

Internal Control and Cash Management in Mogadishu Flight Service Companies in Somalia

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ABSTRACT

In this study, the research team studied internal control system and cash management procedure; with the major objective of the study is to investigate effectiveness of internal control on cash management procedure and to examine the relationship between internal controls and cash management procedure in Somali flight service companies.

The researchers selected 80 respondents- 15 Dallo airways, 15 African airways, 15 Jubba airways, 13 central air, 12 Ell Ali, and 10 Turkis air in Mogadishu-Somalia; with the use of questionnaire as instrument. Data was analyzed by using both descriptive and correlation statistics of mean and frequency (percentage). The study found both existence of effective internal control and relationship between internal control and cash management to detect fraud errors and cash misappropriation that causes problem, and lead the organization to fail its operation.

Based on the findings, the researchers suggested employing independent internal auditor with experience in internal control and monitoring on their effectiveness and adherence by the employees. And also the study recommended that management should use pre-numbered checks to ensure efficiency of cash management and overall financial performance of the organization.

Keywords: Internal control system and cash management, flight service companies

INTRODUCTION

In worldwide businesses, the internal control function is becoming very important for achieving the objectives of the organization. In recent years businesses have recognized the importance of internal control function that is why this function has been established in some privately owned companies. Managing risk is actually managing the organization in planning, organizing, controlling the organization's system and resource to achieve objectives (McNamee, 2005).

In the developed countries like USA, the organizations which sponsored Treadway (COSO-committee of sponsoring organizations) produced a further report in 1992, specifically addressing the role of internal control in securing improved corporate governance, COSO framework is regarded as the foundation of modern approach to control (Spira& Page 2003: 47).

Many African nations have introduced internal and external oversight of accountability mechanisms over the past two decades since the beginning current democratization waves in Africa. The research reveals some deficiencies about internal control policy in West Africa (APCOF, 2008). According to Amudo and Inanga(2009, page 124) "Internal control system is topical issue following by global fraudulent financial reporting and accounting scandals in

both developed and developing countries. A preventive approach to the problem requires a critical evaluation of existing internal control structure in the organization to determine their capacity to ensure that the organization's activities are carried out in accordance of established goals, policies and procedures".

According to Brick (1999), one of the prime means of control is the separation of those who are responsible or have duties which, if combined, permit one individual to record and process a complete transaction. When the work of one employee is checked by another, and when the responsibility for custody for assets is separate from the responsibility for maintaining the records relating to those assets, there is appropriate segregation of duties.

Internal controls is the whole system of controls financial and otherwise established by management in order to carry on business of an organization in an orderly manner to ensure adherence to management policies, safeguard the assets and secure as possible the completeness and accuracy of records (Ramaswany, 1994).

With Pandey (1998), cash is money which a firm can disburse immediately without any restriction. The term to it includes coins, currency, cheques held by the firm, and cash balances in its bank account.

Proper documentation to mention but a few, In today's communities, it's generally accepted that organizations, both private and public, have internal controls to reduce on the level of financial risks, promote effective cash management mechanisms and increase productivity. The main purpose of this study was to describe the variables and then explain the relationship between the two variables, internal control and cash management. The paper has the following objectives:

1. To examine the effectiveness of internal control procedures in Mogadishu flight service companies.
2. To examine the relationship of internal control and cash management in Mogadishu flight service companies.

LITERATURE REVIEW

Internal control is dynamic internal process that is continuously adapting to the change an organization is facing. Management and personnel at all levels must be involved in this process to provide reasonable assurance of the achievement of the entity's mission and general objectives. Internal control can be recognized as policies and procedures designed to provide management with reasonable assurance that the company achieves its objectives and goals (Ariesa&Berasategu, 2009). According to De Paula (1989). Internal control is the entire system of control established by the management in order to carry on business of the enterprise in an orderly manner to ensure adherence to management policies: safeguarding the assets of the entity and secure as possible completeness and accuracy of records.

Internal control is important aspect of an organization's governance system and ability to manage risk, and is fundamental to support the achievement of an organization's objectives and creating, enhancing, and protecting stakeholder's value. Highly-profile organizational failures typically lead to the inconvenience of additional rules and requirements, as well as to consequent time-consuming and costly compliance efforts.

However, this obscures the fact that right kind of internal controls enabling the organization to capitalize on opportunities while offsetting the threats can actually save time and money, and creating and preserving value. Effective internal control also creates competitive advantage, as organization with effective internal control can take additional risk (IFAC,

2012). Internal control is very important for any organization both profit and non-for-profit organization regardless of its size and nature, to achieve reliable financial reporting, effective and efficient operations, and compliance of laws and regulations set by regulatory bodies.

On the other hand Cash management involves the administration of liquid asset, liabilities and rising of funds to finance business. Cash-flow control is therefore crucial to ensuring that a business remains liquid and able to meet payment obligation. This is carried out through effective management of cash receipt and payment, cash balances and cash transfers between the different parts of the business. In large firms these responsibilities may be divided into two areas i.e. accounting and treasury. The controller is the company's chief accounting executive and responsible for the first area, i.e. for accounting principle, auditing standard, and cash control and processing. Treasurer, on the other hand, is responsible for the second area, i.e. receipt, custody, investment and disbursement of funds, and advise accounting of changes in the cash balances. Teigen (2001) defined cash management as a part of treasury management, which is defined as a part of the main responsibilities of the central finance management team.

Cash balance management is important because cash constitutes the smallest portion of the total current asset, yet management's consideration time is devoted to managing it. The aim of cash balance management is to maintain adequate control over the cash position, to keep the firm sufficiently liquid and to use access cash in a profitable way. Cash management is considered a core ingredient in any business survival (Ibid, 130).

For any effective cash management system to prevail any organization there must be strong internal controls which must be followed to at all time. However much as internal control necessary, they are not full guarantee. They only try to mitigate the level of risk exposed to organization in handling cash. An effective internal control in an organization will not only facilitate the attainment of excellence in its cash management, but will improve the overall organizational objectives. It would prevent paying fictitious vouchers, for example for the goods that are not received, double payment, unauthorized payment, payment of personal expenses, and stealing of cash and check.

METHODOLOGY

Research Design and Target Population

This study used survey strategy because it is a popular and common strategy in business and management research (Saunders, Lewis & Thom hill, 2009). The target population of the study was flight service companies in Mogadishu. The sample size of the study was 80 respondents selected from flight service companies in Mogadishu.

Correlation is a research design that determines whether or not, and to what extent an association exists between two or more paired and quantifiable variables (Oso & Onen, 2008). The main purpose of this study was to describe the variables and then explain the relationship between the two variables, internal control and cash management system.

DATA ANALYSIS

Quantitative data analyses was conducted in this study, because the research instrument of this study is questionnaire, descriptive and correlation statistics was conducted in this study, because it can be utilized our objectives, inferential statistics specially correlation analysis is used when the researcher wants to predict and describe the association between two or more variables in terms of magnitude and direction.

FINDINGS

Demographic Data

As shown in tables 1-4, the majority of the respondents (90.7%) were male compared with 9.3% of female. Hence, male have significantly dominated in the field of employment of flight service companies. In terms of age, 33.3% of the respondents were between 21-25 years old. In terms of the marital status, exactly 72.0% of the respondents were married. In terms of experience 37.3% were more than 6 years.

Table 1. Demographic characteristics of the respondents

<i>Demographic Profile</i>	<i>Frequency</i>	<i>Percent</i>	<i>Cumulative Percent</i>
<i>Gender</i>			
Male	68	90.7	90.7
Female	7	9.3	9.3
Total	75	100	100
<i>Age</i>			
21-25	25	33.3	33.3
26-30	19	25.3	25.3
31-35	15	20.0	20.0
36-40	9	12.0	12.0
More than 40	7	9.3	9.3
Total	75	100	100
<i>Marital Status</i>			
Single	21	28.0	28.0
Married	54	72.0	72.0
Total	75	100	100
<i>Experience</i>			
1-2 years	20	26.7	26.7
3-4 years	21	28.0	28.0
5-6 years	6	8.0	8.0
More than 6 years	28	37.3	37.3
Total	75	100.0	100

Effectiveness of Internal Control

According to the responders concerning the existence of accountants, the responders indicate that most of flight service industries have controller or chief accountants based on their mean (81.3%). The researcher wanted to ascertain whether transactions at air industry service companies can be handled by one person from the beginning to the end and from the

questionnaires administered, the following respondents were obtained. The transaction cannot be handled by one person from the beginning to the end with (21.3%) respondents strongly agreeing, (32.0%) Agreeing, (41.3%) were not sure, (12.0%) Disagreeing and (21.3%) so (53.3%) of the respondents approved the issue that transactions cannot be handled by one person from the beginning till the end. And this means there is segregation of duties between accounting and bookkeeping department and those deal cash receipt and/or cash disbursement functions this implies separation of cashier's duties from the recording of cash receipt or account receivable based on their percentage (74.7%).

Table 2. Effectiveness of Internal Control

No	Variable	1	2	3	4	5	%	Mean
1	The organization have controller or chief accountant.	4	6.7	8	32	49.3	81.3	4.16
2	The cashier's duties are segregated from the recording of cash receipt or accounts receivable.	6.7	9.3	8.0	42.7	32.0	74.7	3.85
3	Proper segregation exist b/w those have access to cash and those have access payroll.	6.7	14.7	10.7	38.7	29.3	68	3.69
4	An employee other than someone in the cashier's department make entries in the ledger.	17.3	12.0	9.3	38.7	22.7	61.4	3.37
5	There is general accounting and bookkeeping dep that completely separate from cash receipt and pmt function.	8	20	10.7	30.7	30.7	61.4	3.56
6	The company staff must clearly understand the internal control procedures relating to cash management.	8.0	26.7	4.0	32.0	29.3	61.3	3.48
7	The assumes full responsibility for the receipt from the time they are received until they deposit it.	5.3	25.3	13.3	24	32	56	3.52
8	Transaction can't be handled by one person from beginning to end and they always authorized b4 pmt are made.	21.3	13.3	12.0	32.0	21.3	53.3	3.19
9	The procedure prohibits the cashier for gaining access to account receivable ledger and monthly bank/safe and/or customer statement.	8.0	25.3	17.3	25.3	24.3	49.6	3.32
10	There is independence of internal auditor from the internal control system.	50.7	38.7	5.3	4.0	1.3	5.3	1.6

On the other hand the cash receipt journals responders indicate that they are not sure the cash receipt for the companies are posted by the independent persons who receive the cash of the company based on their percentage (61.4%). The researcher had an aim of ascertaining whether the internal auditor was independent from the internal control processes at Mogadishu airline service industries. And therefore manage to obtain the following responses, the above information that in flight service companies, (50.7%) of the respondents strongly disagree with the view that the internal auditor is independent from the internal controls while a portion of (38.7%) disagrees. However, it can also be evidenced that 5.3% are not sure of the view, while an little number of the respondents agree with the independence of the internal auditor from the internal control and a majority of (89.4%) of the respondents of this study are disagreeing and strongly disagree with the view. Therefore this mentioned that there is not internal auditor most companies in Somalia especially this industry of flight service providers The above analysis shows that employee of airline companies their perceptions towards internal control to detect material errors most of responders agree that internal control very important for any flight companies because effective internal control would reduce the errors, frauds for the companies. Most responders indicate importance of internal control based on the percentage of data presentation except one question of (49.6%) while employee of airline companies support by importance of internal control. Although it seems a central issues but their mean are closer to the important variables. Finally, the internal control is an important every organizations profit and nonprofit.

Cash Management

Table 3. Frequencies and Mean of Responses Cash Management

No	Variable	1	2	3	4	5	%	Mean
1	Poor internal control procedure have led to poor cash management	1.3	6.7	10.7	46.7	34.7	81.4	4.07
2	All accounting entries are supported by appropriate documentation e.g. receipt vouchers	5.3	6.7	8.0	38.7	41.3	80	4.04
3	Cash flow statements are always prepared periodically	1.3	10.7	10.7	50.7	26.7	77.4	3.91
4	The company's cash management policies are always followed.	9.3	13.3	12.0	37.3	28.0	65.3	3.61
5	All receipt are accounted for daily and matched with the cash collection	14.7	16.0	6.7	29.3	33.3	62.6	3.51
6	The cash receipt journal posted by someone independent of the receiving and cash processing	18.7	13.3	6.3	25.3	36	61.3	3.47
7	there is segregation of responsibility in the receipt, payment, and recording of cash	16.0	14.7	9.3	28	30.7	58.7	3.43
8	Cash is kept safely in a locked cashbox or safe in the custody of one individual	21.3	20.0	16.0	24.0	18.7	42.7	2.99
9	All disbursements made by pre-numbered checks	18.7	26.7	17.3	22.7	14.7	37.4	2.88
10	The organization usually carries out surprise cash checks at the counter	9.3	22.7	30.7	29.3	8.0	37.3	3.04

The researchers had an aim of finding out whether the institution prepares cash flow statements periodically and managed to obtain the following responses, from the above table the institutions prepare cash flow statements periodically which based on their percentage of positive responses (77.4%) most of the respondents agreed that the airline institutions always prepare periodic cash flow statements. According to appropriate supporting document for all accounting entries and it seems the company's cash management policy are followed base their positive response percentage (80%, and 65.3% respectively). According to the responders about cash disbursement invoice responders indicate that all invoices of cash have not pre-numbered based on their percentage of positive responses (37.4%) to know all cash disbursement for the companies because pre-numbered is a method that can be mitigate or reduce cash theft about the companies.

On the other hand the cash receipt journals the responders indicate that cash receipt for the companies are posted by someone independent a person who receive the company's cash based on their percentage of positive responses (61.3). According to internal control assessment to detect material errors in the financial statement and majority of employee perceive that the most of the flight service companies would not use looked cash box to mitigate misappropriation or reduce risk about financial aspects because every teller use only cashbox with in the table for the operation base on their percentage of positive responses (42.7%). Therefore they said that poor internal control lead poor cash management and give a signal about the relationship between internal control and cash management.

The Correlation Between Internal Controls and Cash Management

The researchers calculated the Pearson correlation coefficient using statistical packages for social scientists (SPSS) to measure the strength of linear association between internal controls and cash management.

Table 4. Correlations

		<i>Internal Control</i>	<i>Cash Management</i>
Internal Control	Pearson Correlation	1	.531**
	Sig. (2-tailed)		.000
	N	75	75
Cash management	Pearson Correlation	.531**	1
	Sig. (2-tailed)	.000	
	N	75	75

** . Correlation is significant at the 0.01 level (2-tailed).

Findings indicate that there is a significant moderate positive relationship between internal controls and cash management ($r = 0.531^{**}$, $p < 0.01$), which means that internal are full guarantee and that they try to mitigate the level of risk exposed to the organization in handling cash. In some cases, some controls may not be implemented because the costs may exceed their potential benefit; the finding indicates moderate relationship between the variables.

DISCUSSIONS

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,. The results support the findings of Tartu (2005) concerning previous An internal control system help to ensure that the company will comply with laws and regulations as well as policies, plans, internal rules and procedures, and decrease the risk of unexpected losses or damage to the company's reputation.

Finally, the study found that possible ways to protect financial obstacles for flight companies in traditional internal control every organization have effective internal control to prevent risk which can lead companies to fail their business transaction. The possible ways include internal control are to provide directorial management with reasonable assurance that financial information is accurate and reliable, the organization complies with policies, plans, procedures, laws, regulations in order to transform the traditional internal control into contemporary manner, assets are safeguarded against loss and theft resources are used economically and efficiently; and established objectives and goals for operations or programs can be reached.

CONCLUSION

The objectives of this study were to investigate the effectiveness of internal control system towards cash management in the Somali flight service companies. Consistent with the findings, the results revealed substantial evidence about the effectiveness of internal control the study found internal control contributes to the safeguarding of the shareholders' investments and company's assets. And also states that the board of directors is responsible for the company's system of internal control and has the responsibility to review its effectiveness. Management's role in this case is to implement board policies and control. A company can benefit effective internal control for several ways. Through enhance structure of internal control, the possibility of errors fraudulence and illegal conduct can be diminished to minimum. In highly competitive market, a well-managed internal control system improve competitiveness and improve employees' understanding of company's objectives Furthermore, the Turnbull guidance also states that all employees have some responsibility for internal control as part of their accountability for achieving objectives. And also the study stated the existing of internal control system for Somali financial institutions so airline companies in Somalia would practice the effective internal control.

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