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**THE EFFECT OF INTERNAL CONTROL SYSTEM ON
EMPLOYEE PERFORMANCE AT BANKS IN
MOGADISHU-SOMALIA**

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MASTER OF SCIENCE

(INTERNATIONAL ACCOUNTING)

UNIVERSITI UTARA MALAYSIA

**THE EFFECT OF INTERNAL CONTROL SYSTEM ON
EMPLOYEE PERFORMANCE AT BANKS IN
MOGADISHU-SOMALIA**

BY

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Kolej Perniagaan
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Abstrak

Kajian ini bertujuan untuk menentukan kesan sistem kawalan dalaman terhadap prestasi pekerja. Antara pemboleh ubah yang dikaji dalam kajian ini ialah pemantauan, aktiviti kawalan, dan faktor persekitaran kawalan. Hasilnya, bank perdagangan memainkan peranan penting dalam pertumbuhan setiap negara. Kajian ini meneliti kesan sistem kawalan dalaman terhadap produktiviti beberapa bank perdagangan di Mogadishu, Somalia. Reka bentuk penyelidikan tinjauan akan digunakan untuk mencapai objektif kajian ini. Data akan dianalisis menggunakan perisian statistik untuk sains sosial (SPSS), dan soal selidik yang ditadbir sendiri akan digunakan untuk mengumpul data primer. Menggunakan kaedah analisis deskriptif dan kebolehpercayaan dalam SPSS versi 20, keputusan kajian ini disiasat, Dengan 112 responden, kumpulan sasaran kajian ini terdiri daripada tiga bank perdagangan di Mogadishu, Somalia. Hasil kajian menunjukkan bahawa kawalan dalaman dalam syarikat sangat meningkatkan prestasi pekerja. Persekitaran kawalan didapati mempunyai korelasi yang kuat dengan prestasi pekerja, manakala aktiviti kawalan dan pemantauan tidak menunjukkan korelasi yang signifikan.

Keputusan menunjukkan bahawa pemantauan, diikuti oleh kriteria pemantauan yang ditetapkan, meningkatkan prestasi pekerja dalam tiga bank yang dipilih; bahawa persekitaran kawalan mempunyai pengaruh positif terhadap prestasi pekerja; dan bahawa aktiviti kawalan memberikan kesan yang baik terhadap prestasi pekerja. Kajian ini mencadangkan agar faktor lain yang mempengaruhi prestasi pekerja dalam industri perbankan di Mogadishu, Somalia, turut dikaji, selain aktiviti kawalan, persekitaran kawalan, dan pemantauan. Oleh kerana kajian ini dijalankan di Mogadishu, prestasi pekerja di bandar-bandar lain di Somalia juga boleh dijadikan subjek penyelidikan yang serupa.

Kata kunci: *Sistem kawalan dalaman, Aktiviti kawalan, Persekitaran kawalan, Pemantauan & Prestasi pekerja.*

Abstract

The purpose of this study is to ascertain how employee performance is affected by the internal control system. This study covers several variables, including monitoring, control actions, and control environment aspects. Commercial banks are therefore essential to the development of any country. The effect of the internal control system on the output of some commercial banks in Mogadishu, Somalia. This study will use a survey research design to achieve its goals. A self-administrative questionnaire will be utilized to gather primary data, and statistical software for social science (SPSS) will be used to evaluate the data.

Descriptive and reliability analysis techniques are used in SPSS version 20 to examine the study's findings. The target demography for the study is three commercial banks in Mogadishu, Somalia, with 112 respondents. According to the results, the company's internal controls significantly improve worker performance.

Employee performance was found to be strongly correlated with the control environment, and there is also a significant association between the monitoring and control activities. The results showed that monitoring, followed by defined monitoring criteria, increases employee performance in the three chosen banks; that the control environment has a good influence on employee performance; and that control activities have a favorable effect on employee performance. The study suggests looking at other elements that influence employee performance in the banking industry in Mogadishu, Somalia, in addition to control activities, control environment, and monitoring. Since the study was carried out in Mogadishu, employee performance in other Somali cities may be the subject of a comparable investigation.

Keywords: *Internal control system, Control activities, Control environment, Monitoring & Employee performance.*

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List of Abbreviations

IC	Internal Control
CA	Control Activities
CE	Control Environment
M	Monitoring
EP	Employee Performance



CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The modern banking environment has made effective internal control systems a fundamental component of company performance and long-term growth. Especially in light of growing nations like Somalia, where the financial sector faces many operational, regulatory, and security challenges, implementing robust internal control systems plays an increasingly vital role. Internal control systems are procedures that management has designed and put into place to give a reasonable level of assurance about the accomplishment of goals in terms of operational effectiveness and efficiency, accurate financial reporting, and adherence to relevant laws and regulations (COSO, 2013). These systems are not only vital for organizational governance and risk management but also significantly influence the performance and behavior of employees (S. A. Mohamed, 2024).

Prioritizing employees' abilities is essential for businesses to have more employee-friendly policies and be less likely to experience internal control issues in the modern era. Many enterprises are currently facing several challenges due to rapid market environment growth and changes (Ibrahim et al., 2017).

A strong internal control system is the foundation for good management and, eventually, greater organizational effectiveness. Thus, the success of employee performance depends on banks updating internal control system that is a crucial part of every firm. Internal controls, particularly in the 19th century, were primarily put in place to safeguard organizational profitability while pursuing goals and missions and to reduce risks within the business, by reforming companies for development, and

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Appendix A

Questionnaire



Dear participants

My name is Abdirahman Farah Ali. At the University of Utara Malaysia, I am pursuing a Master of International Accounting under the guidance of my supervisor. Currently pursuing a master's degree, and I am working on a project paper that I would want to call **“THE EFFECT OF INTERNAL CONTROL SYSTEM ON EMPLOYEE PERFORMANCE AT BANKS IN Mogadishu, Somalia.** In order to move forward with my study, I respectfully ask for your assistance in filling out the accompanying questionnaire. It is expected that you will spend three to five minutes on it. You may be confident that your answers will be used only for academic research and that you will be anonymous during the whole research. Your thoughts are greatly appreciated, as is your active participation in this study survey. I want to express my gratitude in advance for your time and attention.

SECTION 1: DEMOGRAPHIC CHARACTER

The following questions are used for analysis purposes only. Kindly answer by making a tick (✓) in the appropriate box.

1. GENDER

Male Female

2. AGE

20–25 years old, 37 to 41 years old.

26–30 years old, and 41–51 Years

31 to 36 yrs old is Old 51 Over

3. Education Level

Diploma Master's degree

Bachelor's degree Doctorate Level

4. Year of Experiences

Less than a year 7 to 9 Years

1 to 3 years above 10yrs

Between 4-6 years

SECTION 2: CONTROL ACTIVITIES

This section measures factors of the control activities by adopted (Al-Zubi, 2014)

The following questions concern your company's control activities: the prerequisites, challenges, and alternative possibilities for obtaining credit in your organization.

Please use the rating guide and check the box in your comments.

1. Strongly disagree; 2. Disagree 3. Neutral 4-Agree 5- Strongly agree

NO	STATEMENT	1	2	3	4	5
1	As one of the control measures, management has introduced authorization.					
2	The purpose of certain policies and processes is to detect and stop the occurrence of risk					
3	Management has implemented proper documentation as a component of the control activities.					
4	Advanced management uses protection techniques as a control measure.					
5	Independent reconciliation is adopted by management as one of the control activities					

SECTION 3: CONTROLS ENVIRONMENT

This section measures factors of the control environment adopted by (Al-Zubi, 2014)

The following questions relate to your company's controlling environment: the prerequisites, challenges, and alternative possibilities for obtaining credit in your organization.

Please use the rating guide and check the box in your comments.

1. Strongly disagree; 2. Disagree 3. Neutral 4-Agree 5- Strongly agree

NO	STATEMENT	1	2	3	4	5
1	There is a feedback document that reports the deficiencies occurring during the year.					
2	Top management had clarified job ethical values and identified employee's integrity					
3	The human resources department maintains ongoing conferences, training programs, and development to meet the organization's goals.					
4	The organization's individuals are accountable for their internal control responsibilities in the pursuit of objectives					
5	Management is established with the board's oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.					

SECTION 4: MONITORING

This section measures factors of the monitoring adopted by (Al-Zubi, 2014)

The following questions relate to your company's monitoring: the prerequisites, challenges, and alternative possibilities in your organization for obtaining credit.

Please use the rating guide and check the box in your comments.

1. Strongly disagree; 2. Disagree 3. Neutral 4-Agree 5- Strongly agree

NO	STATEMENT	1	2	3	4	5
1	Internal audit has complete support from the top management, the audit committee, and the board of directors					
2	Management selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.					
3	The board of directors oversees the creation and operation of internal control and exhibits management independence.					
4	Management selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.					
5	Internal audit has complete support from the top management, the audit committee, and the board of directors					

SECTION 5: EMPLOYEE PERFORMANCE

This section measures factors of employee performance adopted by (Falola et al., 2016)

The following questions relate to your company's employee performance: the prerequisites, challenges, and alternative possibilities in your organization for obtaining credit.

Please use the rating guide and check the box in your comments.

1. Strongly disagree; 2. Disagree 3. Neutral 4-Agree 5- Strongly agree

NO	STATEMENT	1	2	3	4	5
1	The employees' adequate orientation enables them to perform at their highest level of performance.					
2	Employees choose to work for the company due to the welcoming environment and orientation					
3	Employee work effectiveness in the organization					
4	Employees were motivated by the organizational structure, benefits, and working environment.					
5	Establishing an environment where workers could perform at their highest level was the aim.					

Thank you for your time and cooperation!