EFFECTS OF INTERNAL CONTROL SYSTEM ON THE ORGANIZATOINAL PERFORMANCE OF REMITTANCE COMPANIES IN MODADISHU-SOMALIA

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ABSTRACT: *The purpose of this research would be to examine the effect of internal control system practice on the performance of remittance companies in Mogadishu-Somalia. The study would adopt a quantitative research with the specific research design being a descriptive design. The population of the study is the classified remittance companies locate in Bakara market, and they were 15 remittance companies in Bakara market, the employees worked that 15 remittance companies are 402 employees.The sampling technique use would be purposive sampling. Primary data would collect by use of questionnaires which are administered through drop and pick method. Data screening would be done to identify any missing data and it would be further test for reliability and normality. Data would be analyzing using SPSS version.The study recommended that there is need for the remittance companies in Mogadishu to increase their control environment; risk assessment and control activity as it was founded that these variables positively affects the organizational performance of remittance companies in Mogadishu.*

Keywords: *control environment; risk assessment and control activity, organizational performance, Mogadishu- Somalia*

INTRODUCTION

Background of the Study

The internal control system is comprised of all policies and actions that were established by management to support management goals, including adhering to management policies, maintaining the integrity of assets, preventing and discovering criminal acts and mistakes, accurateness and completeness of accounting records and timely presentation of reliable financial information. Internal controls consist of policies, procedures, organizational structures, personnel management, physical and information protection and the separation of duties. These types of controls are main tools of an internal control system. They should cover all areas of management of self-governments. Internal controls could be described as accounting, administrative, management controls and internal audit. That approach refers to the functional areas of internal control system John (2006).

Internal Control is defined as all the policies and procedures adopted by the directors and management of an entity to assist in achieving their objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to internal policies, the safeguarding of assets, the prevention and detection of frauds and errors, the accuracy and completeness of accounting records, and the timely preparation of reliable financial information. (Ofori, 2011). Internal controls refer to the measures instituted by an organization so as to ensure attainment of the entity's objectives, goals and missions. They are a set of policies and procedures adopted by an entity in ensuring that an organization's transactions are processed in the appropriate manner to avoid waste, theft and misuse of organization resources.

Statement of the Problem

According to (Briian, 2011) highlighted that the heightened interest in internal controls is, in part, as a result of significant losses incurred by several organizations. He explained that, an analysis of the problems related to losses indicated that they could probably have been avoided had the organizations maintained effective internal control systems. Such systems would have prevented or enabled earlier detection of problems that led to losses in the banking industry, thereby limiting damage to the organization.

According to (Muraleetharan, 2010) internal control and its impact on financial performance of organization university of Jaffnan, chi square test was used and the value of 161.1 ($p = 0$) at 0.05 significant level indicated that there was a relationship between internal control and financial performance $R2 = 0,818$ which revealed that it explains 81.8 % of variance in performance.

There is a general consensus that internal Control systems are used as management tools in financial management. In view of the foregoing virtually all the sugarcane Outgrower Organizations have established Internal Control measures in order to enhance their financial reporting systems, check on their efficiency and effectiveness of operations as well as enhance adherence to the prescribed rules and regulations (Mary, Albert, & Byaruhanga, 2014).

According to (Aden & Addow, 2015) The results of the study indicate that employee of financial institutions believe they have internal control system to prevent errors and detection frauds to reduce financial misleading because internal control are important for any organizations the result of this study indicate effective internal control system can help remittance institutions in Somalia to meet their goals and objectives of their service, in achieving long-term profitability targets, and in maintaining reliable financial and managerial reporting, So is the performance of remittance companies is high or law so this study investigated the effect of internal control system on the performance of remittance companies in Mogadishu-Somalia.

The results indicate that employee of financial institutions believe they have internal control system to prevent errors and detection frauds to reduce financial misleading because internal control are important for any organizations the result of this study indicate effective internal control system can help airline institutions in Somalia to meet their goals and objectives of their service, in achieving long-term profitability targets, and in maintaining reliable financial and managerial reporting (Aden & Addow, 2015).

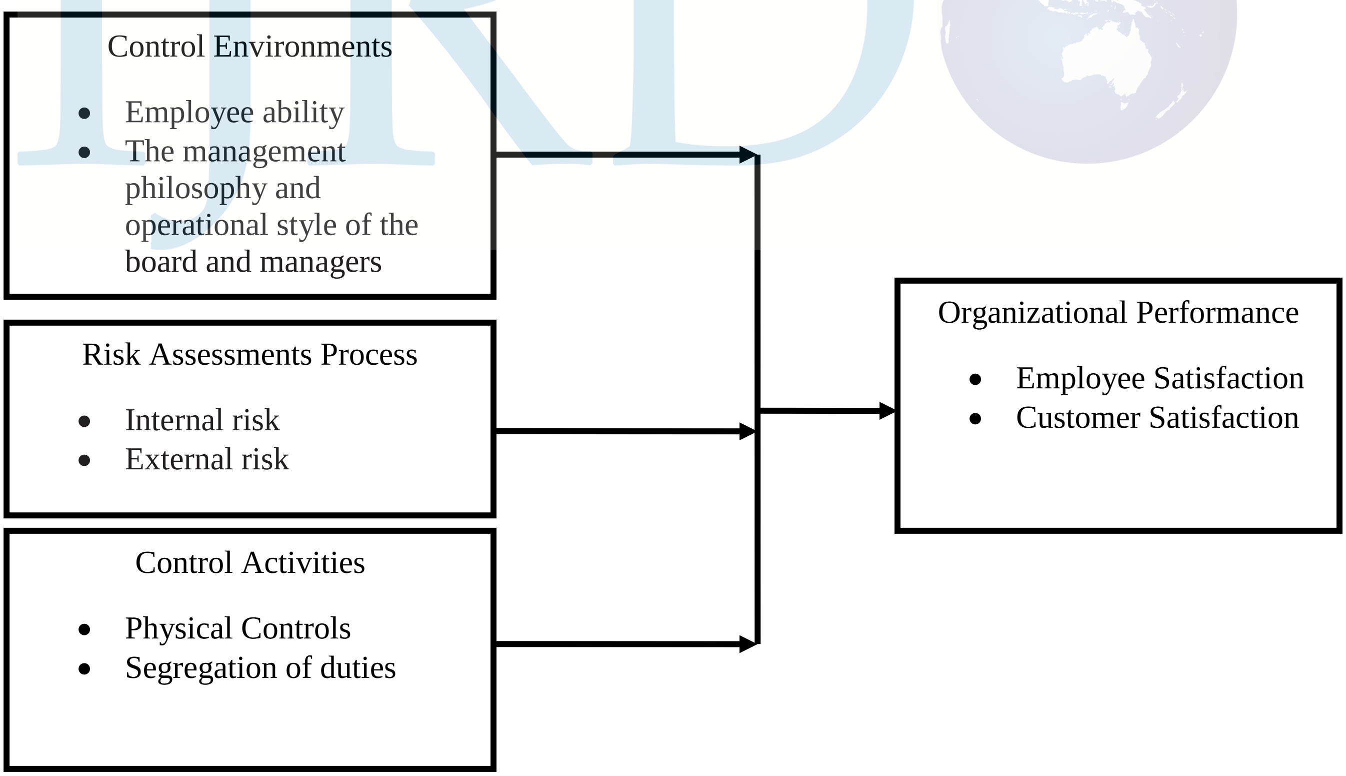
Specific objectives

Specific objectives of the study include:

1) To assess the effects of control environments on the organizational performance of remittance companies in Mogadishu-Somalia.
2) To investigate the effects Risk Assessments on the organizational performance of remittance companies in Mogadishu-Somalia.
3) To examine the effects of Control Activities on the organizational performance of remittance companies in Mogadishu-Somalia.

Literature Review

Conceptual Framework



Independent variables **Dependent Variable**

Control Environments

The control environment is the foundation on which an effective system of internal control is built and operated in an organization that strives to (1) achieve its strategic objectives, (2) provide reliable financial reporting to internal and external stakeholders, (3) operate its business efficiently and effectively, (4) comply with all applicable laws and regulations, and (5) safeguard its assets. Part of the blame for the 2008 financial crisis and other prominent failures of the 21st century can be appropriately attributed to failures in the control environment. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors." (John, 2011).

Risk Assessments

As stressed in the definition, internal control can provide only reasonable assurance that the objectives of the organization are being achieved. Risk assessment is as a component of internal control, plays a key role in the selection of the appropriate control activities to undertake. It is the process of identifying and analyzing relevant risks to the achievement of the entity's objectives and determining the appropriate response. Consequently, setting objectives is a precondition to risk assessment. Objectives must be defined before management can identify the risks to their achievement and take the necessary actions to manage those risks. That means having in place an ongoing process for evaluating and addressing the impact of risks in a cost effective way and having staff with the appropriate skills to identify and assess the potential risks. Internal control activities are a response to risk in that they are designed to contain the uncertainty of outcome that has been identified. . (Jesse, 2012).

Control Activities

Control activities are to make management instructions designed could be effective implementation of various policies and procedures. Control activities can help enterprises to ensure that it has already took measures to reduce a loss according to realization the goal of the enterprise. From the point of daily business activities, control activities including authorized management. It refers to that the manager decentralize powers his subordinate to make them have the right to address the problem and make a choice and share corresponding responsibility. This refers to define the authority and responsibility according to the principle of combining functions of department and it's characteristic. Business process is the procedure of all the business. An operation procedure is to say how to operate of every matter in detail. (Brian, 2013).

There are the policies and procedures that help ensure that management directives are carried correctly and in a timely fashion. These involve control activities such as performance reviews, information processing, physical controls, and segregation of duties, these activities are implemented by management to ensure accomplishment of organizational objectives and the mitigations of risk. The control activities are the instructions, rules, methods and decisions established over various activities by management to prevent or reduce risks that affect the organization in achieving its objectives. Control activities occur at all levels and functions of the entity. They include a wide range of activities such as approvals, authorizations, verifications, reconciliation, performing reviews, maintenance of security and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. (Ofori, 2011).

Organizational performance

In general, the concept of organizational performance is based upon the idea that an organization is the voluntary association of productive assets, including human, physical, and capital resources, for the purpose of achieving a shared purpose. Those providing the assets will only commit them to the organization so long as they are satisfied with the value they receive in exchange, relative to alternative uses of the assets. As a consequence, the essence of performance is the creation of value. So long as the value created by the use of the contributed assets is equal to or greater than the value expected by those contributing the assets, the assets will continue to be made available to the organization and the organization will continue to exist. Therefore, value creation, as defined by the resource provider, is the essential overall performance criteria for any organization. How that value is created is the essence of most empirical research in management. Conversely, how that value is measured is the essence of this research (Carton, 2004).

Data and Methodology

This study would adopt a descriptive study design. Descriptive research studies are those studies which are concerned with describing the characteristics of a particular individual, or of a group, studies concerned with specific predictions, with narration of facts and characteristics concerning individual, group or situation. Descriptive studies are concerned with what, where and how of a phenomenon hence more placed to build a profile on that phenomenon (Kothari, 2004). Descriptive research is more appropriate because the study seeks to build a profile about the effect of internal audit on the performance of remittances companies in Mogadishu-Somalia.

According to (Lavrakas, 2008) define a population as any finite or infinite collection of individual elements. Target population refers to the entire group of individuals or objects to which researchers are interested in generalizing the conclusions (Ngumi, 2013), this research would target the employee of all remittance companies in Bakara market, the biggest market in Mogadishu. The exact number of all remittance companies in this area is 14 remittance companies. They are Dahabshil, Taaj, Amal, Tawakal, Amano, Juba, Mustaqbal, Kaah, Olimbic, Najma, Iftin, Muna, Horyal and Al falah. The area was selected because the majority of remittance companies in Mogadishu are located in Bakara market.

Sampling is the process of selecting a number of individuals for a study. A sampling design is a defined plan determined before any data is collected for obtaining a sample from a given population. The selected number of individuals will be as a representative of the whole population under study. Non probability sampling is a sampling procedure which does not afford any basis for estimating the probability that each item is the population has of being included in the sample. In purposive sampling, items for the sample are selected deliberately by the researcher; however, this design is adopted because of the relative advantage of time and money inherent in this method of sampling. Therefore this type of sampling is very convenient and is relatively inexpensive (Kothari, 2004). Slovin's formula will be used to this study to determine the sample size, because according (Tejada, 2012) Slovin's formula is applicable only when estimating a population proportion and when the confidence coefficient is 95%. Additionally, it is optimal only when the population proportion is suspected to be close to 0.5. Hence, it is not advisable to use Slovin's formula if any of the abovementioned assumptions do not hold. Sloven's formula for obtaining the sample size. Denoting by **n** the sample size,Slovin's formula is given by

$$n = \frac{N}{1 + Ne^2}$$

Where N is the population size and e is the margin of error (Lavrakas, 2008).

$$\boldsymbol{n = \frac{402}{1 + 402(0.05)^2}}$$

$= \frac{402}{1+402(0.0025)} = \frac{402}{2.005} = 200.4 \approx 200$. So the sample would be 200

Data collection methods used included questionnaire**.** Data will be analyzed quantitatively and presented descriptively and illustrated by using of tables and charts. The selection of these tools have been guided by the nature of data to be collected, the time available as well as by the objectives of the study. Kothari (2004) defines a questionnaire as a document that consists of a number of questions printed or typed in a definite order on a form or set of forms.

DATA ANALAYSIS AND PRSENTATION RESULT

Response rate is the percentage of people who responded to a survey. According to (Orodho, 2003), response rate is the extent to which the final data sets include all sampled members and is calculated as the number of respondents with whom interviews are completed and divided by the total number of respondents of the entire sample including none respondents. The study sample consisted of 200 remittance companies. The researcher distributed two hundred (200) questionnaires. Among the 200 questionnaires distributed, 190 were returned and 10 were not returned. The overall response rate was 95%. According to Kothari (2004), a response rate of 50% is considered average, 60-70% is considered adequate while anything above 70% is considered to be excellent response rate. This response rate was, therefore, considered good representative of the respondents to provide information for analysis and derive conclusions.

Reliability Analysis

In evaluating the survey constructs, reliability test was done. Reliability test is said to examine the degree to which individual items used in a construct are consistent with their measures. The widely used Cronbach's coefficient alpha was employed to assess internal consistency (Field, 2006). Bryman and Cramer (1997) stated that 56 reliability of 0.70 is normally acceptable in basic research (Field, 2006).According to (Zikmund, 2003) posits that a Cronbach alpha of 0.60 as a minimum is acceptable. All the alpha coefficients ranged between 0.65 and 0.9 as shown in Table 4.1. Based on the coefficient values, the items tested were deemed reliable for this study.

Table: Reliability coefficient of the study variables

Variables	Number of Items	Reliability Cronbach's Alpha	Comments
Control Environment	5	0.687	Accepted
Risk Assessment	5	0.770	Accepted
Control Activity	5	0.672	Accepted
Organizational Performance	5	0.771	Accepted

Regression Analysis

In order to answer the research questions, a standard multiple regression analysis was conducted using organizational performance as the dependent variable, and the four independence variables: Internal audit independence, internal audit quality, internal control system and audit risk assessments as the predicting variables. The research used statistical package for social sciences (SPSS V 22) to code, enter and compute the measurements of the multiple regressions.

Table Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.996[a]	.993	.993	.08492
a. Predictors: (Constant), Control activity, Risk assessments, Control environment				

From the model summary in table 4.2, Adjusted R squared is coefficient of determination which tells us the variation in the dependent variables due to change in the independent variables. From the findings in the above table the value of adjusted R squared is 0.993 and indicates that there was variation of 99.3% on organizational performance of remittance companies in Mogadishu due to changes in control environment, risk assessment and control activity at 95% confidence interval. This shows the significant that 99.3% of the variations in the organizational performance of remittance companies in Mogadishu are accounted for by the variations in the independent variables and the remaining 0.7% are accounted by other factors contained in the standard error.

Table Analysis of Variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	198.882	3	66.294	9193.961	.000[b]
	Residual	1.420	186	.007		
	Total	200.302	189			
a. Dependent Variable: organizational performance						
b. Predictors: (Constant), Control activity, Risk assessments, Control environment						

From the ANOVA table 4.3, it is clear that the overall standard multiple regression model (the model involving constant, control environment, risk assessments and control activity) is significant in predicting how control environment, risk assessments and control activity determine organizational performance of the remittance companies in Mogadishu. The regression model achieves a high degree of fit as reflected by an R2 of 0.993 (F = 9193.961; P = 0.000 < 0.05).

Table: 4.4 Coefficients

Model		Un standardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.016	.022		.741	.460
	Control environment	.342	.053	.343	6.519	.000
	Risk assessments	.683	.035	.681	19.523	.000
	Control activity	.656	.036	.666	18.276	.000
a. Dependent Variable: organizational performance						

Table 4.4 presents the regression results on how control environment, risk assessment and control activity determine organizational performance of the remittance companies in Mogadishu. The multiple regression equation was that: $Y= \beta 0+\beta 1X1+\beta 2X2+ \beta 3X3 + \varepsilon$ and the multiple regression equation became: $Y = 0.016 +0.342X1+ 0.683X2 + 0.656 X3$ .As depicted in table 4.9, there was positive and significant effects of control environment on organizational

performance ($\beta = 0.343$; $t = 6.519$; $p < 0.05$). There was positive and significant effects of risk assessment on organizational performance ($\beta = 0.681$; $t = 19.523$; $p < 0.05$). There was positive and significant effects of control activity on organizational performance ($\beta = 0.666$; $t = 18.276$; $p < 0.05$).

Conclusions

From the findings of the regression analysis, the study found that there was a variation of 99.3% on organizational performance of remittance companies in Mogadishu due to changes in control environment, risk assessment and control activity at 95% confidence interval. This shows the significant that 99.3% of the variations in the organizational performance of remittance companies in Mogadishu are accounted for by the variations in the independent variables and the remaining 0.7% are accounted by other factors contained in the standard error.

The study further revealed that there was positive strong relationship between control environment, risk assessment and control activity and financial performance of change as shown by strong positive correlation coefficient. From the finding on analysis of variance, the study found that the overall model had a significance value of 0.05% which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%. The study further revealed that control environment; risk assessment and control activity significantly affects the organizational performance of remittance companies in Mogadishu. The established regression equation was $Y = 0.016 + 0.342X1 + 0.683X2 + 0.656\ X3$.

Recommendations

It is recommended that managers should study and select the driver that best suits their company in order to achieve maximum performance.

1. It was found that management policies influenced internal control system. It is recommended to the remittance company's management to ensure that they have put in place policies and procedures to be adhered to during finance activities. The remittance company's management is also urged to ensure that there are standardized and written manuals with the policies regarding internal control system and its management. From the findings and conclusion, the study further recommends that there is need for remittance companies in Mogadishu to increase internal control system so as to as it was found that an increase in internal control system positively affect the organizational performance.

2. There is need for the remittance companies in Mogadishu to increase their risk assessment as it was founded that risk assessment positively affects the organizational performance of remittance companies in Mogadishu.

3. There is need for the remittance companies in Mogadishu to increase their control activity as it was founded that control activity positively affects the organizational performance of remittance companies in Mogadishu.

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