ASSESSMENT OF INTERNAL CONTROL OVER CASH COLLECTION
(THE CASE STUDY OF WEGAGEN BANK S. CO., HOSANA BRANCH)

A RESEARCH PAPER SUBMITED TO ACCOUNTING AND FINANCE DEPARTMENT IN PARTIAL FULFILLMENT FOR THE REQUIREMENT OF BA DEGREE IN ACCOUNTING AND FINANCE

SUBMITTED BY: HIYWOT SEBLEWORK

ADVISOR: MR, MENGISTU DEYASSA [MSC}

JIMMA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

JUNE, 2017

JIMMA, ETHIOPIA

ABSTRACT

Cash collection technique represents "the management of cash inflows and outflows of the firm, as well as the stock of cash on hand. The primary goal of internal control over cash collection function is to minimize the amount of cash a firm must hold in order to carry out its normal business activities on one side, and on the other, to obtain sufficient cash funds that would enable the firm to take trade discounts, to maintain its credit rating and to meet unforeseen cash needs. This study will be specific to Wegagen bank S. C., Hosana branch with the aim of assessing the internal control on cash collection. From the total of 38 workers of the bank, samples of 20 employees were selected based on simple random sampling technique. In doing so, the researcher was used the data mostly from both primary and secondary sources. The collected data from both sources were processed using the basic data processing procedures and ready for analysis. The data analysis was commenced, using simple descriptive statistical analysis method. So, the result of this result showed that there is proper internal cash control system and also have good cash collection procedures and practices in the bank. Finally, the bank should continue its practice and update his employees through training with the new way of working.

ACKNOWLEDGEMENT

I am greatly indebted to my advisor Mr.Mengistu Deyassa for his valuable comments, suggestions, and advice at each stage of preparing my research paper.

My heartfelt gratitude also goes to my beloved family for their continuous support, encouragement, and creating conducive environment where I can focus on my study and work at a time.

My deepest admiration and thanks also goes to all my friends for their valuable support, advice and moral encouragement during each step of writing my research paper.

ACRONOMY

AICPA American institute of certified public accountant

ICS Internal control system

OECD organization for economic cooperation and development

COSO Committee of sponsoring organization

Table of Contents

List of Tables

CHAPTER – ONE

1. INTRODUCTION

1.1.Background of the Study

According to Fight (2002), cash is the most liquid of assets and is susceptible to loss if not properly controlled. Therefore, it is extremely important that, all departments handling cash implement and adhere to strong internal controls.

In 1936, the American Institute of Certified Public Accountants (AICPA) defined internal control as those measures and methods adopted within the organization itself to safeguard the cash or other assets ofthe company and to check the clerical accuracy of the bookkeeping. Again, AICPA (1949) defined internal control as the plan of organization and all of the coordinate methods and measures adopted by a business to safeguard its assets, check the accuracy and trustworthiness of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies. The definition provided by AICPA in 1949 includes operational, financial reporting and compliance aspects of internal control (Mautz and Winjum, 1981). These definitions were amended in 1958 and 1972 successively leading to the separation of these controls into accounting controls and administrative controls. However, Tread way Commission (1987) recommended that internal control structures be designed to prevent or detect fraudulent financial reporting (Bridge and Moss, 2003:12). It is clear that, an organization has various levels within its system. The most important of these are the operating system, which is designed to accomplish stated objectives, such as producing items while meeting standards of cost, quality and schedule. The other is the control system, which is overlaid on the operating system. It is made up of the procedures, rules, and instructions that are designed to make sure that the operating system's objectives will be met (Sawyer &Dittenhofer, 1996:84).

Internal control is primarily on proper and adequate accounting and reporting procedures (Reider, 1994:13). Ratliff et al. (1988:97) stated that, the objective of internal control, namely to maintain reliability and integrity in the information system is important for management'sdecisionmaking process.

Internal control is the responsibility of the management of organization or corporation. The Internal Audit Division assists management in discharging its responsibilities in terms of the implementation and monitoring of internal controls. Sawyer (1996:407), state that internal control is the plans of the organization, including management's attitude, methods, procedures and measures, which provide reasonable assurance that the objectives of prudent cash collection are being achieved. The term internal control has basically replaced the term internal check (Fight, 2002). Internal check referred to those methods and procedures used by the accounting and finance divisions of a business to minimize clerical errors and protect assets, especially cash, against theft or loss. The change in terminology was the result of an expanding perception of the objectives and activities implied by internal control.

The financial crisis has put cash collection and its management through effective internal control system back in the spotlight, forcing treasurers to focus their efforts on ways to improve their companies' cash management (San José et al., 2008, : 2000). When liquidity is scarce, efficient cash management is vital for ensuring that every spare cent has been fully utilized. Even in normal times, efficient cash collection and management is crucial for the company, as lack of liquidity may result in inability to pay liabilities, increased costs, and in worst case scenario, may end up in insolvency.

1.2.Organizational Background

Banking in Ethiopia began in 1905 with the Bank of Abyssinia, a private company controlled by the Bank of Egypt. In 1931 it was liquidated and replaced by the Bank of Ethiopia which was the bank of issue until the Italian invasion of 1936. In 1943, the State Bank of Ethiopia was established, with 2 departments performing the separate functions of an issuing bank and a commercial bank. In 1963, these functions were formally separated and the National Bank of Ethiopia (the central and issuing bank) and the Commercial Bank of Ethiopia were formed (TewodrosSisay, 2011).

Wegagen Bank S.C was established on June 11, 1997. It came into being by16 visionary founding members who recognized the critical role that financial institutions would play to create a sustainable economic development and raised an initial capital of Birr 30 million. As at June 30, 2015, the paid up capital of the Bank reached Birr 1.5 billion. The number of Shareholders is now 2,280.

Vision

"To be one of the ten most reputable and competent banks in Africa by the year 2025"

Mission

- Provide wide range of innovative and customer focused financial products and services.
- Employ state-of-the-art Information Technology with a view to boost operational excellence.
- Be the employer of choice by creating conducive working environment wherein employees achieve their career aspirations
- Promote Corporate Social Responsibility, Good Governance and Compliance with applicable laws, rules & regulations.

1.3 Statement of the Problem

Cash collection technique represents "the management of cash inflows and outflows of the firm, as well as the stock of cash on hand" (Fabozzi& Petersen, 2003, p. 630). It consists of taking the necessary actions to maintain adequate levels of cash to meet operational and capital requirements and to obtain the maximum yield on short-term investments of pooled, idle cash.

Cash management deals with managing a company's short term resources in order to support and maintain its ongoing activities, mobilize funds and optimize liquidity (Allman W. &Sagner, 2003). The primary goal of this function is to minimize the amount of cash a firm must hold in order to carry out its normal business activities on one side, and on the other, to obtain sufficient cash funds that would enable the firm to take trade discounts, to maintain its credit rating and to meet unforeseen cash needs (Brigham &Daves, 2004, p. 705).

Therefore, to ensure healthy and effective internal control on cash collection, as well as to have effective and sound internal control system and procedure, it requires a strong control environment under which the components of internal control systems are well implemented. By considering all those mentioned facts above, the aim of this research will be to assess the internal control over cash collection of the Wegagen bank S. Co., Hosana branch. In investigating the case thoroughly, the researcher will put forward the following basic

1.4 Research questions;

1. Is effective internal control system over cash collection implemented?
2. What are the causes of poor and ineffective internal control over cash collection practice?
3. Does internal audit practice effects on the internal control over cash collection?

1.5 Objective of the Study

The general objective of this study was to assess the internal control over cash collection of the Wegagen Bank S. Co., Hosana branch.

1.5.1 Specific objectives

- To evaluate whether effective internal control over cash collection is implemented
- To identify the causes that lead to poor and ineffective internal control over cash collection
- To identify the effects of internal audit practice on the internal control over cash collection

1.6 Significance of the Study

The result of this study is important to provide some information to the bank's management, policy makers, as well as for the concerned bodies that enables them to know further about the internal control on cash collection. In addition, the study also helps other researchers to conduct further research study on the area.

1.7 Scope of the Study

This study was conducted in Hosana town, particularly in Wegagen bank S. Co., and was delimited to the assessment of the internal control over cash collection.

1.8 Limitation of the study

The researcher was face**:**

- Reluctance of employees to fill the questionnaire
- less experience of the researcher to do study.

1.9 Organization of the paper

The study have five chapters the first chapter deals introduction which consists of backgrounds of the study statement of the problem, significance of the study objective of the study and scope of the study.

The second chapter emphasizes on review of related literature which is briefly discuss about the definition and concepts of internal control over cash and other related concept. The third chapter consists of methodology of the study. The fourth chapter consists of data presentation and analysis. The fifth chapter is consists of summary of the findings and conclusion and recommendation.

CHAPTER TWO

2. LITRETURE REVIEW

Currently, banking sectors in Ethiopia are showing progressive developments in terms of number of branches, total assets, human resource utilization and the like relative to other African developing countries. This indicates as Ethiopia categorized under banked country with limited outreach (Tseganesh, 2012).Thus, currently the number of banking sectors in Ethiopia reaches nineteen as shown it the following tables**.**

Table 2.1 ***Banking sectors in Ethiopia***

No	**Name of Banks**	**Year of Establishment**
1	Awash International Bank	1994 E.C
2	Commercial Bank of Ethiopia	1963 E.C.
3	Development Bank of Ethiopia	1901 E.C.
4	Construction and Business Bank	1975 E.C.
5	Dashen Bank	1995 E.C.
6	Wegagen Bank	1997 E.C.
7	Bank of Abyssinia	1996 E.C.
8	United Bank	1998 E.C
9	Nib International bank	1999 E.C.
10	Cooperative Bank of Oromia	2004 G.C.
11	Lion International Bank	2006 G.C.
12	Zemen Bank	2008 G.C
13	Oromia International Bank	2008 G.C.
14	Buna International Bank	2009 G.C.
15	Berhan International Bank	2009 G.C
16	Abay Bank S.C	2010 G.C
17	Addis International Bank S.C	2011 G.C
18	Debub Global Bank S.C	2012 G.C
19	Enat bank	2012 G.c

Source: www.nbe.et

2.1 Overview and Concepts of Internal Control

In defining internal control systems just like any other concept is laborious and sometimes incomplete. This is partly due to the conceptuality and applicability of the concept. In 1936, the American Institute of Certified Public Accountants (AICPA) defined internal control as those measures and methods adopted within the organization itself to safeguard the cash or other assets of the company and to check the clerical accuracy of the bookkeeping. Again, AICPA (1949) defined internal control as the plan of organization and all of the coordinate methods and measures adopted by a business to safeguard its assets, check the accuracy and trustworthiness of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies. The definition provided by AICPA in 1949 includes operational, financial reporting and compliance aspects of internal control (Mautz and Winjum, 1981).These definitions were amended in 1958 and 1972 successively and then separated these controls into accounting controls and administrative controls. AICPA directs accountants and auditors' attention on traditional accounting controls such as authorization, segregation of duties, cross-checking, in order to minimize litigation risks. This narrows the focus of control. However, Tread way Commission (1987) recommended that internal controlstructures be designed to prevent or detect fraudulent financial reporting (Bridge and Moss, 2003:1-2). In the milieu of the challenge to find an accommodating definition, the Working Group in (1992) began by setting out a common definition for internal control. Having considered the variety of existing definitions both at a legislative level and at an academic one, the group decided that the concept should include a set of elements, such as: the idea of an interrelated series of processes as a whole; the responsibility and accountability of the board and management and the idea of strengthening the undertakings structures providing tangible benefits for the company.

In this context, the Working Group agreed on the following definition of internal control system (ICS). Internal control is a continuous set of processes carried out by an entity's board of directors, management and all personnel, designed to provide reasonable assurance of: effectiveness and efficiency of operations; reliability of financial and non-financial information; an adequate control of risks; a prudent approach to business; compliance with laws and regulations, and internal policies and procedures. They concluded that internal control system should strengthen the internal operating environment of the company, thereby increasing its capability to with external and internal events and uncover possible flaws and deficiencies in processes and structures. A strong internal control is one of the best defenses against business failures and an important driver of business performance. Therefore the usual question that is asked when a vibrant organization suddenly goes bankrupt is “what went wrong”? The answer points to weak controls most of the time.

After assessing key risk areas of an organization, these risks would need to be managed in line with a defined risk management strategy. One major component of this strategy is appropriately derived internal controls that seek to mitigate unacceptable levels of risks. Each control will address a defined risk or be part of a regulatory requirement that in turn addresses the risk of breaching laws, procedures and rules.

2.2 The Importance of Cash Management

Cash is crucial for every business. Every company has to have cash on hand or at least access to cash in order to be able to pay for the goods and services it uses, and consequently, to stay in business. By ensuring the company with the necessary funds for supporting its everyday operations, cash management becomes a vital function for the company.

Cash flows have an impact on the company’s liquidity. Liquidity is the ability of the company to pay its obligations when they come due. It is comprised of: cash on hand, assets readily convertible into cash, as well as ready access to cash from external sources, such as bank loans (Coyle, 2000, p.3). If cash flows and liquid funds are not effectively and successfully planned and managed, a company may not be able to pay its suppliers and employees in a timely manner. It may be profitable according to its financial statements, but in fact, this company will not be able to pay its obligations when they come due. Moreover, lack of liquidity will incur increased costs in the form of interest charges on loans, late payment penalties and losing supplier discounts for paying obligations on time. Proper cash management can avoid the costs of additional funding and can provide the opportunity for more favorable terms of payment (Dropkin& Hayden, 2001, p. 3). In the worst case scenario, if the liquidity shortage continues for the longer term, the company might face no access to external resources, ending into insolvency (Coyle, 2000, p. 3). Therefore, once again, it follows that cash management has a criticalimportance for the life of every company.

2.3 Related Concepts of Control System

Not only is there a variety of internal control definitions, but there are also some issues that are particularly closely linked to internal control, these are internal audit, corporate governance and enterprise risk management. The boundaries are not always clearly established, however, these elements have their own identity. These are the definitions given in other fore to the above elements:

2.4 Corporate Governance

There is the need to talk about corporate governance; this is because internal control is a key element of corporate governance and overall internal control of a company (Collier et al., 2007). Corporate governance is the umbrella concept that drives a control and reporting framework, which in turn depends on risk management and an efficient system of internal control. Although corporate governance can be defined in a variety of ways, it generally involves the mechanisms by which a company is directed and controlled (NUES, 2009). Globally, demandfor improved corporate governance has been a feature of the last decade, as a result of several and prominent bankruptcies resulting from non-compliance with rules and internal controls. Corporate governance is also defined by the Organization for Economic Cooperation and Development (OECD) as a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring, thereby encouraging firms to us e resources more efficiently. There is a link between internal control and the way an entity is managed, whether in a positive or a negative way, thus internal control should be seen as a core part of corporate governance. In its case study analysis, the London Working Group found that poor management was a key underlying factor in the failure or near failure of many European insurance companies.

2.5 Internal Audit

The Institute of Internal Auditors defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The internal audit definition provides a clear idea of the links between it and internal control. It designates internal audit an essential assessment function as well as being central to increasing the effectiveness of the internal control processes. While internal control is about helping a firm to meet its objectives.

2.6 Enterprise Risk Management

The Committee of Sponsoring Organizations on the Tread way Commission's (COSO) draft framework on enterprise risk management defines it as a process, effected by the entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite to provide reasonable assurance regarding the achievement of entity objectives.Risk management is about understanding the nature (i.e. causes, effects, likelihood) and significance of the risks faced by a firm. It is also about deciding on acceptable levels for these risks and designing cost effective control and or resilience strategies (i.e. strategies to help manage the impact of risk on the firm). The aim of the last stage is to ensure that the firm's risks are kept at an acceptable level. Internal control is about understanding and controlling risk, as well as acting as a monitoring function. The primary purpose of internal control is to continuously evaluate whether a firm is meeting its objectives and ensure that the board, managers and employees are all working to ensure the success of these strategies while keeping the level of risk at an acceptable level. In so doing a sound system of internal control should be able to reduce (but rarely eliminate) poor judgment in decision making; human error; the deliberate failure to follow control processes by employees and managers; and the impact of unexpected events. Internal control and risk management are close complements (Francis G., 2013).

2.7 The Need for Internal Controls on Cash Collection

According to the COSO framework, internal controls are putin place not only to help companies reach profitability goals and achieve their missions, but also to minimize surprises along the way.

An internal control system enables management to deal with quickly changing economic and competitive environments, market changes such as shifting customer demands and priorities and restructuring. Similarly Willis (2000) reported that effective internal control helps an organization achieve its operations, financial reporting, and compliance objectives. Effective internal control is a built-in part of the management process (i.e., plan, organize, direct, and control). Internal control keeps an organization on course toward its objectives and the achievement of its mission, and minimizes surprises along the way. Internal control promotes effectiveness and efficiency of operations, reduces the risk of asset loss, and helps to ensure compliance with laws and regulations.

Internal control also ensures the reliability of financial reporting (i.e., all transactions are recorded and that all recordedtransactions are real, properly valued, recorded on a timely basis, properly classified, and correctly summarizedand posted).

Also Van Der Nest (2000) noted that, from the financial sector point of view, internal control should be seen as an opportunity for the entities to improve their performance, both from an internal and an external perspective. Internally, good internal control systems lead to improved recognition, assumption and prevention of risks associated with cash collection, which is of prime importance in a sector with the particularities of cash collection.

Also competitiveness will be fostered by appropriate controls not only in the short but also in the long term. It will also help reduce the impact of unexpected events, or even to avoid them altogether, for example by means of good early warnings or scenario testing. According Mautz and Winjum (1981) internal control system guarantees some reasonable assurance: thus accepting the existence of a certain degree of uncertainty that cannot be completely controlled or absorbed by the undertaking. Accepting the idea that internal control systems have to be linked with the cost of carrying out control procedures, yet they have to guarantee a reasonable degree of confidence according to the nature and extent of risks taken (Van Der Nest, 2000; Mautz and Winjum, 1981; Angelovska, 2010). From the forgoing analysis of importance of internal control, it could be concluded that, the overall purpose of the concept is to help an organization achieve its mission, internal control also helps an organization to: promote orderly, economical, efficient and effective operations, and produce quality products and services consistent with the organization’s mission, safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud. Finally is to promote adherence to laws, regulations, contracts and management directives as well as develop and maintain reliable financial and management data, and accurately present that data in timely reports.

2.8 Limitations of Internal Control System on Cash Collection

The main limitation concerning Internal Control system on cash collection is that, no matter how good a system is, it will only provide reasonable assurance not complete certainty that the measures undertaking will withstand undesired events happening (Mautz, 1981). Internal Control on cash collection is carried out by people, and will therefore be affected by human error. Good training programs, as well as an ethical component within the entity and its way of doing business can help mitigate this situation.

As a result of technological advancements and changing management techniques, organizations employ less people and are therefore less able to perform many internal accounting controls, for example, layers of authorization, cross-checking, segregation of duties, supervision etc. A range of control elements are therefore required in order for internal controls to be effective. The COSO framework shows five basic control components: control environment, control activities, risk assessment, information and communication and monitoring.

Effective internal control requires a strong control environment and also underlying good control and commitment to sound control compliance must be present so as to ensure healthy interactive control structure. Risk assessment forms the basis for determining where internal control activities are needed. This enables the organization to focus on those risks that will impact on the overall success of the firm. Communicating information resulting from the exercise of internal controls keeps key personnel and management informed of potential problems (San José, 2008).

An effective monitoring system is an ongoing assessment program that oversees the design, implementation and effectiveness of controls in mitigating risks. Internal control must also be tailored to meet the needs of the individual business. This is because the more elaborate an organization's control systems, the greater the cost (IRM et al., 2002). The scandals of recent years emphasized the need to evaluate, scrutinize and reformulate control systems of checks and balances in order to guide corporate executives and persons in decision-making.

Therefore as much as an organization would like to implement appropriately derived control measures; it must also consider the amount of money involved in implementing such measures. Finally, there is the need for companies to have a risk protection strategy (Chorafas, 2008).

Ethical Values and Integrity is key elements contributing to a good control environment. Ethical values are the standards of behavior that form the framework for employee conduct. Ethical values guide employees when they make decisions. Management addresses the issue of ethical values when it encourages: commitment to honesty and fairness; recognition of and adherence to laws and policies; respect for the organization; leadership by example; commitment to excellence; respect for authority; respect for employees' rights

Competence is a characteristic of people who have the skill, knowledge and ability to perform tasks. Management's responsibility for ensuring the competency of its employees should begin with establishing appropriate human resource policies and practices that reflect a commitment to: establishing levels of knowledge and skill required for every position.

Supportive Attitude is a disposition that encourages desired outcomes. Since internal control provides management with reasonable assurance that the organization's mission is being accomplished, management should have a supportive attitude toward internal control that permeates the organization. Executive management should set a tone that emphasizes the importance of internal control. Such a tone is characterized by: minimal and guarded use of control overrides; support for conducting control self-assessments and internal and external audits; responsiveness to issues raised as the result of the evaluations and audits; and ongoing education to ensure everyone understands the system of internal control and their role in it.

2.9 Control Activities

Control activities are tools - both manual and automated - that help identify, prevent or reduce the risks that can impede accomplishment of the organization's objectives. Management should establish control activities that are effective and efficient. When designing and implementing control activities, management should try to achieve the maximum benefit at the lowest possible cost. Here are a few simple rules to follow: the cost of the control activity should not exceed the cost that would be incurred by the organization if the undesirable event occurred.

Management should build control activities into business processes and systems as the processes and systems are being designed. Adding control activities after the development of a process or system is generally more costly. The allocation of resources among control activities should be based on the significance and likelihood of the risk they are preventing or reducing.

2.10 Control of Cash Flow

Inflows

It is necessary to minimize the interval between the time when cash is received and the time it is available for carrying out expenditure programs.

Outflows

For cash management, the control of cash outflows, which is directly related to organizational arrangements for budget execution, can pose more difficulties than the control of cash inflows. However, issues related to cash management should not be confused with issues related to the distribution of responsibilities for accounting control and administration of the payment system.

The major purpose of controlling cash outflows is to ensure that there will be enough cash until the date payments are due and to minimize the costs of transactions, while keeping cash outflows compatible with cash inflows and fiscal constraints. The first condition for ensuring that cash outflows fit fiscal constraints is good budget preparation and budget implementation covering both cash and obligations. However, during budget implementation, cash outflows must also be regulated through cash plans to smooth cash outflows.

CHAPTER – THREE

3.RESEARCH DESIGN AND METHODOLOGY

3.1 Research Design

Saunders, Lewis &Thornhill (2009) defines a research design as the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. This study was used a descriptive research design. Descriptive survey design according to Kothari (2003) is a powerful form of quantitative analysis. This design will be expected to give the researcher a comprehensive picture of the internal control over cash practice of the bank. The descriptive research process helps in collecting data in order to answer questions concerning the current status of the subjects under investigation.

3.2 Population, Sample Size, and Sampling Method

From the total of 38 workers of the bank, a sample of 20 workers those directly involved and have knowledge and experience of the bank's internal control over cash collection, was selected based on simple random sampling technique. The respondents should be as closely representative of the total population as possible, a sample of more than 10% is ideal (Kothari, 2009).This sampling technique has provides complete freedom to the researcher to select the appropriate sample respondents from the total population. The intent is to select elements that were believed to be typical representative of the population.

3.3 Sources of Data and Data Collection Technique

For the purpose of this study, both primary and secondary data was collected from their respective sources. Primary sources of data was collected directly from the individual workers of the bank through questionnaire and structured interview, where as the secondary sources of data was gathered from the bank's recorded documents. These documents includes, report paper (annual, quarterly, & monthly), journals, newsletters, and on-line journals.

Method of Data Processing and Analysis

The collected data was processed using the basic data processing procedures, such as editing, coding, classifying, and make it ready for analysis. The processed data was analyzed by using simple descriptive statistical analysis method. Tabulation and percentage calculation was performed in this data analysis process. Then, the analysis result were interpreted, discussed, and communicated in the form of finding.

3.4 Method of Presentation

After the processed data was analyzed, interpreted and summarized, the report of the study was written and finally the result of the findings and recommendations of the researcher was presented to the University staff members, student of the college and other invited and interested audiences by following formal and clear presentation approaches.

CHAPTER FOUR

4 DATA ANALYSIS AND INTERPRETATION

This chapter presents the data analysis and interpretation part of the study. The analysis is done by using questionnaires conducted to assess the internal control over cash management of Wegagen Bank Hossana branch, the branch has 38 permanent employees. The researcher distributed 20 questionnaires from those questionnaires 20were collected. This paper assesses and evaluates internal control over cash system of Wegagen Bank Hossana branch based on the response from the 20 employee.

4.1 Demographic characteristics

Table 1 Personal Characteristic of Employees

No	Item	Respondents	In figure	Percent (%)
1	Sex	Male	8	40%
		Female	12	60%
		Total	20	100%
		20-30	8	40%
2	Age	30-40	10	50%
		40-50	2	10%
		Total	20	100%
3	Level of Education	Diploma	6	30%
		1st Degree	10	50%
		2nd degree	4	20%
		Total	20	100%
4	Position	Casher	3	15%
		Accountant	6	30%
		S. Accountant	4	20%
		S. Accountant II	4	20%
		Auditor	3	15%
		Total	20	100%
5	Work Experience	From 1- 3 years	4	20%
		From 4- 6 years	6	30%
		Above 6 years	10	50%
		Total	20	100%

Source: own survey, 2017

As it is indicated in Table no 1, gender status of the employees shows that, 8 (40)% of the respondents were male and 6(60) % of the respondents were female, this implies that more female employees in bank than male.

Regarding the age category of the employees shows that 8 (40)% of the respondents were between 20-30, 10(50)% of the respondents between 30-40 and 2(10)% of the respondents between 40-50, this age classification shows that majority of the employees are found in the middle age.

Out of the total respondents, 6(30)% of the respondents have diploma, 10(50)% of the respondents have 1st degree and 2(20)% of the respondents have 2nd degree, this implies majority of the employees are qualified.

Regarding the working position of the employees14 (70%) of the respondents were accountants (accountant, senior accountant I and senior accountant II) and 3(15%) of respondents were cashers and the remaining 3(15%) were auditor. This implies that most of employees who have role in the internal control over cash are accountants.

As it is indicated in Table, out of the total respondents, 4 (20)% of the respondents have experience between 1-3 yrs, 6(30)% of the respondents have 4-6 yrs and 10(50)% of the respondents above 6yrs, this implies majority of the employees had serviced the organization for long time.

4.2 Internal cash control system

Table 2 Internal cash control system

	Item	Response	N	%
6	Is there a background check for newly hired employees to ensure that they have proper professional and ethical standards with regard to cash collection?	Yes	13	65
		No	7	35
		Total	20	100%
7	Does the bank has written cash handling procedure established, maintained, and applied by the bank for internal cash control?	Yes	18	90%
		No	2	10%
		Total	20	100%

8	Does the bank undertake daily balancing of account during change of operators	Yes	20	20%
		No		
		Total	20	100%

Source : own survey,2017

As shown in the above table 2, about 65% of the respondents agreed that there was the bank check for the newly hired employees' background based on proper professional and ethical standards. The remaining 35% of the respondent were not agreed that there was background check. This implies that the bank were employed the background check of the employees when it hire newly.

Regarding the written procedures of cash handling, 90% of the respondents were agreed with that of the bank is applying and maintaining the established procedures of the internal control over cash. But the very lower portions of the respondents which accounts 10% were not agreed that the bank has employed the internal cash control procedures. This indicates that the bank strongly applying the internal control over cash procedures in to practice.

Out of the total respondents, 100% of them were agreed that the bank undertake daily balancing of account during change of operators. This implies that the bank has proper check and shift of the operators.

4.3 Internal control over cash collection

Table 3 Internal control over cash collection

	Item	Response	N	%
9	Is there any notification of internal audit on significant shortages in cash collection?	Yes	14	70%
		No	6	30%
		Not applicable	-	
		Total	20	100%
10	Do theinternal auditors perform continues assessment on the internal control system of cash collection?	Yes	20	100%
		No	-	
		Not applicable	-	
		Total	20	100%
11	Is there appropriate monitoring and follow up	Yes	17	85

	system is developed and implemented to have effective and healthy controlling procedure on cash collection environment.	No	3	15
		Not applicable	-	
		Total	20	100%
12	How do you evaluate the bank's internal control over cash collection?	Very Good	11	55
		Good	7	35
		Moderate	2	10
		Lower and it needs greater attention		

Source: own survey,2017

Based on the table3 in the above, 70% of the respondents were responded that from the bank auditors there is notification of internal audit on significant shortages in cash collection. But the remaining 30% of respondents indicated that there is no notification of cash shortage from the bank audit. Most of the respondents agreed that the shortage of cash is informed for the officers.

Out of the total respondents, all of them (100%) agreed with the statement that the internal auditors perform continues assessment on the internal control system of cash collection. This implies the bank has strong continues assessment activity performed by the auditors.

From the total respondents, about 85% of them were believed that there is appropriate monitoring and follow up system is developed and implemented to have effective and healthy controlling procedure on cash collection environment. The remaining 15% of the respondents were not agreed on this. This implies that there is good monitoring and assessment procedures in the bank in order to control cash collection.

Based on the above table 3, respondents evaluated the bank's internal control over cash collection. Out of the total respondents, 55% of them responded very good, 35% of them responded good and the remaining 10% responded moderate. Based on this, the bank internal control over cash practice is taken as good.

4.4 Cause of poor and ineffective internal cash control

As the response of the employees shows that the cause of poor and ineffective internal control is that:-

- Weak monitoring and improper implementation by the responsible parties
- Lack of integrity, and questionable competence, knowledge and experience of the staffs,
- Inadequate communication of proper information for decision making,
- Misappropriation of assets, especially cash and errors made by employees in record keeping,
- Withdrawal by wrong person and unsatisfactory Verifications which reduce the quality of services to its customers,
- Delay in collection of loans disbursed to customers. This all are the major causes for ineffective internal control over cash.

4.5 Effects of internal audit practices have on the internal control of cash collection

As the response of the employees internal audit plays a significant role in relation to cash collection because it conduct repetitive activities like cash balance are checked daily and over all cash balance are counted monthly and reported monthly, semiannually, and annually to concerned organs. These reports are reported to branch manager and a copy of the report to the control department of the bank and branch operation. As it can be supported by interview with internal auditors, in the bank internal audits are made monthly, quarterly, semiannually and annually and also the interview show internal auditors review and evaluate internal controls and made recommendations for improvement.

4.6 Recommendation of workers to the bank to improve internal control over cash system

Almost all of the employees recommend that awareness creation training is necessary in order to update the newly emerging knowledge and technological skills. And also needs to cross check the current application of internal control over cash activities in order to amend the practices procedures with the current situation.

CHAPTER FIVE

5 CONCLUSION and RECOMMENDATION

5.1 Conclusions

The aim of this study was to investigate the internal control over cash. To this end, the questioners were developed and addressed to the respondents so as to know the internal control system of cash and collection procedures and practices.

The study employed descriptive survey study and 20 employees were including in the study as sample population. The data obtained were analyzed using percentage method based on the result of the data analyzed is the following were obtained.

- More of the employee of the bank is first degree and more experienced i.e the bank has few above first degree.
- The bank were employed the background check of the employees when it hire newly.
- The bank strongly applying the internal control over cash procedures in to practice.
- The bank has proper check and shift of the operators.
- There is good monitoring and assessment procedures in the bank in order to control cash collection.
- The bank internal control over cash practice is taken as good.

5.2 Recommendation

Based on the findings of the study the researcher would like to recommend the following.

- The bank better provide training on current updated knowledge and technological innovations.
- Thus, the researcher recommended continuing preparation of daily reconciliation bases for the sake of effective internal control purpose.
- The bank uses different sources documents for cash collection, for cash payments and for internal transfer of cash from one section to other. The researcher strongly recommended that, the presence of effective source of document plays a great role for the banks efficient internal control.
- In Wegagen bank, there is proper security over cash on hand. This implies the organization have strong proper security over cash on hand. The researcher recommended continuing proper security over cash on hand.
- The researcher also recommends that, he Wegagen bank Hossana branch continue to hire degree holder and above as well as experienced personnel this is advisable in order to perform its activities as the management needs and finally to result good performance on its accounting system.

REFERENCE

- American Institute of Certified Public Accountants .2002.
- Angelovska, M. (2010) Cash Management Techniques: The Case of Cash Forecasting in Mercator, Master Thesis, Retrieved (July 21st, 2011)
- Bergen, J. (2006, 29th August). Cash Management Best Practice: Unlocking Working Capital. Gtnews.
- Caviezel, A. (2007). Cash Management Techniques. The International Treasurer's Handbook, Association of Corporate Treasurers
- Gibbs, J. (1997). Internal Auditor. Journal of the Institute of Internal Auditors, 37, February.
- Jill C., Roger H. (2003) "Business Research: A Practical Guide for Undergraduate & Postgraduate Students" 2nd Edition, Palgrave Macmillan.
- Leedy, P.D. (2003), Practical Research, Planning and Design, Seventh Edition, Merrill Prentice Hall
- Ratliff, R.L., Wallace, W. A., Loebbecke, J.K. & McFarland, W.G. (1988). Internal Auditing Principles and Techniques. USA: The Institute of Internal Auditors, Inc.
- Sawyer, L.B. &Dittenhofer, M.A. (1996). The Practice of Modern Internal Auditing. 4thEdition. Altamonte Springs, Florida: Institute of Internal Auditors Inc. Publishers.
- Willis, D. &Lightle, S.S. (2000).Management reports on internal controls. Journal of Accountancy, 190:6 & 57.
- Wilson, J. (1998). Financial management for public services. Philadelphia: Open University

APPENDIX
JIMMA UNIVERSITY
COLLEGE OF BUSINESS & ECONOMICS
DEPARTMENT OF ACCOUNTING & FINANCE

Questionnaire

Dear respondents

This is requesting your due concern and valuable support by providing the researcher the relevant and reliable information. The researcher could conduct the study effectively and then able to draw factual findings, mostly based on your information. Therefore, you as respondent and information supplier to the researcher, have a significant and very determinant role towards the successful accomplishment

Thank you in advance

For your overall cooperation

<u>Questionnaire for the Officials (employees)</u>

Instructions:- Please tick (✓) your choice of letters for the alternative question and try to briefly explain for the essay question.

1. Please specify your sex:__________________
2. Please specify your age: __________________
3. Education status:-
   A. Elementary and junior complete ☐ B. high school complete ☐
   C. Certificate ☐D. 1st degree ☐ E. above degree ☐
4. What is your work experience in the bank? Please specify_______________
5. What is your current position in the bank? Please specify_______________
6. Is there a background check for newly hired employees to ensure that they have proper professional and ethical standards with regard to cash collection?
   A. Yes ☐B. No ☐

7. Does the bank has written cash handling procedure established, maintained, and applied by the bank for internal cash control?

A. Yes ☐B. No ☐

8. Does the bank undertake daily balancing of account during change of operators?

A. Yes☐ B. No ☐

9. Is there any notification of internal audit on significant shortages in cash collection?

A. Yes☐ B. No ☐ C. Not applicable ☐

10. Do theinternal auditors perform continues assessment on the internal control system of cash collection?

A. Yes☐ B. No ☐ C. Not applicable ☐

11. Is there appropriate monitoring and follow up system is developed and implemented to have effective and healthy controlling procedure on cash collection environment.

A. Yes☐ B. No ☐ C. Not applicable ☐

12. How do you evaluate the bank's internal control over cash collection?

A. Very Good ☐B. Good☐

C. Moderate☐D. Lower and it needs greater attention ☐

13. What do you think the causes & existence of poor and ineffective internal control over cash collection? Please specify your answer in detail ______________________________

14. What do you think the effects of internal audit practices have on the internal control of cash collection? Please specify your answer in detail ______________________________

____

15. From your work experience in the bank, what do you recommend the bank to do, to develop and implement better as well as sound internal control system on cash than the existed applied controlling system? Please specify your answer in detail ________________________

____

__