that a fraud will be committed is greatly decreased if the potential fraudster believes that the rewards will be modest, that they will be detected or that the potential punishment will be unacceptably high. The main way of achieving this must be to establish a comprehensive system of control which aims to prevent fraud, and where fraud is not prevented, increases the likelihood of detection and increases the cost to the fraudster (Helenne, 2008).

2.6.1Types of Fraud

Fraud can be classified in various ways using various parameters but for the purpose of this study the following types of fraud are discussed, Management fraud is frequently committed by management staff of a reporting entity, which comprises the director, general managers, and managing directors to mention but a few, Insiders or Employees Frauds is the fraud perpetrated/committed by the employees of the bank or organization is also known as non management fraud, Outsiders Frauds these are frauds perpetrated by customers and non-customers at the detriment of the banks and Outsiders/Insiders Fraud is the types of fraud committed by outsiders (customers/non-customers) of the bank with effort of insider (Adeyemo,2012).

2.7 Limitations of Internal Control

The 2013 Framework acknowledges that there are limitations related to a system of internal control. For example, certain events or conditions are beyond an organization's control, and no system of internal control will always do what it was designed to do. Controls are performed by people and are subject to human error, uncertainties inherent in judgment, management override, and their circumvention due to collusion. An effective system of internal control recognizes their inherent limitations and addresses ways to minimize these risks by the design, implementation, and conduct of the system of internal control. However, an effective system will not eliminate these risks. An effective system of internal control (and an effective system of internal control over financial reporting) provides reasonable assurance, not absolute assurance, that the entity will achieve its defined operating, reporting, and compliance objectives (Brain et al., 2013).

Internal control can do much to protect both errors and irregularities and ensure the reliability of accounting data. Still, it is important to recognize the existence of inherent limitations of internal control. Mistakes may be made in the performance of controls as a result of misunderstanding of instructions, mistakes of judgment, carelessness, distraction or fatigue. In addition without the active participation by the Board of directors and an effective internal audit department, top management can easily avoid internal control. Finally, control activities depend upon separation of duties may be circulated by collusion among employees. The extent of the controls adopted by a business also is limited by cost considerations. It is not feasible from accost stand point from controls that provide absolute protection from fraud and waste; reasonable assurance in this regard is the best that generally can be achieved (Kurt and O. Ray, 2000).

CHAPTER THREE

RESEACH DESIGN AND METHODOLGY

This part of the study includes research design, source of data and sampling, methods of data collection, validity and reliability of data collection tools, methods of data analysis and ethical considerations.

3.1 Research Design

The types of research designs employed for this study are mixed both exploratory qualitative and conclusive quantitative research designs. The exploratory research design was used to provide insights and understanding for decision makers on the subject matter. The conclusive research design was used to quantify the implementation of those focus points provide by COSO'S frame work for internal control system setup of a company. Assessment was made on the role of internal control towards risk minimization based on the implementation of focus points provided in relation with the study to collect the necessary data for the research.

3.2 Source of Data and Sampling

The target populations of the study are employees of Dashen Bank s.c working under the control department which are Auditors, Inspectors and their respective Team leaders and divisions heads and Manager and Deputy Manager. Purposive sampling was used to that will best enable to answer the basic research questions and to meet the objectives.

The Main Branch of the bank was purposely selected to represent the operational areas of the bank since basic operational areas have the same characteristics across the bank and all Auditors at departmental levels were included in the sample in order to cover areas other than operations by taking all consideration which were mentioned above out of 150 target population which are working under the control department 30 (20%) was taken as a sample size of the study.

3.3 Method of Data Collection

The study used a primary source of data collection that is questionnaire for Auditors and Inspectors to get the quantified results and an interview were prepared to Audit, Inspection and System divisions heads and their respective team leaders to get the qualified ones. A total of 30 questionnaires were distributed and all of them were responded. An interview were made to 8 employees of the bank which were Audit , Inspection and system division heads and their respective team leaders and the manager and deputy manager of the main branch. A questionnaire and interview were prepared for the selected sample population in order to gather the necessary data needed to conduct the research. Also secondary data was gathered from the company's internal control manuals' which was written in relation to the subject matter.

3.4 Validity and Reliability of Data Collection Tools

3.4.1 Validity

The Internal Validity deals with how the findings of the research will match with the reality. Tried to come up a view of what reality looks like which improved my understand and create a more accurate pictures of existing banks situation by asking peers to comment on the findings, detail analysis of the material and also used comments provide by my advisor.

3.4.2 Reliability

The question about reliability is whether the findings will be found again but rather the results was consistent with data collected. Reliability of the research was justified by the procedures followed by the researcher for gathering of materials.

3.5 Method of Data Analysis

Quantitative methods' of data analysis was used. Particularly with quantitative data that was collected via questionnaire and a descriptive analysis was used to tabulate the data and present it in tables. Qualitative method of data analysis was also used for information obtained using an interview and also internal control manuals was used as supplementary data to triangulate the responses gathered.

3.6 Ethical Consideration

Before conducting the research on the selected bank the researcher informed the participants of the study about the objectives of the study and had consciously consider ethical issues in seeking consent, avoiding deception, maintaining confidentiality, respecting the privacy, and protecting the anonymity of all respondents. The researcher considered these points because the law of ethics on research condemns conducting a research without the consensus of the respondents for the above listed reasons.

3.7 Organization of the Study

This research is organized in way to make the research simple and clear. The first part of the research includes Background of the study ,statement of the problem ,research question, objectives of the study ,scope of the study ,significance of the study ,Review of the related literature, research design and methodology ,organization of the study, time and financial schedule needed to conduct the research and ends with mentioning the references used to make this proposal feasible.

CHAPTER FOUR

DATA PRESENTAION AND ANALYSIS

4.1 Introduction

As discussed in the research design and methodology part of this study, data collected by using questionnaire and interview techniques were analyzed in this chapter. Data were collected through a questionnaire includes 28 close ended and 1 open ended were administered to employees working under the control department of DB which are Internal Auditors and Inspectors. Accordingly they gave response on the role of internal control towards risk minimization. Therefore the data found and collected from the respondents were analyzed and discussed in line with the research questions as follows. The researcher also used interview method of data gathering technique to collect the necessary data for the research and to validate the reliability of results eventually. An interview was conducted to division heads that are Audit, Inspection and System and their respective Team leaders and to Branch manager and Deputy Manager of the main branch.

The data gathered is summarized in tabular form and expressed in percentages. For convenience of presentation data gathered through Questionnaire and Interview is presented separately.

No	Item	Respondents	
		No	Percentage
1	Gender		
	Male	22	73%
	Female	8	27%
	Total	30	100%
2	Age		
	20 – 25	4	13%
	25 – 30	15	50%
	30 – 45	11	37%
	45 – 60		

	Above 60		
	Total	30	100%
3	Educational Qualification		
	Certificate		
	Diploma		
	Degree	29	97%
	Masters/Postgraduate	1	3%
	PhD		
	Others (ACCA and CIA)		
	Total	30	100%
4	Work Experience		
	Under 5 years	11	37%
	5 - 10 years	18	60%
	10 - 15 years	1	3%
	Above 15years		
	Total	30	100%

Table 4.1 General Information of the respondents

The table shows that most of the respondents are male (73%) while 27% are females, so that we can say that most employees working under the control departments of DB are males.

As can be seen from the table that 13% of the respondents' ages between 20 - 30, 50% age under 30 and 37% age between 30 – 45 so that, we can understand that the control departments staffed by young employees aging under 30.

Among the respondents educational qualification 97% of Auditors and Inspectors hold Degree and 3% holds Masters Degree which indicates that the respondents have qualified enough to collect the necessary data on the subject matter.

Regarding the respondents work experience 37% have been working in the bank under 5 years, 60% between 5 - 10years and 3% between 10 – 15years which indicates that most of them stayed long enough so that, they can respond with an experience gathered by working those years in the bank .

4.2 The selection and development of control activities that contribute to mitigation of risk to the achievement of objectives at acceptable level

No	Item	Respondents	
		No	Percentage
1	Integration with risk assessment		
	Strongly Agree	4	13.33%
	Agree	20	66.67%
	Neutral	4	13.33%
	Strongly Disagree	2	6.67%
	Disagree		
	Total	30	100%
2	Consider entity specific factors		
	Strongly Agree	1	3.33%
	Agree	16	53.33%
	Neutral	10	33.33%
	Strongly Disagree	3	10%
	Disagree		
	Total	30	100%
3	Determine relevant business processes		
	Strongly Agree	1	3.33%
	Agree	16	53.33%
	Neutral	12	40%
	Strongly Disagree		
	Disagree	1	3.33%
	Total	30	100%
4	Evaluates a mix of control activity types		
	Strongly Agree	3	10%
	Agree	17	56.67%
	Neutral	5	16.67%
	Strongly Disagree	4	13.33%
	Disagree	1	3.33%
	Total	30	100%
5	Consider at what level activities are applied		
	Strongly Agree	3	10%

	Agree	13	43.33%
	Neutral	10	33.33%
	Strongly Disagree	3	10%
	Disagree	1	3.33%
	Total	30	100%
6	Addresses segregation of duties		
	Strongly Agree	7	23.33%
	Agree	15	50%
	Neutral	4	13.33%
	Strongly Disagree	2	6.67%
	Disagree	2	6.67%
	Total	30	100%

Table 4.2 Response on selection and development control activities that contribute to mitigation of risk to the achievement of objectives at acceptable level

It is an important to select and develop an organizations internal control system that contribute towards the mitigation of risk in order to achieve organizational objectives at an acceptable level, when considering this factor there are five points of focus that should be considered while assessing the internal control system of DB. The first point entails about integration with risk assessment which is integration established between the selection and development of control activities that contributes to mitigation of risks to achieve objectives at an acceptable level set by the bank with risk being assessed in this context 13% strongly agrees the integration between the two. 67% of the population agrees, 13% are neutral about it and 7% of the respondents disagrees integration so that we can understand by taking the higher percentage which indicates the fact being observed within the organization can conclude that there is an integration with risk assessment while selection and development of control activities that contribute to mitigation of risk to achieve objectives at an acceptable level.

As it shows in the above table “2” that 3% strongly agrees that the bank consider entity specific factors, 53.33% of the respondents agrees and 13.33% are neutral towards the consideration of entity specific factors based on the percentage of respondents towards this focus point we can understand that the organization takes consideration of entity specific factors while selecting and developing control activities that can contribute towards mitigation of risk to achievement of objectives at unacceptable level .

As it can be seen from the above table item “3” 3.33% strongly agrees with the determination of relevant business process, 53.33% of the respondents agrees with the bank though 40% of the respondents are neutral about it and 3.33% strongly disagree. They believe that the company determines the relevant business process in consideration while selecting and developing the control activities that contributes towards mitigation of risk to achievement of objectives at an acceptable level.

As it shown in the above table item “4” 10% strongly agrees with an evaluation of mix control activity types and 56.67% agrees with a mix though 16.67% of the respondents are neutral, 13.33% strongly disagree and 3.33% disagree, we can understand from the percentages that the company evaluates a mix control activities type while selecting and developing control activities that contribute towards mitigation of risks to achievement of objectives at an acceptable level.

As can be seen from the above table item “5” 10% strongly agrees with the consider the levels that those selected and developed control activities are being applied, 43.33% agrees though 33.33% are neutral about it and 10% strongly disagree and 3.33% disagree with consideration given to levels in which the activities are being applied, we can understand from the percentages results that the company give consideration in levels of activities being applied while the company select and develop control activities.

As can be observed from the above table item “6” 23.33% strongly agrees, 50% of the respondents agree though 13.33% of the respondents are neutral, 6.67 strongly disagree and 6.67% disagrees. They believe that the company’s addresses segregation of duties in the process of selection and development of control activities that contribute towards mitigation of risk selection for achievement of objectives at an acceptable level.

4.3 Consideration taken by the bank for the potential for fraud in assessing risk

No	Item	Respondents	
		No	**Percentage**
1	Consider various types of fraud		
	Strongly Agree	4	13.33%
	Agree	14	46.67%
	Neutral	5	16.67%
	Strongly Disagree	2	6.67%
	Disagree	5	16.67%
	Total	30	100%
2	Assess incentives and pressures		
	Strongly Agree		
	Agree	9	30%
	Neutral	12	40%
	Strongly Disagree	3	10%
	Disagree	6	20%
	Total	30	100%
3	Assess opportunities		
	Strongly Agree	1	3.33%
	Agree	11	36.67%
	Neutral	12	40%
	Strongly Disagree	1	3.33%
	Disagree	5	16.67%
	Total	30	100%
4	Assess attitude and rationalization		
	Strongly Agree	1	3.33%
	Agree	10	33.33%
	Neutral	15	50%
	Strongly Disagree	4	13.33%
	Disagree		
	Total	30	100%

Table 4.3 Responses on consideration taken by the bank for the potential for fraud in assessing risks

As can be seen from the above table item “1” 13.33% strongly agrees, 46.67% agrees with the potential for fraud in assessing risks though 16.67% of the respondents are neutral about it ,6.67% strongly disagree and 16.67% disagrees based on the percentage we can ensure that the company takes into consideration various types of fraud in assessing risks.

As can be shown from the above table that item “2” 30% agrees with though 40% of the respondents are neutral about it, 10% strongly disagree and 20% disagree ,we can understand that the company should make an improvement on assessment of incentives and pressures being taken into consideration for potentially fraud areas in assessing of risks.

As can be seen from the table item “3” 3.33% strongly agrees, 36.67% agrees with an assessment of opportunities though 40% of the respondents are neutral about it ,3.33% strongly disagree and 16.67% disagrees, so that we can understand that the company should make an improvement on the assessment of opportunities for the potential for fraud while assessing of risks.

As we can observe from the table item “4” 3.33% strongly agrees, 33.33% agrees with assessment of attitude and rationalization though 50% of the respondents are neutral about it and 13.33% strongly disagree. They believe that company is neutral about an assessment of attitude and rationalization while taking consideration for the potential for fraud in assessing risks which indicates that it requires an improvement on this subject matter.

4.4 Identification and analysis of risks as a basis for determining how they should be managed

No	Item	Respondents	
		No	Percentage
1	Assesses changes in the external environment		
	Strongly Agree	2	6.67%
	Agree	12	40%
	Neutral	10	33.33%
	Strongly Disagree	3	10%
	Disagree	3	10%
	Total	30	100%
2	Assess changes in the business model		
	Strongly Agree	1	33.33%
	Agree	16	53.33%

	Neutral	12	40%
	Strongly Disagree	1	33.33%
	Disagree		
	Total	30	100%
3	Assess changes in the leadership		
	Strongly Agree	3	10%
	Agree	10	33.33%
	Neutral	12	40%
	Strongly Disagree	1	3.33%
	Disagree	4	13.33%
	Total	30	100%

Table 4.4 Response on identification and analysis of risks as a basis for determining how they should be managed

As it can be observed from the above table item ”1” 6.67% strongly agree, 40% agrees with an assessment made on changes in external environment though 33.33% of the respondents are neutral about it ,10% strongly disagree and 10% disagrees. We can understand from respondents that the company assesses changes in external environment while identifying and analyzing risk as a basis for managing them.

As we can see from the above table item “2” 33.33% strongly agree, 53.33% agrees with the company assessing changes in business model though 40% of the respondents are neutral about it and 33.33% strongly disagree .They believe that the company shows a good performance while identifying and analyzing risks as a basis for managing them takes in to consideration an assessment made to changes in business model.

As it shows in the above table item “3”10% strongly agrees, 33.33% agrees with assessment of changes in leadership though 40% of the respondents are neutral about it, 3.33% strongly disagree and 13.33% disagree. Majority of the respondents believe that the company considers assessing changes in leadership while identifying and assessing risks as a basis for how they should be managed.

4.5 Specification of objectives with sufficient clarity to enable identification and assessment of risk relating to objectives

No	Item	Respondents	
		No	Percentage
1	Reflects management's choice		
	Strongly Agree	2	6.67%
	Agree	13	43.33%
	Neutral	8	26.67%
	Strongly Disagree	6	20%
	Disagree	1	3.33%
	Total	30	100%
2	Consider tolerance for risk		
	Strongly Agree		
	Agree	17	56.67%
	Neutral	6	20%
	Strongly Disagree	5	16.67%
	Disagree	2	6.67%
	Total	30	100%
3	Includes operation and financial performance goals		
	Strongly Agree	4	13.33%
	Agree	21	70%
	Neutral	2	6.67%
	Strongly Disagree	3	10%
	Disagree		
	Total	30	100%
4	Forms as a basis for committing of resources		
	Strongly Agree	3	10%
	Agree	18	60%
	Neutral	4	13.33%
	Strongly Disagree	3	10%
	Disagree	2	6.67%
	Total	30	100%

Table 4.5 Response on specification of objectives with sufficient clarity to enable identification and assessment of risk relating to operation objectives

As it can be observed from item "1" 6.67% strongly agrees, 43.33% agrees on reflection of managements objectives though 26.67% of the respondents are neutral about it ,20%

strongly disagree and 3.33% disagree .They believe that objectives are specified with sufficient clarity to enable identification of risk relating to operational objectives are driven by management’s discretion.

As can be seen from item “2” 56.67% agrees on consideration of risk tolerance though 20% of the respondents are neutral about it, 16.67% strongly disagree and 6.67% disagree. They believe that companies consider tolerance for risk on specification of objectives with sufficient clarity to enable an identification and assessment of risk relating to operational objectives.

As can be observed from the above table item”3” 13.33% strongly agrees ,70% of the respondents agree on operational and financial performance goals though 6.67% are neutral about it and 10% strongly disagree. Based on the percentage we can understand that the company’s specify objectives with sufficient clarity to enable identification and assessment of risk by taking consideration of operational and financial performance goals of the company.

As it is shows in the above table item “4” 10% strongly agrees, 60% agrees though 13.33% of the respondents are neutral about it, 10% strongly disagrees and 6.67% agree. They believe that objectives being specified with sufficient clarity which enables identification and assessment of risks relating to operation forms as a basis of committing of resources.

No	Item	Respondents	
		No	Percentage
1	Complies with applicable accounting standard		
	Strongly Agree	12	40%
	Agree	16	53.33%
	Neutral	1	3.33%
	Strongly Disagree	1	3.33%
	Disagree		
	Total	30	100%
2	Consider materiality		

	Strongly Agree	11	36.67%
	Agree	14	46.67%
	Neutral	2	6.67%
	Strongly Disagree	2	6.67%
	Disagree	1	3.33%
	Total	30	100%
3	Reflect entity activities		
	Strongly Agree	8	2.67%
	Agree	18	60%
	Neutral	3	10%
	Strongly Disagree		
	Disagree	1	3.33%
	Total	30	100%

Table 4.6 Response on specification of objectives with sufficient clarity to enable identification and assessment of risk relating to external financial reporting objectives

As can be seen from the above table item ”1” 40% strongly agrees ,53.33% agrees that it complies with applicable accounting standards though 3.335 are neutral about it and 3.33% strongly disagree. Based on the percentage they believe that objectives are being specified with sufficient clarity which enables identification and assessment of risks relating to external financial reporting objectives are based on financial reporting assertion provided by applicable accounting standards.

As it can be observed from the above table item”2” 36.67% strongly agrees, 46.67% agrees with consideration of materiality though 6.67% are neutral about it, 6.67 strongly disagree and 3.33% disagree .They believe that the company takes into consider materiality while specifying objectives with sufficient clarity that enables identification and assessment of risks relating to external financial reporting objectives.

As can be seen from the above table item “3” 2.67% strongly agrees, 60% agrees on reflection of entities activity though 10% are neutral about it and 3.33% of the respondents disagree. They believe that external financial reporting objectives that are specified with sufficient clarity reflect activities of the entity.

No	Item	Respondents	
		No	Percentage

1	Complies with externally established standards and framework		
	Strongly Agree	10	33.33%
	Agree	6	20%
	Neutral	13	43.33%
	Strongly Disagree		
	Disagree	1	3.33%
	Total	30	100%
2	Consider the required level of protection		
	Strongly Agree	7	23.33%
	Agree	8	26.67%
	Neutral	10	33.33%
	Strongly Disagree	4	13.33%
	Disagree	1	3.33%
	Total	30	100%
3	Reflect entity activities		
	Strongly Agree	9	30%
	Agree	10	33.33%
	Neutral	8	26.67%
	Strongly Disagree	2	6.67%
	Disagree	1	3.33%
	Total	30	100%

Table 4.7 Response on specification of objectives with sufficient clarity to enable identification and assessment of risk relating to external non-financial reporting objectives

As it can be seen from the above table item"1" 33.33% strongly agrees, 20% agrees though 43.33% of the respondents are neutral about it and 3.33% disagree. They believe that specification of objectives with sufficient clarity which enables identification and assessment of risks relating to external non-financial reporting complies with externally established standards and frameworks.

As can be observed from the above table item "2" 23.33% strongly agrees, 26.67% agrees with considering the required level of protection though 33.33% are neutral about it ,13.33% strongly disagree and 3.33% disagree .They believe that the company considers the required level of protection while specifying objectives with sufficient clarity relating to external non-financial reporting objectives .

As can be seen from the table item”3” 30%strongly agrees, 33.33% agrees with consideration of entity activity though 26.67% of the respondents are neutral about it, 6.67% strongly disagree and 3.33% disagree. They believe that the company considers entity activities while specifying objectives with sufficient clarity relating to external non financial reporting objectives.

No	Item	Respondents	
		No	Percentage
1	Complies with applicable accounting standard		
	Strongly Agree	11	36.67%
	Agree	16	53.33%
	Neutral	2	6.67%
	Strongly Disagree	1	3.33%
	Disagree		
	Total	30	100%
2	Consider materiality		
	Strongly Agree	9	30%
	Agree	13	43.33%
	Neutral	2	6.67%
	Strongly Disagree	3	10%
	Disagree	3	10%
	Total	30	100%
3	Reflect entity activities		
	Strongly Agree	10	33.33%
	Agree	12	40%
	Neutral	4	13.33%
	Strongly Disagree	1	3.33%
	Disagree	3	10%
	Total	30	100%

Table 4.8 Response on specification of objectives with sufficient clarity to enable identification and assessment of risk relating to internal compliance objectives

As can be seen from the above table item “1”that 36.67 strongly agree, 53.33% agrees with the objectives being complied with applicable accounting standards though 6.67% of the respondents are neutral about it, 3.33 strongly disagree. We can understand that the company's specifies objectives with sufficient clarity which enables identification and assessment of risk relating to internal compliance objectives complies with the applicable accounting standards.

It show's in the above table item "2" 30% strongly agree, 43.33% agrees with the company's considering materiality though 6.67% of the respondents are neutral about it, 10% strongly disagree and 10% disagree. They believe that the company considers materiality while specifying objectives with sufficient clarity which enables identification and assessment of risk relating to internal compliance objectives.

As it can be observed in the above table item "3" 33.33% strongly agree, 40% agrees with the reflection of entity's activity though 13.33% of the respondents are neutral about it, 3.33% strongly disagree and 10% disagree. They believe that the company reflects entity's activity while specifying objectives with sufficient clarity which enables identification and assessment of risk relating to internal compliance objectives.

No	Item	Respondents	
		No	Percentage
1	Reflect external laws and regulations		
	Strongly Agree	15	50%
	Agree	9	30%
	Neutral	4	13.33%
	Strongly Disagree	1	3.33%
	Disagree	1	3.33%
	Total	30	100%
2	Consider tolerance for risk		
	Strongly Agree	11	36.67%
	Agree	11	36.67%
	Neutral	5	16.67%
	Strongly Disagree	3	10%
	Disagree		
	Total	30	100%

Table 4.9 Response on specification of objectives with sufficient clarity to enable identification and assessment of risk relating to compliance objectives

As can be seen from the above table item “1” 50% strongly agree, 30% agrees that the objectives of the bank reflects external laws and regulations of the respondents though 13.33% are neutral about it, 3.33% agree strongly disagree and 3.33% disagree. They believe that the company’s objectives that are specified with sufficient clarity which enables identification and assessment of risk relating to compliance objectives reflect external laws and regulations.

As can be seen from the above table item “2” 36.67% strongly agrees, 36.67% agrees that the company takes in to consideration about tolerance of risk though 16.67% are neutral about it, 10% strongly disagree. They believe that the company takes in to consideration about tolerance of risk while specifying objectives with sufficient clarity which enables identification and assessment of risk relating to compliance objectives.

4.6 Summary of General opinion of respondents on the role of internal control towards Risk Minimization

When we see the general opinion given by the respondents about the subject matter they are presented below in a summarized form;

- The internal control of DB is designed, maintained and implemented by taking into consideration of identifying business and fraud risks that threaten the bank .For instance the safeguarding the assets of the bank the reliability of the financial report…etc and also has critical value adding role from day to day and it clarifies the reputation of the bank by giving a reasonable assurance on the daily activities.
- The internal control of DB mainly performed to check the daily operation of the bank goes as per bank rules regulations and laws and also as per national bank and international chambers directives this leads to minimize risks also advises and comment on how to control highest risk areas.
- The internal control should present the findings that expose the bank to risks to BOD or top management to take the right action and improvement.
- The Internal control have a great contribution towards risk but when we came to DB internal control activities are highly focused on the routine tasks such as daily

transactions and it has to work beyond that and focus on activities that may led the bank to high risks.

- The internal control of DB not effective on risk minimization rather giving attention after occurrence of events.
- The employees of the bank working under the control department should develop themselves through education and reading different kinds of directives and manuals that can control different kinds of risks identified and give due concentration for responsibility give by the bank.
- The employees of the bank working under the control department should be experienced in different kinds of positions.

Based on the general opinion given by the respondents we can understand that the internal control of DB shows a good performance in giving reasonable assurance on the day to day activities performed by the bank, following rules and procedures of the bank, as per national bank and international chambers directives even though shows a problem on focusing on routine tasks rather than areas that can expose the bank to high risks.

4.7 Qualitative Data Analysis

4.7.1. Risk identified and analyzed by the bank and contribution towards achieving the objective at an acceptable level

It assesses the bank in order to achieve its object by protecting those risky areas that affect the attainment of its objectives. Once the risks identified and analyzed, the chance of occurrence of risk that entail customer dissatisfaction or financial loss (if they are being considered as the banks objectives) would be negligible or else acceptable level and also those risks that already happen to be determining ones shall be managed and mitigated by the implementation of strong system of internal control .

4.7.2 Consideration taken by the bank for the potential for fraud in assessing risk

The bank considered those areas as the center of attention, however the measure to be taken determines by considering the impact on the operation and the degree of the associated fraud risks.

The risk department every so often makes assessment on the subject matter as well as the internal and external auditor’s findings enable the bank to identify potential exposed areas by being used as a major input. In view of that systems, policies and procedures would be regularly reviewed and systematically revised in order to prevent repeating mistakes of the past and protect the bank from new risks.

4.7.3 Risk identified by the bank to be used as basis for determining how the risk should be managed

In order to determine the method of mitigating a risk it is mandatory priority identifying the risk that ought to be managed .Therefore being proactive assist the bank in determining the control mechanism in managing its risks.

Once the risk is identified derived from the nature of the risk that is actual and potential, it would be assessed and then the responsible organ of the bank which are the top management having the BOD approves designed operational policies system and guidelines that would enable to mange and mitigate the identified and assessed risk.

4.7.4. Objectives of the bank specified clearly and sufficiently in order to be used as basis for risk identification and assessment

The objectives set by the bank are stated in way which can be understood and checked whether they are being achieved or not at a level that are acceptable to the top management and the BOD.

Setting objectives is the pre-condition to risk management, hence taking this fact into consideration DB as premium bank in the country; it is our utmost believes that it certainly fulfills the same.

4.7.5 General opinion about “The Role of internal control toward risk minimization" in DB S.C

The general opinions given by the respondents on the role of internal control towards risk minimization are presented as follows;

Generally the identified risks in the bank minimize or controlled by implementing appropriate internal control system in each activities of the bank.

It can be deduced that internal control provides reasonable assurance that risks to the achievement of organizational objectives are at acceptable levels. Once risks are identified, understood and assessed, you need to have internal control to manage those risks and ensure they are at and remain at acceptable levels .Therefore, in one way or another way, internal control plays a vital role in risk minimization process of DB s.c.

CHAPTER FIVE

FINDINGS, CONCLUSION AND RECOMMENATION

This chapter deals with the findings , conclusion and recommendation part of the study. The major findings of the study were analyzed and discussed using table, percentage and descriptive type of data analysis to give conclusion.

5.1 Findings

The following are the findings of the study;

- The first finding of the research is that the company shows a good performance while selecting and developing of control activities that can contribute towards the mitigation of risk and achievement of objectives at an acceptable level.
- About consideration taken by the company on the potential for fraud in assessing risk even though it considers various types of fraud but it indicates a gap while assessing incentives, pressures and motives, opportunities and motives and rationalization at the end.
- Regarding the identification and analysis of risks and used as a basis for how they should be managed the company assess changes in business model but it indicates a gap in assessing changes in external environment and changes leadership.
- The company specifies objectives with sufficient clarity which enables identification and analysis of risk relating to operational, external financial and non financial reporting and internal compliance and compliance objectives.
- The company should give more attention to potentially exposed risk areas rather than the routine activity performed daily.

5.2 Conclusion

Internal control is a valuable and very important concept in the operation of any organization or firm when we see its role towards minimizing risk selection and development of control activities set by the company's that contribute towards the mitigation of risk and achievement of objectives at an acceptable level indicates that the company shows a good performance.

A consideration taken by the company on the potential for fraud in assessing risk even though the company considers various type of fraud, it indicates that the bank should make an improvement on assessing incentives, pressures and motives, opportunities and motives and rationalization at the end.

Regarding the identification and analysis of risks and used as a basis for how they should be managed the company shows a good performance in assessing changes in business model but still needs an some improvement in assessing changes in external environment and changes leadership, so that we conclude that the bank should put in to considerations all the major factors while identifying and analyzing of risks.

On the specification of objectives with sufficient clarity which enables identification and analysis of risk relating to operational, external financial and non financial reporting and internal compliance and compliance objectives indicates that the bank having a strong stand on specifying objectives with sufficient which enables identification and analyzing of risks relating to objectives.

Generally the role of internal control towards risk minimization in DB S.C is vital or major to an extent to be used as an approach for its internal control even though it has problem while assessing the potential for fraud in assessing risks and on assessing changes in external environment and changes in leadership while identifying and analyzing risk as a basis for how they should be managed.

5.3 Recommendation

The role of internal control on risk minimization can be seen as a risk based approach as in the case of DB but only having that approach is not enough by itself, it should further include within its content factors that play a great role as a setting up the system in general .

Based on the major findings of the study and conclusion drawn the researcher suggests the following recommendation for the existing problem;

- The bank should take into major factors within while assessing incentives and pressures, opportunities and attitude and rationalization in consideration the potential for fraud in assessing risks.
- The bank should take in to consideration on assessment of changes in external environment and changes in leadership in the process of identifying and analyzing risks to be used as a basis for how they should be managed.
- The bank should take in to consideration on areas that are high potential risk areas rather than the routine day to day activities.
- At last the bank should assess its operational areas in relation with their potential for exposition of risk and give due attention for those areas rather than concentrating on the routine daily activities.

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APPENDIXES

APPENDIX A

SURVEY QUESTIONNIARE

St. Mary University

MBA in Accounting and Finance

The questionnaire to be filled by the staffs of Dashen Bank S.C . The objective of the research is to collect the necessary data for research entitled, " The role of internal control towards risk minimization, A case study on Dashen Bank S.C." I assure you that the information to be shared by you will be used only and only for academic purpose and also kept confidential.

Part I. General Information

Put "√"on the space provided

1. Gender ☐ Male ☐ Female

2. Age ☐ 20-25 ☐ under 30 ☐ 30 - 45 ☐ 45- 60 ☐ Above 60

3. Educational Qualification Certificate ☐ Diploma ☐ Degree ☐ Masters ☐ ACCA ☐ CIA ☐ Phd

4. Work experience in the company

☐ Under 5years ☐ 5-10 years ☐ 10-15 years ☐ above 15 years

Part II.

Based on the score provided below put " √" on the space provided for the point of focus being stated

1. Strongly Agree **2.**Agree **3.**Neutral **4.**Strongly disagree **5.**Disagree

1.1 Does the bank select and develop control activities that contribute towards mitigation of risk to the achievement of objectives at acceptable level?

	Item	**1**	**2**	**3**	**4**	**5**
1	Integration with risk assessment					
2	Consider entity specific factors					
3	Determine relevant business processes					
4	Evaluates a mix of control activity types					
5	Consider at what level activities are applied					
6	Addresses segregation of duties					

1.2 Does the organization consider the potential for fraud in assessing risks?

	Item	**1**	**2**	**3**	**4**	**5**
7	Consider various types of fraud					
8	Assess incentives and pressures					
9	Assess opportunities					
10	Assess attitude and rationalization					

1.3 Does the organization use the Identified and analyzed risks as a basis for managing them?

	Item	**1**	**2**	**3**	**4**	**5**
11	Assesses changes in the external environment					
12	Assess changes in the business model					
13	Assess changes in the leadership					

1.4 Does the objectives Specified with sufficient clarity to enable the identification and assessment of risks relating to objectives?

1.4.1 Operation objectives

	Item	1	2	3	4	5
14	Reflects management's choice					
15	Consider tolerance for risk					
16	Includes operation and financial performance goals					
17	Forms as a basis for committing of resources					

1.4.2 External financial reporting objectives

	Item	1	2	3	4	5
18	Complies with applicable accounting standard					
19	Consider materiality					
20	Reflect entity activities					

1.4.3 External Non-financial reporting objectives

	Item	1	2	3	4	5
21	Complies with externally established standards and framework					
22	Consider the required level of protection					
23	Reflect entity activities					

1.4.4 Internal compliance objectives

	Item	1	2	3	4	5
24	Complies with applicable accounting standard					
25	Consider materiality					
26	Reflect entity activities					

1.4.5 Compliance objectives

	Item	1	2	3	4	5
27	Reflect external laws and regulations					
28	Consider tolerance for risk					

Please write down your opinion in general about the “The Role of internal control toward risk minimization" in Dashen Bank S.C

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Thank You

APPENDIX B

SURVEY INTERVIEW

St. Mary University

MBA in Accounting and Finance

Interview prepared for a research to be conducted having a title called **"The Role of Internal Control towards Risk Minimization "**

1. How does the risk identified by the bank helps to used as basis for determining how the risk should be managed?

2. How does the bank consider areas that are potential exposed to fraud in assessing risk?

3. How does the risk identified and analyzed by the bank have contribution towards achieving the objective at an acceptable level?

4. Does the objectives of the bank are clearly or sufficiently stated in order to be used as basis for risk identification and assessment?

5. Please write down your opinion in general about the “The Role of internal control toward risk minimization" in Dashen Bank S.C

Thank you