# FINANCIAL MANAGEMENT SKILLS AMONG STAFF AND QUALITY OF FINANANCIAL REPORTING IN SELECTED COMMERCIAL BANKS IN MOGADISHU, SOMALIA

BY

ABDULRAHMAN AHMED MOHAMED

MBA/37934/123/DF

A THESIS REPORT PRESENTED TO THE COLLEGE OF HIGHER DEGREES AND RESEARCH IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION (FINANCE AND ACCOUNTING) OF KAMPALA INTERNATIONAL UNIVERSITY



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## DECLARATION

"This thesis report was my original work and has not been presented for any degree or any other academic award in any university or institution of learning".

Abdulrahman Ahmed mohamed

Name and Signature of Candidate

10 - 11 - 2014

Date

## APPROVAL

"I confirm that the work reported in this thesis was carried out by the candidate under my supervision".

Dr. SSendagi Muhammad (Supervisor)

10th /11/2014

Date

## DEDICATION

I dedicate this research to my beloved immediate family, parents and my supervisor for all the love, understanding, encouragement, material and moral support, without them my studies would not have been a success. To my dear brothers and sisters together with my colleagues and friends, I love you all.

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## ABSTRACT

The Purpose of the Study was to establish the relationship between financial management skills among staffs and quality of financial reporting in selected commercial banks in Mogadishu Somalia. Four research objectives have been formulated to guide the study namely to determine the level of financial management skills among staff of the selected commercial banks, to determine the quality of reporting in selected commercial banks, to determine if there is relationship between the level of financial management skills and the level of quality of financial reporting in selected commercial banks. The study was based primarily on descriptive and co-relational design as well as quantitative methodology. The population was 110 employees of selected commercial banks and a sample has been taken using Slovene's formula. The sample of 101 employees was drawn and purposive sampling has been used and questionnaires and observations have been used as research instruments. The findings indicated that the sample was dominated by male staff (55.4%) over female staff (44.6%). Majority were aged between 30-40 years (62.4%), most of them had a Bachelor's degree (78.2%) whereas majority of them had worked for 5-7 years (52.2%). Also data analysis showed that there is a significant correlation between level of financial management skills and quality of financial reporting. The researcher also recommended that commercial banks of Mogadishu Somalia to always carry out book keeping automatically and this will help them improve on their book keeping skills, the staffs of commercial banks in Mogadishu Somalia should always consider time of recording cash as an important factor when managing cash and should always deliver the accounting information in a timely manner and this will make their financial information reliable.

# CHAPTER ONE

## 1.0 Introduction

This chapter described the background of the study in terms of historical, theoretical, conceptual and contextual perspectives. It also described the research problem, the statement of the problem, purpose of the study, research objectives, research questions, scope of the study and its significance.

## 1.1 Background of the Study

### 1.1.1 Historical perspective

Somalia has been without a formal commercial banking and financial institutions sector since the overthrow of Siad Barre's government in 1991. Immediately prior to the civil war, Somalia's formal financial sector was composed of Central Bank of Somalia, Commercial and Savings Bank (in itself created through government's forced consolidation of a number of banks), Somali Development Bank and State Insurance Company. Very little information is available about the intermediation performance of banks prior to 1990. By 1991 these institutions had collapsed either as a result of bankruptcy or as a result of the collapse of state infrastructure. Historically, the Somali banking system is reported to have been plagued by excessive government involvement and mismanagement. In the absence of a formal financial sector in Somalia, the informal financial sector has, to some extent, filled this void. The latter has traditionally been comprised of remittance companies.

The remittance sector in Somalia dates back several decades. The scale and scope of remittances has been closely linked to Somalia's role as a source of labour for the Arabian Gulf and to the Somali Diaspora that has mushroomed in the West.17 Civil unrest, insecurity and absence of a formal banking sector have been the obstacles to economic development. Even though the remittance sector plays a vital role in the current Somali economy, the existing financial sector can be characterized by the following; Virtual lack of financial intermediation i.e. deposit-taking and lending through financial intermediaries, although some limited lending does take place through non-governmental organizations in form of micro-finance; the economy is predominantly cash-based and lack of public confidence in a banking system especially where the government was a key player. This was not surprising given that the public has lost their monies in the past. Hence, the revival of the banking system was depending on regaining public confidence to a very large extent, the provision of very limited banking services, such as money transfers, foreign exchange and deposit facilities, provided by the remittance companies operating informally. Perks & Smith (2006).

### 1.1.2 Theoretical perspective

The theory of financial accounting and reporting of Agostino et al., (2011), stated that the financial accounting information, in the form of financial statements, should provide information that was useful for making business and economic decisions. Because the purpose of financial accounting was related to making business and economic decisions, financial accounting was more of an externally focused process than many business owners realize. The underlying theory that financial reporting should provide useful information for decision-making also recognized that reporting does not exist out of the economic, legal, political and social environment that the company operates in and where the reporting takes place. Said differently, underlying theories of accounting recognize that accounting rules must be flexible enough to allow change as the environment changes Aharony et al., (2010),

### 1.1.3 Conceptual perspective

Financial management, however, can be defined as the management of the finances of a business / organization in order to achieve financial objectives Armstrong et al., (2010). Taking a commercial business as the most common organizational structure, the key objectives of financial management would be to create wealth for the business, to generate cash, and to provide an adequate return on investment bearing in mind the risks that the business is taking and the resources invested. According to Prof. Bradley, "Financial management was the area of business management, devoted to a judicious use of capital and a careful selection of sources of capital, in order to enable a spending unit to move in the direction of reaching its goals. Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise Liao and Wu (2010).

According to the International Integrated Reporting Council (IIRC), financial reporting could be defined as the periodic process of providing information in financial statements (including the notes thereto) about the financial position and performance of a reporting entity to parties (users) external to that entity to assist them in making informed decisions about allocating scarce resources. This was not intended to be a technical or complete definition of financial reporting, but it was one which was consistent with the Conceptual Framework employed in IFRS and Australia and one which can assist in understanding the borders of financial reporting in contrast to other forms of reporting. The Corporations Law requires a "financial report" and stipulates its contents as including financial statements, the notes thereto and the directors' declaration. Reports that do not fall within this definition, including the Directors' report (as opposed to the Directors' declaration), and the management commentary are outside of the financial statements and the scope of auditing (Royston & Miller, 2010).

### 1.1.4 Contextual Pperspective

The study took place in Mogadishu Somalia where most Banking institutions are reported to have poor quality financial reporting among staff (Central Bank of Somalia, 2011). A more recent survey by the Association of bank Institution in Somalia showed that over 80% of bank institutions have failed to report as required by the International Financial reporting minimum standards (IFS).

The poor quality financial reporting among staff in Somalia has worsened the performance of many commercial banks in Somalia e.g. Mustaqbal bank started 2006 closed in 2010 and Quran started 2005 and expanded rapidly, regionally but closed in 2011 and Olympic bank started 2000 and closed in 2011, Central bank Somalia explained that the main cause of banks failure is due to poor quality of financial reporting. The questions that arise in such a situation are. Why is the quality of financial reporting among staff in banks poor? What can be done to improve financial reporting?

Seeking to provide answers to such questions motivated the researcher to carry out a study to establish the influence of financial management skills on quality of financial reporting among staff in commercial banks in Mogadishu Somalia.

## 1.2 Statement of the Problem

Financial management skills among staff are so far ignored by many financial institutions as a key factor that influence the quality of financial statements and hence decision making. In some institutions, in selected banks for example, it has been found that each year significant amounts are used to support trainings of staff in various fields such as Marketing, Customer care, English language, ICT (Information Communication Technology) but no amount is allocated to the training of staff in financial management while quality of financial reporting is not often properly done. Callao et al., (2007), as a result ineffective decisions are made by senior managers based on wrong or incomplete data provided by non-skilled staffs and this represents a serious challenge regarding the growth of these institutions. However, this study is mostly interested in investigating how financial management skills can impact on the quality of financial reporting among staff in selected commercial bank in the context of Somalia commercial banks.

## 1.3 Objectives of the Study

*General*

To correlate financial management skills and quality of financial reporting in selected commercial banks in Mogadishu Somalia.

*Specific*

i. To determine the extent of financial management skills among staff of the selected commercial banks in Mogadishu, Somalia.
ii. To determine the extent of quality of financial reporting in selected commercial banks in Mogadishu Somalia.
iii. To determine if there is a significant relationship between the extents of financial Management skills and the extent of quality of financial reporting in selected commercial banks in Mogadishu, Somalia.

## 1.4 Research Questions

i. What was the extent of financial management skills among staff of the selected Commercial banks in Mogadishu, Somalia?

ii. What was the extent of quality of financial reporting in selected commercial banks in Mogadishu, Somalia?

iii. Was there a significant relationship between the level of financial management skills and the level of quality of financial reporting in selected commercial banks in Mogadishu Somalia?

### 1.5 Hypothesis

There was a significant relationship between the extent of financial management skills and the extent of quality of financial reporting among selected commercial banks in Mogadishu Somalia.

### 1.6 Scope

#### 1.6.1 Geographical Scope

The study was conducted in selected commercial banks such as Salaam Somali Bank, International Bank of Somalia and Amal bank in Mogadishu Somalia.

#### 1.6.2 Content Scope

The study determined the profile of respondents in terms of age, gender, and education level, area of specialization, professional qualification, working experience, and job/employment position. It also determined the extent of financial management skills in terms of book keeping skills, budget skills, statement of financial position skills, income statement skills, statement of changes in equity skills, statement of cash flows skills, notes to financial statement skills, other financial reporting, cash management skills and accounting software skills. It also looked at the extent of quality of financial reporting in terms of understandability, relevance, materiality, reliability, substance over form, prudence, completeness, comparability, timeliness and balance between benefit and cost.

#### 1.6.3 Theoretical Scope

The financial accounting and reporting theory of John Freedman (1998) was used in this study, it stated that the financial accounting information in form of financial statements should provide information that is useful for making business and economic decisions. The underlying theory that financial reporting should provide useful information for decision-making also recognizes that reporting does not exist out of the economic, legal, political and social environment that the company operates in and where the reporting takes place. Said differently, underlying theories of accounting recognize that accounting rules must be flexible enough to allow change as the environment changes.

### 1.6.4 Time scope

This study covered for a period of three years from 2010 to 2013.

## 1.7 Significance of the Study

The findings of this study would be beneficial to the following people and institutions:

Somalia commercial bank;

The Somalia commercial bank would appreciate the importance of skills among staffs and how it affected the quality of financial reporting.

To the Bank operators;

The bank operators were understood the crucial role played by financial reporting and how they can improve its methods of preparation and reporting for better decision making.

The human resource managers in these banking institutions were implementing an effective staff development strategy with focus on the relevant skills.

The future researchers were utilizing the findings of this research to embark on a related study.

# CHAPTER TWO

# REVIEW OF RELATED LITERATURE

## 2.0 Introduction

This chapter comprised of the theoretical review, conceptual frame work and review of some related literature.

## 2.1 Theoretical Review

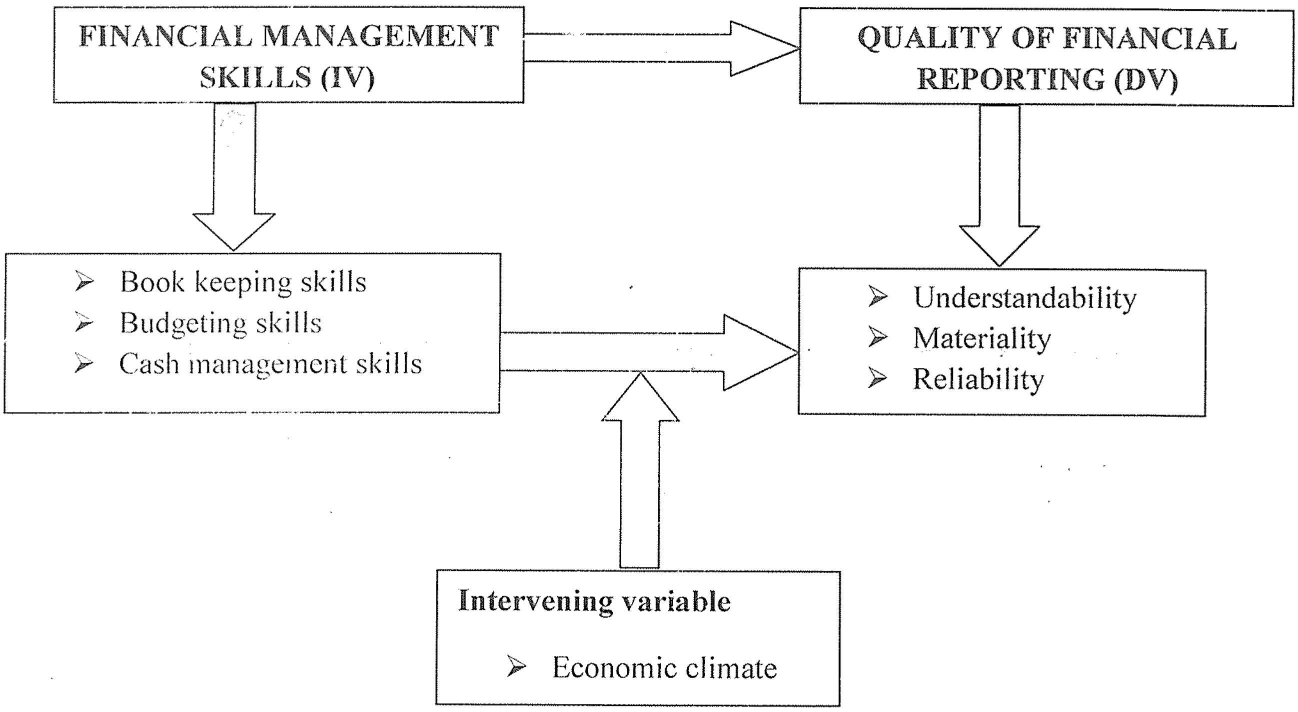
This study was based on Agostino et al., (2011) theory of financial accounting and reporting which states that the financial accounting information, in the form of financial statements, should provide information that is useful for making business and economic decisions. The researcher also used this theory after confirming that it is in line with the study where it stated that the purpose of financial accounting is related to making business and economic decisions, financial accounting is more of an externally focused process than many business owners realize. The underlying theory that financial reporting should provide useful information for decision-making also recognizes that reporting does not exist out of the economic, legal, political and social environment that the company operates in and where the reporting takes place. Said differently, underlying theories of accounting recognize that accounting rules must be flexible enough to allow change as the environment changes Ashbaugh, (2001),

In banking systems skilled people are also a key factor of any success. Despite that knowledge in financial management is one of the most required conditions during the recruitment of staffs performing the banking operations, continuous training is therefore of ultimate importance to allow them to smoothly performing their duties.

Thus performing banking operation does not simply require general knowledge in financial management but deep understanding for example of what financial statements are, their purpose, their methods of preparation, the financial reporting standards and principles, and financial terminology to allow managers to make proper decisions. So to know what is significant or inconsistent and to ask the right questions it is necessary to know something about accounting, about accounts and how they are prepared, what they tell you and what they don't Barth et al., (2008),

## 2.2 Conceptual frame work

**Figure 1: the relationship between financial management skills and quality of financial reporting**




A functional regression model derived from the conceptual frame

$$Y= \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3$$

Where Y= Dependent variable (Quality financial reporting)

$\alpha$ = constant

B= Beta

Component of financial management skills

$X_1$ is book keeping skills

$X_2$ is budgeting skills

$X_3$ is cash management skills

A conceptual framework in the figure showed that financial management skills is influencing the quality of financial reporting, financial management skills was conceptualized in terms of book keeping skills, Budgeting skills, financial management skills and statement of cash flows. The quality of financial reporting was conceptualized in terms of understandability, materiality, reliability, prudence and completeness. The conceptual framework above still illustrates that financial management skills directly affects the quality of financial reporting, however the relationship can be modified by the nature of economic climate and government policy.

### 2.3 Related literature

#### 2.3.1 Financial management

According to Prasanna Chandra, (2010), financial management entails planning for the future of a person or a business enterprise to ensure a positive cash flow. It includes the administration and maintenance of financial assets.

Besides, financial management covers the process of identifying and managing risks. This includes information relating to the financial management and accounting for resources needed by entrepreneurs (Stubbs and Cockling, 2008). For example, it may be possible that a disequilibrium in the economy can be identified by the proper financial recordkeeping and that such financial records can be used in order to seize opportunities for profits, thereby allowing the economy to return to equilibrium (Stefan and Burritt, 2010).

##### 2.3.1.1 Financial Management Skills

According to Somanath V S (2011), financial management skills include book keeping skills, budget skills, financial statement skills, cash management skills, and accounting software skills. According to Liao and Wu (2010) effective communication is critical to the success of all businesses. For organizational management whether internal or external, shared services or level two support-understanding the financial goals underlying in an organization's business strategy is a fundamental component of successful partnerships within an organization.

The most successful managers engage with their business partners through a shared understanding-and language-of an organization's financial goals and requirements. Honing that understanding by learning the financial terms and concepts involved increases cooperation and provides more opportunity for achieving success.

As a business-focused manager, it is imperative to communicate how technical activities translate into financial benefits that impact the business as well as how business strategy can incorporate more effective technical support to achieve its goals. Managers can add more value to their organizations by developing an understanding of costing, planning (budgeting/forecasting), accounting, valuing, and communicating that information to the business in financial terms.

Somanath V S (2011), also states in his work that for leaders' uniform emphasis on fostering these three capabilities will not surprise anyone familiar with existing research on innovative problem solving. Much evidence exists for the importance of each. However, they have been most often studied separately. Because our focus was on leadership in action, we were able to observe how these three interrelated organizational skills work in concert as leaders and their groups undertake to create something novel and useful. Based on those observations, we have developed an integrated framework for understanding, describing, and prescribing how leaders build organizations capable of consistent innovation by focusing on these essential abilities.

**2.3.1.2 Book keeping skills**

According to Stefan, S. Ludeke, F. Hansen, E. 2012 book keeping or recordkeeping skills is the ability of recording financial transactions and events, either manually or electronically. Bookkeeping in business, refers to the ability of recording of financial transactions, and is part of the process of accounting. Transactions include purchases, sales, receipts and payments by an individual or organization. The accountant creates reports from the recorded financial transactions recorded by the bookkeeper and files forms with government agencies. There are some common methods of bookkeeping such as the single-entry bookkeeping system and the double-entry bookkeeping system. But while these systems may be seen as "real" bookkeeping, any process that involves the recording of financial transactions is a bookkeeping process and it is usually performed by a bookkeeper who is also known as an accounting clerk or accounting technician, he is also a person who records the day-to-day financial transactions of an organization. A bookkeeper is usually responsible for writing the daybooks. The daybooks consist of purchases, sales, receipts, and payments. The bookkeeper is responsible for ensuring that all transactions are recorded in the correct day book, supplier's ledger, customer ledger and general ledger Stefan, S. Ludeke, F. Hansen, E. 2012.

### 2.3.1.3 Budgeting skills

Stefan and Burritt (2010) define budget skills as the ability of being able to manage money well and always being a useful skill in business, he also added that having good budgeting skills becomes even more important as changes to the benefits system, meaning that all benefits, including the element which is to cover rent, will be paid direct once a month. Business budgeting is one of the most powerful financial tools available to any business owner. Put simply, maintaining a good short- and long-range financial plan enables the company to control cash flow instead of having it control you. The most effective financial budget includes both a short-range, month-to-month plan for at least one calendar year and a long-range, quarter-to-quarter plan to be used for financial statement reporting. It should be prepared during the two months preceding the fiscal year-end to allow ample time for sufficient information-gathering; the long-range plan should cover a period of at least three years (some go up to five years) on a quarterly basis, or even an annual basis. The long-term budget should be updated when the short-range plan is prepared.

According to Barth and Clinch, (2009), the statement of financial positions (also called balance sheet) reports the financial position of a company at a point in time, usually at the end of a month, quarter, or a year. The balance sheet describes financial positions by listing the types and amounts of assets, liabilities, and equity. The balance sheet heading lists the company, the statement, and the date on which assets, liabilities, and equity are identified and measures. The amounts in the balance sheet are measured as of the close of business on the date.

Bartov et al., (2005), state that because balance sheet is a financial statement that reports the financial position of an entity at a point in time, it sometimes is called a statement of financial position a statement of financial condition. According to him a balance sheet may be prepared after a single transaction, or after any number of transactions.

According to Eccher et al., (1996), cash is the residual balance from cash inflows less cash outflows for all prior periods of a company. Net cash flows, or simply cash flows, refer to the current period's cash inflows less cash outflows. Cash flows are different from accrual measures of performance. Cash flow measures recognize inflows when cash is received but not necessarily earned, and they recognize outflows when cash is paid but not necessarily earned, and they recognize outflows when cash is paid but the expenses not necessarily incurred.

According to Eccher et al., (1996), identifying a company's principal sources and uses of cash is a useful skill in its own right. It is also an excellent starting point of considering the cash flow statement, the third major components of financial statements along with the income statement and the balance sheet. In essence, a cash flow statement just expands and rearranges the sources and uses statement, placing each source or use into one of three broad categories of activities: operating activities, investing activities, and financing activities.

Stefan and Burritt (2010) note SMES as an important component of financial statements which contain information in addition to that presented in the statement of financial position, statement of comprehensive income, income statement (if presented), combined statement of income and retained earnings (if presented), statement of changes in equity, and statement of cash flows. Notes provide narrative descriptions or disaggregation of items presented in those statements and information about items that do not qualify for recognition in those statements. The notes shall:

(a) present information about the basis of preparation of the financial statements and the specific accounting policies used;
(b) disclose the information required that is not presented elsewhere in the financial statements; and

(c) provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.

According to Stefan and Burritt (2010) other financial reporting comprises information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions.

According to Eccher et al., (1996), cash management skills is the ability of measuring a business's ability to pay its bill on time. This, in turn, depends on the timing and amounts of cash flowing into and out of the business each week and month.

The corporate process of collecting, managing and (short-term) investing cash. A key component of ensuring a company's financial stability and solvency. Frequently corporate treasurers or a business manager is responsible for overall cash management. Successful cash management involves not only avoiding insolvency (and therefore bankruptcy), but also reducing days in account receivables (AR), increasing collection rates, selecting appropriate short-term investment vehicles, and increasing days cash on hand all in order to improve a company's overall financial profitability. Successfully managing cash is an essential skill for small business developers because they typically have less access to affordable credit and have a significant amount of upfront costs they need to manage while waiting for receivables. Wisely managing cash enables a company to meet unexpected expenses in addition to handling regularly-occurring events like payroll (Stubbs & Cocklin, 2008).

Cash management also involves the corporate process of collecting, managing and (short-term) investing cash, a key component of ensuring a company's financial stability and solvency. Frequently corporate treasurers or a business manager is responsible for overall cash management. Successful cash management involves not only avoiding insolvency (and therefore bankruptcy), but also reducing days in account receivables (AR), increasing collection rates, selecting appropriate short-term investment vehicles, and increasing days cash on hand all in order to improve a company's overall financial profitability (Stubbs & Cocklin, 2008).

### 2.3.2 Financial reporting

According to Somanath V S (2011), financial reporting is an essential component in the process of communication between a business and its stakeholders. The importance of communication increases as organizations become larger and more complex.

Reporting financial information to external stakeholders not involved in the day-to-day management of the business requires a carefully balanced process of extracting the key features while preserving the essential core information. The participants in the communication process cover a range of expertise and educational background, so far as accounting is concerned.

Weetman emphasizes that the range begins with the preparers of financial statements, who may have special training in accounting techniques, but ends with those who may be professional investors, private investors, investment advisers, bankers, employee representatives, customers, suppliers and journalists.

General purpose financial statements are directed towards the common information needs of a wide range of users, for example, shareholders, creditors, employees and the publics at large. The objective of financial statements is to provide information about the financial position, performance and cash flows of an entity that is useful to those users in making economic decisions. General purpose financial statements are directed to general financial information needs of a wide range of users who are not in a position to demand reports tailored to meet their particular information needs. General urpose financial statements include those that are presented separately or within another public document such as an annual report or a prospectus. Other financial reporting comprises information provided outside financial statements that assists in the interpretation of a complete set of financial statements or improves users' ability to make efficient economic decisions.

#### 2.3.2.1 Understandability

According to (Ulle & Alas, 2011) understandability refers to the quality of financial information which makes it understandable by people with reasonable background knowledge of business and economic activities. Understandability requires the information presented in financial reports to be concise, complete and clear in presentation. The information should be presented so as to facilitate the user of the information. However, understandability never prescribes any complex information to be omitted altogether due to its underlying difficulty in understanding. It just requires us to disclose the information systematically instead of presenting it haphazardly. Ulle also gave an example that Understandability would require the financial statements to be identified by presenting the name of the financial statement, the name of the entity and the period covered by the statement. Understandability also requires the notes to be properly numbered and cross-referred to the original balance sheet and income statement items. For example the note number of disclosure on leases should be mentioned in front of the lease payable line item appearing on the face of a balance sheet. Financial instruments and derivatives are specialized instruments which require rigorous understanding of finance to properly understand the underlying economics. In such complexity we cannot omit the disclosure because it is not easily understandable.

#### 2.3.2.2 Materiality

According to Laux and Leuz, (2009, The crisis of fair value accounting: making sense of the recent debate, Accounting, Organizations, and Society*)*, the ASB suggests that materiality is a test to be applied at the threshold of considering an item. If any information is not material, it does not need to be considered further. The materiality concept also states that financial information is material to the financial statements if it would change the opinion or view of a reasonable person. In other words, all important financial information that would sway the opinion of a financial statement user should be included in the financial statements. The concept of materiality is relative in size and importance; some financial information might be material to one company but might be immaterial to another. This is somewhat obvious when thinking about a small company verses a large company. A large and material expense to a small company might be small an immaterial to a large company because of their size and revenue. The main question that the materiality concept addresses is does the financial information make a difference to financial statement users. If not, the company doesn't have to worry about including it in their financial statements because it is immaterial. Most of the time financial information materiality is judged on qualitative and quantitative characteristics, professionals are often left up to their experience and good judgment to understand what is material and what isn't. Information is said to be material if it could influence users' decisions taken on the basis of the financial statements. If that information is misstated, or if certain information is omitted, the materiality of the misstatement or omission depends on the size and nature of the item in question judged in the particular circumstances of the case (White, 2009).

The assessment of planning materiality is required for risk assessment purposes (simply put: a material mistake holds risk for the auditor and the auditor should plan and perform the audit in such a way that he is likely to detect such mistakes). At this point in the audit the auditor has not performed any testing as yet. Hence, if he opts to quantify materiality using one of the common rules listed above, he has to apply the percentage to financial information that does not relate to the period under audit (such as prior period information) or untested financial information does relate to the period under audit. The auditor's decision in this regard required the application of judgement. If the auditor opts to quantify materiality using one of the common rules, he should amend his quantification of planning materiality during the testing phase of the audit if he then establishes that the size of the company is significantly different from what he expected during the planning phase. Such a change should be documented, along with the impact thereof on planned testing. The quantification of final materiality is commonly done using the same common rules, but the auditor (having completed testing) can now use tested financial information for the period under audit for the calculation thereof (Florian, 2009).

#### 2.3.2.3 Reliability

According to Harris and Muller, (1999), the financial information can posses the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully what are either purports to represent or could reasonably be expected to represent. The reliability concept is a quality of information that assures decision makers that the information represented in the financial records and financial statements captures the actual conditions and events of the reported entity. Information is reliable if a user can depend upon it to be materially accurate and if it faithfully represents the information that it purports to present. Significant misstatements or omissions in financial statements reduce the reliability of information contained in them. The reliability principle is particularly difficult to meet when you are recording a reserve, such as an inventory obsolescence reserve, a sales returns reserve, or an allowance for doubtful accounts, since these reserves are essentially opinion-based. In these cases, it is particularly important to justify your actions with a detailed analysis of the reasons for the reserve. This is frequently based on verifiable historical experience with similar transactions, and which you expect to be repeated in the future, from a practical perspective, you should only record those transactions that an auditor could reasonably be expected to verify through normal audit procedures (Stubbs & Cocklin, 2008).

#### 2.3.2.4 Comparability

According to (Stefan et al. 2012) comparability requires the measurement and display of the financial effect of like transactions and other events to be carried out in a consistent way within each accounting period and from one period to the next, and also in a consistent way by different entities.

There must be disclosure of the accounting policies employed in the preparation of financial statement employed in the preparation of financial statements and any changes in those policies and the effects of such changes. To provide users with a basis for comparison it is important that the financial statements show corresponding information for one or more preceding periods .

### 2.4 Related Studies

This part with regard to related studies discusses past empirical investigations similar to or related to the present studies. According to *(Stefan & Burritt, 2010)* a psychological empirical investigation is most often an experiment, a co relational study, or carefully controlled and processed observations of behavior. In the case of this research the emphasis put on the impact of financial management skills among staff in terms of bookkeeping skills, budget skills, financial statement skills, cash management skills and accounting software skills on the quality of financial reporting in terms of balance sheet, income statement, statement of changes in equity, statement of cash flows and notes.

Indeed, with reference to what (Stefan & Burritt, 2010) said financial reporting is an essential component in the process of communication between a business and its stakeholders. However quality of the financial reporting is again more essential as long as it contributes to the success of business. Thus, in the selected commercial banks which are taken as case of this study, quality of financial reporting will be assessed in terms of its capacity of influencing the achievement of the objectives of these commercial banks and therefore its contribution to proper decision making in these respective banks.

Thus balance sheet, income statement, statement of changes in equity, statement of cash flows and notes must be properly prepared so that it can be used by managers to maintain or develop strategies with regard of the objectives of the selected banks. Therefore this achievement is only possible when financial management skills are taken as paramount criteria of performance of staff in general and of financial reporting preparers in particular.

The past studies had shown that financial management skills of staff are the basis of quality financial reporting in banking institutions. Alternatively lack of financial management skills is often the source of errors in financial reporting in the same banking institutions. Hence the selected commercial banks top managers should implement a strategic program of staff development focused on financial management skills particularly with regard to bookkeeping, budget, financial management, cash management, and accounting software.

Florian (2009) in his study on financial management skills stated that financial management is responsible for acquiring the necessary financial resources to ensure the most beneficial results over both the short and the long term and making sure that the business makes the best use of its financial resources.

White (2009) carried out a study on financial management skills and denoted that the financial manager is engaged in two primary tasks, namely financing and investment decision-making. Micheal (2011) also carried out a study on financial management skills and found out that during financing and investment decision-making, the financial manager must ensure that cash is managed efficiently so that the business can become profitable, he also added that all the primary functions are interrelated. An investment project, whether of a long-term or short-term nature, cannot be undertaken without adequate financing. The profit distribution decisions are a function of or result from investment and financing decisions taken previously.

## 2.5 Research Gaps

Summary of gaps identified

From the literate reviewed the following gaps were identified:

1. Conceptually, it is evident that a number of studies about financial management skills did not relate to quality of financial reporting hence a gap this study bridged by relating financial management skills and quality of financial reporting in banks.

2. Contextually, none of the study reviewed did address financial management skills and quality of financial reporting in commercial banks in Muqadisho, Somalia.

3. Previous study did not exhaustively discuss the component of financial management skills and quality of financial reporting.

# CHAPTER THREE

# METHODOLOGY

### 3.0 Introduction

This chapter showed the research design, research population and sample size, Sampling Procedure, Research Instrument, Validity and Reliability of the Instrument, Data Gathering Procedures, Data Analysis, Ethical consideration and Limitations to the Study.

### 3.1 Research Design

This study used descriptive approach with co-relational design. 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, testing of hypothesis and development of generalizations and use of theories that have universal validity. It also involved events that have already taken place and may be related to present conditions (Kothari, 2004).

### 3.2 Research Population

The target population included 38 managers and 72 banking operation officers and this made a total number of 110 staffs.

### 3.3 Sample Size

In view of the nature of the target population where both managers and banking operators were concerned, a sample was taken from each category. Table 1 below shows the distribution of respondents of the study from two categories: Managers, and Operation officers. The Slovene's formula below was used to determine the minimum sample size.

$$n = \frac{N}{1 + N(\alpha)^2}$$

Where: n= sample size

N= population size

$\alpha$= margin of error desired

Table 1: Respondents of the Study

| CATEGORY | POPULATION | | | | SAMPLE SIZE | | | |
|---|---|---|---|---|---|---|---|---|
| | Salaam Somali Bank | International Bank of Somalia | Amal bank | S/T | Salaam Somali Bank | International Bank of Somalia | Amal bank | S/T |
| Managers | 14 | 12 | 12 | 38 | 13 | 11 | 11 | 35 |
| Operation officers | 26 | 23 | 23 | 72 | 24 | 21 | 21 | 66 |
| **Total** | **110** | | | | **101** | | | |

### 3.4 Sampling Procedures

Purposive sampling and sample random sampling techniques were used to select the respondent.

### 3.5 Research Instruments

The research tools that were utilized in this study included the following: (1) face sheet to gather data on the respondents' demographic characteristics (Qualifications, age, area of specialization, duration in service, training acquired, Frequency of training (2) questions on financial management skills, 3) Items concerning the quality of financial reporting.

### 3.6 Validity and Reliability of the Instrument

The researcher used two questionnaires, one for the independent variable and another for the dependent variable. In order to obtain reliable and valid results in this study several precautions were made. All aspects of the research problem were covered in research questions and were relevant to the purpose of this study and finally, the questionnaire was approved by the supervisor. Moreover, the questionnaire was pre-tested to two individuals before being taken to the field to be filled out by respondents and yielded the same results, therefore the instruments were reliable.

### 3.7 Data Gathering Procedures

*Before the administration of the questionnaires*

1. An introduction letter was obtained from the College of Higher Degree and Research for the researcher to solicit approval to conduct the study from the selected commercial banks.
2. After approval, the researcher secured the list of the targeted respondents from the selected commercial banks to arrive at the minimum sample size.
3. The respondents were explained aoout the study requested to sign the informed Consent Form (Appendix 3).
4. More than enough questionnaires were reproduced for distribution.
5. Research assistants were selected and assisted in the data collection; they were briefed and oriented in order to be consistent in administering the questionnaires.

*During the administration of the questionnaires*

1. The respondents were requested to answer completely and not to leave any part of the questionnaires unanswered.
2. The researcher and assistants emphasized retrieval of the questionnaires within five days from the date of distribution.
3. On retrieval, all returned questionnaires were checked to ensure that all answered.

*After the administration of the questionnaires*

The data gathered was collected entered into the computer and statistically treated to facilitate the analysis.

### 3.8 Data Analysis

The frequency and percentage distribution were used to determine the demographic characteristics of the respondents.

An item analysis illustrated the level of skills in financial management. It was used to evaluate the impact of these skills on the quality of financial reporting based on the indicators in terms of strengths and weaknesses. From these strengths and weaknesses, the recommendations were formulated.

### 3.9 Ethical Considerations

To ensure confidentiality of the information provided by the respondents and to ascertain the practice of ethics in this study, the following activities were implemented by the researcher:

1. The respondents were coded instead of reflecting the names.
2. Solicit permission through a written request to the concerned officials of commercial banks in order to access the data from respondents in Somalia Commercial Bank.
3. Request the respondents to sign in the *Informed Consent Form* (Appendix
4. Acknowledged the authors quoted in this study and the author of the standardized instrument through citations and referencing.
5. Presented the findings in a generalized manner.

### 3.10 Limitations of the Study

In view of the following threats to validity, the researcher claimed an allowable 5% margin of error at 0, 05 level of significance. Measures were also indicated in order to minimize if not to eradicate the threats to the validity of the findings of this study. Those measures were as following:

1. *Extraneous variables* which would be beyond the researcher's control such as respondents' honesty, personal biases and uncontrolled setting of the study.

2. *Instrumentation:* The research instruments on resource availability and utilization were not standardized. Therefore a validity and reliability test was done to produce a credible measurement of the research variables.

3. *Testing:* The use of research assistants could bring about inconsistency in the administration of the questionnaires in terms of time of administration, understanding of the items in the questionnaires and explanations given to the respondents. To

minimize this threat, the research assistants were oriented and briefed on the procedures that had to be done in data collection.

4. *Attrition/Mortality*: Not all questionnaires maybe returned neither completely answered nor even retrieved back due to circumstances on the part of the respondents such as travels, sickness, hospitalization and refusal/withdrawal to participate. In anticipation to this, the researcher reserved more respondents by exceeding the minimum sample size. The respondents were reminded not to leave any item in the questionnaires unanswered and were be closely followed up as to the date of retrieval.

# CHAPTER FOUR

## PRESENTATION, ANALYSIS AND INTERPRETATION OF FINDINGS

### 4.1 Introduction

This chapter shows the background information of respondents, the extent of financial management skills, quality of financial reporting and the significant relationship between the extent of financial management skills and quality of financial reporting in commercial banks in Mogadishu Somalia, their responses were analyzed using frequencies and percentage distributions as indicated in Table 2;

### 4.2 Profile of Respondents

**Table 2: Profile of Respondents**

| Characteristics | Frequency | Percentage |
|---|---|---|
| **Gender** | | |
| Male | 56 | 55.4% |
| Female | 45 | 44.6% |
| **Total** | **101** | **100%** |
| **Age category** | | |
| 20-30 | 22 | 21.8% |
| 31-40 | 63 | 62.4% |
| 41 and above | 16 | 15.8% |
| **Total** | **101** | **100%** |
| **Education Level** | | |
| Bachelors | 79 | 78.2% |
| Masters | 22 | 21.8% |
| PhD | 0 | 0% |
| **Total** | **101** | **100%** |
| **Area of specialization** | 46 | |

| | | |
|---|---|---|
| Accounting | | 45.5% |
| Finance | 29 | 28.7% |
| Management | 23 | 22.8 % |
| Mathematics | 3 | 3 % |
| **Total** | **101** | **100%** |
| **Professional qualification**<br>ACCA | 12 | 11.9% |
| CFA | 5 | 5.0 % |
| CMA | 3 | 3.0 % |
| Other | 81 | 80.2 % |
| **Total** | **101** | **100%** |
| **Working experience**<br>6 months - 1 year | 5 | 5% |
| 2 years - 4 years | 31 | 30.7% |
| 5 years - 7 years | 53 | 52.5% |
| 8 years and above | 12 | 11.9% |
| **Total** | **101** | **100%** |

**Source: Primary data, 2014**

In this Table 2, the majority (78.2%) of the respondents are bachelors' degree holders while 21.8% of the respondents are postgraduate holders. The results show that managers and banking officers in the selected banks are qualified, hence resourceful. However the level of qualification has to be improved in order to reinforce the staff knowledge and skills. This is because in the future the lack of advanced degree holders shall challenge the performance of these financial institutions with regard of human resource especially as they are operating in a competitive financial market.

The data from Table 2 indicate the distribution of respondents according to their area of specialization. The results show that majority (45.5 %) of respondents are specialized in

Accounting; 28.7% in Finance; 22.8% in Management while 3 % are specialized in Mathematics. The above mentioned results show that the area of specialization of the bank officers matches with the nature of operations they are performing and especially those related to Accounting. This is supported by the view of Weetman where he stated that the participants in communication process cover a range of expertise and educational background, so far as accounting is concerned. In our case the participation of accountants in financial reporting which is a part of financial communication is an asset to the selected banks.

It is deduced from the Table 2 that 11, 9% of the respondents are ACCA qualification, 5% are CFA qualification while 3% of the respondents have CMA qualification. The data also indicate that the majority (80.2%) of the respondents have other professional qualifications which were not detailed. The results show that in addition to academic qualification the respondents have professional qualifications which represent an advantage to these selected banks.

The data from Table 2 show the distribution of respondents according to their professional experience. The results indicate that 52.5% which represent the majority of the respondents have a professional experience of 5 to 7 years. The results also indicate that 30.7 % of the respondents have a professional experience of 2 to 4 years and 11.9 % of respondents have a work experience of 8 years and above while 5% of the respondents have a professional experience of 6 months to 1 year. This work experience of respondents contributes to the reliability of the information collected as they shall be considered as mastering the selected commercial banks.

The data from Table 2 indicate that 3% of the respondents are Accountant managers, 3% are Tax managers, 3% are corporate managers, 3% are Training and Development Managers, 3% are Payroll Manager, and 3% are Internal Audit managers while 16.8 % are managers who whose job position were not detailed. Furthermore 65.3% which represent the majority of the respondents are operation officers. These results contribute the reliability of information gathered as collected from different managers and operators responsible of various services related to the matter under study.

### 4.3 Extent of Financial Management Skills

The independent variable in this study was financial management skills, this variable was broken into three parts namely book keeping (with four questions), budgeting skills (with three questions) and cash management skills (with four questions). Each of these questions was based on the four point Likert scale where respondents were asked to rate the extent to which financial management skills is satisfactory or unsatisfactory by indicating the extent to which they agree or disagree with each question and their responses were analyzed using SPSS and summarized using means and rank as indicated in Table 3.

**Table 3: Financial management skills**

| Variables | Mean | Interpretation | Rank |
|---|---|---|---|
| **Book keeping skills**<br>You always carry out book keeping in your Bank manually | 3.14 | Satisfactory | 1 |
| Book keeping always helps you to provide useful information to stakeholders | 2.92 | Satisfactory | 2 |
| Book keeping always helps you to provide useful information to stakeholders | 2.45 | Unsatisfactory | 3 |
| You always carry out book keeping in your Bank automatically | 2.16 | Unsatisfactory | 4 |
| **Average mean** | **2.67** | **Satisfactory** | |
| **Budgeting skills**<br>Budgeting always helps you predict feature performance of your Bank | 3.26 | Very satisfactory | 1 |
| Budgeting always helps you in planning for feature of your business | 3.15 | Satisfactory | 2 |
| You always have the ability to design the budget required in your Bank | 2.86 | Satisfactory | 3 |
| **Average mean** | **3.09** | **Satisfactory** | |
| **Cash management skills**<br>You always have the ability to manage the money getting in and out of the bank | 3.27 | Very satisfactory | 1 |
| You always use different accounting software packages when managing your cash | 3.17 | Satisfactory | 2 |
| You always record the amount of cash entered in your Bank | 2.73 | Satisfactory | 3 |
| You always consider time of recording cash as an important factor when managing cash | 2.45 | Unsatisfactory | 4 |
| **Average mean** | **2.91** | **Satisfactory** | |
| **Grand mean** | **2.89** | **Satisfactory** | |

**Source: Primary data, 2013**

| **Mean range** | **Response range** | **Interpretation** |
|---|---|---|
| 3.26 - 4.00 | Strongly agree | Very satisfactory |
| 2.51 - 3.25 | Agree | Satisfactory |
| 1.76 - 2.50 | Disagree | Unsatisfactory |
| 1.00 - 1.75 | Strongly disagree | Very unsatisfactory |

Results in Table 3 indicate that the extent of financial management skills is generally satisfactory and this is indicated by the overall mean (overall mean=2.89), this implies that the workers in the selected commercial banks in Mogadishu Somalia have the required financial management skills, still financial management skills was broken into three constructs and these included the following;

Book keeping- four items were used to measure this construct and three items were rated satisfactory and only two were rated unsatisfactory out of the four items, therefore on average book keeping was rated satisfactory and this was indicated by the average mean (mean=2.67), implying that book keeping is frequently practiced commercial banks of Mogadishu Somalia.

Budgeting skills- this variable was measured by three items and respondents were asked whether they agreed with the statements under investigation. Responses reveal that budgeting skills as a construct on the independent variable was rated satisfactory (mean = 3.09), implying that having budgeting skills always helps the workers in predicting feature performance of their commercial Banks.

Cash management skills- four items were used to measure this construct and respondents were asked whether they agreed with the statements there in, their responses indicated that cash management skills as a construct on the independent variable was rated satisfactory on average (mean =2.91), implying that workers in Mogadishu commercial banks have the ability to manage cash.

## 4.4 Quality of financial reporting

The dependent variable in this study was quality of financial reporting and the researcher wanted to determine its level, quality of financial reporting was broken into three constructs and these included the following; Understandability (with four questions), materiality (with four questions) and reliability (with four questions). Each of these questions was based on the four point likert scale where the respondents were asked to rate the extent to which the quality of financial reporting is satisfactory or unsatisfactory by indicating the extent to which they agree or disagree with each question and their responses were analyzed using SPSS and summarized using means and rank as indicated in Table 4;

**Table 4: Quality of financial reporting**

| Variables | Mean | Interpretation | Rank |
|---|---|---|---|
| **Understandability**<br>You always classify your information before reporting to the stake holders | 3.17 | Satisfactory | 1 |
| You always omit information on complex matters before reporting the information to the financial users | 3.10 | Satisfactory | 2 |
| You always report information which is understandable to stakeholders | 3.08 | Satisfactory | 3 |
| Your information is always easy to read by all financial users | 2.53 | Satisfactory | 4 |
| **Average mean** | **2.97** | **Satisfactory** | |
| **Materiality**<br>You always leave out the unjustifiable items while reporting the financial information to the users | 3.47 | Very satisfactory | 1 |
| You always recognize only material items while reporting the financial information to the users | 3.45 | Very satisfactory | 2 |
| You always write off some assets like good will when reporting the financial information | 3.30 | Very satisfactory | 3 |
| You always exclude immaterial items when reporting the financial information to the users | 3.19 | Satisfactory | 4 |
| **Average mean** | **3.35** | **Very satisfactory** | |
| **Reliability**<br>Your financial information is always free from material error | 3.28 | Very satisfactory | 1 |
| Your financial information is always free from bias | 3.25 | Satisfactory | 2 |
| You always consider the costs of producing further information whether they are exceeding the financial benefits | 2.56 | Satisfactory | 3 |
| You always deliver the accounting information in a timely manner | 2.33 | Unsatisfactory | 4 |
| **Average mean** | **2.86** | **Satisfactory** | |
| **Grand mean** | **3.06** | **Satisfactory** | |

**Source: Primary data, 2013**

| **Mean range** | **Response range** | **Interpretation** |
|---|---|---|
| 3.26 - 4.00 | Strongly agree | Very satisfactory |
| 2.51 - 3.25 | Agree | Satisfactory |
| 1.76 - 2.50 | Disagree | Unsatisfactory |
| 1.00 - 1.75 | Strongly disagree | Very unsatisfactory |

Results in Table 4 denoted that quality of financial reporting was generally rated satisfactory and this was indicated by the grand mean (mean=3.06), implying that the selected commercial banks in this sample always produce high quality of financial reports to the users such as stake holders and government, still quality of financial reporting was broken into four constructs which included the following;

Understandability- this variable was operationalized using four items and respondents were asked whether they agreed with the statements under investigation, their responses revealed that on average understandability was rated satisfactory (mean = 2.97), implying that the financial information reported by the selected commercial banks in this sample is simply understood by the users.

Materiality- four items were used to measure this construct and respondents were asked whether they agreed with the statements. Responses indicated that materiality was rated very satisfactory on average (mean =3.35), implying that majority of commercial banks in Mogadish Somalia highly recognize only material items while reporting the financial information to the users.

Concerning reliability- four items were used to measure this construct and results indicate that on average reliability of the financial information was rated satisfactory and this was indicated by the average mean (mean=2.86), implying that the financial information reported by the commercial banks is always free from material error.

**4.5 Relationship between the extent of financial Management skills and the quality of financial reporting**

The last objective in this study was to establish whether there is a significant relationship between extent of financial management skills and the quality of financial reporting in selected commercial banks in Mogadishu Somalia, the researcher stated a null hypothesis that there is a significant relationship between financial management skills and the quality of financial reporting, therefore to achieve this third objective and to test this null hypothesis, the researcher had to correlate the means on financial management skills and means on quality of financial reporting using the Pearson's Linear Correlation Coefficient as indicated in Table 5 ;

**Table 5: Relationship between the extent of financial Management skills and the quality of financial reporting in selected commercial banks in Mogadishu, Somalia**

| Variables correlated | r-value | Sig | Interpretation | Decision on Ho |
|---|---|---|---|---|
| Financial management skills Vs Quality financial reporting | .395 | .000 | Significant correlation | Rejected |

Results in Table 5 indicated a positive and significant relationship between the extent of financial Management skills and the quality of financial reporting (r-value=.395and sig=.000), meaning that improvement in the financial management skills increases the quality of financial reporting among the selected commercial banks in Mogadishu, Somalia.

### 4.6 Regression analysis

**Table 6: Regression between extent of quality of financial reporting and financial Management skills**

| Variables regressed | Adjusted $r^2$ | F-value | Sig. | Interpretation | Decision on $H_0$ |
|---|---|---|---|---|---|
| Quality of financial reporting Vs Financial management skills | 0.563 | 141.686 | .000 | Significant effect | Rejected |
| **Coefficients** | **Beta** | **t-value** | **Sig.** | | |
| (Constant) | | 11.252 | .000 | Significant effect | Rejected |
| Book keeping skills | .320 | 3.108 | .002 | Significant effect | Rejected |
| Budgeting skills | .312 | 3.481 | .001 | Significant effect | Rejected |
| Cash management | .251 | 2.292 | .024 | Significant effect | Rejected |

Regression analysis results in Table 6 above indicated that financial management skills accounted for 56% on the quality of financial reporting indicated by adjusted r squared of 0.563

leading to a conclusion that financial management skills significantly influences the quality of financial reporting among the commercial banks in Mogadishu Somalia.

The coefficients table further showed that of all the aspects of financial management skills, bookkeeping skills accounted for the biggest improvement on the extent of financial management skills ($\beta$=0.320,Sig=0.002).

Using the hypothetical regression model given as

$$Y = X + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3$$

We derive a regression model given

$$Y = 0.563 + 0.32X_1 + 0.312X_2 + 0.251X_3$$

Where

Y= quality of financial reporting

$X_1$, $X_2$ & $X_3$ are components of financial management skills

# CHAPTER FIVE

# DISCUSSIONS, CONLUSIONS AND RECOMMENDATIONS

## 5.0 Introduction

This chapter presents the discussions, conclusions, recommendations and suggested areas that need further research following the study objectives and study hypothesis.

## 5.1 Discussions

This study was set to find out the relationship between financial management skills and the quality of financial reporting in the selected commercial banks in Mogadishu Somalia. It was guided by three specific objectives, that included determining i) the extent of financial management skills; ii) determining the quality of financial reporting in the selected commercial banks in Mogadishu Somalia; iii) the relationship between financial management skills and the quality of financial reporting in the selected commercial banks in Mogadishu Somalia.

The study findings indicated that majority of respondents of these workers in the selected commercial banks of Mogadishu Somalia were male (55.4%) ranging between30-40 years of age (62.4%), 78.2% were bachelor holders and specialized in accounting (45.5%), 80.2 % had got other professional qualifications a part from ACCA, CPA and CMA and had a working experience of 5-7 years (52.5%).

### Objective one: Extent of financial management skills

Data analysis using means denoted that the extent of financial management skills was rated satisfactory on average (mean= 2.89), implying that that the workers in the selected commercial banks in Mogadishu Somalia have the required financial management skills when performing their work.

Book keeping as the first construct on the independent variable (IV) was rated satisfactory on average (mean=2.67), this also implies that book keeping is frequently practiced among commercial banks of Mogadishu Somalia, this also agrees with Nelson, (1996), who noted that accounting activities include identifying, measuring, recording, reporting, and analyzing business transactions and events Nelson, (1996).

Budgeting skills as the second construct on the independent variable was also rated as satisfactory and this was indicated by the average mean of 3.09, implying that having budgeting skills always helps the workers in predicting feature performance of their commercial Banks, this is also in line with Ohlson, (1995), who noted that business budgeting is one of the most powerful financial tools available to any business owner. Put simply, maintaining a good short- and long-range financial plan enables the company to control cash flow instead of having it control you. The most effective financial budget includes both a short-range, month-to-month plan for at least one calendar year and a long-range, quarter-to-quarter plan to be used for financial statement reporting.

Cash management skills as the last construct on financial management skills was rated satisfactory on average (2.91), implying that workers in Mogadishu commercial banks have the ability to manage cash. This is also in line with Nelson, (1996) who denoted that successful cash management involves not only avoiding insolvency (and therefore bankruptcy), but also reducing days in account receivables (AR), increasing collection rates, selecting appropriate short-term investment vehicles, and increasing days cash on hand all in order to improve a company's overall financial profitability Nelson, (1996).

**Objective two: Extent of quality of financial reporting**

The quality of financial reporting was found to be satisfactory and this was indicated by the overall mean (mean=3.06), which implies that the selected commercial banks in this sample always produce high quality of financial reports to the users such as stake holders and government.

The extent of understandability was rated satisfactory on average (mean=2.53), this also implies that the financial information reported by the selected commercial banks in this sample can simply be understood by the users, this is also in with Pinnuck, (2012) who noted that understandability requires the information presented in financial reports to be concise, complete and clear in presentation, the information should be presented so as to facilitate the user of the information. He adds that understandability never prescribes any complex information to be omitted altogether due to its underlying difficulty in understanding, and it just requires us to disclose the information systematically instead of presenting it haphazardly.

Materiality as the second construct on the dependent variable was rated as very satisfactory and this was indicated by the average mean of 3.35, implying that majority of commercial banks in Mogadish Somalia highly recognize only material items while reporting the financial information to the users, this is also in line with to Pinnuck, (2012) who noted that if any information is not material, it does not need to be considered further. He also added that the materiality concept also states that financial information is material to the financial statements if it would change the opinion or view of a reasonable person. In other words, all important financial information that would sway the opinion of a financial statement user should be included in the financial statements Pinnuck, (2012).

Reliability as the last construct on quality of financial reporting was rated satisfactory on average (2.86), implying that the financial information reported by the commercial banks is always free from material error. This is also in line with Pinnuck, (2012), who noted that the financial information can posses the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully what are either purports to represent or could reasonably be expected to represent, he also added that the financial information is reliable if a user can depend upon it to be materially accurate and if it faithfully represents the information that it purports to present Pinnuck, (2012).

**Objectives three: relationship between financial management and quality of financial reporting**

The findings also indicated a positive and significant relationship between the extent of financial Management skills and the quality of financial reporting (r= .395 & Sig=.000 respectively), this is because the significant value was less than 0.05, which is the maximum level of significance required to declare a relationship significant. Therefore implying that improvement in the financial management skills increases the quality of financial reporting among the selected commercial banks in Mogadishu, Somalia.

### 5.2 Conclusions

From the findings of the study, the researcher concluded that majority of respondents in this sample were male (55.4%) ranging between 30-40 years of age (62.4%), these were bachelor holders (78.2%) and had specialized in accounting (45.5%) plus having other professional qualifications a part from ACCA, CPA and CMA (80.2 %) and had an experience of 5-7 years (52.5%).

The extent of financial management skills was rated as satisfactory and this was indicated by the overall mean (mean= 2.91), hence concluding that the workers in the selected commercial banks in Mogadishu Somalia have the required financial management skills when performing their work.

The quality of financial reporting was generally rated was found to be satisfactory and this was indicated by the overall mean (mean=3.06), hence concluding that majority of commercial banks in this sample always produce high quality of financial reports to the users such as stake holders and government.

There is a positive and significant relationship between the extent of financial Management skills and the quality of financial reporting (r= .395 & Sig=.000 respectively), hence concluding that improvement in the financial management skills increases the quality of financial reporting among the selected commercial banks in Mogadishu, Somalia. Still the findings indicated that financial management skills significantly influence the quality of financial reporting among the commercial banks in Mogadishu Somalia.

### 5.3 Recommendation

1. The researcher recommends to the commercial banks of Mogadishu Somalia to always carry out book keeping automatically and this will help them improve on their book keeping skills.

2. The researcher recommends to commercial banks of Mogadishu Somalia to always consider time of recording cash as an important factor when managing cash.

3. The researcher recommends to commercial banks of Mogadishu Somalia always deliver the accounting information in a timely manner and this will make their financial information reliable.

### 5.4 Areas for further research

Prospective researchers and even students are encouraged to research on the following areas;

1. Financial Management and performance of commercial banks in Mogadishu, Somalia.
2. Financial management skills and sustainability of Commercial banks in Mogadishu Somalia
3. Cash management skills and reliability of financial information in commercial banks in Mogadishu Somalia.

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## APPENDIX 1: INFORMED CONSENT

I am giving my consent to be part of the research study of Mr. ABDULRAHMAN AHMED MOHAMED that will focus on Corporate Social Responsibility and Company Image.

I have been assured of privacy, anonymity and confidentiality and that I will be given the option to refuse participation and right to withdraw my participation anytime.

I have been informed that the research is voluntary and that the results will be given to me if I ask for them.

Initials: ______________________

Date ______________________

## APPENDIX II: RESEARCH INSTRUMENT

### FACE SHEET: DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS

**Gender (Please Tick):** (a) Male------- (b) Female---------

**Age** (a) 20-30--- (b) 31-40 (c) 41 and above

**Qualifications Under Education Discipline (Please Specify):**

(1) Certificate ____________________

(2) Diploma ____________________

(3) Bachelors ____________________

(4) Masters ____________________

(5) Ph.D. ____________________

**Area of specialization**

(a) Accounting

(b) Finance

(c) Management

(d) Mathematics

**Number of Years of banking Experience (Please Tick):**

____(1) Less than/Below one year

____(2) 1- 2yrs

____(3) 3-4yrs

____(4) 5-6yrs

____(5) 7 years and above

**Job employment position** ____________________

**SECTION B: Financial management skills**

**Direction:** Please write your preferred option on the space provided before each item.

Kindly use the rating guide below:

| Response Mode | Rating | Description | Legend |
|---|---|---|---|
| Strongly Agree | (4) | you agree with no doubt at all | SA |
| Agree | (3) | You agree with some doubt | A |
| Disagree | (2) | you disagree with some doubt | D |
| Strongly disagree | (1) | you disagree with no doubt at all | SD |

| No. | Financial management skills | Scale | | | |
|---|---|---|---|---|---|
| | **Book keeping** | **1** | **2** | **3** | **4** |
| 1 | You always have the ability to record a.l business transactions taking place in your Bank | 1 | 2 | 3 | 4 |
| 2 | You always carry out book keeping in your Bank manually | 1 | 2 | 3 | 4 |
| 3 | Book keeping always helps you to provide useful information to stakeholders | 1 | 2 | 3 | 4 |
| 4 | You always carry out book keeping in your Bank automatically | 1 | 2 | 3 | 4 |
| | **Budgeting skills** | | | | |
| 1 | Budgeting always helps you predict feature performance of your Bank | 1 | 2 | 3 | 4 |
| 2 | You always have the ability to design tl e budget required in your Bank | 1 | 2 | 3 | 4 |
| 3 | Budgeting always helps you in planning for feature of your business | 1 | 2 | 3 | 4 |
| | **Cash management skills** | | | | |
| 1 | You always record the amount of cash entered in your Bank | 1 | 2 | 3 | 4 |
| 2 | You always have the ability to manage the money getting in and out of the bank | 1 | 2 | 3 | 4 |
| 3 | You always use different accounting software packages when managing your cash | 1 | 2 | 3 | 4 |
| 4 | You always consider time of recording cash as an important factor when managing cash | 1 | 2 | 3 | 4 |

## SECTION C: Quality of Financial Reporting

**Direction:** Please write your preferred option on the space provided before each item.

Kindly use the rating guide below:

| **Response Mode** | **Rating** | **Description** | **Legend** |
|---|---|---|---|
| Strongly Agree | (4) | you agree with no doubt at all | SA |
| Agree | (3) | You agree with some doubt | A |
| Disagree | (2) | you disagree with some doubt | D |
| Strongly disagree | (1) | you disagree with no doubt at all | SD |

| No. | QUALITY OF FINANCIAL REPORTING | Scale | | | |
|---|---|---|---|---|---|
| | **Understandability** | **1** | **2** | **3** | **4** |
| 1 | You always report information which is understandable to stakeholders | 1 | 2 | 3 | 4 |
| 2 | You always classify your information before reporting to the stake holders | 1 | 2 | 3 | 4 |
| 3 | You always omit information on complex matters before reporting the information to the financial users | 1 | 2 | 3 | 4 |
| 4 | Your information is always easy to read by all financial users | | | | |
| | **Materiality** | 1 | 2 | 3 | 4 |
| | You always recognize only material items while reporting the financial information to the users | | | | |
| | You always leave out the unjustifiable items while reporting the financial information to the users | 1 | 2 | 3 | 4 |
| | You always exclude immaterial items when reporting the financial information to the users | | | | |
| | You always write off some assets like good will when reporting the financial information | 1 | 2 | 3 | 4 |
| | **Reliability** | 1 | 2 | 3 | 4 |
| | Your financial information is always free from material error | | | | |
| | You always deliver the accounting information in a timely manner | 1 | 2 | 3 | 4 |
| | Your financial information is always free from bias | 1 | 2 | 3 | 4 |
| | You always consider the costs of producing further information whether they are exceeding the financial benefits | 1 | 2 | 3 | 4 |

**Thank you so much**

## CURRICULUM VITAE

ABDULRAHMAN AHMED MOHAMED

| | |
|---|---|
| **Personal Data** | **Name:** ABDULRAHMAN AHMED MOHAMED<br>**Gender:** Male<br>**Nationality:** Somali<br>**Date of birth:** 17th June, 1985<br>**Place of Birth:** United Arab Emirates |
| **Objective** | Improve the banking sector in Somalia |
| **Education** | **Degree/Diploma obtained:**<br>Master of Business Administration (Accounting and Finance) at Kampala International University KIU Kampala Uganda 2012/2014.<br>Bachelor of Commerce at Osmania University. 2007-2010.<br>Secondary leaving certificate (Al-No'man Bin Basheer Boys' School Seconadry Education, Ajman) 2004. |
| **Additional Information** | **Languages:**<br>• Somali – Mother tongue<br>• English – very good<br>• Arabic – fluent |
| **Hobbies** | Playing football, swimming<br>Tourism |

KAMPALA INTERNATIONAL UNIVERSITY
EXPLORING THE HEIGHTS

Ggaba Road - Kansanga
P. O. Box 20000, Kampala, Uganda
Tel: +256- 414- 266813 / +256- 772 322563
Fax: +256- 414- 501974
E- mail: admin@kiu.ac.ug
Website: www.kiu.ac.ug

**COLLEGE OF HIGHER DEGREES AND RESEARCH**

**DEPARTMENT OF ECONOMICS, BUSINESS AND MANAGEMENT**

May,20th, 2014.

**INTRODUCTION LETTER FOR ABDULRAHMAN AHMED MOHAMED REG.NO. MBA/37934/123/DF TO CONDUCT RESEARCH IN YOUR ORGANISATION**

The above mentioned candidate is a bonafide student of Kampala international University pursuing a Master's of Business Administration .

He is currently conducting a field research for his dissertation entitled "**Financial Management skills among staff and quality of financial reporting in selected commercial banks in Mogadishu Somalia".**

Your organization has been identified as valuable source of information pertaining to his research project. The purpose of this letter then is to request you to avail him with pertinent information he may need.

Any information shared with him will be used for academic purposes only and shall be kept with utmost confidentiality.

Any assistance rendered to him will be highly appreciated.

KAMPALA INTERNATIONAL UNIVERSITY
20 MAY 2014
PRINCIPAL
CHDR
P. O. BOX 20000 KAMPALA

Yours truly,

Prof. Maicibi Alhas
Principal, CHDR.