

The Effectiveness of the Implementation of Internal Control in Kuwaiti Shareholding Companies

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Abstract *The study aimed to identify the effectiveness of the implementation of internal control in its branches (Administrative, accounting and internal check) and in the Kuwaiti joint stock companies, the study followed the analytical descriptive approach, a questionnaire has been used to collect primary data from (295) internal auditors represented the study sample. The study found out that the implementation of internal control procedures have been conducted with its administrative, accounting and internal check types in a moderate degree, in addition that the implementation of internal check in an effective manner was the largest and in a high degree, followed by the implementation of an administrative control with a moderate effectiveness and in the last rank was the accounting control in terms of the effectiveness of implementation and in a moderate degree. The study recommended that senior management gives more attention to the administrative and accounting control, and to take the necessary measures to enable the internal auditors to implement it in a way that lead to raise the level of its effectiveness.*

Key words Internal control, accounting control, shareholding companies, implementation

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1. Introduction

Internal control is considered a management tool in the preservation of the assets and property of the organization and its continuing, it contributes in achieving the general objectives such as achieving the best possible profitability and protect the rights of shareholders, through the application of a strict system that includes control procedures implemented on the administrative and financial functions to verify the legitimacy and legality and in the efficiently the actual implementation of the company's activities, and ensure that all sections are committed with the legislations that govern the implementation of tasks by a pre-planned correct methodology.

1.1. Problem of the study

Due to the risks faced by companies, an effective internal control procedure is needed, whether administrative or accounting, which must commensurate with the nature of their activities.

1.2. Study Questions

The problem of the study can be asked in the following questions:

1. How effective is the implementation of internal administrative control in the Kuwaiti shareholding companies?
2. How effective is the implementation of internal audit control in the Kuwaiti shareholding companies?
3. How effective is the implementation of internal check in the Kuwaiti shareholding companies?

1.3. Objectives of the study

The study aims to achieve the following objectives:

1. Identify the extent of the effectiveness of the implementation of internal administrative control in Kuwaiti shareholding companies.

2. Identify the effectiveness of the implementation of internal accounting control in Kuwaiti shareholding companies.

3. Identify the effectiveness of the implementation of internal check in Kuwaiti shareholding companies.

1.4. The Significance of the Study

The study will enable senior management to identify weaknesses in internal control systems and diagnose them; this will give them the opportunity to develop appropriate solutions to enhance internal control power to improve its effectiveness. This study will also maintain the assets of Kuwaiti shareholding companies and to reduce the risks and thus improve the financial and administrative performance.

1.5. Hypotheses of the study

The First Hypothesis: An effective internal administrative control is not implemented in the Kuwaiti shareholding companies.

The Second Hypothesis: An effective internal accounting control is not implemented in the Kuwaiti shareholding companies.

The Third Hypothesis: An effective internal check is not implemented in the Kuwaiti shareholding companies.

2. Literature review

Laws urged organizations to abide by an effective control system that is capable of providing guarantees that the process of preparing financial reports are consistent with principles and accounting standards that are internationally recognized (Seitzinger, 2016), to ensure the preservation of cash from theft and embezzlement (Al-Ghaban and Hldni, 2010). To achieve this, it is necessary for the existence of accounting system that helps in the examination of the financial operations in detail and accurate, these shareholding companies have become managed from the board of directors, who delegate part of his powers for managements and multiple sections found in the company, the board of directors is responsible in front of the owners, creditors and governmental agencies about the results of the company's business, therefore, the internal control has become an essential system for any accounting organization (Al-Idrisi, 2010).

2.1. The Concept of Internal Control

Internal control is considered a plan to regulate the methods for using the assets owned by the unit, maintain it and review the accuracy and documentation of accounting data (Accounting Control) and work to achieve the goals of the production plan, efficiently, economically and effectively, in addition to take the appropriate administrative policies (Administrative Control) "(Al-Sahen *et al.*, 2006), as it designed to provide reasonable assurance regarding the achievement of the objectives established regarding to reliability of financial reporting, the effectiveness of the operations and efficiency of compliance with applied laws and regulations, (Nour Al-Din, 2015; Jomaa, 2010). The organizational plan, coordination means and the applied standards in the project aiming at protecting its assets, controlling and reviewing accounting data, ensuring its accuracy and reliability, furthermore, increasing production efficiency and encouraging employees to adhere to the established administrative policies" (AICPA, 2014). COSO committee had defined internal control as "a process that is designed to provide an appropriate confirmation of the effectiveness and efficiency of operations processes and the possibility of trusting in the financial statements and abide by laws and regulations" (COSO, 2013; Wilford, 2012).

2.2. Types of Internal Control

Accounting Control

Accounting control represents a set of measures aimed at protecting assets and ensuring the reliability of the financial statements and ensures its preparation in accordance with the by-laws, laws and regulations (Ranglin, 2014). It is attached to procedures and methods of accounting that are aimed

at maintaining assets to verify the accuracy of the accounting data used in accounting records "(Salam, 2014), tracking the necessary procedures to provide correct and accurate financial information that can be relied on by the entity for the purposes of planning and making the necessary decision to achieve the company's goals, such as preventing waste and misuse of company resources, this is done by working on providing financial and accounting system which is designed in an appropriate manner that can monitor, follow-up, and protect the resources, property and assets of the company, and to ensure its existence, and that their use is conducted in an appropriate manner without exceeding policies, laws and regulations of the company, in addition to a system concerning with inventory matters and yearly settlements that are performed at the end of the fiscal period, and the obligation to prepare reports, analytical sheets, and the periodic and regular reviews of the monthly audit, in order to conduct compatibility between what is actually existing and what has been recorded in the books, as well as the process of performing periodic documentary audit and provide an adequate accounting system, internal check and internal audit, financial control and technical audit help for quickly and easily detect any existing error in the records (Al-Zoubi, 2014; Al-Thunaibat, 2010; Al-Sahen *et al.*, 2006).

Administrative Control

Administrative control includes the organizational chart, methods and procedures that specialize in productivity sufficiency and commitment to policies and set administrative decisions (Fattah and Mohamed 2012). These procedures are linked indirectly with the financial aspects, accounting records; this control involves the study of time and movement, the use of statistical methods and preparation of personnel training programs and quality control "(Nour Al-Din 2015-2016). It includes the necessary procedures to ensure that the company's property, human and material resources are used efficiently and effectively and thereby help to achieve goals in the lowest possible cost, adjust the waste and misuse of these resources, and to verify the extent of commitment of the company and all its employees to apply policies, laws and regulations related to the statutes of the company and domestic legislations governing its operations and activities (Nazmi, Al-Azab, 2012). This is achieved by working on the precise and clear definition of the main objectives to be achieved at the general level of the company, in addition to the sub – goals that should be achieved by the different departments within the organization, in order to achieve the overall objectives, and to match the objectives to be achieved with the company's capabilities, and work periodically by a mechanism involving all aspects of the company's own activity through conducting studies and estimated budgets include (expected sales and production needed to cover these expected sales, expenses and revenues) that will contribute to identify deviations and their causes and take appropriate solutions. In addition to the development of a system that includes policies, procedures and regulations to be followed and abide by, which covers all processes and aspects of the company, including incentives for employees, policies for the sale and purchase of materials, products and services pricing and production process, procedures and rules for the implementation of financial policies in the project in a way that helps to increase control over all activities and aspects of the company, allowing the achievement of objectives in a more efficient and effective manner, in addition to the design of a system through which to monitor and control the extent of compliance and adherence by staff at different administrative levels to implement all the steps associated with the implementation of items related to the organizational plan of the company, which will lead to the achievement of general and strategic objectives, furthermore, the design of a system that allows the provision of correct data and information that can be relied upon to make future sound decisions, that are not contradicted with the objectives and results to be achieved by the company (Al-Sahen *et al.*, 2006).

Internal Check

Internal control means "organizing work steps and determine the responsibilities among the employees of the entity, so that two or more persons are required to carry out any process, so that each person will review and monitor each other's work, in order to preserve the assets of the entity and its stock and to discover fraud and errors" (Salam, 2014; Al-Khatib, 2010). Internal check depends on dividing work while performing self - monitoring in order to achieve its objectives, and it also depends on determine the terms of reference, authorities and responsibilities (Thunaibat 2012).

2.3. Components of the Internal Control System

Internal control system consists of five core components: Control environment, Risk Assessment, Control Activities, Information and Communication and Follow-up or Monitoring (Pickett, 2010; COSO, 2013; Kinyua, 2016; Nour Al-Din 2015).

First: Control Environment

Control Environment can be defined as: "The general attitude of directors, management, and their awareness and actions related to the internal control system and its importance for the entity (Badara and Saidin, 2013), it include of what is considered by the board of directors of control procedures to enhance their ability to face with risks and ensure its effectiveness in achieving their specific goals (Frazer, 2012; McNally, 2014; Pickett, 2010).

Second: Risk Assessment

It is the identification and analysis of the related risks associated with the identification of the objectives set in the long-term performance plans and the policies and procedures used in the preparation of the financial statements and their conformity with generally accepted accounting standards (Thnibat and Kafous, 2012). It is necessary to analyze risks to identify their possible impact in terms of their importance and estimate the probability of their occurrence and how to manage and work to study these risks and develop solutions and alternatives to overcome or reduce the intensity to an acceptable degree (McNally, 2014; Nour Al-Din, 2015; Al-Husban, 2009; Badara and Saidin, 2013). Risks can be from within or outside the company (Al-Bawab, 2015).

Third: Control Activities

They are a set of policies and procedures established by the organization management and they include all methods, procedures and policies that give appropriate and reasonable assurance that the target goal has been achieved of the internal control system, and that the proper methods and procedures have been taken to overcome and face potential risks that the company could face (Frazer, 2012; Njeri, 2014).

Fourth: Information and Communication

Knechel *et al.* (2002) sees that information and communication element represents a link that connects the internal control system in all sections, activities and processes in the company. The efficiency, effectiveness and quality of the internal control system in achieving its objectives depend on the quality and effectiveness of the information system available in the company (Al-Shatrat, 2015; Al-Jard, 2013).

Fifth: Monitoring

It includes continuous monitoring and periodic evaluation of the various components of internal control structure to verify the effectiveness and efficiency of the internal control structure (Ali & Shehata, 2006; Hyde, 2011), and to determine the extent of its ability to achieve its goals (Fadilah and Al-Sharif, 2015).

2.4. The Objectives of Internal Control

It is necessary to work hard to ensure continuous monitoring of internal controls, in order to ensure that there are real controls and that they are working properly in order to achieve the following objectives (Ayagre *et al.*, 2014; Hassan, 2015; COSO: 2012).

1. Maintaining the assets from theft, embezzlement and misuse.
2. Ensure the use of the organization's resources efficiently and effectively without waste.
3. Achieve efficiency and effectiveness of the operational processes.
4. Reliability of financial reporting.
5. Compliance with applicable laws and regulations.

2.5. Internal Control Constraints

The most important constraints facing the application of the internal control system) is: (1) The high costs of the design of the internal control system and operating it; (2) Abuse of authorities and powers; (3) Overlook the mistakes and excesses to achieve personal interests; (4) The bias and lack of objectivity (Al-Krawi 2015; Qasim, 2014; Xiao, 2011). The sample answers of the internal auditors working in audit units and internal control in these companies for each type of internal control (Administrative, accounting and internal control) have been analyzed separately.

3. Methodology of research

3.1. Data Collection Methods

To achieve the objectives of the study, two types of data have been relied on which are: preliminary data; those data collected through a questionnaire and field study which is designed for the purpose of the present study, while secondary data was obtained from various sources as books, scientific studies.

3.2. The Study Tool

The study questionnaire consists of (3) main areas, as follows:

The First Field: Consists of a set of statements expressed the Effectiveness of the Implementation of the Administrative Control

The Second Field: It consists of a set of statements expressing the Effectiveness of the Implementation of Accounting Control

The Third Field: It consists of a set of statements expressing the Effectiveness of Internal Check

The researcher adopted Likert Standard Scale to measure the level of approval of the sample on the dimensions of the study and its fields, where he gave to each paragraph of the questionnaire five degrees of approval (5-1) respectively, which number (5) means, I agree very highly, and the number (4) I agree with a high degree, and the number (3) I agree moderately, and the number (2) I agree in a low degree, and the number (1) I agree in a very low degree.

The following criterion had been adopted to judge the arithmetic mean of the answer of the members of the sample on the paragraphs of the questionnaire:

Table 1. Criterion of arithmetic mean

arithmetic mean	1- 2.33	low degree approvals
	2.34 - 3.66	medium degree approval
	3.67 - 5	high degree approval

The Stability of the Tool:

To check the stability of the study tool, (Cronbach's Alpha) coefficient was extracted for internal consistency of all study measures (85%); which is acceptable values for the purposes of the study.

Statistical Methods: For the purpose of answering the questions of the study, and test its hypotheses, several statistical methods have been used represented in arithmetic means and standard deviations and (T) test.

3.3. The Study Population

The study population consisted of all Internal Auditors at Internal Audit Departments in the Jordanian shareholding companies, where (327) questionnaires were distributed to identify them randomly, (299) questionnaires were retrieved and after reviewing them, they show that there are (4) questionnaires are not valid for the statistical analysis, and this study sample consisted of (295) individuals.

3.4. Statistical Analysis

This part includes presenting the results of the field study and their analysis in the framework of the objectives and questions that have been previously identified, as follows:

First: The Effectiveness of the Implementation of the Administrative Control

Table 2. The arithmetic means and standard deviations for the answers of the sample for the dimension Implementation of an effective internal administrative control

The Phrase	mean	sd
The organizational structure explains the responsibilities and duties clearly	3.11	0.65
Clear practical procedures to achieve maximum productivity	3.00	0.71
There is a program to monitor product quality and performance	3.80	0.59
Monitor the execution of all decisions and working procedures to ensure that they comply with the policies governing them	3.90	0.67
There is a control to ensure the implementation of works according to studies of time and planned movement	3.22	0.92
The implementation of staff training programs is continuously pursued	3.00	0.87
Ensure that the company's resources are managed efficiently	3.78	0.79
The company's assets are monitored to ensure that they are protected and prevent waste	3.88	0.85
Ensure compliance of employees with laws, legislations and internal regulations	3.90	0.77
There is a clear definition of goals so that they are verified	3.98	0.56
Ensure the implementing of work in accordance of the pre - prepared budgets, for example, (the actual sales volume commensurate with the sales budget)	3.51	0.78
Ensure that the process of buying and selling the materials is conducted according to the prepared policies	3.57	0.86
Ensure that granting incentives are in line with the company's policies and instructions	3.02	0.66
All phrases	3.51	0.66

Table 2 shows that effective administrative control procedures are implemented, to a moderate extent, where the mean of sample responses (3.51). The highest mean of the term was clearly defined for the objectives to be ascertained (3.9) and lower (3.02) for ensuring that the incentives were in line with the company's policies and instructions.

Second: The Effectiveness of the Implementation of Accounting Control

Table 3 shows that the implementation of effective internal accounting control is carried out to a medium extent, where the mean of sample responses (3.49). The highest mean of the answers to the words carried out inventories of the Fund and the various assets to ensure that they exist in the mean (4.55) and were the lowest mean of the term accounting system can implement the procedures of monitoring and tracking accounting operations in the middle of the account (3.01).

Table 3. The arithmetic means and standard deviations for the answers of the sample for the dimension Implementation of an effective Implementation of an effective internal accounting control

The Phrase	mean	sd
Accounting information is reliable to implement internal control	3.50	0.75
Monthly review is prepared periodically and constantly	4.00	0.83
Follow the procedures of accounting compliance to make sure that the balances are correct	3.80	0.90
International Accounting Standards are adopted in the preparation of financial statements	3.03	0.77
The accounting system can implement the procedures of monitoring and tracking accounting operations	3.01	0.87
Implementing control procedures to ensure correct treatment, accounting and settlement	3.90	0.65
Analytical statements are prepared to verify the correctness and conformity of the balances	3.15	0.99
Ensure that accounting processes are consistent with financial legislations	3.00	0.96
The implementation of the periodic documentary audit	3.56	0.65
The technical financial control procedures are implemented in a systematic and planned manner	3.88	0.76
Carry out inventories of the fund and various assets to ensure their existence	4.55	0.81
All phrases	3.49	0.71

Third: The Effectiveness of the Implementation of Internal Check

Table 4 indicates that a highly effective internal check is implemented, Where the mean of the sample responses (3.76). The highest mean (4.08) for the division of work is confirmed and each section is monitored, while the lowest mean (3.22) words that ensure compliance with risk management system for each department.

Table 4. The arithmetic means and standard deviations for the answers of the sample for the dimension Implementation of an effective internal check

Phrase	mean	sd
Ensure that there is a separation of persons' tasks, so that the person does not have the ability to acquire and dispose of assets at the same time	3.99	0.77
Ensure that the person carries out the process and that a different person will monitor the process	3.95	0.85
Ensure the implementation of separating of tasks to be distributed to persons in accordance with the terms of reference	3.77	0.61
Ensure the adequacy of authorities and responsibilities and monitor the performance of each person according to his responsibilities	3.93	0.82
Ensure that there is no overlap in the authorities between different departments	3.54	0.69
Ensure dividing the work and that each department is being monitored	4.08	0.60
Ensure the functioning of work in different departments properly	3.71	0.89
Ensure that each department follows its specific work manual	3.53	0.98
Ensure that each section adheres to the risk management system	3.22	0.77
Ensure that the operations are carried out by the persons granted this authority	3.88	0.79
All phrases	3.76	0.73

4. Results related to test the hypotheses of the study

The First Hypothesis: An effective internal administrative control is not implemented in the Kuwaiti shareholding companies.

Table 5 indicates the result of test (T) for this hypothesis, where the value of (T) calculated (13.01) and the value (T) tabulated (1.96).The fact that the value of (T) calculated is greater than the tabular value of T, and concludes that it rejects the null hypothesis, In the sense that effective internal administrative control is carried out in the Kuwaiti joint stock companies

Table 5. (T) test an effective internal administrative control

Hypothesis	mean	T	sd	SIG
An effective internal administrative control is not implemented in the Kuwaiti shareholding companies.	3.51	13.01	0.66	0.00

The Second Hypothesis: An effective internal accounting control is not implemented in the Kuwaiti shareholding companies.

Table 6 indicates the result of test (T) for this hypothesis, where the value of (T) calculated (11.83) and the value (T) tabulated (1.96).The fact that the value of (T) calculated is greater than the tabular value of T, and concludes that it rejects the null hypothesis, In the sense that effective internal accounting control is carried out in the Kuwaiti joint stock companies.

Table 6. T test for an effective internal accounting control

Hypothesis	mean	T	sd	SIG
An effective internal accounting control is not implemented in the Kuwaiti shareholding companies.	3.49	11.83	0.71	0.00

The Third Hypothesis: An effective internal check is not implemented in the Kuwaiti shareholding companies.

Table 7 indicates the result of test (T) for this hypothesis, where the value of (T) calculated (17.88) and the value (T) tabulated (1.96).The fact that the value of (T) calculated is greater than the tabular value

of T, and concludes that it rejects the null hypothesis, In the sense that effective internal check is carried out in the Kuwaiti joint stock companies

Table 7. T test for an effective internal check

Hypothesis	mean	T	sd	SIG
An effective internal check is not implemented in the Kuwaiti shareholding companies.	3.76	17.88	0.73	0.00

5. Conclusions

The study found the following conclusions:

- The implementation of internal control procedures in Kuwaiti shareholding companies with their administrative, accounting and internal check are conducted moderately, where arithmetic mean had reached (3:49).
- The implementation of the internal check effectively was the largest and with a high degree, followed by the implementation of administrative control with moderate effectiveness and in the last rank was the accounting control in terms of the effectiveness of implementation and it was moderate as well.

Recommendation

The study recommends the following:

- Higher managements shall give more attention to the administrative and accounting control, and take the necessary procedures to enable the internal auditors to implement it in a way that leads to raise the level of its effectiveness.
- Strengthening control over the risk management system through ongoing tests for the effectiveness of the procedures and controls.
- Development of accounting systems to improve the possibility of implementing the monitoring procedures and follow the accounting operations by internal auditors.

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