Internal Auditing Practices and Internal Control System in Somali Remittance Firms

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Abstract

This article investigated the relationship between Internal auditing practices and internal control system in Somali remittance firms. The demographic profile of the respondents was age, gender, qualification and experience. The main objectives are to identify the role of internal auditing, and to identify the level of internal control system. The study is based on 83 target population especially Accountants, finance director, chief cashier and chief executive officer in remittance firms Descriptive and correlation analysis was used . It administers questionnaire as a research instrument. The findings of this article show that internal auditing practices of remittance firms is effective but there is some limitation about separation of duties. The study also suggests that there is a positive correlation between internal auditing and internal control system.

Keyword: Internal auditing, internal control, Remittance firms, Somalia.

1. Introduction

Internal Auditing became very important to world businesses, since industrial revolution resulted in factory systems that were financed by stockholders. This situation necessitated the need for internal auditing to protect shareholders' best interest. The major factors assist in emergence of internal auditing was the extend span of control system faced by management in businesses (institute of internal auditing research foundation, 2003). Today, in businesses worldwide, the internal control functioning become very important for their operation and achieving the objective of organizations. The role of internal auditing is to assess the effectiveness of the internal control system and to find out whether the system is functioning as intended (Fadzil, Haron & Jantan, 2008).

The demand of internal audit unit in most African countries increased since its early inception 1930; however internal audit practices are not fully exercised (Giorgis, 2004). For example in Ethiopia Less attention is given to operational audits as well as the application of modern techniques such as flowcharting, statistical sampling, and computer auditing. Internal auditors spend by ensuring that accounting records are properly maintained and reliable. Furthermore the majority of internal audit departments do not have a written audit charter. Therefore, the objectives, authority, scope, and responsibilities of internal auditing are not spelled out in most organizations, and no measures exist to ensure that the internal audit department is recognized as acting with the authority and support of senior management.

In Somali remittance companies handles a lot of money and contributes the livelihood of hundreds of thousands of families and develop the private sectors in a country where there is no properly functioning government, therefore how an internal auditor is expected to be high while the staff security has no guarantee. Somali remittance companies suffer loss of millions of dollar due to lack of good quality control system in remittance companies and professional internal auditors therefore most of Somali organizations do not have effective and independence auditors (Somali money transfer association, 2009).

The main objectives of this paper are to determine the role of internal auditing in the selected remittance companies and how it is effective and also to find out the level of internal control system effectiveness in the selected remittance companies. This study intends to explore the influence of internal audit on the effectiveness of internal control system of the Somali remittance companies. Further, this study identified the relationship among of the scope of work of internal audit and the quality of internal control system.

2. Literature Review

Internal auditing is designed to add value and improve the organizations operations by assisting organizations achieve their goals through evaluating and improving the effectiveness of risk management, control and governance (Carcello, Herman son& Raghunandan) .

According to Ho and Hutchinson (2010) internal audit can bring systematic rules and disciplined approach to appraise and monitor the effectiveness of control system, risk management and governance process.

Fadzil et al (2008) found that the role of internal auditing is the reviewing of effectiveness and efficiency of internal control system and to find out whether the system working as intended. Effective internal control system provides reasonable assurance that the organization's objectives and goals will be achieved. According to Jenny, Mazlina and Nava (2008) noted four benefits that the managers have gained from internal auditing assistance. Those benefits were providing managers with the base for judgment and action, helping managers by reporting weaknesses in control and performance and recommending improvement of internal control.

The main role of internal audit as: independent appraisal of internal control system, independent review of the efficient operation of the organization, proper safeguarding of asset and preventing and detecting fraud and errors (Ho & Hutchinson). Fadzil, Haron and Jantan (2008) SPPIA are criteria by which the operations of internal auditors are evaluated and measured and intended to represent the internal auditing practice as it should be. And also it intended to serve the entire profession of internal auditing. It was developed in June in 1978, at the internal auditors' international conference in San Francisco. The SPPIA consist the following five Standards.

1. Independence of audit

Independence is the freedom from the control and direct influence of line management this definition is an important to the extent of audit work and enhances internal audit's objectivity and integrity. Internal auditors should be independent form the activity they are auditing. Independence allows internal auditors to perform the impartial and unbiased judgments to the proper conduct of audit and achieved through organizational status and objective (Simon, 1995).

According to Diamond (2002) Under Standard 100 of internal auditing standards Independence is to make objective judgment and mental free form directly management responsibility for what he is being audited, he is free to choose any transaction for audit and is allowed access to all necessary information to come up with informal judgments (Standard 100).

2. Professional efficiency

Standard of 200 of SPPIA professional efficiency assumes that the audit staff must have professional knowledge and skills and has professional care and appropriate technical competence as well as sufficient knowledge of internal auditing function (Diamond, 2002).

3. Scope of work

By 1993 the statement of responsibility of internal audit issued at institute of internal auditor noted that the scope of internal auditing is to investigate and assess of the adequacy and effectiveness of the organization's system of control and the quality of performance in carrying out assigned responsibility. Internal auditor should review the accuracy and reliability of financial statement and the means of identify, measure, classify and reporting, review the system designed to ensure the compliance of policies, procedures and should determine whether company is compliance with those rules, review whether the company's assets are used appropriately and ensure that the assets are safe and verify the existence of such assets, evaluate the efficiency and effective way which resources are used, review operations to find out whether results are conformity with the established objectives and goals and whether the operations are being functioning as intended (Institute of internal auditing research foundation, 2003).

4. Performance of audit work

Performance standard states the nature of internal audit service and provide quality criteria intended to measure audit service. The internal auditing focus on specific organization performing certain control function, procedures, rules and regulations set up to ensure the most economic efficiency and effective use of resource (Diamond, 2002).

5. Management of internal auditing department

Management of internal auditing it is important and become effective it required greater emphases on managerial internal control system. In which often compromise the role of internal audit as an aid to internal management internal audit department often manages and controls internal auditor to make sure that the control system is working as intended. Internal auditor cannot be expected to enforce good governance on its own, without the existence of workable controlling mechanism to enforce accountability (Diamond, 2002).

Fadzil et Al. (2008) founded that the compliance of the internal auditing function to Standards of professional practice of internal auditors (SPPIA) has significant influence of the component of internal control system of some listed companies in Malaysia. Compliance of the SPPIA is therefore an indication that there is quality internal control system.

3. Methodology

3.1: Research design

This article employed descriptive and correlation designs. Descriptive studies are non-experimental researches that describe the characteristics of a particular individual, or of a group. It deals with the relationship between variables and development of generalizations and use of theories that have universal validity. It also involves events that have already taken place and may be related to present conditions (Kothari, 2004). Further, descriptive surveys are used to discover causal relationships (descriptive correlation), to provide precise quantitative description and to observe behaviour.

3.2: Target Population

The target population included a total of **83** of employees working for the selected companies in Mogadishu, Somalia. The researcher selected 12 companies basing on their long time period of existence in the business. Considering the accuracy and reliability of the data source; the researcher targeted special population of: finance directors, internal auditors, chief cashiers, Accountants and chief executive officers which made a total of **83** from the selected 12 companies.

3.3: Sample size

In view of the nature of the target population where the number for finance directors, internal auditors, chief cashiers, Accountant and chief executive officers are many, a sample was taken from each category. The sample of this article is 69 respondents.

3.4: Sampling procedure

The purposive sampling was utilized to select the respondents based on their experience in Internal Auditing practices. From the list of qualified respondents was chosen based on the inclusion criteria, the simple random sampling was used to finally select the respondents with consideration to the computed minimum sample size.

4. Findings and Discussions

4.1 Profile of the respondents

The data comes from the remittance companies of Somalia in relation to the research objectives, and the implementation of internal auditing and internal control system. The respondents of the questionnaire were: chief executive officer, finance director, internal auditor, chief cashier and accountants. The introduction statement of the research questionnaire was efficient the Significance, rationale and purpose of the study. Furthermore, the respondents have been given the confidence that all data they provided will be used only for the purpose of academic research and will be treated confidentially.

Table 4.1 Demographic Characteristics of the respondents.

Demographic Characteristics		Frequency	Percent	Cumulative Percent
Gender	Male	67	97.1%	97.1%
	Female	2	2.9%	2.9%
Total		69	100%	100%
Age	20-33	36	52.2%	52.2%
	More then 34	33	47.8%	47.8%
Total		69	100%	100%
Qualification	Secondary	6	8.7.%	8.7%
	Bachelor	59	85.5%	85.5%
	Master	4	5.8%	5.8%
Total		69	100%	100%
Experience	Less than 1-2	33	47.8%	47.8
	3-4	27	39.2%	39.2%
	More than 5	9	13%	13%
Total		69	100%	100%

Source: Primary Data 2012

The profile of the respondents is looked upon in terms of: Gender, Age, qualification and experience. Table 4.1 shows the Gender of the respondents. 97.1% percent of the respondents were male, showing that most of the respondents considered as male. (2.9%) of the respondents were Female. finally the researcher could presume that in the above percentage, suggests a considerable number to be the male of the population.

Based on the collected questionnaires, majority of the respondents is composed male, while a small number of respondents were female. This result shows that the most private business sectors operates in Somalia involves the male. Ages of the respondents, majority of them were in between the ages of 20-33 years (52.2%) while other respondents are above 34 years (47.8%) respectively.

Qualifications of the respondents, majority of them have bachelor degree of university (85.5%)   while 8.7% of respondents have secondary certificate and the remaining respondents 5.8% have master degree. Experiences of the respondents, majority of them are in between 47.8% less than 1-2years experience, 27 of respondents (39.2%) have 3-4 years experience and the remaining respondents (13%) have more than 5 year experience.

4.2 Internal auditing practices

The first objective of this study was to identify the internal auditing role in selected remittance companies in Somalia , in relation to the internal control system, respondents were required to indicate the extent to which they agree with each of the item by written the number that best describes their perceptions. To achieve this objective the respondents were asked several statements related to internal audit as means of monitoring and reviewing the business documents to control the operations. The results are summarised in the following table.

Table 4.2 Internal auditing practices

(n=69)

Internal audit	Mean	Std. Deviation	Interpretation	Rank
internal auditors review the segregation of duties	3.54	.703	very high	1
Internal auditors test cash receipt procedures and cash disbursement procedures annually	3.54	.553	very high	2
Internal audit staff test bank reconciliation for accuracy	3.43	.581	very high	3
Internal audit staff review cash records and trace unusual records	3.38	.631	very high	4
the internal auditors staff tests compliance with the credit and personal procedures	3.33	.582	very high	5
internal auditors meet with the directors audit committee at least annually	3.32	.633	very high	6
Organizational internal auditing complies with professional standards	3.16	.633	high	7
Independence of internal auditor assured, based upon review of documentation	2.97	.830	high	8
the internal auditors check compliance with establish police and accounting procedures	2.74	.750	high	9
Internal audit staff count and balance cash on hand annually	2.14	.553	Low	10
Overall Mean	**3.16**	**.678**	**High**	

Source: Primary Data 2012

According to the above table 4.2 presented that internal audit was scored highly mean 3.16 overall and standard deviation 0.678. These results indicate that internal audit is providing formal bases for monitoring and evaluating Business documents of selected remittance companies in Somalia is high.

Reviewing of segregation of duties of internal auditors was also scored highly mean 3.54 while standard deviation was 0.703.this indicates that internal auditor reviews segregation of duties in those firms are very high.

Internal auditor tests cash receipt and cash disbursement procedures were scored highly mean 3.54 and standard deviation was 0.553. This result shows that auditors test cash receipt and cash disbursement in remittance companies is very high.

As regards of internal audit tests bank reconciliation for accuracy was rated mean 3.43 while standard deviation was 0.581. This could indicate that bank reconciliation helps to clarify bank account and cash procedures are very high. Based on reviewing cash records and trace unusual records in the documentation of business was scored mean 3.38 and standard deviation was 0.631. This result shows that reviewing cash records or unusual records are also very high.

Internal audit tests compliance with credit personnel procedures was scored mean 3.33 while standard deviation was 0.582. This indicates that auditor tests and trace compliance with personnel procedure in selected remittance companies is very high. As regards of internal auditor meet with audit committee annually the respondents appreciated mean of 3.32 and standard deviation was 0.633.this result shows that internal auditor meet audit committee annually is also very high.

Organizational internal audit complies with professional standards was scored 3.16 while standard deviation 0.633. This result indicates that internal audit complies with professional standards is high. As regard of independence of internal auditor was scored 2.97, while standard deviation was 0.830. This result suggested that independence of internal audit in selected remittance companies is high.

The internal auditor checks and complies with policies and procedures was scored 2.74, while standard deviation 0.750. This result indicates that internal audit checks complies with polices in selected Somali remittance companies are high.

Internal audit staff counts and balances cash on hand was scored the respondents 2.14 and standard deviation 0.553. Thus, this result indicates that the internal auditor counts cash on hand of remittance companies are low.

4.2.1 The role of internal auditing

The overall respondents provided similar response to the questions relating the role of internal auditing. All of the remittance companies have internal audit to control and monitor their operations. In this study the researcher focus on remittance companies only those operate in Somalia, the researcher made selection from remittance companies. All companies responded that they have internal auditor of their business operations, in accordance with their control system.

4.3 Explanation of level of the internal control system

The second objective of the study was to explain the level internal control system of selected remittances, for which respondents were required to rate the level of internal control by indicating the extent to which they agree with each item in the table.

The respondents were asked the how firm identifies risks, weather they use cash deposits, and also where the approval of internal control works in order to achieve objectives. The questions included how the internal auditing of the firm determines the control system and also effectiveness of internal control system according to the objectives of the company, the majority of the remittances operate inside Somalia that conducted to the research were used control system to achieve objectives, sufficient documents and effective cash collection procedure, Their responses were analyzed and described using means and standard deviations as summarized in table 4.3 below;

Table 4.3 explains the level of internal control system
(n=69)

Internal control	Mean	Std. Deviation	Interpretation	Rank
cash deposit are sufficient document	3.45	.581	very high	1
the control system of your organization works to achieve its objectives	3.32	.649	Very high	2
Deposits are made on daily basis.	3.22	.814	high	3
Daily collections are held in secure manner until deposited.	3.17	.797	high	4
Risk to achieve the objectives have been identified	3.16	.758	high	5
Employee responsible for cash handling and deposit preparation are familiar with applicable police.	3.14	.847	high	6
The department's petty cash fund are necessary and have control system and Reconciliation	2.49	.715	low	7
The department performs a monthly reconciliation and payroll report.	2.41	.602	low	8
purchase requisitions are properly authorized	2.32	.776	low	9
The department does not unauthorized bank account.	1.94	.914	low	10
Overall Mean	**2.85**	**0.746**	**High**	

Source: Primary Data 2012

According to table 4.3 above, cash deposits are sufficient documented which scored mean 3.45 while standard deviation was 0.581. This indicates that most of the selected remittance companies used documents on their cash deposits are very high.

Control system of the selected remittance companies were perceived by the respondents to be very high by a mean scores 3.32 and standard deviation was 0.649. This result indicates that the control system intends to achieve organizational objectives are very high Deposits cash on daily basis was scored 3.22 and standard deviation 0.814. This result states that the deposits of cash in selected remittance companies in Mogadishu are high.

Daily collection of selected remittance companies was perceived by respondents to be high by a mean scores 3.17 while standard deviation 0.797. This result indicates that the collection on daily bases is high. Organizational risk has been identified was perceived by respondents to be high by mean scores 3.16 while standard deviation was 0.758. This indicates that risk identification of selected remittance companies is high.

Employees responsible of cash handling are familiar with applicable polices was scores 3.14 and standard deviation 0.847. thus, this result shows that employees responsible for cash handling of selected remittance companies are familiar with polices according to responses of respondents is high. The department's petty cash fund are necessary and have control was perceived to be low according to respondents of the research which scored 2.49 and standard 0.715.This result indicates that the departmental petty cash and its control is low.

The department performs monthly reconciliation and payroll report was scored by respondents of the study 2.41 mean and standard deviation 0.602. Thus, this result suggested that the departments performs monthly reconciliation is low. Purchase requisitions are properly authorized which has mean scores 2.32 and standard deviation 0.776. This result results that purchase requisition form are properly authorized is low.

The department does not have unauthorized bank account which was scored by the respondents mean 1.94 while standard deviation is 0.914. Thus, this result shows that the departments does not have unauthorized bank account is low. The overall mean score for all the items under internal control system was computed and the overall score was 2.85 and standard deviation was 0.746. Thus, the result indicates that the control system of selected remittance companies in Mogadishu, Somalia is high.

4.4 Relationship between internal auditing and internal control system

Based on the findings in objective one and objective two the researcher found out the overall mean of internal audit is (3.16) which indicate a high; means the role of internal audit in remittance companies and segregation of duties, while the overall mean of internal control system is (2.85) also indicates high internal control system in remittance companies. In this objective the researchers focus the relationship between the internal auditing and internal control system. As above mentioned the effective internal control system depends on the strength internal audit.

To investigate the relationship between internal auditing and internal controls system the researcher developed this hypothesis "there is no significance relationship between the internal auditing and internal control system". Due to the normality issue the researcher selected Spearman's rho which is used the Order Correlation coefficient, r_s, is a non-parametric measure of the strength and direction of association that exists between two variables measured on at least an ordinal scale.

*Correlation is significant at the 0.01 level

Table 4.4 Correlation Analysis with spearman's rho

Spearman's rho			Internal auditing	Internal control
	Internal auditing	Correlation Coefficient	1.000	.563
		Sig. (2tailed)		.000
		N	69	69
	Internal control	Correlation Coefficient	.563	1.000
		Sig. (2tailed)	.000	.
		N	69	69

Source: Primary Data 2013

4.5 Discussion of the Results

The study found that there is a positive correlation between internal auditing and internal control system. And the association between the two variables showed a high statistically significant result. The result was $r_s=0.563$, $p<.0005$ according to Cohen (1988) cited in Pallant (2007), the $r_s=0.563$ suggested strong correlation. a Spearman's Rank Order correlation was run to determine the relationship between internal auditing and internal control system.

5. Conclusion

This study found that the internal auditing of remittance companies in Somalia has a favourable situation. Means that remittance companies in Somalia established effective internal auditing, they use the internal audit to review and control their activities, and also Auditing measured the management performance according to control system. The suggestion of the researcher for remittance companies is that they sustain the control system if firms are seeking to survive and to be successful.

This study found a positive moderate correlation between internal auditing practices and internal control system. From the above findings, it is clear that the internal audit of the firms has significantly influence on the internal control in remittance companies in Mogadishu. In this article complies the previous study conducted in Malaysia that Fadzil et Al. (2008) founded that the compliance of the internal auditing function to Standards of professional practice of internal auditors (SPPIA) has significant influence of the component of internal control system of some listed companies in Malaysia. Compliance of the SPPIA is therefore an indication that there is quality internal control system and also found that agency theory has influence of existing internal auditing to assess effectiveness of internal control system.

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