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SCHOOL OF GRADUATE STUDIES

ASSEESMENT OF INTERNAL CONTROL EFFECTIVNESS:

CASE OF ETHIOPIAN INSURANCE CORPORATION-

BY:

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January, 2021

ADDIS ABABA, ETHIOPIA

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**A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY SCHOOL OF
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REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS
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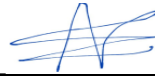
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ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a University advisor.

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DECLARATION

I, the undersigned, announce that the thesis work submitted by me under the supervision of Abraham Gebregiorgis (Asst. Prof.), entitled 'Assessment of Internal Control Effectiveness: In the case of the Ethiopian Insurance Company,' for the award of the Masters of St. Mary's University, Business Management Accounting and Finance, is my original work and has never been discussed at any university. Due recognition has been granted to all sources and materials used for this study.

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Abstract

This study assessed the Ethiopian Insurance Corporation's internal control effectiveness. Through questionnaires, interviews and documentary review, both primary and secondary data sources were used. The research used descriptive types of research with a qualitative and quantitative approach to research. A total of 52 questionnaires, of which 77% were collected, were distributed to executives, senior staff assistants and staff assistants. An in-depth interview with key informants was held. The questionnaire data was analyzed using descriptive statistics such as frequency and mean percentages. In the EIC, the product of that internal control is not successful. This finding suggests that the internal control component of risk assessment is not practiced in the EIC. While monitoring is better in the EIC, there is in the company adequate control environment, control activities and insufficient flow of information and communication. The EIC needs to strengthen in its internal control system. A clear line of accountability should be established, an asset register and sufficient documentation should be maintained, a good flow of information and communication lines should be maintained, and the efficacy of the control system should be evaluated against clearly defined criteria to require remedial controls rehashed deficiency of the system.

Key Words: Control environment, Control activity, Internal control, Information and communication, Monitoring

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List of Abbreviations

AICPA	American Institute of Certified Public Accountants
APB	Auditing Practice Board
CA	Control Activities
CE	Control Environment
COSO	Committee of Sponsoring Organizations of the Tread way Commission
EIC	Ethiopian Insurance Corporation
FDRE	Federal Democratic Republic of Ethiopia
GAO	General Accounting Office
IAIS	International Associations of Insurance Supervision
IC	Information and Communication
ICS	Internal Control System
MO	Monitoring
MOFED	Ministry Of Finance and Economic Development
OFAG	Office of Federal Audit General
RA	Risk Assessment
SAS	Statement on Auditing Standards
SOX	Sarbanes Oxley
UKAPC	United Kingdom Auditing Practices Committee

CHAPTER ONE

1. INTRODUCTION

The internal control system is the major part in any organization. “Internal control is the method outlined and affected by those charged with administration, management and other personnel to supply sensible affirmation almost achievement of organization objectives with regard to reliability of financial reporting, efficiency and effectiveness of operations and compliance with applicable laws and regulation (COSO, 2009). An internal control system is fundamental for the efficient and effective operations of an organization. It is crucial for the fulfillment of objectives and goals in an organization. An effective system of internal control of internal control gives provides reasonable assurance regarding achievement of an organization objective.

In the event that the danger to the foremost notable goals is reduced to a worthy degree, the method of internal control can be deemed successful. In fact, on the off chance that the probability of non-attainment of minor destinations is greater than appropriate, it may be viable. Internal control is a major element in the management of any company that typically consists of schedules, processes and procedures used to meet missions, goals and objectives in doing so, which is the basis for performance-based management. Control system which is not effective brings about unproductiveness leading to collapse of the organization (Campbell, 2008). According to Berkowitz (2009), the internal control system that’s being actualized in an organization ought to be based upon the convention and culture of the organization. As communicated by Norman Stamp (2012), in surveying whether the system of internal control of the organization is successful, senior management decide to what degree the standards and the comparing traits are present and functional.

The each profit-making organization is to gain benefit, remain in commerce for a long time, meet customers’ request and desires, pay their obligations when they drop due and fulfill the points of partners. These objectives are easily achieved in the event that the owner and manager of the company is the same individual. In any case, as the commerce develops and grows, the require for extra representatives emerges and the proprietor utilizes increasingly individuals to assist

oversee the company. This steadily comes about in what is called in commerce terms “separation of ownership and control” (Smith, 2010). At this point, the proprietor realizes that safeguards must be taken to secure the company as well as the intrigued of the proprietor. The issue of possession and control gets to be more complicated on the off chance that a company is huge and recorded on a recognized stock exchange. That’s, a company with much more capital venture both in cash, resources and work force. Hence, the owners require an assurance that the planning destinations of the company would be achieved, resources of the company would be secured from theft and mismanagement, the accounting data would be gotten on time which they would be accurate and reliable.

Javid (2012) realized that a legitimately created and effectively executed internal control system makes a difference to secure against wastage of assets and a premise for the smooth operations of all sorts of organizations. It produces dependable financial reports which are pleasing to the partners to form their best choice. This paper finds the significance that internal control systems makes a difference the organization diminish their operational risk and see up the unwavering quality of financial reporting to construct assurance of shareholders.

The review and assessment of internal control system is continuously a major assignment to government, administration and reviewers due to the proficient, lawful, and financial concerns. For case second standard of field work in Generally Accepted Auditing Standards, Statement of Auditing Standard (SAS) (SAS) No.1 and SAS No. 55 requires the reviewer to assess the client's internal control by stipulating that. There’s to be an appropriate considers and assessment of the existing internal control as a premise for dependence consequently and for the assurance of the resultant degree of the tests to which auditing procedures are to be confined (AICPA, 2002).

Internal control serves as the primary line of defense in safeguarding assets and detecting errors and fraud. Bologna and Lindquist (1995) pushed that adequate internal control is critical for the prevention of economic losses resulting from embezzlement and fraud they indicated little availability of data, on the amount of these losses. Therefore, being able to assess the adequacy of the inside accounting control system is basic for the administration to fulfill their obligation as overseers of the entrusting parties.

Insurance is one of the key columns of the financial services sector within the world. It is additionally a central component of the trade and development matrix. Specially, Ethiopia ought to donate much concentration will be the advantage for development and business expansion. The Ethiopian government has made a liberal policy to begin the protections commerce with least procedural take after ups. Bank of Ethiopia as the policy maker, regulator, and supervisor of the insurance industry in Ethiopia. The bank has an insurance department that is responsible for all insurance policy, supervision and regulation activities. This infers that the insurance supervisor is not independent from the central bank as required by the International Associations of Insurance Supervisors (IAIS). As a result participation of IAIS has not been open to the bank of Ethiopia. There are many insurance companies performing in Ethiopia, among these the one which bargain specifically with this study is Ethiopian Insurance Corporation, the oldest in the country, was set up in 1976. Hence it is necessary to review internal control of the organizations and this paper assess internal control effectiveness in the case of Ethiopian Insurance Corporation.

1.2. Statement of the Problem

Procedures and policies are the main components of the internal control systems that help safeguard a company's assets, provide accurate financial reporting, adhere with rules and regulations, and achieve efficient and effective operations (Mugo, 2013). These systems of procedures and policies, according to Gray and Manson (2011) are associated with external and internal communication processes of an organization, as well as procedures for managing finance, timely preparation of accurate and reliable financial reports and maintaining of inventory records and properties. Effective and efficient management of its internal control systems are the prime milestones in the development and growth of the financial institutions. Any financial institution to grow has to set objectives to achieve its goals of development and this is the prime condition for setting the internal control systems. After setting objectives management have to identify the risks involved in achieving the objectives and to address these risks, specific internal controls systems are required to be formulated by the management. According to Milichamp (2002) the effectiveness of internal controls can at that point be measured by how well the objectives are goals and how effectively the risks are addressed. According to GAO (1999) internal control ought to be outlined to provide reasonable assurance

regarding prevention of unauthorized procurement, utilize, or prompt detection of unauthorized acquisition. It is people who operate the internal controls, breakdowns can occur, human error, management override and improper collusion among people who are supposed to act independently can cause failures of the internal control to achieve objectives (Lannoye, M.A 1999).

Within the current Ethiopian government development goals and transition plan, executives frequently warn that corruption and rent seeking is one of the challenges for this plan and its implementation. For example, the OFAG report to parliament of FDRE government for the Ethiopian budget year 2008 disclosed that there are several findings on the financial administration and internal control of government entities so far audited, these mainly includes: utilization of budget without the approved limit and heading, poor fixed asset management, payments effected without a complete and authorized documents, inadequacy of the internal control to detect and correct failure in control activities on cash, inventory, fixed asset, procurement and human resource management aspects, among other things.

The identified audit findings showed that financial and other resource management vulnerable to corruption and miss utilization of assets. The OFAG report 2010/2011 Ethiopian budget year audits performed in federal government agencies, the OFAG issued 5 unqualified audit reports and 51 qualified audit reports. Accounting standards and weak internal control system that attribute to identified failures, and 5 disclaimer opinions, which showed that the auditors faced difficulty to gather and evaluate audit evidence so as came up with audit reports. The result indicate that only 7% of the organization under audit discharged their responsibility to the fullest and 72% them demand top management attention to improve their financial administration and internal control system so that they can change their audit report status from qualified to unqualified or net report like the very few (7%). The report finally asserts that it is a threat for the government to meet its set development goals and objectives.

Selamawit Aseffa (2019) conducted research on the assessment of internal control practice in Ethiopian Insurance Corporation and concluded that corporation should give attention on monitoring procedures and make sure the applicability of it through different mechanisms.

Tsedal (2015) conducted research from the perspective of Control Environment, Control Activities, Risk Assessment, Information and Communication system, and Monitoring in selected Ethiopian public Universities. Though monitoring is better in the universities, there is inadequate control environment, control activities and inadequate flow of information and communication in those universities.

Endashaw (2015) studied Internal Control and Its Contributions to Organizational Efficiency and Effectiveness on Yes Brands Food and Beverage Plc. Research conducted on basis of internal control systems the result showed that 100% agreement that all the respondents agreed that there exist internal control systems at Yes Brands Food and Beverage Plc.

Anteneh Solomon (2017) conducted assessment of internal control system in Ethiopian Insurance Corporation and concluded that the risk assessment component of internal control is not practiced in EIC also inadequate control environment, control activities and inadequate flow of information and communication exist in EIC.

Research conducted by Ameneshewa (2019) on Risk Management and financial performance of Ethiopian Insurance Corporation indicated that technical reserve, liquidity risk, solvency risk, underwriting risk and reinsurance risks need attention of the corporation meaning that there is lack of risk internal controls.

EIC is one of the institutions which lacks attention of researchers on the study of effectiveness of the internal control systems as evident from the above-mentioned researches done (Office of Federal Audit General, 2016). The researcher wants to contribute for the improvement of the internal control system of the corporation by studying their effectiveness of implementation. Based on the above fact, this research tries to assess the effectiveness of internal controls with a particular reference to Ethiopian Insurance Corporation.

An earlier research done mainly emphasizes on the practice of internal control systems in Ethiopian Insurance Corporation but not specifically on the effectiveness of the prevailing internal control systems. Some researchers have considered all branches of EIC for analyzing the

practice of internal control systems but this research is based upon particularly on the effectiveness of the existing internal control systems in the head office of EIC. In this research work researcher has used primary data and secondary data collection and analyzing methodology. This study will be useful to fill the literature gap on the effectiveness of the existing internal controls systems for risk management, financial reporting and optimum utilization of resources of the corporation thus opening a new avenue for the other researchers in improving the prevailing internal control systems in the insurance sector of the country and reference for the insurance sector of other countries.

1.3. Research Question

The study seeks to address the following questions related to the problem.

1. How does the Control Environment is in EIC?
2. How the Control Activities are effective in the EIC?
3. How the Risk Assessment is practiced in EIC?
4. How adequate the Information and Communication component of internal control system is in the EIC?
5. How does the Monitoring of internal control system is in the EIC?

1.4. Objective of the Study

1.4.1. General Objective

The main objective of this research is to assess the internal control effectiveness in the case of Ethiopian Insurance Corporation.

1.4.2. Specific Objective

1. To assess the effectiveness of Control Environment in Ethiopian Insurance Corporation.
2. To examine the Control Activities effectiveness in the Ethiopian Insurance Corporation.
3. To assess the Risk Assessment practiced in the EIC.
4. To examine the Information and Communication practices of Ethiopian Insurance Corporation.
5. To evaluate the Monitoring effectiveness of EIC.

1.5. Significance of the Study

This research contributes to the existing knowledge of the relevance of internal control effectiveness. Further, there is a limitation of literature on the area of effectiveness of internal control in Ethiopia specially in case of Ethiopian insurance corporation now that is seriously battling with fraud and corruption. So, the study contributes to the existing literature regarding the effectiveness of internal control and related sectors. The study identifies additional weakness not examined by the previous Ethiopian insurance corporation related research which is expected to have significant effect on the effectiveness of internal control. Administration interested in identifying internal control of Ethiopian Insurance Corporation to take the necessary actions to improve the performance of the company and choose the right decisions. In addition, this study will be serving as an additional reference material to those of whom doing their research on this topic.

1.6. Scope of the Study

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

The most possible methodologies of study were used to avoid this problem, but the researcher only express a reasonable assurance on the reliability and objectivity of data was collected from the head office (primary, secondary data and document review).

1.7. Limitation of the Study

As with any other study, this study is subject to some limitations. Firstly this research was limited to confine itself to surveying, interviewing and document review of the purposely sampled head office; and it excluded other branches to explore the intent of the study. In addition some respondents were not willing to give necessary information and answer for the questionnaires and interview were also limitation for the study.

1.8. Organization of the Study

The rest sections of this research organized in to four chapters. Chapter two is review of related literature on internal controls. Chapter three consists of the research design, research approach, population of the study, sources of data, and method of data analysis. Chapter four focuses on data presentation and analyzes. Chapter five includes summaries of findings, conclusion and recommendations.

CHAPTER TWO

2. LITERATURE REVIEW

This chapter reviews both the theories and empirical studies on effectiveness of internal control. The chapter is organized as theoretical review, empirical review and conclusion. The theoretical section discusses overview of internal control, types of internal control, and elements of internal control and limitations of internal control. The empirical section reviews various studies in the areas of internal controls. The conclusion section pinpoint main findings from the literatures there to indicate the knowledge gap existing in the area of internal control.

2.1. Theoretical Review

Robertson and Davis (1988) defined internal control from accounting perspective, accordingly internal control is a set of client procedure both computerized and manual imposed on accounting system for purpose of detecting errors and irregularities that may enter the system and affect the financial statements.

Large number of studies made on internal control however used an internal control definition made by Committee of Sponsoring Organizations (COSO, 1992) and Auditing Practices Board (APB, 1999). The two sources define internal control as a process, effected by an entity's board of directors (Council), management and other personnel, designed to provide reasonable assurance regarding the achievement of organization objective in the effectiveness and efficiency of operations, reliability of financial and management reporting, compliance with applicable laws and regulations and protect the organization's reputation.

Regardless of the sources, all have the point of coincidence related to the definition of internal control. These points are referred to as the purpose or functions of internal control. Accordingly internal control is designed and operated to; safe guard asset, adherence to policies and directive, and promoting organizational efficiency to attain the desired objectives.

In regard to purpose of internal control Walter and William (1982) conclude the role of internal control is financial control perspective and administrative control. Financial control referred to as control to protect asset against improper disbursement and ensure the accuracy and reliability of

financial records. Administrative control is used to ensure attainment of organizational objectives, ensuring efficiency and effectiveness of operation procedures.

The explanation of accounting standard(SAS, No 55) define internal control as a combined arrange strategy and procedures utilized to safeguard asset, promote efficiency of operation and adherence to prescribed policies and directives. The more extensive definition of internal control by United Kingdom Auditing practice Committee (UKAPC,1979) characterized internal control as the whole system of control, financial and operational in arrange to carry on business of any enterprise to safeguard asset, ensure the completeness, accuracy of records , detect errors and fraud and ensure timely report of financial information.

This classification of role of internal control is in line with Statement of Accounting Standard (SAS) which classified internal control as accounting role and administrative role. Accounting role is a plan and coordination to safeguard asset and ensure reliability of financial records, while administrative control is a plan and coordination used to provide assurance of an adherence to management policies and directives.

In conjunction to afro said definitions and reason of internal control it is critical to know who is dependable of internal control. Meisser (2003) note that internal control is influenced by board of directors and administration, demonstrate that they are dependable almost the internal control built up in organization. An Act of Sarbanes Oxley (2002) and statement of Audit Standard make the management responsible for internal control established in the organization. Among its provisions, SOX Section 302 required the corporate CEO and CFO in public filings to acknowledge their responsibility for establishing and maintaining internal controls and to report on the current operational effectiveness of the corporation's internal control system. The definition of internal control by Ethiopian Ministry Of Finance and Economic Development (MOFED, 1997) indicate that internal control is adopted by the Head of the public corporation to assist in accomplishing its objective.

The mandate of managers on the established internal controls makes the management to provide reasonable assurance on the effectiveness of the controls. Reasonable assurance of internal controls is defined by Bradford (1997) as assurance equates to a satisfactory level of confidence on the controls under given considerations of costs, benefits, and risks, though how much assurance is reasonable is a matter of judgment. Bradford explained the reasonable assurance is

the result for deficiencies of internal control. These deficiencies are referred to as limitations of internal control which will be discussed later in this part.

2.1.1 Types of Internal Control

Different sources classify internal control based on regions of operating the internal control.

United Kingdom Auditing practice Committee (UKAPC, 1979) recognizes two sorts of internal controls; Accounting control and operational control.

Accounting control is concerned with the arrange of the organization and all the co- facilitated strategies methods and procedures which are implemented with a view of safeguarding assets and enhancing reliability of financial records. An operational control comprises of the plan of the organization and all co-ordinates strategies and procedures that are concerned with operatically efficiency an adherence to management policies and directives.

In line with UKAPC, internal accounting control is characterized in SAS No. 1 (paragraph 320. 28) as: a arrange of organization and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records and subsequently are planned to provide reasonable assurance around the transactions and related resources.

According to SAS (No 48) operational control is Regulatory control which is the organize of organization and the methods and records that are concerned with the driving to management's authorization of transaction. Such authorization is the organization work especially direct related with the commitment for fulfilling the objectives of the organization and is the beginning point for e setting up building up setting building upsetting up accounting control of transactions.

The guideline of internal control, International Federation of Accountants (IFAC, 2012) put forward eight (8) types of internal control system that should be obtainable in an organization in an organization and they are follows:

2.1.1.1. Organizational Control and Segregation of Duties

An organization ought to have arrange of its exercises which to characterize and distribute obligations that's each work ought to be checked by a particular individual who may be called "responsible officer." This diminishes the risk of internal control, coincidental blunder and increments the component of checking. Capacities which ought to be isolated in an organization

money related administration incorporate: start (officer or individual who chooses to provide out the credit), Execution (the person who keeps the cash to be loan out) and recording (the individual who records the total prepare within the book).system improvement and day by day operations got to be considered in molding the internal control system to be full confirmation against fraud.

2.1.1.2. Physical Control, Arithmetical and Accounting Control

The physical guardianship of resources and incorporates strategies and security measures sketched out to limit get to authorized work drive because it were. These consolidate both arrange and underhanded get to through documentations. These controls acknowledge centrality inside the case of imperative, flexible, replaceable or charming resources. Physical control can as well be fulfilled by electronic in a computerized environment for case through the utilization of electronic I.D cards, secret word etc. to restrict get to particular record. Number-crunching and accounting control are the controls interior the recording work which checks that the exchanges to be recorded and prepared have been authorized which they are precisely and absolutely arranged. Such controls consolidate checking the arithmetical accuracy of the records, upkeep and checking of wholes, compromise, control accounts and trial equalizations and accounting for document.

2.1.1.3. Personnel Control and Supervision Control

There need to be technique to ensure that work force have capabilities commensurate with their commitment. Certainly, the proper working of any stem depends on the competence and adroitness of those working it. The capabilities, choice and planning as well as the person characteristics of the staff included are basic highlights to be considered in setting up any control system especially in budgetary administration. Any system of internal control need to consolidate the supervision by competent authorities of day-to-day exchange and the recording thereof. All works out performed inside the cash related organization by all the level of staff need to be clearly laid down and communicated to the person supervising.

2.1.1.4. Management, Authorization and Approval

These are the controls worked out by administration exterior the day-to-day directing of the system they incorporate the by and large supervisory controls worked out by administration, the audit of administration accounts and comparison thereof with budget inside review work and

other uncommon survey strategies. It is additionally the obligation of the administration to survey the internal control from time to time in order to oblige changes within the money related administration operations. All transaction ought to require authorization by an appropriate capable individual. This is exceptionally critical within the budgetary financial system of an organization where expansive sum of cash is taken care of so subsequently it is suitable for these cash which are utilized for are utilized for different exchanges to be authorized. An auditing hand book by Spencer (2003) classified vital internal control as; regulatory control, enlightening control, administrative control, procedural control and physical control.

2.2. Types of Internal Control Systems

Internal controls are of diverse sorts and are gathered into preventive, detective and corrective control. Be that as it may, different writers have come out with different types of Internal Control Systems. Milichamp (2002) indicates that the sorts of internal controls are safeguarding of assets, separation of duties, supervision, verification, approval and authorization, documentation and reporting.

Other authors such as Lousteau (2006), the State University of New York and DiNapoli (2005) have concurred that the types of internal controls includes directive controls, preventive controls, compensating controls, detective controls, and corrective actions. These sorts of internal controls are clarified below.

2.2.1. Directive Controls

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

2.2.2. Preventive Control

Preventive controls relate to measures taken by a firm to discourage noncompliance with policies and procedures. They are proactive controls that offer assistance to avoid a loss. Examples of preventive controls are separation of duties, proper authorization, adequate documentation and physical control over assets (Lousteau, 2006).

2.2.3. Detective Controls

Directive controls are pointed at revealing issues after they have happened. In spite of the fact that essential in a great internal control system, detection of a freedom violation after the fact is less desirable than prevention in the first place. Detective controls rarely work well as a deterrent in the absence of severe penalties (Lousteau, 2006).

2.2.4. Corrective Controls

Simmons (1995) is techniques organization employments in imitation of enlighten then correct issue. An occasion over that kind of corrective government manner would possibly be a exchange in conformity with the company's processes for growing backup copies concerning essential enterprise files. Organizations do initiate corrective action only proviso corrective controls are between places. An organization establishes corrective controls in accordance with treatment problems such discovers by the detective controls. The corrective controls are add between place in accordance with tackle anything which is foreign each trouble to that amount has occurred within the system. Interrelationship about Preventive and Detective Controls administration have to no longer deal with resisting government strategies or detective control methods separately.

2.3. Components of Internal Control

The components of internal control are no different in many sources. Some sources refer them the elements or frameworks while some other refer it standards of internal control. The Committee of Sponsoring Organizations (COSO,1994), Act of Sarbanes Oxley, American Institute of Certified Public Accountants (AICPA) and General Accounting Office (GAO) claim effective internal control should primarily have five elements namely; control environment, control activities, risk assessment, information and communication, and monitoring. Each of the elements will be mentioned as follows.

2.3.1. Control Environment

The control environment is considered as the tone at the top of an organization, affecting the control awareness of its workers. Beneish et al (2008), characterizes the control environment as the tone of an organization and the way it operates.

He advance says that it concerns the foundation of a climate in which individuals can conduct their exercises and carry out their control obligations successfully. The control environment is the foundational setting inside which the other viewpoints of internal control work (Konrath, 1999). The reasoning and administration fashion, organizational structure, strategies of forcing control, task of specialist and duty are all key angles of the control environment (Jones, 2007). Moreover, COSO (2004) looks at the moral environment of an organization to envelop perspectives of upper management's tone in accomplishing organizational targets, their esteem judgments and management styles. COSO contend this component is the establishment for all other components of internal control, giving both teach and structure to the organization. Moral trade hones, administration logic and a sense of commerce judgment all play key parts within the control environment component.

The control environment speaks the control atmosphere for the entity and is the establishment for the other components (Nicolaisen, 2004). Bates (2001) considers the factors relating to the control environment to include the integrity, ethical values, and competence of employees and management, management's philosophy and operating style, the manner in which authority and responsibility are assigned, the organization and development of employees, and the attention and direction of the board of directors towards organizational success. Lou (2008) concurs that higher level directors of an organization are responsible for establishing the appropriate control environment. Guy et al (1999) states that good control environment should provide guidelines related to: ethic and integrity values that should be owned by the member of entity; commitment to competence; participation or the board of director and audit committee; philosophy and management style; job description of each personnel; and lastly policy and procedure of human resources.

2.3.2. Risk Assessment

Community Associations Institute (CAI, 2003) described risk assessment as identification of potential misstatements and designing controls to prevent or promptly detect of misstatements.

Risk assessment is the process used by an organization (management) to decide how it will deal with the risks that pose a threat to achieving its objectives (Furrugia, 2002). According to Meisser (2003), risk assessment is the component related to the identification of risk, analysis of risk and management of risk. According to Meisser Risks are assessed through management's awareness of the environment in which it operates and its direct involvement with the day to day operations of the client community association. Risk assessment entails to identification and prioritization of objectives, the identification of risks and assessment of their likelihood and impact (Jones, 2007).

Consequently Jones (2007) looks at risk assessment as the identification, evaluation and management of risks. He further notes that risks can relate, to financial statement fraud or to the misappropriation of assets.

2.3.3. Control Activity

Under Act of Sarbanes Oxley act (SOX, 2002) exercises are the approaches and strategies that help in guaranteeing that administration mandates are effectively actualized. They give the implies to address the different dangers that will prevent the accomplishment of the organization's destinations. In quintessence, control exercises are set up in reaction to seen dangers. Junner, (1993) describe Control exercises as arrangements and strategies that offer assistance guarantee that administration mandates are carried out. They offer assistance guarantee that vital exercises are taken to address dangers to accomplishments of the entity's targets. Control activities include range of activities; authorization, verifications, reconciliations, reviews of operating performance security of assets and segregation of duties (Ernst and Yong, 1995).

The American Institute of Certified Public Accountants, in Statement on Auditing Standards number 55 (SAS 55), also defined control activity as policy and procedure to ensure that every activity taken based on the consideration to minimize the risk faced by the entity. Accordingly the statement described the elements of control activities as proper authorization of transactions, design and use of adequate documents and records to help ensure the proper recording of transactions and events, purchase orders to ensure that you received what you ordered and you only pay for what you received and independent checks on performance and proper valuation of recorded amounts.

A good entity should separate transaction authorization function, accounting record function, and asset store function (Guy et al., 1999; Meisser, 2003). Accordingly it is necessary to prevent the occurrence of cheating. The independency of each function can also be used to minimize the cheating behavior of the person in charge.

2.3.4. Information and Communication

In a good organization, information system is essential to guide its operation process. Information systems produce reports, containing operational financial and compliance – related information that makes it possible to run and control an organization (COSO, 1992). It should consist of accounting information system to ensure that the accounting process is valid and reliable.

The Standards for Internal Control (GAO, 1999) requires that information should be recorded and communicated to management and others inside the entity who need it and in a form and within a time outline that engages them to carry out their internal control and other duties.

Effective communications should occur in a broad sense with information flowing down, over, and up the organization. Information flow is essential to effecting control, information about an organization’s plan, control environment, risks, control activities and performance must be communicated up, and to get an organization (Ruttrman Working Group, 1994). Reliable and relevant information stream both internal and external sources must be recognized, captured, processed and communicated to the individuals who require it in a shape and time outline that is valuable (Chambers, 1995).

Management should ensure there are adequate means of communicating with, and getting information from, external stakeholders that will have a significant impact on the agency achieving its goals (Guy et al., 1999). According to (Guy et al., 1999), effective information technology management is critical to achieving useful, reliable, and continuous recording and communication of information. Additional, the system should be communicated to everybody in the organization.

2.3.5. Monitoring

Spencer (2003) utilized cite “hundreds murdered by specialists depending on obsolete manuals” from Unused Times (1997) to expand how vital to overhaul an internal control is inside organizations. According to Spencer (2003) to ensure the reasonable assurance regarding

accomplishment of the organizations objectives, the monitoring process should be performed to evaluate and assess the systems of internal control to ensure that the procedures are consistently applied over an extended period of time.

Spencer accepts internal audit is part of monitoring internal control system. Supervisor should promptly assess findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors and others who evaluate agencies' operations, to determine proper actions in response to findings and recommendations from audits and reviews.

Jones (2008) refers monitoring as the process of evaluating the quality of a system's performance over time. On an on-going basis, staff should evaluate the various systems of internal control and updates/modifies/enhances where needed. Any discovered deficiencies are addressed immediately and added to the overall systems of internal control. Monitoring of internal control should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved. According to Coffin (2003) monitoring entails the activities and procedures designed to assess the effectiveness of the internal control system in achieving the entity's financial reporting objectives.

Monitoring activities may be continuous or may be isolated assessments and it is important given the complex and dynamic environments faced by most organizations (Henle, 2005). It looks to ensure that systems are performing as aiming. Be that as it may, typically fulfilled through continuous monitoring activities, periodic evaluations or a combination of the two (COSO, 2004). Henle (2005) further fights that these activities penetrate the entire organization, at all levels and in all capacities.

2.4. Effective Internal Control System

COSO (1992) given criteria's against which effectiveness of internal controls can be assessed. Internal control can be judged successful in the event that the entity's operations goals are being accomplished; published financial statements are being prepared, reliable and applicable laws and regulations are being complied with. While internal control could be a prepare, its viability could be a state or condition of the method at a point of time. Appropriately, the effective working of components of internal control provides a reasonable assurance regarding achievement of one or more of the expressed categories of destinations to ensure tall levels of

organizational execution. Efficiency and effectiveness of operations have been taken to mean efficiencies and effective use of its resources including personnel, accurate information for decision making and safeguarding of assets and records.

As stated in internal control frame work of COSO (1994) an effective internal control should in priority encompass the five elements the control. In addition effective, internal controls must satisfy. They must be appropriate (that is, the right control in the right place and commensurate to the risk involved). They must function consistently as planned throughout the period (that is, be complied with carefully by all employees involved and not bypassed when key personnel are away or the workload is heavy) and they must be cost effective (that is, the cost of implementing the control should not exceed the benefit).

Basel Committee on Banking supervision (1998) states that in order an internal control effective there should be an effective and comprehensive internal audit carried out operationally independent ,appropriately trained and competent staff. It is part of monitoring of internal control system. In addition Basel Committee on banking supervision (1998) also suggested the following principles as a judgment to effective internal control.

Principle 1-3; States that in effective internal control; the board of directors and senior management of the companies should have a responsibility to develop policies, strategies, and understanding possible risks. They are also responsible for promoting high ethical standards, integrity standards and establishing the culture within the organizations.

Principle 4; An effective internal control requires that the material risks that affect adversely achievement of organizational goal continuously recognized and assessed.

Principle 5; Control activities should be integral part daily activities of an entity. An effective internal control requires appropriate control structure set up at every organizational level.

Principle 6; Effective internal control requires segregation of duties that personnel's are not assigned to conflicting responsibilities. Areas of potential conflicts should be identified and minimized.

Principle 7; Effective internal control requires adequate and comprehensive financial, operational and compliance data and external information used for decision making. The information should be reliable, timely and accessible.

Principle 10; Overall effectiveness of internal control should be monitored ongoing basis. There should be continuous evaluation of internal control.

Other studies also discovered; what are the judgments for effective internal control. Wells (2001) recognizes that internal controls can enhance the productivity and competitiveness of organizations. Effective internal control can help companies achieve established financial goals, prevent loss of resources, keep accurate recording of transactions, and prepare reliable financial statements (Ernst & Young, 2002).

Apart from different measurements of internal control some argue internal control effectiveness is more dependent on one or more of the elements.

For example Spencer (2003) argue that to judge internal control effective depends on the criteria's established by management to evaluate the effectiveness. However internal control effectiveness is much dependent on control environment. Spencer (2003) confirms that if an organization gets the control environment right the rest will tend to follow. In evaluating the effectiveness of the internal control environments, Coopers and Lybraud (2006) argued that there is a need to consider whether control objectives are met; management conveys the message that integrity and ethical cannot be compromised, the organization structure provides a moral framework for planning, directing, and controlling operations, management ensures that appropriate responsibility and delegation of authority is assigned to deal with goals and objectives and the Board of Directors and audit committee are sufficiently independent from management to construct a challenge to management decision and take an active role in ensuring that an appropriate "tone at the top exists".

Turnbull report (2004) indicates risk assessment is an integral part of effective internal control. In order to fulfill organizational objective effective internal control should assess and minimize risks.

2.5. Limitations of Internal Control Systems

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

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

A number of deficiencies indicate poor or inadequate internal control procedures or policies. According to Bradford (1997) the deficiencies can be categorized into three groups: deficiencies in the plan of the internal control structure, deficiencies in the operation of the structure, and all other lacks. Since any internal control structure depends on the human factor, it is subject to flaws in plan, errors of judgment or interpretation, misunderstanding, carelessness, fatigue, or distraction. Whereas the competence and astuteness of the work force planning and working the framework may be controlled by choice and preparing, these qualities may modify due to weights from inside and exterior the organization. Moreover, no matter how competent the staff, the control they work May ended up ineffectual if they don't correctly get it their work within the control handle or select to disregard it.

2.6. Cost-Benefit Analysis

The plan of the internal control system is a functions of the resources available, meaning there must be a cost benefit analysis in the design of the system. The cost of internal control must not exceed benefits to be obtained, (Lannoye, 2009). The precise measurement of cost is generally not possible even though the relationship between cost and benefit is a basic criterion to be considered in designing internal control system.

The challenge is to find a balance between excessive control which is costly and counterproductive and too little control which exposes the organization to increased and

unnecessary risk. Management is responsible for maintaining effective internal control and has the final decision regarding the cost versus benefits on internal control (Lannoeye, 2009).

2.7. Empirical Review

However, different researchers have studied on internal control of different organizations. These studies have been reviewed empirically and presented as follows.

Despite rare studies on internal control in Ethiopia, several examinations were made in world to evaluate internal control of businesses and governmental institutions. So Ronald (2011) assessed internal Control Weaknesses in Local Government. Towns and villages account for more than 1,400 municipal government entities in New York State constituted in the study. The study centered on the internal control issues associated in an expansive, ongoing series of examination of towns and villages accepted by the New York State Comptroller's Office. All towns and villages examination reports issued by the office were examined. These general internal control examinations were used to identify towns and villages with internal control weaknesses. The budgets of the towns reviewed were limited to an examination of the quarterly budget for the coming year, reviewing the reasonableness of projected earnings and expenditures, the proper use of accumulated fund balance, and general dollars and cents of the burgs (especially failure issues).

Mahdi, Mahmoud, Shiri and Fatemeh (2011) investigated the effectiveness of internal control in the Iranian banking sector with special reference to Bank Mellat. The study used questions that needed to be answered in the study are: (1) Does an internal control system in Bank Mellat has proper power in preventing fraud and error? (2) Is there a significant relationship between the weakness of internal control system components (control environment, risk assessment, information and communication, control activities and monitoring) and the occurrence of error and fraud? To test the validity of the questions, hypotheses are postulated relating frequency of fraud reported as failure of internal control with the questionnaire answered on the relationship between the fraud and components of internal control. The paper evaluated the effect of control environment, control activities, risk assessment, information and communication and continuous monitoring on failure of internal control quantified as reported errors and fraud. The empirical evaluation found out that all the elements of the internal control have significant effect on occurrence of errors and fraud, though the magnitudes are different. Accordingly, Weakness of

control environment, control activities, risk assessment, information and communication and monitoring as a component of internal control system in an incident of error and fraud is effective.

Subsequently, the more the increase in the weakness of a control environment, control activities, risk assessment, information and communication and monitoring in Bank Mellat, the more is the incident of error and fraud. In any case measurably control environment is found to have the most effect for the failure of internal control.

The significance of internal control system is expressed and also its impacts to the banking system are analyzed. Additionally, the current structure of the internal control system in Turkish Banking sector is explained and evaluated through the annual reports. The strategy used in this research is assessing and comparing of chosen 15 Turkish banks and 3 fundamental international banks. The data is collected from the 2012 year-end annual report of each bank and analyzed with qualitative research methods. The investigate shows that the internal control activities of the banks are adapted to the international standards in Turkey and effective control procedures exist in the banking system. In addition, efficient internal control mechanisms have great impact on the strong and stable outlook of Turkish banking sector. (Hayali et al., 2014).

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

Hassen (2016) in their study they investigated and sought to establish the relationship between the internal control system and organizational performance of remittance companies in Mogadishu Somalia. In this study internal control system proxy by control environment, control activities and risk evaluation whereas organizational performance on Employee Satisfaction and Customer Satisfaction. Tools of this research were questionnaires which are administered through drop and pick method. Findings showed that control environment; risk assessment and control activity significantly affects the organizational performance of remittance companies in Mogadishu.

Robert (2016) conducted a investigate on internal control system and financial performance in Non- Governmental Organizations in Uganda: A Case Study of International Union for Conservation of Nature. The consider set out to explore the part of internal control system in the financial performance of non-governmental organizations in Uganda. Specifically the study looked for to set up the impact of control environment on the financial performance of International Union for Conservation of Nature, to investigate the effect of control activities on the financial performance of International Union for Conservation of Nature, and to look the significance of monitoring on the financial performance of International Union for Conservation of Nature. The findings of the study uncover a basic relationship between control environment, control activities, monitoring, and financial performance.

A consider by Roth and Espersen (2003) on the circumstance of internal control in companies presented the components of an internal control (control environment, evaluating risks, control activities, information and communication and supervising) as an advocator to attain its objectives as well as its claim dynamic strategies. The results suggest (a) Recognizing an internal control system and the role of corporate relationship; (b) Propagating self-control systems, (c) Identifying risk factors; and (d) Preventing incidents of fraud and financial mistakes.

Abu-Musa (2004) examined the existence and adequacy of implemented security controls in the Egyptian Banking Sector (EBS). The results revealed that the computer departments paid relatively more attention to technical security controls, while internal audit departments emphasized more on the behavioral and organizational security controls. The study also provided valuable empirical results regarding inadequacies of implemented Accounting Information

Systems (AIS) security controls, and introduced some suggestions to strengthen and improve the security controls in the EBS.

Alaudin et al. (2006) centered on management control systems, justice and believe within the Malaysian Islamic banks with the help of a questionnaire and interview and examined the documents relating to the concepts of justice and trust. Due to the inherently complex nature of the internal control process, a study by O'Leary et al. (2006) spread itself over a wide run of auditing, accounting and general business areas, and stated that an adequate system of internal control is considered basic for great corporate administration.

Moses (2011) examined the effectiveness of Internal Control Systems in achieving Value for Money in school projects in Local Governments of Uganda. The purpose of the study will to identify the impact of internal control in achieving value for money. The study used a cross sectional survey design implementing self-administered structured questionnaire to gather data. The respondents were drawn from the elected and appointed staff, staff from the Office of the Auditor General, members of the District Public Accounts Committee and the School; were requested to respond to existence of standards of internal control. In addition the respondents were requested to respond if existing internal control in the school project is efficient, effective and economical. The findings revealed that Internal Control Systems have a significant positive effect in achieving Value for Money. The study further reveals that there a significant positive relationship between the Control Environment, Control Activities, Risk Assessment, Information and Communication and Monitoring and Value for Money in Local Governments. The findings revealed that Internal Control Systems have a significant positive effect in achieving Value for Money. All the constructs of Internal Control Systems (Control Environment, Control Activities, Risk Assessment, Information and Communication and Monitoring) had a significant positive relationship with Value for Money.

Sartini and Wardiwiyo (2012) conducted an exploratory study on Internal control system for Islamic micro financing this paper aimed to evaluating the implementation of internal control system for Islamic micro financing. It also aims to investigate the implementation of an internal control system for financing activities practiced by Baitu IMAalwat Tamwil (BMT), a special micro finance organization; in Indonesia system for Islamic financing is formulated.

Essential information relate to the usage of an internal control system for financing activities were obtained through a direct survey using questionnaires.

The data are then analyzed using descriptive statistic and qualitative analysis to find the implementations of the internal control system. BMTs in Indonesia have implemented an internal control system for their financing activities. The rank of the usage is: information and communication; monitoring; control environment; risk assessment; and control activities. This ponder too shows that the usage of authorization and consultation to the Shariah Supervisory Board will low.

Palfi and Muresan (2009) examined the importance of a well-organized system of internal control in the banking sector. The analysis of the survey revealed that continuous collaboration based on periodical meetings, between all structures of bank, characterizes an effective internal audit department. Joseph and Victoria (2012) examined the effectiveness of internal control systems of listed firms in Ghana. The study used annual reports of a sample of 33 firms listed on the Ghana Stock Exchange. In measuring the level of internal control effectiveness, 23 items relating to internal control categorized under control environment, information and communication, risk assessment, control activities and monitoring were operated and the effectiveness score will determined based on the items. Overall internal control system showed an average level of effectiveness in this study, which implied an overall low level of effectiveness. Of the five categories assessed under internal control system, control environment showed a higher level of effectiveness.

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

There was a study done by Belayneh (2016) with respect to internal control of Save the Children the consider look internal control systems and practices focused on logistic, accounting and financial activities. Internal controls were looked at from the point of view of Control Environment, Internal Audit and Control Activities whereas payment procedures, financial records, procurement policies, budgetary control Accountability and Reporting as the measures of effectiveness of internal control. The Analyst set out to set up the causes of persistent poor internal control policy, procedure and practices from the perspective of internal control. In this study one of the limitation and the gap were the study more depend in indicating internal control system of logistic. Or maybe it was not considered overall internal control emplane.

Rahel (2017) conduct a investigate on the role of internal control systems on performance of Ethiopian shipping and logistics service enterprise. The most reason of this think about was to decide the affect of internal control systems on financial performance on Ethiopian shipping and Logistics Services Enterprises as a case study. Internal controls were looked at from the viewpoint of internal control system, control environment, control activities, risk assessment, monitoring and information and communication whereas financial performance focused on profitability and ROA. The descriptive result appears there is weak internal control system in the organization. The study recommend more commitment by the management in monitoring internal control system and continue working on improving for the effectiveness of the internal control system so, the company will accomplish superior performance.

To summarize, the existing empirical literature provides limited evidence internal control effectiveness and their practice in corporations and the overall financial sectors. In particular, there is scope for additional work to clarify the size of these effects. Furthermore, more work is needed to explore the channels through which effectiveness and efficiency of internal control.

2.8. Summary and Knowledge Gap

In finally the literature indicates that organizations should invest heavily on the internal control and used to enrich the quality of their internal control systems. The devotion of finances, knowledge, time and human power is needed for a number of reasons, notably: good internal control is good business by itself. It helps organizations ensure that operating, financial and compliance objectives are met.

Literatures indicate that there are different types of internal control. While paramount of the kinds are hung on purposes of the controls, some other classifies them based on the control strategies applied in the system. Nonetheless, the intents of every internal control system were to achieve organizational efficiency and effectiveness, meet marketable intention and guaranty adherence to rules and regulations.

Internal control is integration of essentials which are used to operate and control its system. The common essentials/frame millis control activities, control environment, information and communications and risk assessment, monitoring. Control environment is the atmosphere or the stone at the top of internal control system. Control activities are policies and procedures used to operate the internal control system. Connecting risks caused by failure of internal control and an native threat of the system also a standard of ICS. A flow of communication by financial reports and setting down plays task in effective internal control.

Monitoring is done continuously by external auditors, internal auditors and administration; to review and appraises the effectiveness of internal control, if corrective addresses are bore.

Internal control is not without limitation. Obviously ICS cannot guarantee an absolutely free of breaches and fraud performances. The system is designed and operated by people, who can beget failure of internal control by built in nature of errors or an conscious collusion.

The judgment whether internal control is dependent on the aim of the internal control and criteria established by administration. COSO set criteria's to appraise effectiveness of internal control, in addition to actuality of the ethics of the control. The result of effective internal control is resulted in effectiveness in achieving objectives and efficiency in the process of operating the controls and being economizing. This measure has been appertained by several scholars as VFM.

The empirical literature demonstrated that; in spite of the fact that internal control is kindly a preventive shield of fraud and misappropriation of stewards of resources, several reported cases of multibillion dollar fraud and reporting scandals over the world have so far refueled public policy debates on internal control, that internal control ended up an issue of considerable interest to policy makers and management to preventative those fraud. Hence the thinks about looked into internal control of organizations, and government units ICS in stuff of avoiding fraud.

Hence, it isn't in doubt that studies and uninterrupted enhancement of ICS are wanted in individual organization and in the country in summative to achieve the planned objective.

In the context in Ethiopia doesn't' makes sufficient in exploring internal control effectiveness of the government units, private organization and not for profit organizations. Particularly taking into consideration the recent reports of OFAG in government units, it is an area to put an intensive while and contribute to the foundation of the development objective underway. Consideration the recent reports of OFAG in government units, it is an area to put an intensive while and contribute to the foundation of the development objective underway.

CHAPTER THREE

3. RESEARCH METHODOLOGY

It indicated in the literature section there are theories on internal control and several studies made to assess effectiveness of internal controls employing different methodologies of study.

This chapter also used to address appropriate methods of evaluating internal control with justifications of selected methods. This discussion will mainly center on research design, research approach, and population of the study, source of data and method of data analysis.

3.1. Research Design

A research design is the logic that joins the data to be collected (and conclusions to be drawn) to the basic questions of a study (or a strategy or plan of action that links methods to outcomes) (Creswell, 2003). This investigate is intended to find out how effective internal control systems in the Ethiopian Insurance Corporation is in reducing risks and ensuring effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws. This can be a fact finding exercise, in this way a case study is used and as such the descriptive research method of employed to data collection of both quantitative qualitative nature.

This study was designed to follow descriptive research design which is mixed of qualitative and quantitative but dominantly qualitative research strategy. The descriptive research design studies are those studies which are concerned with describing the characteristics of particular individuals or of groups. In descriptive studies, the researcher must be able to define clearly, what he wants to measure and must find adequate methods for measuring it alongside a clear cut definition of 'population' he wants to study. Its point is to obtain complete and accurate information in the considers (Kothari, 2004, P, 37).

For the same reason, descriptive qualitative research design is selected by the researcher because it equips the researcher to assess clearly the designed and implemented internal control system on the selected Ethiopian insurance corporation through applying and gathering various and diverse forms of data, such as interviews, observations, and documents.

The reason behind is that this research was focus mainly on the assessment of the effectiveness of the internal control systems of the Ethiopian insurance corporation and its implication for success, thus the data to be collected are mainly qualitative stemming from interviews and questionnaires. It also includes steps like coding the interview replies, customizing observations, tabulating the data; and performing several statistical computations.

3.2. Research Approach

Research approaches are mechanisms of attaining research objectives. The approaches are adopted to achieve the best possible of the research objectives. Research approaches are also adopted based on the feasibility of the selected approaches. The common research approaches are quantitative, qualitative and mixed research approaches.

In the quantitative method, the inquiry essentially uses postpositive arguments to include information from the consideration of cause and effect, to minimize individual variables and theories and queries, to use calculation and identification, and to test speculations, to apply personnel techniques such as tests and studies (Creswell, 2009). The approach to quantitative analysis uses two implementation methods known as the study and test plan. Outline analysis offers a quantitative or numerical overview of a population's patterns, behaviors, or views through analyzing a sample of that population. The quantitative approach uses cross-sectional or longitudinal overviews that use self-administered semi-structured surveys or structured data collection interviews to generalize a sample to a population (Babbie, 1990). The data is collected on a measuring instrument and the data collected is analyzed using statistical methods and testing of hypotheses.

An alternate qualitative approach is one in which the inquirer often makes knowledge claims based primarily on constructivist perspectives (i.e., the multiple meanings of individual experiences meanings socially and historically constructed, with an intent of developing a theory or pattern) or advocacy/participatory perspectives (Creswell, 2003).

A qualitative research approach uses strategies of inquiry including narratives, ethnographies, case studies, observations, interviews, and the results are communicated subjectively through descriptions using words rather than numbers (Creswell, 2003, p.186-187). Moreover Qualitative researchers tend to use open-ended questions so that participants can express their views. Under

this method contact with the field of research may be based on interviews, observations, or analysis of documents and other artifacts. In addition, literature studies are performed to the extent required to develop sensitivity in observation and interpretation (Atkinson and Hammersley, 1994).

At last, a mixed methods approach is one in which the researcher tends to base information claims on pragmatic grounds (e.g., consequence-oriented, problem-centered, and pluralistic). It utilizes strategies of inquiry that involve collecting data either simultaneously or sequentially to best understand research problem (Creswell, 2009).

The data collection moreover includes gathering (e.g., on instruments) as well as content information (e.g., on interviews) so that the final database represents both quantitative and qualitative information. The advantage of a quantitative research approach may be limitations for a qualitative approach and vice versa.

Mixed research approach, is collected to tap the limitations of quantitative and qualitative approaches, uses on pragmatic information claims (Sale et al, 2002). The objective for researchers utilizing the mixed methods approach is to draw from the qualities and minimize the weaknesses of the qualitative research and a quantitative approach by combining them (Carrie, 2007).

3.3. Target Population

The target populations of this study were all the Finance managers and Internal Audit staffs of Ethiopian Insurance Corporation. The logic behind selecting all Internal Audit staffs and Finance managers is that Finance Managers includes Directors, Senior Staff Assistants & Staff Assistants, the number of management members are 40. Though, the number of Internal Auditing sections staffs are 12. Subsequently, the total populations of the study was 52 Ethiopian Insurance Corporation staffs have direct relationship with the work of internal control and this lead to secure convenience information of internal control effectiveness of the organization. This research paper was utilized census method to cover the total population.

3.4. Data Sources and Collection

The study is used primary and secondary data. Primary data was collected from the people directly involved in the research. Such as: - questionnaires, interviews.

Secondary data collected from books, articles, web sites and, policy documents and organizational records, published and unpublished documents.

The questionnaires were the main primary source of data collection. The identified sample was served with the questionnaire directly by the researcher. To get quantitative data, one set of questionnaires was utilized for the respondents. The questionnaires were administered to the employees by researcher. The questions involved the feelings of respondent regarding the assessment of internal control effectiveness in Ethiopian Insurance Corporation. The questionnaire also aimed at getting responses from the respondents about their views on internal control system and how it processed to comply with rules and regulation of organization as well as regulatory body requirements.

The open ended questionnaire enables the respondent to clarify issues further and provide in-depth findings for the study while close ended questions enabled the researcher to obtain background information (Kothari, 2004).The advantage of using questionnaires is the most feasible and allows the respondents moments of reflection on the subject. This is cost effective, free from bias and gives the respondent adequate time to respond to the question.

The researcher was allowed the respondents sometime to fill in the questionnaire before returning. Along with some of the closed ended questions are five score Likert scales to provide respondents a wider range of alternative with end points where “5” the level of agreements are represent by 1 to 5. Strongly agree 5, agree 4, 3 neutral, disagree 2, and strongly disagree represented by 1. The source of questionnaire was literature review and was designed with reference to variables (i.e. control environment, control activity, risk assessment, information system and monitoring). The researcher used employees’ questionnaires to draw information on the assessment of internal control system. Santyanarayana (1993) observes that questionnaire is used to obtain objective data hence was found to be relevant for this study. The questionnaire were developed from pre-made questionnaire for equivalent organization with little modification (Tsedal Lemi, 2015).

An interview schedule was conducted to gather data from internal audit of EIC. Santyanarayana (1993) asserts that interviews help interviewers to cover all measurements of the investigation. The researcher5in-depth interviews to gather data from internal auditors of EIC to gain a deeper understanding on the effects of internal control system in enhancing organizational activities. An interview was a discussion between the interviewer and the interviewee where questions were asked by the interviewer to obtain information from the interviewee.

This was included face to face interviews between the researcher and the respondents. An interview eliminates many sources of bias that could be associated with the other methods of data collection like in surveys e.g. there was a chance of clarifications in case of any misconception between the researcher and the respondent through probing. The interview plan gave the respondents freedom of answering questions.

Secondary data are those which have already been collected by someone else and which have already data collected through questionnaire, interview and observation. The secondary data also was collected from the internal auditor's report 2016/2017 and policy, procedural manuals serves as documentary sources.

3.5. Data Analysis

The data analysis consists of examining, categorizing, tabulating, or otherwise recombining the evidence, to address the initial proposition of a study (Yin, 1989). The researcher was analyzed the data collected through to statistical population concerning the internal control effectiveness. The data collected via questionnaires were analyzed with descriptive statistics using SPSS and percentages were used to assist in comparison and give a clear indication of response frequencies.

Qualitative research is fundamentally interpretative i.e. the researcher was interpreted the qualitative data. Thus, data collected from the interview and reviews of documents were interpreted qualitatively. To sum, the analysis of quantitative data and interpretation of qualitative data combines to seek convergence among the results (Creswell, 2003).

According to Best, (1977), the score from 1-1.80 is lowest, from 1.81-2.61 is lower, from 2.62-3.41 is average/moderate, from 3.42-4.21 is good/high, and 4.22-5 is considered very well. The results were presented in chapter four of the study.

In both ways of evaluating effectiveness of internal control the data analysis is based on the reply by the respondents on their degree of agreement or disagreement with each of the questions on a five-point Likert response scale (Likert, 1932) that ranged from 5 “strongly agree (scored as 5) to “strongly disagree” (scored as 1). The expected mean for an effective internal control component is 5 or close to 5. However the analysis is based on how the mean response of the respondents is close to this expected value. A large amount of researchers use this methodology, because it is relatively easy for respondents to use, and responses from such a scale are likely to be reliable (Balzan and Baldacchino, 2007; Lam and Kolic, 2008). A positive mean response of more than 3 statistically indicates compliance with the statement/question on all questions, a positive mean response of less than 3 indicates disagreement, and a mean response of close to 3 indicates indifferent or offsetting discrepancies. All the questions are coded in such a way that a positive mean response of 4 and higher indicates that this internal control system consultant has adequately contributed to the effectiveness of internal control in the business, while a positive mean response of less than 4 reveals that this internal control system component has not adequately contributed to the effectiveness of internal control the efficiency of internal control led to the (Joseph, as cited in Tsedal, 2015). Although the average response between 3 and 4 suggests agreement with the argument, the interpretation means that the internal control system has space for improvement in these areas.

CHAPTER FOUR

4. DATA ANALYSIS AND INTERPRETATIONS

This chapter discussed of quantitative data analysis of the study. It is divided into two major sections. The first section describes the demographic characteristics in terms of their gender, age level of education, field of profession and their work experience with EIC. The second section of the chapter provides results and discussions which were based on the five major research questions of the study. For the purposes of this preliminary analysis, descriptive statistics was frequently used to describe the general characteristics of the data collection.

4.1. Scale Reliability Test

Scale reliability test is done to check whether a scale applied in this research consistently reflect the subset it measures. To carry out the reliability analysis, Cronbach's Alpha (α) is the most common measure of scale reliability and a value greater than 0.700 is very acceptable (Field, 2009; Cohen and Sayag, 2010) and according to Cronbach's (1951), a reliability value (α) greater than 0.600 is also acceptable. The accepted limit of Cronbach's α is 0.70 in this paper, the Cronbach's α is computed using SPSS package 20 (Statistical Package for Social Sciences) and was found to be more than 0.70 that was 0.947. Therefore data obtained using these scales are highly reliable to do further analysis.

Table 4.1. Reliability Statistics

Cronbach's Alpha	No of Items
0.947	32

Source: questionnaire result, 2020

4.1.1. Descriptive Statistics

4.1.2. Response Rate

The questionnaires were distributed to both the Finance manager and the internal auditor's staffs of head office Ethiopian Insurance Corporation. Out of the total 52 set of questionnaires 40 questionnaires were returned, yielding 77% response rate. This shows good response rate.

4.1.2.1. Background of Respondents

The demographic characteristics of the respondents indicate that male respondents are (62.5%) as the result of the table 4.2, while the female respondents were (37.5%), here in the result shares of male are higher than female but in differences are higher in proportion.

Table 4.2. Gender of the Respondents

Gender	Frequency	Percentage
Male	25	62.5
Female	15	37.5
Total	40	100.0

Source: questionnaire result, 2020

Table 4.3. Educational Status of Respondents

Education Attainment	Frequency	Percentage
PhD	0	0
Master	9	22.5
BA degree	30	75
Diploma	1	2.5
Certificate	0	0
Total	40	100.0

Source: questionnaire result, 2020

The status of education that employees have is another contribution by employees to competency that leads to the effectiveness of internal control. This knowledge is referred to as academic competency in academia. The internal control system aspects of the control environment shows that a good level of education level has a useful effect on internal control performance.

The study of educational achievement of respondents showed that the majority of respondents (75%) had first degree, (22.5%) had just a Master's degree only (2.5%) had a Diploma as Professional. As summarized in the above table, majority of respondents are eligible by degree and above which is beneficial. This suggests that respondents already have adequate education to comprehend the concept of internal control.

Table 4.4. Field of Study& Year of Experience

		Frequency	Percentage
Field of Study	Accounting	31	77.5
	Economics	0	0
	Management	7	17.5
	Other	2	5
	Total	40	100.0
Year of Experience	<5	15	37.5
	6-10	7	17.5
	11-15	13	32.5
	16 above	5	12.5
	Total	40	100.0

Source: questionnaire result, 2020

Figure 4.4 summarize the respondent’s specialized field of study. Out of the overall 40 respondents, (77.5%) are studied accounting, (17.5%) are studied management and the remaining (5%) of the respondents studied others. From this result ready to conclude that more of respondents were recognizable with the concepts of internal control system in their studies.

The above table year of experience is one of the abilities in an organization to comprise internal control. The more experienced workers are, the further they know about the internal control they practice. Of the majority of the respondents (37.5%) with less than 5 years of experience, (17.5%) have from 6 to 10 years, (32.5%) from 11 to 15 years, (12.5%) over 16years experience. This shows that employees working in the main areas of internal control system are well trained in reacting to the questionnaire, and knowing the control system or enforcing it.

4.1.2.2. Examining Effectiveness of Elements of Internal Control

Recalling statement of COSO (1994); there are five components internal control; control environment, control activities, risk assessment, information and communication and monitoring. In order to ensure high standards organizational success, the efficient operation internal control elements offers fair assurance to the achievement of specified objectives. The overall effectiveness of internal control is influenced by the nature and implication of each aspects of

internal control. Effective internal management, as indicated in the literature section of this report achieves its objectives: ensuring achievement of organizational goal, safeguarding asset and ensuring compliance with rules and regulations. The specific objectives of this research were to assess the effectiveness of each internal control aspects as basis for the assessment of effectiveness of internal control system.

4.1.2.3. Effectiveness of Control Environment

According to statement of COSO (1994); Control environment considered as a “tone on the top” in internal control system. It demonstrates the general atmosphere of internal control which includes the procedures and procedures of internal control, reporting structure, management structure employees’ competency of and discharge duty and others. The research conducted is focused on those principles of control environment and the result is measured as follows.

Table 4.5. Control Environment

Control Environment	N	SD		DA		N		A		SA		Mean	St.D
		No	%	No	%	No	%	No	%	No	%		
1. There is clear separation of roles and responsibilities.	40	0	0	0	0	8	20	16	40	16	40	4.2	0.758
2. There are documented policies, procedures and guideline.	40	0	0	0	0	2	5	24	60	14	35	4.3	0.564
3. The corporation has a clear organizational structure	40	0	0	4	10	8	20	19	47.5	9	22.5	3.82	0.903
4. The reporting structure is clearly specified.	40	2	5	4	10	8	20	18	45	8	20	3.65	1.075
5. All employees in charge of the corporation program are aware of the guidelines of the program.	40	2	5	12	30	9	22.5	7	17.5	10	25	3.28	1.281
6. All staff in charge performs their responsibilities as per the regulations and guidelines.	40	0	0	7	17.5	8	20	18	45	7	17.5	3.63	0.979
7. Segregation/separation of	40	0	0	3	7.5	7	17.5	20	50	10	25	3.92	0.859

roles can lead to attainment of set corporation objectives.													
8. The control environment in your corporation enough to attain the corporation set objectives.	40	0	0	14	35	12	30	12	30	2	5	3.05	0.932
9. Segregation/separation of roles can lead minimizing of costs.	40	0	0	8	20	15	37.5	13	32.5	4	10	3.32	0.917
Valid N (list wise)	40											33.17	
Overall mean												3.69	

Source: questionnaire result, 2020

As shown in table 4.5 above, the mean response value calculated on the basis of the Likert scale showed the average agreement of the respondents on the presence and practice of each of internal control component. It is possible to estimate the average mean of the control environment to 3.69, suggesting an agreement control environment procedures but rooms for improvement in this area.

Although individual respondents were found to be neutral and disagree with the clarity of the EIC organizational structure. Most respondents with a mean of (3.82) or 22.5% strongly agree and 47.5% agree that there is a good description organization structure in EIC. Managements may recognize effort that needs to be added to the business by developing a consistent organizational structure. A division of roles must accomplish the goal of the organization in an efficient control environment. The respondent's outcome is also consistent with this idea which is shown by an average value of 3.92. This suggests that most of the respondents' accepted that the clear line of responsibility allow goals to be reached.

The presence of the corporation's recorded policies, procedures and guidelines was also demanded and high mean value of 4.3 was received. In the presence of written rule, procedures and instruction in the corporation the outcome indicates a good state of the organization as it is strong in contact and formalizing standards for the employees.

The lowest mean of 3.28 shows that majority of the respondents disagreed that the program rules are understood to all works in charge of the corporation. 30% percent of respondents disagreed with this assertion in percentile, while 17.5% of respondents agree and 25% strongly agree and 22.5% of respondents neutral, 5% strongly disagree. In terms of the number of polices released, both in terms of raising the number of renewed policies, the document review result's internal auditors evaluating the performance of the company are exceptional. (EIC internal audit report 2016/2017).

It is also indicated from the table the respondent's doubts whether there is consistent clear reporting structure (mean 3.65) and this portion also indicates the highest standard deviation (1.075).

There is no question that the workers in charge discharge their duties in theoretical as per the regulation and guideline. However, the above findings shows that a mean value of respondents is 3.63 which shows that the outcome is moderate for the variable if the employees in charge conduct their duties in compliance with the regulations and guidelines. The consequence of this outcome is that there is something that the company is expected to focus on enhancing the compliance of the employees with law and environment in order to achieve the goal of the organization. This outcome is agreed with a recent study by (Hermanson, Smith & Stephens, 2012), which identifies several areas for potential of internal controls enhancement particularly related to assessing the "tone at the top," assessment follow up as well as on deviation.

The control environment must be sufficient to achieve the goal of the corporation. This is not the case with the practical component of the company under study. The average 3.05 implies that majority of respondents did not agreed that the corporate control environment in the corporation was sufficient to achieve the set of goals of the corporation. It displays a moderate value instead.

4.1.2.4. Effectiveness of Control Activities

The control activities performance of such as preparing accurate reports, reviewing documents, approving transactions, independent analysis and others are included in the monitoring activities. In nature, they may be detective or preventive a variety of manual and automated operations, authorizations and approvals and reconciliation evaluation of the corporation. The outcome of the table 4.6 below indicated shows that the degree of agreement in some area of the control activities.

The majority of the respondents showed that the company's accounting practices are clearly separated with the mean agreement of 3.7 but requires improve as it is a medium value. More than half of the respondents believe that the corporation's accountings procedures are specifically differentiate.

The role of authorization, collection, check signing and accounting should theoretically be explicitly separated. The outcome shows that mean agreement reach of respondents to be 3.97 in indicated that is moderate value but still it needs improvement yet. A successful organization can separate transaction authorization features, accounting record function and asset store function.

The highest average (3.98) shown in table 4.6 confirms that majority of respondents agree that the policies and procedures will contribute to accurate financial reports being generated. An effective control operation was also identified as a policy and procedure to ensure that any activity taken was taken to reduce the risk faced by the organization based on consideration.

Subsequently mean of (4.07) or 27.5% strongly agree and 52.5% agree and neutral 20% of respondents listed on the table 4.6 also suggest that majority agree that the corporate spending is properly accepted in the company by permitted individuals. The outcome indicates the organization and this was conveyed to the worker, suggesting that majority of the respondent believed that key detail about the activities of the company is established and reported periodically.

Table 4.6. Control Activity

Control Activity	N	SD		DA		N		A		SA		Mean	St.D
		No	%	No	%	No	%	No	%	No	%		
10. Policies and procedures can lead to producing reliable financial reports.	40	0	0	2	5	10	25	15	37.5	13	32.5	3.98	0.891
11. Accounting procedures of in the corporation are clearly segregated.	40	0	0	4	10	14	35	12	30	10	25	3.7	0.966

12. The corporation expenditures are duly approved in advance by appropriately authorized persons.	40	0	0	0	0	8	20	21	52.5	11	27.5	4.07	0.694
13. Authorization, processing, check signing and accounting functions are clearly segregated.	40	0	0	0	0	10	25	21	52.5	9	22.5	3.97	0.698
14. The corporation invoices or requests for disbursement are backed by appropriate supporting documents.	40	0	0	3	7.5	4	10	18	45	15	37.5	4.12	0.883
15. There is an up-to-date asset register.	40	2	5	6	15	13	32.5	9	22.5	10	25	3.47	1.176
16. The procurement and disposal of assets procedure is strictly followed under the corporation operation system.	40	2	5	4	10	13	32.5	10	25	11	27.5	3.6	1.15
17. Bank reconciliation are prepared by someone independent of the cash receiving, processing and recording activities.	40	0	0	3	7.5	8	20	12	30	17	42.5	4.08	0.971
18. Someone other than the prepare reviews and approves bank reconciliations.	40	0	0	1	2.5	12	30	12	30	15	37.5	4.02	0.891
Valid N (list wise)	40											35.01	
Overall mean												3.89	

Source: questionnaire result, 2020

A mean value of 3.6, which is not in line with the by the concept, is also shown by the acquisition and disposal of assets mechanism to be strictly followed under the corporate operating system. Overall (27.5%) strongly agree with the concept in this regard greed (25%),

neutral (32.5), disagree (5%). Which means an efficient operational procurement are goods and services that are required to sustain an organization's day to day business operations.

Mean 4.12 indicates that corporate or disbursements applications are accompanied by sufficient supporting documentation with high degree of agreement. That means the corporation has the design and use of adequate documentation and records to help ensure that transactions and activities are properly documented.

The mean 3.47 suggested that the company lacks up to date asset registry in the corporation as it is moderate benefit needs company's attention. This is an asset ledger that is just as valuable as the data stored in it. Keep an electronic format of the asset registry where it is easily available and easy to update.

Bank reconciliations to be prepared by someone who is independent of the activities of obtaining, processing and recording cash. Most of respondents strongly agree with a mean of 4.08 or (42.5%) strongly agree and (30%) agree which is high. Someone other than the planning reviews and approving bank reconciliations indicate that 4.02 or (37.5%) strongly agree and (30%), agree (2.5%) neutral (30%), disagree (2.5%) were there response. The response of the reaction was in the sense of knowing the idea. But, this appears to be highly agreed upon. This means that the person is planning for bank reconciliation and analysis. The outcome demonstrates the company's emphasis on the above variables.

Overall the grand mean value of 3.89 indicated that the activities of organizational control in some areas are successful and pass in some activities, as seen in each of the nine estimated questions. The establishment of an efficient internal control system will efficiently enforce all control activities. Genet previous studies (2016) have shown that control activities are the basis of assurance and are only feasible with the development of an efficient internal control system. Genet further argued that executing preventive controls which are proactive in nature and aim to avoid occurrence of adverse events from occurring as well as prevent losses and including division of duties, proper authorization,

4.1.2.5. Effectiveness of Risk Assessment

Risk assessments have been an important part of the framework of internal control. Management is responsible for recognizing and assessing the control risk caused by failure. Risk assessment techniques, risk response and risk prevention programs should be in place. Accordingly, the survey outcome and interpretation on this topic is presented as follows.

Table 4.7. Risk Assessment

Risk Assessment	N	SD		DA		N		A		SA		Mean	St.D
		No	%	No	%	No	%	No	%	No	%		
19. The corporation has designed an appropriate strategy of identifying risks.	40	0	0	9	22.5	10	25	6	15	15	37.5	3.68	1.207
20. The corporation designed a system to offer appropriate response to risks.	40	2	5	9	22.5	13	32.5	6	15	10	25	3.32	1.228
21. It is management's role to identify, evaluate and respond to risk.	40	0	0	8	20	8	20	10	25	14	35	3.75	1.149
22. Involvement of the internal audit staff during implementation reduces the occurrence of risk.	40	0	0	4	10	10	25	11	27.5	15	37.5	3.93	1.023
Valid N (list wise)												14.68	
Overall mean	40											3.67	

Source: questionnaire result, 2020

On the above the table it indicates that some workers strongly agreed that there is acceptable risk recognition approach (37.5%) strongly agree, (15%) agree and (25%) neutral, (22.5%) disagree. In the organization has adequately designed an effective risk identification plan and no proper risk response framework (3.68 and 3.32) respectively. It offers a standardized and established, evaluated and controlled risk when it comes to a risk management strategy. It builds on a

framework focused on new technologies or actions taken to periodically update and revisit the evaluation.

Approximately 35% of respondents were collectively either strongly agreed or determined that the management was defining, measuring and reacting to the risks. An average strongly agrees that the incidence of risk during execution by audit workers reduces (mean 3.93). The result indicates the good of the perception of the respondents in the region. Which mean an internal auditing efficient internal control eliminates the risk of asset loss and helps ensure that documentation is complete and reliable, that financial statements are accurate, and that the execution of the plan is carried out in compliance with the provisions of relevant laws and regulations.

Generally, the study implied from the risk assessment response that few workers agreed on some of the risk management assessment concerns, and this implied that there were adequate methods for recognizing risks. The company has sufficiently established an effective risk detection policy and no adequate framework designed to respond to risks that have an adverse impact on internal control performance. In this regard, Oppong, Owiredu and Abedana (2016) argued that management should develop a rigorous system for risk management that can recognize all risks inherent in internal control.

4.1.2.6. Effectiveness of Information and Communication

The effective information and communication is on structure of in an internal control system the result and interpretation as presented below.

Table 4.8. Information and Communication

Information and Communication	N	SD		DA		N		A		SA		Mean	St.D
		No	%	No	%	No	%	No	%	No	%		
23. Information should be communicated to all stakeholders.	40	No	%	No	%	No	%	No	%	No	%	3.6	1.081
		2	5	3	7.5	13	32.5	13	32.5	9	22.5		
24. Transaction are promptly recorded and classified to provide reliable information.	40	0	0	0	0	10	25	22	55	8	20	3.95	0.677

25. Communication helps to evaluate how well the guidelines of in the corporation are working.	40	0	0	1	2.5	8	20	20	50	11	27.5	4.02	0.768
26. The officer's responsibilities and the right to access are clearly communicated.	40	0	0	4	10	18	45	12	30	6	15	3.5	0.877
Valid N (list wise)												15.07	
Overall mean	40											3.76	

Source: questionnaire result, 2020

From the following table 4.8 although there are 32.5% of respondents considered to be neutral there are 32.5% of respondents agree and 22.5% strongly agree. The means 3.6 for control information to be communicated to all stakeholders shows that the agreement of said, the consensus of respondents. This implies an efficient communication that offers knowledge that is important to their needs and creates positive attitudes towards the stakeholders of the organization, the individuals and organizations whose attitudes and activities have an effect on the organization's success.

The "internal auditors make recommendations for more effective and efficient essential information" documentary analysis is properly communicated to all stakeholders in the EIC and appropriate accounting documents have been reported as having issues with information and communication.

The other variable is deals transactions to be promptly reported and classified to deliver accurate information and a mean value 3.95 which is medium is little different from 3 indicating no convincing amount of respondents assume in the organization. This concept of agreement degree knowledge and communication varied between respondents with standard deviation of 0.768. Which implies that the effective keeping of comprehensive records also helps to review and improve the health and safety performance of the company where applicable, it is also important that everyone in the workplace is aware of the records they need to maintain.

In the other 27.5% of the respondents strongly agree and 50% agree that there are relatively agreed that the contact helps to determine the guidelines of the corporation are working. If we are able to transmit knowledge easily and effectively to others, it becomes effective.

Organization managers with strong oral and written communication skills help to promote the exchange of knowledge within a company between employees for their benefit.

In an organization the duty of the officer's and the right to arrive to be expressed communicated are mandatory in an organization. They were strongly agree (15%), agree (30%), neutral (45%) and disagree with each other (10%). The mean value of 3.5 with a St. Deviation of 0.877. Most of the respondents are not sure whether it is included or not. By this also appears to agree. This showed the moderate importance of the respondents, which is not consistent with the idea presumption that the company lacks the duty of an effective officer. Being equal to efficiently interact at work will help improve overall efficiency. Managers should understand the strengths and capacities of their officers and then provide clear guidance to the people who are ideally suited for the work.

4.1.2.7. Effectiveness of Monitoring

In order to ensure that internal control achieves the desired objectives, constant monitoring of internal control is crucial. According to Coffin (2003), monitoring includes the activities and procedures for evaluating the efficacy of the internal control structure in achieving the goals of the entity's financial statements. As follows, the outcome and explanation are presented.

Table 4.9. Monitoring

Monitoring	N	SD		DA		N		A		SA		Mean	St.D
		No	%	No	%	No	%	No	%	No	%		
27. Monitoring is important if the financial reports corporation program is to achieve its set objectives.	40	0	0	3	7.5	9	22.5	19	47.5	9	22.5	3.85	0.864
28. The corporation has monitoring activities in relation to operational activities.	40	0	0	8	20	10	25	15	37.5	7	17.5	3.53	1.012
29. The corporation has continuous monitoring system.	40	0	0	11	27.5	14	35	6	15	9	22.5	3.32	1.118

30. Monitoring helps to determine whether controls under the corporation are effective.	40	0	0	4	10	6	15	20	50	9	25	3.9	0.9
31. Monitoring covers the evaluation of the effectiveness of internal control in achieving set objectives.	40	0	0	2	5	6	15	27	67.5	5	12.5	3.87	0.686
32. Appropriate actions are applied based on control findings and recommendations.	40	4	10	3	7.5	9	22.5	11	27.5	13	32.5	3.52	1.396
Valid N (list wise)	40											21.99	
Overall mean												3.66	

Source: questionnaire result, 2020

In order to identify and correct internal control failures, the aim of successful monitoring should be structured before they can lead to a material misstatement in the plan's financial statements. When we it becomes by EIC respondents, the monitoring system is very critical if the goal of achieving the financial reporting program of the company is to be developed. In line with the description aspect raised above, this is seen in the mean value of the respondents, which varies different from the others (3.85). This, reflect criterion, represents positive value. The degree of agreement of the respondents on whether the company has monitoring activities in relation to operational activities is also slightly in line with the definition factor, as the mean value is 3.53 with a relatively moderate St. deviation less (1.012). Because of that the monitoring activities continuous or isolated evaluations are important, given the complex and diverse environments that most organizations face.

The finding shown in the table above 4.9 is that the organization has continuous monitoring systems respondents agreed with a mean value of 3.32. The outcome shows what moderate value is, but that the continuous monitoring systems have areas of development. An effective monitoring system, such as the analysis of risk trends and the identification of problem

management measures once a month or on a daily basis, is regularly developed. Additionally "Internal auditors make recommendations on an ongoing basis in the document review, employees should evaluate the different internal control systems and redesign/modify improvements where needed."

4.2. Interview Results

An interview with 5 internal auditors at the head office of the EIC on the efficiency of internal control in the EIC is opposed to the recognition of the areas of internal control weaknesses within the Company. The key areas of concern were the effectiveness of the internal control system elements, the factors influencing internal control, the internal control evaluation criteria and the areas of weakness found in the EIC. Below, the topic from the interview is discussed.

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The interviewee's response was therefore consistent with the data collected from the outcome.

The corporation is a risk management staff's, but since it is not well organized the internal control system, it is for the appointee. Still, the application of internal control system and legislation are the same. There is an increased corruption activity within the company due to the weakness of the internal control system.

The outcome of an interview related to the practice of the control environment also suggests an area of poor in this area. In the interviewees argue that workers lack the opportunity to delegate duties. The interviews suggest that there is insufficient data to determine the effectiveness of the control environment procedure and policy.

The interviewees were asked about the company's steps to strengthen internal control, and few employment's are equipped to provide training but are not sufficient, although most of the interviewees accepted that the company's internal control has not been strengthened at all. Interviewees were asked if the company had a monitoring system to assess regulation with internal controls and if there were cases of non-compliance recorded to the board.

The interviewees said that accept that compliance with the audit will be submitted to the board. The other respondents are not agreeing that the company has a monitoring mechanism to assess

compliance with internal controls which are cases of non-compliance recorded to the directorates.

Interviewees are accepting that there is a poor of efficiency in the general efficacy of the EIC internal control. They accept that the issue of claim management, lack of enhancement and overhaul of the control system persists. One of the interviewees said that motor claim mismanagement and absence of requirements for the purchase of the major issues as encountered in the company.

Interviewees were asked to describe the EIC level of internal control. The agreement between the interviewees and the existence of internal control. Many of them believe that the organization is moderate in terms of internal control system design, but weak in terms of execution.

4.3. Secondary Data Results

The broad objective of this analysis was, again, to analyze the effectiveness of the internal control system in the EIC and to identify areas of system weakness. In the previous section, the descriptive statistics under the survey method were presented. The performance of the document review is also presented.

First of all, not all EIC workers understand their company's strategy and program. The area of control environment a document outcome relevant to control environment practice often suggests an area of weakness in this area. In terms of the number of policies released, both in terms of raising the number of new policies and the number of renewed policies, the document review results 'internal auditors evaluating the performance of the company are exceptional '(EIC internal audit report 2016/2017). In general, these findings showed the operating manual, the company's strategy was said to be old-fashioned, and changes were required, such as the release of new or updated internal control policies. Therefore, the basic goal discussed by the document is the efficacy of the control environment within the Ethiopian Insurance Company.

The other particular goal of the analysis was the Ethiopian Insurance Corporation's information and communication activities. The successful internal control system communicates information to all stakeholders from the secondary data outcome, transactions should be reported promptly. The results show, however, that information is not properly transmitted to all stakeholders. The document results of the ' internal auditors' information and communication guidelines for more

effective and productive critical information was properly communicated to all stakeholders in the EIC and appropriate accounting documents were the information and communication issues established.” (EIC 2016/2017 Internal Audit Report). The data and communication indicated by these findings is weak to conclude as efficient and not effective enough to achieve the corporate target.

The descriptive result indicated that monitoring as an internal control aspect performed better than other elements in relation to the performance of the corporate program and the objective setting of its monitoring system is important. However, with the intended importance as an important component of internal control, monitoring is not sufficiently carried out and should not be regarded as effective. "Internal auditors make recommendations on an ongoing basis in the document review, employees should evaluate the different internal control systems and redesign/modify improvements where necessary" (EIC Internal Audit Report 2016/2017). In general, corporate monitoring is not effective because it lacks an assessment of the efficacy of the internal control system that enhances the quality of internal control and reduces risk. The effectiveness of the EIC that is discussed in the document is then controlled.

CHAPTER FIVE

5. SUMMARY OF FINDINGS, CONCLUSION AND RECOMENDATION

The study assessed internal control effectiveness through adopting simultaneous mixed research approach. This section of the research thesis presented the summary of findings, conclusions and recommendations are forwarded.

5.1. Summary of Findings

Total of 52 questionnaires were distributed to all internal auditors 12 staffs and out of 40 census sampled finance managers, the number of management members and 40 useable questionnaires were collected from directors, senior staff assistants and staff assistants (77 percent response rate). In addition, the researcher held an interview with 5 internal auditors and reviewed some documents regarding internal audit reports.

- According to the interview, document and questionnaire findings, the EIC control environment has a consistent behavior of the policy and that not all outsourced service providers have been aware of necessarily guideline it and there are audits or internal control mechanisms to regularly check compliance with the policies. Most respondents believe that policies on the value of internal controls and proper actions be articulated in addition to the systems, clear reporting lines, and appropriate rules and regulations and obligations of management in the pursuit of objectives.
- Regarding the organization activities in regulating activities, it suggested respondents' disagreement of that management didn't accomplish periodic examination of guidelines and processes to evaluate their constant applicability and refreshes them as required. The management didn't separation duties procedures and strictly follows up procurement assets procedure, lack of updated asset register under the organization programs. The activities of organizational control in some areas are successful and pass in some activities. In general, as clearly seen from both the questionnaire and interview findings, control practices and procedures are not successful in the EIC this outcome assure before by (Antenh, 2017).

- Regarding the risk assessment, the study indicated that few employees disclosed their agreement on some of the issues of risk management assessment and that there were no appropriate strategies of recognizing risk. There is no appropriate framework designed for the organization to respond to risk and even EIC lacked an integrated strategy and procedures of risk assessment and controls. Generally, risk management system that can define all risks inherent in internal control should be defined by management.
- According to questionnaire and document review indicated that information and communication should not be communicated to all stakeholders an effective communication that offers knowledge that is important to their needs and creates positive attitudes towards the stakeholders of the organization, the individuals and organization. However the results indicated that information is not communicated to all stakeholders and there lacks a prompt record of transactions in EIC and there is lack of information.
- The other problem of the studied organization was lack of evaluation monitoring system of internal control. The monitoring was also not effective because it lacked covering assess of the effectiveness of internal control and didn't consider Program audit. In addition, monitoring in the organization is not well implemented on an ongoing basis.

5.2. Conclusion

Internal Control is a strategy, procedures and strategies employed for accomplishment of organizational goals. These priorities are ensuring operational effectiveness, safeguarding assets and adherence to rules and regulations. Both government and financial institutions need an assurance that the internal control mechanism in their institutions is successful enough in attaining those objectives. As suggested in literature, customarily the management of companies performs this role by monitoring the efficacy of internal control they designed. Though managements can use different criteria's to assess effectiveness of an internal control, COSO (1992) revealed that; internal control effectiveness is resulted from an effective feature of the control environment, control activities, the risk assessment, information flow and communication and monitoring of the system itself.

The control environment of EIC has no clear line of responsibility and predetermined structure of reporting internal control system is insufficient. EIC all employees are not understood of the necessary guidelines, policy and procedures and management's are regularly check, review compliance with the policies. In general, control environment EIC is not effective by these cases.

The control activities has also number of some activities as poor of documentation on inventory and updated asset register uncertainty on the separation of duties procedure and procurement, disposal of assets that lack of effective in the organization.

Risk assessment is considered to be EIC organization; the managements did not enough identify risk and integrated strategy organization to respond to risk and procedures of risk assessment and controls. In general risk assessment is poor of the internal control system practices is on EIC isn't effective.

Information and communication are necessary but not transmitted communicated to all stakeholders, management and staff. Based on the findings, the monitoring was also not that much effective because it lacked covering assess of the effectiveness of internal control.

5.3. Recommendations

Based on the summarized finding, the following the taking after recommendations are sent for moving forwarded for adequacy the effectiveness of internal control system in EIC.

- Management ought to periodically review policies and procedures and aware to employees of EIC. To ensure that proper controls are input and to ensure they are in agreement with the organization's vital mission. In expansion it permits organizations to create alternations to the policy to comply with changes to laws and regulations.
- An EIC should design system to avoid information gap and information should be communicated on time and in detail to all stakeholders and transactions should be recorded promptly employees of the organization.
- There should be the Management has a clear line of accountability and structure of reporting to release any risk of collusion and fraud.
- A coordinates system of procurement of asset, inventory counts and asset disposal must too be kept up.

- Monitoring in an effective internal control system is required to continuously assess whether the system is performing as per the outlined system.
- In addition to EIC, the management is responsible for the effective internal control system of the organization to require remedial controls to address deficiencies of the system.

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APPENDIXES

APPENDIX I: QUESTIONNAIRE

ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

MASTERS OF BUSINESS ADMINISTRATION IN ACCOUNTING AND FINANCE

Dear Sir/Madam,

My name is KidistYihun I am a postgraduate student of Master of Business Administration in Accounting and Finance at St. Mary's University School of Graduate Studies,

This questionnaire is on the research topic, the assessment of Internal Control Effectiveness in Ethiopian Insurance Corporation, and is in partial fulfillment of a Master's Degree in Accounting and Finance. The aim of this research is to assess the internal control effectiveness in the Ethiopian Insurance Corporation. I would be very grateful if you could provide appropriate response to the questions below. Any information given will be kept confidential.

Thank you for your time and co-operation.

Instructions: Please kindly tick the box that clearly expresses your view about a question.

Personal information of the respondent

1. Gender:

Male []

Female []

2. Age:

19 or less []

20—29 []

30—39 []

40—49 []

50 or more []

3. Educational Attainment:

PhD []

Master []

BA Degree []

Diploma []

Certificate []

4. Field of Profession:

Accounting []

Economics []

Management []

Other []

5. Year of service in this corporation

<5 years []

6 – 10 years []

11- 15 years []

16 and above []

Internal Control Systems (ICS) In the Ethiopian Insurance Corporation

This questionnaire is prepared based on the elements of internal control and its components.

Please, tick (√) in the appropriate box against the statements as defined below; 1 = strongly

Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree.

A. Control Environment	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1. There is clear separation of roles and responsibilities in EIC.					
2. There are documented policies, procedures and guidelines in the corporation.					
3. The corporation has a clear organizational structure.					
4. The reporting structure is clearly specified.					
5. All employees in charge of the corporation program are aware of the guidelines of the program.					
6. All staff in charge performs their responsibilities as per the regulations and guidelines.					
7. Segregation / separation of roles can lead to attainment of set corporation objectives.					

8. The control environment in your corporation is enough to attain the corporation' set objectives.					
9. Segregation / separation of roles can lead minimizing of costs.					
B. Control Activities					
10. Policies and procedures can lead to producing reliable financial reports.					
11. Accounting procedures of in the corporation are clearly segregated.					
12. The corporation expenditures are duly approved in advance by appropriately authorized persons.					
13. Authorization, processing, check signing and accounting functions are clearly segregated.					
14. The corporation invoices or requests for disbursements are backed by appropriate supporting documents.					
15. There is an up-to-date asset register.					
16. The procurement and disposal of assets procedure is strictly followed under the corporation operation systems.					
17. Bank reconciliations are prepared by someone independent of the cash receiving, processing and recording activities.					
18. Someone other than the preparer reviews and approves bank reconciliations.					
C. Risk Assessment					

19. The corporation has designed an appropriate strategy of identifying risks.					
20. The corporation designed a system to offer appropriate response to risks.					
21. It is management's role to identify, evaluate and respond to risk.					
22. Involvement of the internal audit staff during implementation reduces the occurrence of risk.					
D. Information and Communication					
23. Information should be communicated to all stakeholders.					
24. Transactions are promptly recorded and classified to provide reliable information.					
25. Communication helps to evaluate how well the guidelines of in the corporation are working.					
26. The officer's responsibility and the right to access are clearly communicated.					
E. Monitoring					
27. Monitoring is important if the corporation program is to achieve its set objectives.					
28. The corporation has monitoring activities in relation to operational activities.					
29. The corporation has continuous monitoring systems.					
30. Monitoring helps to determine whether controls under the corporation are effective.					

31. Monitoring covers the evaluation of the effectiveness of internal control in achieving set objectives.					
32. Appropriate actions are applied based on control findings and recommendations.					

Dear respondent, using the following space you can put your general idea about the internal control or information you regard as necessary;

Thank You for your time and Co-operation!

APPENDIX II: INTERVIEW QUESTIONS

1. Do you think all areas of internal control system (the control environment, control activities, risk assessment, information and communication, and monitoring) of the corporation is well designed to achieve the corporation's objectives? How?
2. What are the criteria's of evaluating internal control of the corporation?
3. Do you think auditors has a role in improving an internal control of the corporation?(explain)
4. What is your idea about the effectiveness of the internal control of the corporation and where is/are areas of the control you suggest an improvement?
5. Do you believe the internal control met the required goal of the corporation(explain how)
6. Do the corporation auditors assess/evaluate internal control of the organization?
7. Do the corporation's accounting systems properly manage and report company transactions in accordance with the proper accounting standard?

Thank you for your kind cooperation.