

THE EFFECT OF COMMITMENT TO THE PRINCIPLES COSO CONTROL IN REDUCING THE CONTROL RISK AN EMPIRICAL STUDY IN JORDANIAN BANKS

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Abstract

This study aimed to identify the extent of the impact of the application of coso principles of regulatory reduction in control in the Jordanian commercial banks risk, has been preparing a questionnaire contains questions about coso principles and reduce control risk, where they were distributed (8) questionnaires on each bank of (9) Bank, were excluded (6) banks do not apply regulatory principles contained in the report coso, It was recovery (60) to identify valid for statistical analysis, the researcher used SPSS for data analysis and hypothesis testing, it has been the most important findings of the study that most of coso principles of the regulatory work to reduce internal control risks in Jordanian banks. The main recommendations of the study the importance of having a supreme control body in Jordan that supervises the commitment of applying the international control principles.

Keywords: Jordanian banks, COSO, Risk of control, Control activities, Jordan

INTRODUCTION

The Jordanian banks conduct many banking and social services and relatively contribute to achieving the social welfare to the Jordanian society directly or indirectly; Jordanian banks work on improving their operational performance through paying attention to all the aspects and areas of banking performance where they control their operational performance through

commitment to the internal control regulations determined by the facility management and through global control regulations like COSO report of internal control; due to the fact that the job of the banks depend on the liquidity of banks and investments, the control risks on performance may exist; therefore, the researcher studies the effect of the commitment of the Jordanian banks with COSO report on reducing the control risks (<http://ic.coso.org/provide-feedback.aspx>).

Study Problem

The Jordanian banks always seek to improve the rate of return on equity through paying attention to the profitability and liquidity rates and through improving the performance of their employees; they update their accounting and administrative systems in order to avoid irregularities leading to the occurrence of cases of embezzlement, fraud or manipulation; therefore, the departments of Jordanian banks are interested in developing the internal control systems of all the aspects of the job and they encourage adopting international governance principles, such as the control principles of COSO which stands for the Committee of Sponsoring Organizations of the tread way Commission's internal control - Integrated Framework (COSO) that was released in 1992 and then it was updated in 2013.

Study Question

The study problem can be formulated by asking the following question:

Does adhering to the control principles of COSO reduces the risks of Jordanian banks?

Study Objectives

The study aims to achieve the following objectives:

1. Identifying the control principles of COSO, issued by the Committee of preparing the control report of COSO and its amendments.
2. Identifying the control risks faced by the Jordanian banks.
3. identifying the impact of adherence to the control principles of COSO on reducing the control risks in the Jordanian banks.

Study Importance

The importance of the study stems from the importance of recognizing the international control systems like COSO report, which is keen to develop the control performance in business organizations in general; it is one of the most important priorities of banks in addition to controlling performance because of the high banking risks, which depends on liquidity and

financial risks, whose risks are high; according to the above, studying the effect of commitment to the control principles of COSO on reducing the control risks in the Jordanian banks is of great significance for the bank management and other economic sectors.

The hypothesis

In light of the study and its objectives, it can be a problem formulation study hypothesis as follows:

There is no effect of the application of the internal control principles of coso in reducing Jordanian banks risks.

PREVIOUS STUDIES

Study (Azmi, 2015) entitled "The impact of the application of the principles of corporate governance in improving internal controls in the Kuwaiti insurance companies", "This study aimed to identify the corporate governance principles issued by the Capital Markets Authority of the State of Kuwait and the level of application of the insurance companies listed on the market Kuwaiti money, and to achieve the objectives of the study were a form of the questionnaire is designed and distributed to a sample of 54 employees of the internal auditors, financial managers and heads of departments working in the Kuwaiti insurance companies listed on the Kuwaiti Stock market, The most important findings of the study was that there is the effect of the accounting system of government used in the Jordanian Ministry of Finance on the possibility of applying accrual basis and by (72.8%). The most important recommendations of the study to develop a system of accountability and oversight actors on all activities of the state so as to provide accurate data that can be referenced to control the activities of various levels.

Study (silmi, 2014) entitled " the contribution of Coso report to the improvement of the internal control in industrial companies listed on the Amman Stock Exchange." The study aimed to identify the impact of the principles of coso report to the improvement of the internal control systems in the Jordanian industrial companies, the study population is made up of industrial companies of Jordan was selected a random sample of departments of accounting and internal control personnel were distributed 110 questionnaires were recovered (100) questionnaire are subject to statistical analysis, it has been the most important findings of the study that the principles of coso regulatory largely supports the internal control system in the Jordanian industrial companies, and the most important recommendations of the study to be some financial variables examined before and after the application of self-coso to observe the effect of commitment on these variables.

Study (khadash, al-sartawi, 2010) entitled "the contribution of autonomy items mentioned in the Law Serpens-Oxley in strengthening the independence of the legal accountant Jordan and its impact in the reduction of the expectations gap, a field study from the point of view of both the financial statements and financial investors Checker." This study aimed to investigate the extent of the contribution of independent items mentioned in the Law Serpens - Oxley American in the expectations gap, and to achieve the objectives of the study was to develop a questionnaire was distributed to a sample of auditors and investors, founders, and the researchers using a combination of statistical methods and descriptive (t-test) per sample and (T) test samples, this study found many of the results, The most important contributions of the existence of effective independence to the instructions contained in the law to reduce the expectations gap and that there are differences statistically significant differences in the views of the study sample about the contribution of independence instructions in the law to reduce that gap. In light of the results of the study researchers recommended several of the recommendations of the most important of the need to educate the community to the concept of the independence of the auditor, and do so by the authorities supervising the auditing profession to hold scientific conferences on the importance of independence and its concept.

RESEARCH METHODOLOGY

Trace study descriptive and analytical approach, through the described phenomena related control systems contained in the coso report, as well as describe the phenomena of reducing censorship in Jordanian banks risks, has been related data collection study phenomena through two aspects: Secondary sources: They gather information from reference books and the Internet and that relate to the themes of internal control and risk control sources. And, Primary sources: It is a collection of data through a questionnaire that was designed and developed through their preparation on the basis of references and books and then arbitration this resolution viewing on arbitrators from Jordanian universities and the number (6) arbitrators academics in Balqa Applied University and Yarmouk University.

Data collection instrument

The resolution contained a number of questions dealing with the areas of study through detail the following: The first field: the regulatory principles contained in the report coso and the number of questions (10). The second field: reducing the risk of censorship and the (10) questions. Likert scale was used in order to determine the arithmetic mean of the answers respondents to questions from the study and carrying weights following: (Strongly agree 5

degrees, agree 4 degrees, neutral 3 degrees, don't agree 2 degrees, Strongly Disagree 1 degree).

Table 1. Degrees Likert scale Quintet (Likert Scale) used in the study tool

| The degree of the scale | Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|-------------------------|----------------|--------|---------|----------|-------------------|
| The degree of approval | 5 | 4 | 3 | 2 | 1 |
| The relative weight | %100-81 | %80-61 | %60-41 | %40-21 | %20-0 |

As it has been the use of the Statistical Package for the program for the humanities and social sciences SPSS, in order to analyze the data and test hypotheses.

Population and Sampling

The study sample and the unity of analysis: is the study population all Jordanian banks and number (15) banks, were excluded (6) banks because of its commitment to implement censorship principles contained in coso report, it was distributed (8) questionnaires on each bank by (72) questionnaire and were excluded (12) questionnaire incomplete, was to recover (60) questionnaires are subject to statistical analysis, either study sample consists of departments of accounting and internal control in these banks, while the unit of analysis to understand the words of individuals who have been the questionnaires they distributed and who answered questions from the questionnaire.

Analytical Tools

Alpha Cronbach test: This test explanation for the consistency of the questionnaire and thread paragraphs internally, and show the strength of the resolution and the interdependence of its clauses, so that if it returned, one of them answered the same questionnaire in the same conditions gave the same results, and if the ratio of Cronbach alpha of 60% or more, this indicates the resolution and stability coherence and consistency internally well (molhatra, 2004, p268), the following table shows the Cronbach alpha coefficient for fields of study individually and for the tool completely.

Table 2. Internal consistency coefficient Cronbach's alpha for fields of study

| Field title | number of Questions | Reliability coefficient |
|--|---------------------|-------------------------|
| Coso principles of internal control. | 10 | 81% |
| Internal control risks in Jordanian banks. | 10 | 76% |

Seen from the above table that there is a large internal consistency between the paragraphs of the questionnaire individually and between full-resolution where the percentage of Cronbach alpha 80% of the tool study in general, and this confirms the strength and coherence of the questionnaire and internal coherence and stability.

Content Validity: Honesty is intended to express the extent of the paragraphs of each area of study for the area to which it belongs, has focused attention on making sure that every area of study accurately representative of a group of paragraphs that belong to him, and that these paragraphs actually measure this area (Sekaran, 2013), was measured sincerity resolution content by measuring the relationship between each paragraph and the area to which it belongs by using the Pearson correlation coefficient Person coefficient of correlation, has adopted a correlation of more than (30%), The task of statistical significance at the significance level ($0.05 \geq \alpha$) table (3) of these relations.

Table 3. Special measuring the content of the paragraphs of the areas of study sincerity Pearson correlation coefficients

| Field | Average paragraphs correlation coefficient | Number of paragraphs | The level of significance | |
|--|--|----------------------|---------------------------|--------|
| Principles of control contained in the report coso | 0.565 | 10 | 0.000* | First |
| Reduce the risk of internal control. | 0.646 | 10 | 0.000* | Second |
| Full resolution | 0.644 | 20 | 0.000* | Total |

Statistically significant at the level of ($0.05 \geq \alpha$)

The previous table shows the results of the Pearson correlation coefficient between the vertebrae and fields of study variables, and review the values of correlation coefficients and levels of significance and shows no statistically significant relationship at the significance level ($0.05 \geq \alpha$) area between vertebrae, which indicates the presence of structural sincerity of these paragraphs

The standard of materiality: The researchers With regard to the limits adopted by this study, when commenting on the arithmetic mean of the variables contained in the thesis, which was adopted on the following criteria:

Table 4. Analytical Criteria

| | |
|--|--------|
| Greater extent in Likert scale poses - a lesser extent in Likert scale | 5-1= 4 |
| Dividing the unit of analysis directions levels | 3 |
| Term | 1.33 |

So it is the study sample low trends whether between (1-.2.33), and moderate (2.34- 3.66), and high (3.67- 5).

ANALYSIS AND FINDINGS

Analysis and discussion of the trends of the study sample on the commitment of the Jordanian banks to the control principles of COSO

Arithmetic means, standard deviations, and the level of importance of the item and the field of the commitment of the Jordanian banks to a selected group of internal control principles of the COSO report.

Table 5. Group of internal control principles of the COSO report

| Paragraph | mean | S.D | Sig |
|---|------|------|------|
| 1- The control policies consist of the policies and procedures that ensure that staff implement the trends of the administration. | 3.88 | 0.89 | High |
| 2- the external auditors should inform the Audit Committee of any important defects for the internal control which could affect the financial reporting. | 3.83 | 0.76 | High |
| 3- There are general control procedures covering software and the development of the existing control system. | 3.78 | 0.65 | High |
| 4- There is a commitment to the applied control procedures that prevent the admission of errors in the system or discovering and correcting the errors of the system. | 3.76 | 0.47 | High |
| 5- The Management monitors the control system by reviewing the outputs generated by the regular control activities | 3.74 | 0.65 | High |
| 6- The management is responsible for the formulation and control of the internal control system and maintaining it. | 3.74 | 0.47 | High |
| 7- Internal and external information related to the internal control are provided. | 3.72 | 0.65 | High |
| 8- The internal control is considered an integral part in the continuous activities of the business facility. | 3.69 | 0.47 | High |
| 9- The control activities include the reviews of the control system in a continuous way. | 3.68 | 0.65 | High |
| 10- Defects discovered during the ordinary control activities are reported to the supervisor in charge. | 3.68 | 0.47 | High |
| Total | 3.81 | 0.54 | High |

Through Table (5), we understand that the trends of the study sample ranged between (3.68-3.88) that most control items in the COSO report were adhered to by the sample; the most acceptable item was: "The control policies consist of the policies and procedures that ensure that staff implement the trends of the administration" by an arithmetic mean of (3.88), which comes in the high acceptable degree; its standard deviation was (0.89), which is high; this item indicates that the regulations of COSO report were taken into consideration since there are control activities based on specific plans aiming to study all the operational activities in the bank and select the job procedures; later, the banks' managements identify the control policies of the bank in general demanding employees to be committed in applying them; accordingly, the control rules based on the bank's administration is considered the first party responsible for the supervisory policies and procedures at the bank.

Item "the external auditors should inform the Audit Committee of any important defects for the internal control which could affect the financial reporting" came in the second rank due to importance where the arithmetic mean was (3.83), which falls within the high degree and the standard deviation was (0.76), which is high; this item can be explained by stating that there is a great interest by the COSO committee regarding the control offences and that the sample believes that the bank management emphasizes the need to abide by the fact that the external auditors disclose the irregularities that may have prompted a decline in the control procedures; reporting deficiencies should be the responsibility of the audit Committee.

In general, the arithmetic mean of the field as a whole was (3.81), which is considered high while the standard deviation was (0.54), which is also high; this result confirms that the members of the sample confirm the commitment of the Jordanian banks with the principles of the internal control of the COSO report; this is illustrated by the presence of a supreme audit committee at the bank; also, the importance of adhering to the principles of the COSO report lies in focusing on the role of the management in identifying and drawing the control policies at the bank.

Analysis and discussion of the viewpoints of the study sample on the field of reducing the control risks

Table (6) shows the arithmetic means, standard deviations, and the level of the importance of the item and the field for the field of reducing the control risks in the Jordanian banks; the following table illustrates this.

Table 6. Internal control risks

| Paragraph | mean | s.d | Sig |
|--|------|------|------|
| 1- There is a major audit committee with known duties and tasks emanating from the Board of Directors. | 4.12 | 0.47 | High |
| 2- The Bank's management determines the paper tasks for each employee and function. | 4.08 | 0.65 | High |
| 3- There are no differences in the functional tasks between the required task and the job which was accomplished. | 4.00 | 0.47 | High |
| 4- There are control procedures related to each section of the bank. | 3.98 | 0.65 | High |
| 5- The Internal Control Department is committed to achieving all the required and planned goals. | 3.87 | 0.47 | High |
| 6- There is a follow-up from the bank's management for the control bodies in the bank | 3.84 | 0.65 | High |
| 7- There are modern computerized and administrative management systems in the bank. | 3.82 | 0.88 | High |
| 8- Experts from outside the bank are used to improving the procedures and reduce errors in the computerized systems. | 3.80 | 0.43 | High |
| 9- The computerized systems in the bank are continuously developed | 3.77 | 0.89 | High |
| 10 A strategic plan is addressed to face and solve all the mistakes and fraud in the bank. | 3.73 | 0.47 | High |
| Total | 3.86 | 0.89 | High |

the table above shows that the answers of the study sample on the reduction of the control risks in the Jordanian banks were high in terms of the relative importance that the answers of the study sample were from (3.73-4.12), and that the study sample considers the information contained in the questions of the study as important points in reducing the control risks.

Item "There is a major audit committee with known duties and tasks emanating from the Board of Directors" came in the first rank and the arithmetic mean was (4.12) within a high degree and the standard deviation was (0.47); this item was explained as being clear regarding the presence of an audit committee and a supreme internal control of the board of directors provided that they are not of the executive members; such committee conduct their control activities that will maintain the quality of the banking control performance working to activate the proper functioning of the bank to ensure less possible risks in the control performance.

Item "The Bank's management determines the paper tasks for each employee and function" ranked second in terms of importance; the arithmetic mean was (4.08), which is high and the standard deviation was (0.65); this item determines that the control procedures begin from determining the job tasks where the control performance cannot be controlled without determining the functions and responsibilities of the employee; the bank's management can activate the methods of controlling the performance of employees through comparing the job

that was implemented with the tasks entrusted; reducing the control risks starts from the quality of the employees' performance and the extent of employees' attention to protect the control system in general.

The arithmetic mean of the field as a whole was (3.86), which is high; this means that the sample is totally convinced that the control procedures of the bank work on reducing the internal control risks; the professional control job and the developed control systems control the job and develop the quality of performance at the bank; the standard deviation was (0.89), which indicates a lack of dispersion in the answers of the study sample on the field of reduction of the control risks in the Jordanian banks.

Testing study hypothesis

This hypothesis states that "commitment to the control principles of COSO does not affect reducing the control risks in the Jordanian banks". To test this hypothesis, simple Regression analysis was used. The table below shows the results obtained when testing this hypothesis.

Table 7. Results of Simple regression test for the effect of internal control principles contained within COSO report on reducing the internal control risks in the Jordanian banks

| Independent variable | Significance level | R^2 coefficient of determination | β_i Regression coefficient | calculated T | tabular T | statistical decision |
|---|--------------------|---------------------------------------|-------------------------------------|--------------|-----------|---------------------------|
| The principles of internal control contained in COSO report | 0.000 | 0.11 | 0.332 | 8.544 | 1.676 | Rejecting null hypothesis |

It is clear from the above table that the value of calculated (T) amounted to (8.544), while its tabular value was (1.676) through comparing the values that have been reached in testing this hypothesis, it was clear that the calculated value is greater than the tabular value, so the null theory was rejected and the alternative hypothesis, which states that, "commitment affects the control principles of COSO on reducing the control risks in the Jordanian banks" was accepted. This is confirmed by the level of significance (Sig) amounting to (0.000), which is lower than the level of significance (5%); the β_i level of influence was (0.332), which is explained by the fact that the control COSO Principles affect reducing the control in the Jordanian banks, the study sample. The results also indicate that the variance of the principles of COSO control principles explains (0.11) of variance on reducing the internal control risks in the Jordanian banks risks,

and that there is (0.88) of changes that occur on reducing the control risks in the Jordanian banks due to other variables.

SUMMARY AND RECOMMENDATIONS

Below is the summary of the results:

- There is a failure in applying the control COSO principles by the Jordanian banks, where (9) banks only apply the control principles, which are recommended for by COSO report.
- Some of the members of the study sample do not realize the items of COSO report with the evidence of having 12 questionnaires which were not answered in complete.
- The Jordanian banks apply the COSO control principles through commitment with the control procedures.
- There are many control procedures established by the Jordanian banks to face the control risks.
- There is an impact for the application of the COSO control principles on reducing the control risks in the Jordanian banks where the most important influence is the presence of a supreme body for auditing and internal control.

On the basis of above findings, the study recommends the following:

- The importance of having a supreme control body in Jordan that supervises the commitment of applying the international control principles.
- The need the Jordanian banks prepare courses for workers in its control body to promote the ideas of the COSO control principles.
- The need of having an item in the report of the external auditor indicating the commitment of the Jordanian banks of the COSO control principles.
- The possibility of research in another economic scope and research on the impact of the commitment to the principles of coso on its financial performance.

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