

**ADDIS ABABA UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
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**DEPARTMENT OF ACCOUNTING AND FINANCE**

**THE EFFECT OF INTERNAL CONTROL ON THE  
PERFORMANCE OF NGOs OPERATING IN ARADA SUBCITY**

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***The Effect of Internal Control On The Performance of NGOs Operating  
in Addis Ababa Arada sub city***

A Thesis Submitted to Addis Ababa University collage of Business and Economics department of accounting and finance in in Partial Fulfillment of the Requirements for the Degree of Masters of Science in Accounting and Finance

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**Addis Abeba**

**Jan 2018**

# Statement of Declaration

I, the undersigned, declare that this thesis is my original work and has not been presented for a degree in any other university, and that all source of materials used for the thesis have been duly acknowledged.

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### **Statement of Certification**

This is to certify that Tegegn Bogale has carried out his research work on the topic entitled

**“The Effect of Internal Control on the Performance of NGOs Operating in Addis Ababa Arada sub city”**. To the best of my knowledge, the work is original and is presented for defence with my approval.

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This is to Certified that the thesis prepared by Tegegn Bogale Entitled ‘**The effect of Internal control on the performance on NGOs operating in Addis Abeba Arada Sub-city**’ and submitted in partial fulfillment of requirement for degree of Master of science in Accounting and Finance complies with the regulations of the university and meets the accepted standards with respect to originality and Quality

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## Table of Content

<b>Table of Content</b> .....	<b>viii</b>
<b>List of Tables</b> .....	<b>xi</b>
<b>LIST OF ABBREVIATIONS AND ACRONYMS</b> .....	<b>1</b>
<b>ABSTRACT</b> .....	<b>2</b>
<b>CHAPTER ONE</b> .....	<b>3</b>
<b>INTRODUCTION TION</b> .....	<b>3</b>
1. Background of the Study.....	3
1.2 Statement of The Problem.....	5
1.3 The Objective of the study .....	8
1.4 Hypothesis Development.....	8
1.5 Significant of the Study .....	9
1.6 Scope of The Study.....	10
1.7 Limitation of the study.....	11
1.8 ORGANIZATION OF THE STUDY.....	12
<b>CHAPTER TWO.....</b>	<b>13</b>
<b>RELATED LITERATURE REVIEW</b> .....	<b>13</b>
2.1 The Concept of Internal Control .....	13
2.2 Types of controls.....	15
2.3. Components of Internal Control .....	16
2.3.1 Control Environment.....	16
2.3.2 Risk Assessment .....	17
2.3.3 Control Activities.....	18
2.3.4 Information and Communication.....	22
2.3.5 Monitoring Activities.....	23
2.4 Performances Measurements in NGOs .....	25
2.4.1 Performance Measurement and Management Practices of NGOs .....	25
2.5 Limitations of Internal Control Systems.....	29
2.6 Empirical Reviews .....	31
2.7 Conclusion of Literature Review .....	33
<b>CHAPTER THREE- METHODOLOGY OF THE STUDY</b> .....	<b>36</b>



4.1.4.3 Examining the effect of current practice of control activities on overall performance .....	55
4.1.4.4 Examining the effect of current practice of information and communication on overall performance .....	59
4.1.4.5 Examining the Effect of Current Practice of Monitoring on Overall Performance .....	62
4.1.4.6 Examining Overall Performance Of NGOs Operating In Arada Sub City .....	65
4.2-Cross Tabulation Analysis .....	67
4.2-1The Relationship Between Internal Control Environment and the Performance of NGOs.....	67
4.2.2 The Relationship Between Risk Assessment Current Practice And The Performance of NGOS	69
4.2.3.The Relationship between Control Activities and The Performance of NGOS .....	71
4.2.4 The Relationship between IC and Performance. ....	74
4.2.5)The Relationship Between Monitoring Internal Control System and Performance.....	76
4.3 Regression Analysis .....	78
4.3.1 Regression Result .....	79
4.3.2 Analysis of Variance .....	80
4.3.3 Test for Coefficients (Hypothesis test result).....	81
<b>CHAPTER FIVE.....</b>	<b>86</b>
<b>SUMMARY, CONCLUSIONS AND RECOMMENDATIONS .....</b>	<b>86</b>
5.1 Introduction .....	86
5.2 Summary of Findings.....	86
5.3 Conclusion.....	90
5.4 Recommendations .....	91
<b>References .....</b>	<b>94</b>
<b>APPENDIX I: QUESTIONNAIRE .....</b>	<b>I</b>
APPINDEX II FREQUENCY TABLES.....	VIII

## List of Tables

Table 1 – sample respondents .....	39
Table 2– Variable definition and measurement .....	41
Table 4.1 Respondent’s Work Experience .....	44
Tabel 4.2 Education Level of the Respondents.....	45
Table 4.5 Lee Cronbach’ Reliability Estimation Table .....	46
Table 4.6 Reliability coefficient of the study variables .....	47
Table 4.7- Control Environment .....	49
Table 4.8 Over all mean of Control environment .....	50
Table 4.9 Risk Assessment .....	53
Table 4.10 over all mean of each item of Risk assessment.....	54
Table 4.11 Control activities.....	57
Table 4.12 over all mean of each item of control activities .....	58
Table 4.13 Information and communication.....	60
Table 4.13 (a) over all mean of each item of Information and communication.....	61
Table 4.14 Monitoring the whole internal control system .....	62
Table 4.15 over all mean of each item of monitoring internal control system.....	63
Table 4.16 –Overall performance of NGOs.....	65
Table 4.16(a) over all mean of each item of performance. ....	66
Table 4.17 – Control environment and Performance .....	67
Table 4.18 ( Risk assessment and Performance).....	70
Table 4.19 Control activities and Performance.....	72
Table 4.20 Information communication and performance.....	75
Table 4.21 – monitoring internal control and operational performance .....	77
Table 4.22 Model Summary.....	79
Table 4.24 - ANOVA.....	80
Table 4.25 Coefficients .....	82

## **LIST OF ABBREVIATIONS AND ACRONYMS**

CA	Control Activities
CBOs	community-based organizations),
CE	Control Environment
CHSA	Charities and Societies Agency
COSO	Committee of Sponsoring Organizations
CSOs	Civil Society Organizations
ERCs	Ethiopian Resident Charities
ERSs	Ethiopian Resident Societies
IC	Internal Controls
ICS	Internal Control Systems
MO	Monitoring
NGOs	Non Governmental Organizations
SOX	Sarbanes - Oxley
RA	Risk Assessment
SAS	Statement on Auditing Standards

## ABSTRACT

Little is practically known about the effect of internal control system on organizational performance especially in the case of NGOs operating in Ethiopia .One of the objective of internal control as stated by COSO is to improve operational effectiveness and efficiency of any organization. Therefore, ,the main objective of this study is to determine the effect of internal control system on overall performance of NGOs operating in Arada subcity where efficient and effective fund utilization is consider as one of typical indicator of performance for NGOs . To achieve the objective of this study, the study used explanatory research design and Quantitative research approach .The study took all component of internal control namely Control Environment, Risk assessment ,Control Activities, Information and communication and monitoring internal control system as independent variables and effective and efficient utilization of resource as dependent variable. The population of this study was 50 NGOs operating in Arada subcity .10 NGOs were selected using convenient sampling technique .Again from 10 NGOs selected 69 respondent who were key personal for functionality of internal control were selected for responding self structure questionnaires. The study relied on primary data. Primary data was collected using structured questionnaires. Descriptive statistics, cross tabulation and optimal scaling categorical regression analyses were done to examine how each component of internal control namely current control environment, risk assessment procedure and practice, control activities ,Information and communication ,and monitoring IC affects the performance NGOs . The findings revealed that control environment ,risk assessment procedure and practice, control activities ,Information and communication ,and monitoring IC have significant positive relationship with performance of NGOs operating in Addis Abeba ,Arada Subcity except the current risk assessment practices have somehow weakness which require improvements in order to have more influence on performance.it is recommended that the current practice of control environment risk assessment, control activities, information and communication and monitoring ICS should be strengthened more than before in order to enhance the performance of NGOs operating in Addis abeba arada subcity.

**Keywords:** control environment; risk assessment and control activity, Information and communication, organizational performance, NGOs,Arada subcity

# CHAPTER ONE

## INTRODUCTION TION

### *1. Background of the Study*

The importance and contribution of Civil Society Organizations (CSOs), often called Non-Governmental Organizations (NGOs) is multi-faceted. Besides their complementary role to the government in the socio-economic development endeavors, they have a paramount importance in fostering good governance and democracy, thus perceived as an important force in a functioning society (Taye and Birhanu, 2010).

Organizations representing social and economic players, which are not social partners in the strict sense of the term (for instance, consumer organizations); NGOs (non-governmental organizations), which bring people together in a common cause, such as environmental organizations, human rights organizations, charitable organizations, educational and training organizations, etc.; CBOs (community-based organizations), i.e. organizations set up within society at grassroots level which pursue member-oriented objectives, e.g. youth organizations, family associations and all organizations through which citizens participate in local and municipal life; and religious communities.

In Ethiopia, as is the case of many states, CSOs/NGOs play a significant role in the social, political and economic development. In addition to this, CSOs/NGOs play an important role around crisis and poverty alleviation and engage in activities such as agriculture, conflict management and displacement, HIV/AIDS, integrated rural development, disable persons, health, education, income generation, information services, refugees, street children, women issues, peace, governance, food security, self-help and youth. [Clark Jeffrey, P.4, 2000]. As a result of the 1973-74 and 1984-1985 famines, many more non-governmental organizations (NGOs) emerged with a focus on relief and humanitarian services. It was after the downfall of the Derg regime in 1991 that saw NGO numbers substantially increase. [NGO Law Monitor, P.1, 2010]

This study is about internal controls and performance of Non-Governmental Organizations registered and operate in Addis Abebe particularly Arada sub city

In order to properly utilize the fund provided by kind donors, the importance of establishing and implementing sound internal control is unquestionable. Ayom (2013) wholly agrees that administrative, operational, financial, procurement, systems and procedures contribute significantly to the success of organizations. He agreed that weaknesses and internal control failures leads to fraud, errors, and inherent misstatements of financial. Bongani (2013), affirmed that instituting and implementing good control systems somehow ensures that assets and resources are safeguarded, business are done in an orderly and efficient manner. Any organization without effective controls is more likely to encounter more irregularities and errors, more prone to fraudulent activities and bound to miss its objectives (Ndungu, 2013). Arguably, most organizations are unable to meet objectives efficiently due to weakness and inherent limitations of internal control system as already mentioned. Most times procedures are not followed and therefore the credibility of the controls are in doubt (Yang & Chun-Li, 2009).

As per the Charities and Societies Agency (CHSA) cited in the USAID CSOSI report (2014), the number of CSOs registered in 2013 has reached 3,007 (338 Foreign Charities, 366 Ethiopian Societies, 130 ERSs, 1,939 ERCs, 118 Ethiopian Charities, 54 Consortiums (networks), and 62 Adoption Foreign Charities).

The most recent data obtained from CHSA (May 2016) shows, a total of 3,026 Charities and Societies (360 Foreign Charities, 336 Ethiopian Societies, 95 ERSs, 2,013 ERCs, 111 Ethiopian Charities, 53 Consortiums, 58 Adoption Foreign Charities).

Thus, the researcher is inspired to know how such a large number of registered NGO in Ethiopia have been contributing for socio economic development of the country with the help of sound internal control system.

Therefore, the focus of this study is to evaluate the effect of internal control on the over all performance of those NGO located in Addis abeba Arada sub city

## ***1.2 Statement of The Problem.***

Various studies documented that the sectors contribution in availing foreign resources are immense and this has benefited the country's economy significantly. Evidence compiled by National Bank of Ethiopia shows that between 2011 and first-half of 2016 the total of NGO transfers amounted to US\$1.78 billion. The European Commission mapping study produced in mid-2008 estimates that between 2004 and 2007 NGOs' budget for over 2000 projects throughout the country was about 10 billion Birr. Studies also corroborated that huge amount of charities and societies development and service delivery projects have gone to the rural areas and poor farmers. Children, women, hard to reach and vulnerable groups have been the primary beneficiaries of the sector's program activities.

The contribution of CSOs to the Millennium Development Goal (MDG) and the funding flow by CSO remain significant [Debebe (2012); Desallegn, Akalewold &Yosef (2008)].Such large amount of resource should be utilized effectively and efficiently to assure that CSOs contribution for millennium development goal is realized . In order to utilize the donated fund properly, there should be sound internal control system for each and single NGOS.

As reported by BOFED (2016) .Currently, a million of funds have been diverted by manager and employees of various Non government organization operating through out the country. It is easy to imagine how this loss adversely affects the social wellbeing and the economy

ECSA report (2016 ) that about 100 NGO operating Ethiopia are closed due to many reasons. Some of them are failure of meeting the requirement articulated under the proclamation no 621/2009,expending more than 30 percent of total expenditure for administration expense, The involvement in illegal acts , misuse of asset due to lack adequate internal control practice.

[Desallegn, Akalewold &Yosef (2008)].If the ineffectiveness of operation of various NGOs operating in Ethiopia continues, their abilities of fund raising will be adversely affected. Unless the fund is efficiently utilized to achieve the objectives stated in each projects of NGO, the donor will be discouraged to release the funds next time. As the result, the development processes that have been undertaken by our country shall be hindered, if many NGOs operation is ceased due to improper utilization of donor fund

Implementation of proper internal controls will lead to effective and efficient operations of the organization. As per Mawanda (2008) and the Committee of Sponsoring Organizations (COSO)(1992), internal control is aimed to safeguard the resource allocated to NGOs, to efficient and effective utilization of the resource and provoke the funds of the donor to be used only for the intended purpose. Therefore the existence of sound internal control plays vital role to prevent the occurrence of the above listed problems

Despite the fact that internal control system have been in existence for many years in most organization, the problem of financial crimes have been continued at increasing rate . Examples of this financial crimes includes; financial irregularities within the departments, collusion among senior or highly-trusted employees, breaches of control, and so on. Various researchers have affirmed that internal control set by management in most organization has not been able to completely prevent these fraudulent occurrences because these controls have not significantly reduced the reoccurring fraud and corruption perpetuated by employees in most organizations due to inherent limitation of internal controls and ineffective design and implementation of internal controls.

Many researcher argue that ineffective internal control can have a negative effect on firm performance( Ashbaugh-Skaife et al. 2008 and 2013 and Lambert et al. 2007). As per Qiang CHEN. Beng Wee GOH, Jae Bum KIM (2015)PP 2, ineffective internal control can hence increase the likelihood that inputs( funds of the donor) available for execution of program activities are diverted for managers or employees personal consumption, reducing the outputs generated for a given initial amount of inputs and leading to lower operational efficiency.

As it is indicated in annual report (2016) prepared by Addis Abebe bureau of finance and economy which is responsible body to monitor and evaluate the performance of NGOs in Addis Abeba <sup>1</sup>Some NGOs operating in Addis Abeba have not mainly performed all activities listed on agreed annual plan efficiently and effectively. The main reasons are ; material internal control weakness which creates opportunity to divert the funds to manager ,employees

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<sup>1</sup> This report is prepared by NGOs forum for internal use only and have not yet be published.

and supplier, inefficient work flow system , having incapable workforce and so on. Some of NGOs did not achieve even single objectives articulated in annual operational plan. As the result the bureau warns these NGOs to take necessary corrective actions which help them to enhance their performance. Based on this information, this research is conducted to determine whether such complication and inefficiency and ineffectiveness is also problem of NGOs in operating Addis Abeba particularly Arada sub city with practical research methodologies.

The aim of this study is to provide empirical evidence that the internal control practices of NGOs really play vital role in efficient and effective use of the resource which is repeatedly described by many researches and literature

In addition the study is targeted at answering whether the NGO operating in Arada Sub city have been utilizing their resource efficiently and effectively due to the help of internal control they have.

Although there are researches on the effect of internal controls on the performance, the available studies so far have dealt exclusively with large privately owned companies especially in advanced countries. There are a few studies on internal control focused on evaluating the effectiveness of internal control mainly in privately or government owned organization but not in NGOs Sector .For example , the study done by Tsedal lemi(jan 2015) entitled ‘assessment of Internal Control Effectiveness in Selected Ethiopian Public Universities’ focuses on evaluate the soundness of each component of internal control system it does not examine the influence of ICS on performance.

Little is practically known at present about the influence of ICS on performance (efficient and effective use of resource) in NGOs operating in Ethiopia.

This study is different from other study about internal control in Ethiopian in that it not only assesse the soundness of current internal control practice but also examined the impact of current practice of internal control on the overall performance of NGOs in Ethiopia.

Therefore, the main focus of this study is to examine the effect of internal controls on the performance of NGOs operate in Arada sub city ,Addis Abeba . Specifically, the study assesses the current state and functionality of internal controls in the organization of NGOs and how its impacts on the achievement of organizational objectives efficiently.

### ***1.3 The Objective of the study***

#### **General objective**

The main objective of the study is to establish relationship between each component of internal control system and the performance of NGOs operating in Addis Abeba Arada sub city

#### **Specific Objectives of the Study**

Specific objectives of the study include:

- To assess the effect of control environments functionality on the performance of NGOs operating in Addis Abeba Arada sub city
- To investigate the effect of risk assessments practice on the performance of NGOs operating in Addis Abeba Arada sub city
- To examine the effect of Control Activities practice on the performance of NGOs operating in Addis Abeba Arada sub city
- To assess the effect of information and communication practice on the performance of NGOs operating in Addis Abeba Arada sub city
- To examine the effect of current practice monitoring the whole internal control system on the performance of NGOs operating in Addis Abeba Arada sub city

### ***1.4 Hypothesis Development***

Since the existing literature and theory describe that the relationship between sound internal control system and operational performance is positively related, for all component in alternate hypothesis one side hypothesis is conducted.

*The following are the Hypothesis formulated for the research*

### **Hypothesis 1**

Ho- there is no relation between Control environments and the performance of NGOs in Arada subcity

H1- there is significant positive relation ship between internal control environment and the performance of NGOs in arada subcity

### **Hypothesis 2**

Ho- there is no relation between current risk assessment practices and the performance of NGOs in arada subcity

H1- there is significant positive relation ship between current risk assessment practices and the performance of NGOs in arada sub city

### **Hypothesis 3**

Ho- There is no relation between control activities and the performance of NGOs in Arada sub-city.

H1- there is significant positive relation ship beteween internal Control activities and the performance of NGOs in arada subcity

### **Hypothesis 4**

Ho- there is no relation between information and communication and the performance of NGOs in arada subcity

H1- there is significant positive relation ship beteween information and communication and the performance of NGOs in arada sub city.

### **Hypothesis 5**

Ho- there is no relation between monitoring of internal control system and the performance of NGOs in arada sub city.

H1- there is significant positive relation ship between monitoring of internal control system and the performance of NGOs in arada subcity.

## ***1.5 Significant of the Study.***

The finding and the recommendation of this study help mangers as well as concerned government body to understand how effective internal control play great role to improve the implementation of agreed Annual plan .In addition to this, the study is expected to provide valuable information about the material internal control weakness that needs managers as well as concerned party attention to take necessary corrective action.

In Addition to this, it will enable manager of NGOS as well as concerned government not only to know the area where internal control ineffectiveness exhibited which has directly and adversely affect the attainment of their objectives efficiently but also help them to strengthen area where internal control is strong which is highly contributing for overall achievement of program objectives efficiently. Knowing the areas of deficiencies will enable the government to remove the loopholes of the threatening corruption and the rent seeking motives aggravated through material internal control weakness.

For me, it has given me practical insight about how strong internal control practice improves the performance of NGOS and the area in which NGO require internal control improvements

Furthermore, this study is area of interest of academicians and future researchers who will be undertaking other researches related to this. This is because it increases their knowledge on internal control and provides the necessary information to be incorporated into their work

## ***1.6 Scope of The Study***

### **Subject scope**

One of the factor that affect the performance is the existence and practice of sound internal control. The focus of this study is to examine the effect of internal control on the performance of NGOs. Because of time constrain and the focus on internal control, other factor such as competencies of staff, management effort, the role of stockholder and any other factors that can affect the performance of NGOs have not been considered in this study .

The question regarding to performance measurement of NGO is to determine how organization utilize the fund as per approved planned. This study goes up to only out put level .Here the researcher try to see the effect of internal control on the performance of the NGOs where performance is measured by efficient and effective utilization of the fund only . even if the out come and the impact of the program on beneficiaries life are another indicator of the performance of NGO ,investigating the contribution of sound internal control for out come and impact of the program activities on the beneficiary is not totally the focus of this study.

## **Geographic scope**

The study focused on the NGOs operating in Addis Abeba Arada subcity. The staffs of different appropriate department for research subject from some selected NGOs operate in Arada sub city will be contacted to provide valuable information.

### ***1.7 Limitation of the study***

The main problems of this study is highly linked inherent limitation of internal control that is operated and controlled by people who are natural to errors, deliberate collusion manger purposeful override of controls which have been extensively discussed undress literature review section.

The study does not investigate the inherent weakness of internal control which attribute for failure of detecting material irregularities, fraud and error that can adversely affect the operation of NGOs. The respondent were not requested to give their opinion the presence of collusion and management override because of respondent are afraid of giving such kind of information .

In addition the study does not include secondary data about internal control . Examining annual financial performance report of all selected NGOs is important. By analyzing these report, a very useful information can be obtained to determine the NGOs achieve their objectives in efficient manner which is useful to strength the result obtained from primary data . but the study has not obtained annual financial performance report due to most NGOs are not willing to provide such information. Moreover, the researcher has got difficulties to get detail performance report of each selected NGO from Addis abeba Bureau of finance and economy because the Bureau did not have organized current financial performance report to the selected NGOs . It have reports on over all performance NGO at Addis abeba level not at Arada sub city level.

Therefore, due to the above reasons, The researcher relied on the primary data collected through questionnaires. It has no other means to triangulate the questioners result which is useful to make the result valid. This is the main limitation of the study

## ***1.8 ORGANIZATION OF THE STUDY***

Chapter one includes background of the study, the problem statement, research question, objectives of the research, the significant of the study , hypothesis development variable definition and the scope and limitation of the study Chapter two is the literature review which includes the definitions of internal control, internal controls objectives, types of internal controls, components of internal control, principle of internal controls , performance measurement in NGO , internal control limitations, finally empirical evidence from previous study have been discussed

Chapter three consist of the research design, population under study, sampling techniques, sources of data, research instruments and method of data analysis. Chapter four focuses on data presentation and data analysis. Chapter five is the summary of findings, conclusion and recommendations.

## CHAPTER TWO

### RELATED LITERATURE REVIEW

#### *2.1 The Concept of Internal Control*

The Committee of Sponsoring Organizations (COSO), (2013) defines internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: 1. Effectiveness and efficiency of operations. 2. Reliability of financial reporting. 3. Compliance with applicable laws and regulations.

The Sarbanes – Oxley Act (Amended) requires all organizations to periodically assess and disclose the effectiveness of the internal control systems put in place. Article 79 of CHSA Proclamation 621/09 states that any Society's account shall be examined annually by a Certified Auditor or internal auditor or an auditor assigned by the Agency.

Internal accounting control is defined in SAS No. 1 (paragraph 320. 28) as: a plan of organization and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records and consequently are designed to provide reasonable assurance about the transactions and related resources.

Mawanda (2008), defined internal control as measures and processes instituted by management of organizations generally to provide realistic assurance on how the organization's objectives are achieved with particular regards to operational efficiencies, effectiveness and the level of compliance with applicable laws, rules and regulations.

Internal control system, according to the Auditing Practice Committee is “the whole system of control for financial or otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management's policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records”.

The International Standards on Auditing (ISA 400) defined internal control to mean all the policies and procedures adopted by the management of an entity to assist in achieving

management's objective of ensuring as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of asset, the prevention and detection of Fraud and errors, the accuracy and completeness of accounting records and the timely preparation of reliable financial information

Internal Control provides a standard against which business and other entities large or small, in the public or private sector, for profit or not--can assess their control systems and determine how to improve them.

In other words, internal control includes all the entire processes and procedures instituted by management to ensure that its assets are protected, resources are effectively utilized and that activities are conducted in accordance with the organization's laid down policies and procedures Mawanda (2008). Internal controls benefits organizations only if they are functional and effective as intended. Bongani (2013) therefore asserted strongly that very sound and functional control systems serve as first line of defense in safeguarding assets, prevents and somewhat assist in detecting fraudulent activities. To ensure that internal controls are effective and functional, they must be designed with the organizations characteristics in mind. Management or those charged with the responsibility to design internal control systems should carefully design it to respond to the organization's internal and external changes when the system is put to effective and efficient operations. At best, it should form part of the comprehensive enterprise risk management framework of the organization.

We expect ineffective internal control to have a negative effect on firm operational efficiency for two non-exclusive reasons. First, ineffective internal control leads to greater information risk, which increases agency problems and the likelihood of misappropriation of corporate resources by managers and other employees (Lambert et al. 2007). In addition, ineffective internal control in the form of inadequate physical security, inadequate segregation of duties, and inadequate documentation further allows the misappropriation of resources by employees. If resources available for production are diverted for managers' and other employees' personal consumption, the outputs generated for a given amount of inputs will be reduced, leading to lower operational efficiency. Second, ineffective internal control can result in erroneous internal management reports and untimely financial reporting information (Feng et al.2009).

It was found that operational efficiency is significantly lower for firms with material weaknesses compared to firms without such weaknesses

Ming and Wang(2009) wholly agree with this statement but further established that the effectiveness of internal control systems in organizations endorses reliability of accounting records. In addition to the above mentioned arguments, an effective internal control system has the potential of preventing fraudulent activities, reduce errors and thereby ensure authenticity of financial reports providing reasonable assurance to stakeholders. Nonetheless, the presence of inherent limitations in the internal control systems affects the credibility. It is against this background that (Ming and Wang, 2009) suggest that management of NGOs should endeavor to put in better systems to achieving goals while, Bongani (2013) emphasized that NGOs could only provide good accountability to donors and stakeholders when they establish effective internal control system.

## ***2.2 Types of controls***

Ntongo (2012) agrees to the assertion that sound internal control facilitates the achievement of objectives. However, to make more meaning he categorized the controls into two main forms.

**A) The accounting controls** is concerned with the plan of the organization and all the co-ordinated methods and procedures which are implemented with a view of safeguarding assets and enhancing reliability of financial records.

**B) operational or administrative controls** and they are primarily designed to provide and improve operational efficiency and compliance to policies, laws and procedures. On the contrary, it is noted that the existence of the controls alone cannot ensure the achievement of desired results. unless it is combined with enforcement and periodic evaluation to assess the effectiveness.

In addition, the auditing hand book by K H Spencer Pickett (2005), classified internal control as; directive control, preventive control, detective control, and corrective control

- i. **Directive control;** is used to ensure a clear direction and derive to achieve desired objectives. It is related with motivating the people and gives them a clear sense. It may include staff training and awareness.

- ii. **Preventive control;** is to ensure that system works in the first place. This may include employing competent staff, high moral standard, segregation of duties, generally establishing good control environment.

It Attempt to prevent undesirable events from occurring

Examples: Segregation of duties, Proper authorization, Adequate documentation

- iii. **Detective control;** is used to pick up transactions errors that have not been prevented. They cover controls like supervisory review, internal checks, spot checks and reconciliations.it Attempts to detect undesirable acts

- iv. **Corrective control;** is final category of the controls used to ensure where the problem is identified and they are properly dealt with. These include management action, corrections and follow up

### ***2.3. Components of Internal Control***

Internal control consists of five interrelated components (COSO, 2013). These are derived from the way management runs an organization. The five elements of internal control that need to be implemented and integrated into the business processes to ensure that the overall business objectives are met and must be integrated in the management process. The five elements are Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring.

#### **2.3.1 Control Environment.**

The control environment is the foundation of all the other components of internal control and sets the tone of an organization, influencing the control consciousness of its people.

The control environment comprises the overall culture and tone of the organization encompassing factors such as integrity and ethical values, management's philosophy, and enforced policies and procedures.

Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors (COSO, 2013). Mawanda (2008) asserted that the control environment is considered as the most important component around which all the others operate.

His arguments stemmed from the fact that control environment bothers on factors such as integrity, ethical values, commitment and competence which form the basis of the control consciousness of management and all employees performing their duties assigned them. Furthermore, he alludes that the control environment depicts management's operating style and philosophy. Many writers confirm these statements and also add that the control environment helps to determine the risk level and the type of organizational structure in place with clearly defined roles. It therefore provides the framework within which the other components are built. On the contrary, however, these arguments are flawed by factors such as inadequate supervisory roles and override of controls which all lead to weakened controls.

### **2.3.2 Risk Assessment**

Risk management is an ongoing process that helps a firm to anticipate negative events, develop a frame work for effective decision-making, and profitably deploy the firm's resources.

Risk Assessment is an assessment that uses appropriate procedures to identify and assess the risk of materials misstatement in financial statement.

The most important step in a risk assessment process is to identify all the relevant risks. If business and fraud risk factors are not identified by the management , they will not be assessed or documented. These risk assessment procedures also need to be performed by the appropriate level of staff.

All organizations face variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is the establishment of objectives, linked at different levels and internally consistent (COSO 2013). Risk assessment component deals with the critical evaluation of factors that affect the possibility of not achieving desired result (Ndungu, 2013). It is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed (COSO, 2013).

economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with the change. It is therefore important for management to determine and assess the risk level it can accommodate and for that matter ensures it achieve its goals. In line with this, management designs and operate adequate internal control to ensure efficient and effective use of resources and comply with regulations and laws.

Brainstorming how fraud could occur and then designing an appropriate response must be taken by management. The management and the employees of the firm has to identify all potential factors, condition and events that create chance of committing fraud, provoke inefficiency utilization of resource, misappropriation of asset and establish controls to mitigate this risks.

The activities involved in risk assessment are described below( ISA-Small and medium Entities )

(i)Establish the risk tolerances for the firm

A characteristic of clients that would not be acceptable by the firm. Once the amount of tolerance established, these tolerances provide partners and staff with a useful reference point for making decision whether to accept engagement or not.

(ii)Identify what can go wrong: –Identify the event that could prevent the firm from achieving its stated goals.

(iii)Prioritize Risks:-Using the risk tolerances established above, prioritize the events identified based on an assessment of likelihood and impact.

(iv)Develop an appropriate response to the assessed risks to reduce the potential impact to within the firm's acceptable tolerances. Potential events (risks) with the highest priority would be addressed first.

(v)Assign responsibility: - For all risks that require action or monitoring, assign someone with the responsibility to take the appropriate action and to manage the risk on a day-to-day basis.

(vi)Monitor Progress Require periodic (simple) reports from each person assigned to manage risks on behalf of the firm

### **2.3.3 Control Activities**

The COSO framework (2013) defines control activities as the policies and procedures that help ensure management directives are carried out. Manwada, (2008) describes control activities as basically policies, procedures and general rules an organization put in place to ensure that all directives set up by management are fully followed. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, documentation, recording, authorizations, verifications, reconciliations,

reviews of operating performance, security of assets and segregation of duties. In theory, it is argued that one single person should initiate and complete transaction all by himself or herself.

The American Institute of Certified Public Accountants, in Statement on Auditing Standards number 55 (SAS 55), also defined control activity as policy and procedure to ensure that every activity taken based on the consideration to minimize the risk faced by the entity. Accordingly the statement described the elements of control activities as follows

i) **Separation of duties** :-Divide responsibilities between different employees so one individual doesn't control all aspects of a transaction. Reduce the opportunity for an employee to commit and conceal errors (intentional or unintentional) or perpetrate fraud

**ii) Proper authorization of transactions**

Management documents and communicates which activities require approval, and by whom, based on the level of risk to the organization.

Ensure that transactions are approved and executed only by employees acting within the scope of their authority granted by management

**iii) Physical controls for assets**

Physical controls are additional common sense precautions taken to safeguard the assets of an organization. These include:

- Having a safe, or a safe place, to keep cash, check books, legal documents, etc.
- Safeguarding Fixed Assets – fixed assets may represent considerable wealth held in the form of vehicles, machinery and office equipment and require special attention to ensure their value is maintained and that they do not disappear through lack of watchfulness
- Insurance Coverage – proper coverage of fixed assets for uncontrolled/unknown risks

**iv) Reconciliation & Review**

- Examine transactions, information, and events to verify accuracy, completeness, appropriateness, and compliance.
- Base level of review on materiality, risk, and overall importance to organization's objectives.

- Ensure frequency is adequate enough to detect and act upon questionable activities in a timely manner.
  - Bank Reconciliation – cash book vs bank statement
  - Petty Cash Reconciliation – cash on hand vs petty cash fund float (cash on hand + petty cash vouchers = petty cash fund)
  - Stock Reconciliation – records of store with financial stock cards (records of finance with admin/property)
  - Payroll Reconciliation – last month net pay with current month net pay

**v) Physical controls for records**

- Prevent physical access to financial records - locked shelves, access to limited staff, strong gate lock to finance unit, etc.
- Access controls to prevent unauthorized access of computer system - setting strong user access level to accounting system
- Backup and recovery procedures - both in hard drive and external device

**vi) Documents and records**

- Document & preserve evidence to substantiate:
- Critical decisions and significant events...typically involving the use, commitment, or transfer of resources.
- Transactions...enables a transaction to be traced from its inception to completion.
- Policies & Procedures...documents which set forth the fundamental principles and methods that employees rely on to do their jobs.

Major control Activities in NGO setting

**A) Effective procurement policies**

Procurement is a very important function within an organization that accounts for the biggest share of the expenditure in many firms. Therefore for effective decision making and attainment of value for money, every procurement executive should follow certain essentials which are regarded as the traditional rights of procurement, which are; Right Quality, Right Quantity, Right Time, Right price, Right source. This is normally inscribed in the organization procurement policy/ process. Every organization requires this policy describing the procurement processes cycle.

The procurement process cycle describes the typical stages that characterize the procurement process.

In most countries, government entities are by law meant to adhere given standard when procuring goods, services or works.

In South Sudan for instance, Public procurement is governed by the Interim Public Procurement and Disposal Regulations (2006) under the ministry of Finance. This is because governments strive at streamlining the procurement process in an attempt to reduce corruption and attain value for money in each and every dollar of the tax payers' money. In a bid to stream line procurement process in contracts involving international boundaries, many countries are required to be members of the government procurement Act (GPA), a body which consists of over 127 countries in the world. The World Bank also provides the procurement laws and regulations that its entire donor funded projects are meant to adhere too.

Procurement policy of any NGOs ought to provides a step-by-step guide to procurement of goods or services, with the aim of helping NGOs to avert corrupt practices and achieve value for money in procurement.

According to MSH South Sudan Audit workshop report (2012), MSH has put in place procurement policies in line with those set by the World Bank for NGOs well documented and expected to be applied consistently to ensure fair and open competition to the greatest extent possible. Best value is considered, including price, quality, service and warranty or goods or services.

## **B) Exercising budgetary control on the expenditure**

Aldridge and Colbert (2004) assert that budgeting is very important for NGO's because it acts as a control measure, they go ahead to mention that the benefits of budgeting almost always clearly outweigh the costs and efforts required by the process.

Perhaps the foremost advantage of budgeting for the NGO's is that it forces project managers to think ahead. A look in to the future invariably compels top management to set goals and objectives. Budgeting therefore tends to move an organization from a reactionary mode in which management simply reacts to problems, to a controlled mode in which problems are anticipated and positive action is taken.

Budgeting is useful to NGO's because it coordinates and integrates the organizations resources. The budgeting process requires that managers open up lines of communication within the organization: Up and down organizational lines from subordinates to supervisors, and across organizational lines between managers of different departments.

Coordination across organizational lines is necessary due to interdependence of activities. For example, purchasing managers integrate their plans with production requirements; production managers use the sales budgets to help them anticipate and plan for materials, employees and productive facilities, and personnel must know the needs of all the departments before it can plan for new employee needs training requirements

### **C) Effective Payment**

Payment should be effective in only if the following are fulfilled

- i. all necessary supporting documents attached according policy and procedure of the organization
- ii. donor requirements are adhere
- iii. it is within approved budget
- iv. Follows applicable laws of the land
- v. authorized by designated personnel

#### **2.3.4 Information and Communication.**

This aspect of the internal control elements requires that all pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance-related information that make it possible to run and control the business (COSO, 2013) .They deal not only with internally generated data, but also information about external events, activities and conditions necessary to informed business decision-making and external reporting. Effective communication also must occur in a broader sense, flowing down, across and up the organization. Ndungu (2013) argued that documenting pertinent information is not enough but should be backed by effective communication within the entire organization. In other words, there should be broad communication channels and medium that ensures that information flows easily from top, down and across all sections in the entity (Badara and Saidin, 2013). They also need to be effective communication with external parties, such as customers, suppliers,

regulators and shareholders. According to Theofanis, Drogalas, and Giovanis, (2011), information and communication is one of the most influenced components of internal control because of its importance and ability to underpin good working relationships at all levels in the organization.

### **2.3.5 Monitoring Activities**

It is designed to assess whether control environment is conducive, the design and the implementation of control activities are appropriate, the firm undertaken valuable risk assessment and communicate information properly

Monitoring is the process that assesses the quality of the organization system's performance over time. Monitoring controls are controls designed with the primary aim of ensuring that the internal control systems put in place continue to work as intended. This is achieved through ongoing monitoring activities, separate evaluations or a combination of the two (COSO Framework, 2013). Ongoing monitoring must occur in the course of operations. It must include regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations primarily depend on an assessment of risks and the effectiveness of ongoing monitoring procedures. Any deficiency in the internal control should be reported to the appropriate level higher in the chain of command for corrective actions, with serious matters reported to top management and the board. Internal control is most effective when controls are built into the entity's infrastructure and are a part of the essence of the enterprise. Ineffective and delayed corrective responds from management reduces the credence of the monitoring exercise.

✓ A firm's monitoring process could be divided into two parts,

#### **A)Ongoing monitoring**

It is an ongoing consideration and evaluation of the firm's internal control system made to ensure that the policies and procedures in place are relevant, adequate, and operating effectively. A Ongoing assessment includes determining whether firms needs to update its financial manual for new requirements and developments.

**B Regular monitoring.** it is evaluation of firms internal control through document inspection and observation on regular base by internal auditor to determine whether firms internal control procedure are put in practice and to identify any material internal control deficiency .

### **2.4 Internal Controls in NGOs**

The focus of most NGOs is predominantly associated with humanitarian issues such as social welfare, health, education and general developmental aid. In recent times, there are calls for NGOs to institute strong internal control systems (Chenhall, Hall, and Smith, 2010). These calls follow recent embezzlements and misappropriation of funds by some NGOs. Despite these calls, most non-governmental organizations particularly in the developing countries face the challenge to demonstrate efficiency in their operations. However, the call for strict adherence to donor rules and the need for implementing effective internal control systems are somewhat new and therefore conflict with the old fashioned management style that existed in the industry.

Against this background, Yang (2009) asserts that managers have to make conscious efforts to the design and implementation of internal controls since the design of the controls greatly impacts the success of the organization. This implies that internal control should be design to respond to the risk threatening objectives and not just operate as checks and balances. It is therefore important for NGOs to give internal control the required maximum attention. To derive the optimum effectiveness, Yang (2009), advocates that the control design and implementation should form an integral component of entity's overall risk management system and the governance structure in place. According to him, such strategy potentially reduces the deficiencies drastically in the entire control systems and allows the systems to function well to achieve the desired results. This reinforces the statement by (Chenhall et.al, 2010) that the controls implemented by most non-governmental organizations exhibits some level of weaknesses.

In spite of these challenges or limitations, some researchers have discovered that the internal control systems of some NGOs are relatively better. Bogani, (2013) noted that NGOs in Zimbabwe have strong and effective internal control systems particularly, in the area of control environment, control procedures and monitoring. In another view, it can be observed that NGOs are a better option to government organizations or agencies in addressing donor's social welfare and developmental agenda. It is also alluded that the situation is even worsen with countries characterized with corruption and bad political climate. Nonetheless, some NGOs have been characterized with misuse and diversion of resources to the detriment of beneficiaries. The existence of bad and non-functional internal controls coupled with poor management practices and structure have resulted or contributed to the many scandals.

## **2.4 Performances Measurements in NGOs**

Until recently, the activities of Non-Governmental Organizations were basically on ethical-social motivation and technical professionalism involving the participation of doctors, nurses, engineers and physicians. Most NGOs were engaged in international collaboration for development, natural disasters and other emergency humanitarian issues. Recently, the ethical-social motivation and the technical Professionalism are not sufficient since NGOs are required to account for how the limited financial and non-financial resources are utilized. Moreover, the environments in which the NGOs operate compel them to assess and facilitate their strategies and performance (Ramadan and Borgonovi, 2015). The operational environments of these organizations are very dynamic and risky and the entire effectiveness of such organizations involves meeting several demands of stakeholders by establishing a realistic and achievable performance measurement and management system. In order to be successful, NGOs have to design and implement systems of measuring and managing performance efficiently.

They are expected to manage and assess their performance from several angles by considering the projects/programs performance as well as the motive and targets of the donors and the specific needs of the beneficiaries and the internal effectiveness (Ramadan and Borgonovi, 2015).

### **2.4.1 Performance Measurement and Management Practices of NGOs**

According to Teelken (2008), the relevance and the merits of using performance measurement and management to different organizations have been broadly demonstrated. Literature reveals both theoretical frameworks and empirical investigations that show the essence of measuring and managing performance to strategy at all levels of the organization. In Non-Governmental organizations, performance measurement and management does not only serve as a tool for planning to help assess their impact, outcomes and outputs. However, it also serves as a vital instrument for inward feedback and learning. It therefore appears to be the key means to effectively process and handle information in NGOs and to circulate it to the appropriate stakeholders such as targeted groups and communities, associates, donors and others (Ramadan and Borgonovi, 2015).

Performance measurement and management of NGOs is extremely important since it focuses on these organizations in the utilization of the performance information in their framework for

decision making. Impliedly, management and assessment of performance is regarded as a prerequisite for NGOs strategic planning for the purpose of functional improvement. In addition, it is linked with the budgetary system within NGOs since such organizations are seen to be fundraising-oriented. Additional reason why performance measurement and management is vital in NGOs is the need to exhibit transparency as well as accountability to relevant stakeholders. Several authors have provided a number of descriptions of performance measurement.

According to Clark, (1991) like every other sector, one of the major drivers of efficiency is the manner of utilization of the capital and the funds that the NGO sector accumulates through various sources for carrying out its work. If statistics are to be taken into consideration, out of more than 1.2 million NGOs operating in India, only 3% are being able to carry out constructive grass-root level work (ICONGO, 2002 survey). Furthermore, NGO establishments typically tend to have high administrative costs of nearly 60% and above. Indicatively (based on limited statistics that are available for India), only 10-20% of the funds are utilized for effective developmental work. More stringent management norms through internal controls and regulatory oversight will contribute to more effective spending by NGOs.

Lindblad (2006) considered measurement of performance as the application of objectives, indicators and information to assess NGOs interventions and services. It is treated as the mechanism for evaluating employees, teams and the entire organization (Ferreira and Otley, 2009).

Shapiro (2007) states that, financial performance is the measurement of the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's returns and value-added. This is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time.

In another breadth, Miller (2007) sees performance measurement as an approach of assessment that evaluates a program's impact in terms of efficiency and effectiveness. Carmon (2007) is of the opinion that, measuring performance involves a systematic approach of evaluating a program's outputs, inputs and impacts. Obviously, acquisition of the relevant and needed

resource for survival is not the sole perspective of measuring NGOs performance. Moreover, Kareithi and Lund (2012) states that the fundamental objective of these NGOs is targeted at the desired goals by their total beneficiaries reached and the improvement in their various communities. Consequently, the assessment of such organizations should primarily be evaluated on how efficient and effective they have been in achieving these specific social goals. Generally, NGOs appraise their performance by establishing performance indicators and then continue to collect information related to such indicators. The most common indicators of performance used by NGOs integrate effectiveness, fundraising, costs, satisfaction of beneficiaries as well as efficiency (Carman, 2007). In a similar way, Teelken (2008) applied four main performance indicators to assess the operation of NGOs and these are efficacy, economy, efficiency and effectiveness. Moreover, Benjamin and Misra (2006) states that, in assessing NGOs performance we should focus on four main indicators which are inputs, outputs, outcomes and impacts. The relationship that exists between inputs used and outputs achieved is efficiency; however, effectiveness is seen as a measure used in determining up to what degree is an organization achieving its intended goals and objectives. Furthermore, inputs indicators track a project inputs such as staff, funds and duration, while the outputs indicators refer to results obtained from the use of a projects inputs which are basically related to the number of beneficiaries served and the number of providers as against the intended objectives of the program. Beneficiaries' satisfaction can be evaluated by: access, timeliness, availability, and selection provide another vital mean for evaluating NGOs performance (Niven, 2008). Impact indicator measure the degree of achieving the entire objective of a project/program for example hospital building, changes in the lives of people, standard of living, etc. It usually concentrates on the long term effects of achieving goals and larger socio-economic change. It identifies the entire consequences of a program or interventions on people and community external to the immediate intended beneficiaries. In addition, Niven (2008) stated that partnership and quality are considered to be important indicators often used in measuring NGOs performance in the society.

Goodwin (2003) goes ahead to state that performance comprises of the actual output or results of an organization as measured against its intended outputs or objectives

According to Andreasen and Kotler (2008), fundraising efficiency involves obtaining funds for the survival of NGOs. It is measured using the dependency ratio of donors (Epstein and McFarlan, 2011). Furthermore, Lewis (2009) states that, resource generation ratio is also another indicator used in estimating the efficiency of fundraising. The cost of fundraising and the response rate of funding proposals are other approaches of measuring fundraising efficiency (Niven,2008).

Despite using fundraising efficiency as an indicator of financial performance of NGOs, there exist other measures which are linked to the financial transparency with NGOs as suggested by Standards for Charity Accountability of Better Business Bureau Organization (2008). By stating transparency in financial performance of NGOs, it indicates that they make information relating to financial activities available to relevant stakeholders especially donors. This calls for the preparation of comprehensive, accurate and timely financial reports and ensuring that they are made accessible to interested parties especially donors.

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Touche (2004) notes that the traditional role of internal control is to keep the organization focused to the desired goal, bring value, and improve operations.

An interesting dimension is introduced by a journal article which analyses effectiveness and performance from the perspective of quality (Krishnan,2000) This author compares quality of management in an NGO concern against the quality of corporate internal control in order to establish a relationship between the two concepts.

Can performance in the NGO sector change to the credit of the Donor, simply because all parties concerned are willing to put in optimal funds in the internal control system and the audit effort? The article also projects the likely outcome of internal control following the introduction of a new regulatory environment by the International Financial Management Standards.

There is a relationship between social issues management and Corporate Social Performance. The articles have suggested a theory that social issues in management contribute to the success or failure of internal control systems within an NGO. The theory states that a link exists between the two and that slack resource availability and corporate social performance are positively related (Waddock, 1997)

## ***2.5 Limitations of Internal Control Systems***

No matter how well internal controls are designed, they can only provide reasonable assurance that objectives have been achieved. Some limitations are inherent in all internal control systems (Mercer University – United States of America (Georgia). Internal control can never be perfect in achievement of control objective because it involves peoples.

The following are the summarized areas of internal control limitations based on (COSO, 1992, SOX 2002.)

- Abuse of authorization responsibilities
- Collusion between two or more members of staff negating the segregation of duties
- Collusion with interests outside the entity like suppliers
- Fraud and systems which present obvious opportunities for abuse
- Failure of top management to act decisively on breaches of internal control systems
- Destruction of evidence by those responsible for abuses

A number of deficiencies indicate poor or inadequate internal control procedures or policies. According to Bradford (1997) the deficiencies can be categorized into three groups: deficiencies in the design of the internal control structure, deficiencies in the operation of the structure, and all other deficiencies.

In accordance with Mercer University – United States of America (Georgia - inherent limitation of internal control includes the following

### **i) Judgment**

The effectiveness of controls will be limited by decisions made with human judgment under pressures to conduct business based on the information at hand. According to Lannoye (1999) Effective internal control may be limited by the realities of human judgment. Decisions are often made within a limited time frame, without the benefit of complete information, and under time pressures of conducting agency business. These judgment decisions may affect achievement of objectives, with or without good internal control.

Because any internal control structure depends on the human factor, it is subject to flaws in design, errors of judgment or interpretation, misunderstanding, carelessness, fatigue, or distraction. While the competence and integrity of the personnel designing and operating the system may be controlled by selection and training, these qualities may alter due to pressures

from within and outside the public body. Furthermore, no matter how competent the staff, the control they operate may become ineffective if they do not correctly understand their function in the control process or choose to ignore it.

## **ii. Breakdowns**

Even well designed internal controls can break down. Employees sometimes misunderstand instructions or simply make mistakes. Errors may also result from new technology and the complexity of computerized information systems

## **iii. Management Override**

High level personnel may be able to override prescribed policies and procedures for personal gain or advantage. This should not be confused with management intervention, which represents management actions to depart from prescribed policies and procedures for legitimate purposes. With Lannoye, management may override or disregard prescribed policies, procedures, and controls for improper purposes. Override practices include misrepresentations to state officials, staff from the central control agencies, auditors or others.

According to COSO (2013), management override refers to actions taken to override an entity's controls for illegitimate purposes, including personal gain or an enhanced presentation of an entity's financial condition or compliance status. For example, to allow a large shipment of goods to a customer with unacceptable credit in order to increase revenue, a manager might improperly override internal control by approving the sale transaction.

## **iv. Collusion**

Control systems can be circumvented by employee collusion. Individuals acting collectively can alter financial data or other management information in a manner that cannot be identified by control systems. The effectiveness of segregation of duties lies in individuals' performing only their assigned tasks or in the performance of one person being checked by another. There is always a risk that collusion between individuals will destroy the effectiveness of segregation of duties. For example an individual received cash receipts from customer can collude with the one who records these receipts in the customers' records in order to steal cash from the entity (Williams 2000).

## **2.6 Empirical Reviews**

Mawanda (2008) conducted a research on effects of internal control systems on financial performance in institution of higher learning Uganda. In his study he investigated and sought to establish the relationship between internal control systems and financial performance in an Institution of higher learning in Uganda. Internal controls were looked at from the perspective of Control Environment, Internal Audit and Control Activities whereas Financial performance focused on Liquidity, Accountability and Reporting as the measures of Financial performance. The study established a significant relationship between internal control system and financial performance. The investigation recommends competence profiling in the Internal Audit department which should be based on what the University expects the internal audit to do and what appropriate number staff would be required to do this job. The study therefore acknowledged role of internal audit department to establish internal controls which have an effect on the financial performance of organizations.

The study entitled “ Effect of internal controls on the financial performance of manufacturing firms in kenya” conducted by by Kamau Caroline njeri sought to determine the effect of internal control system on financial performance of manufacturing firms in Kenya. The findings revealed that most manufacturing firms had a control environment as one of the functionality of internal controls of the organization that greatly impacts on the financial performance of the firms. In Addition to this, this study found that Control activity are properly functioned as the result it greatly improve the financial performance of Manufacturing company. The statistically result of this study show that there is a positive relationship between internal control and financial performance of manufacturing firms in Kenya. The independent variables (Control Environment, Risk Assessment, Control Activities, Information and Communication and monitoring) contributed to 75.7% of the variation in financial performance as explained by adjusted R<sup>2</sup> of 0.75.7% which shows that the model is a good prediction. Further more it was concluded that manufacturing firms that had invested on effective internal control systems had more improved financial performance as compared to those manufacturing firms that had a weak internal control system.

The study conducted by Moses Opong , Alexander Owiredu, Virgil Nbellah Abedana and Evans Asante (2015) on The Impact of Internal Control on the Performance of Faith-Based NGOs in Accra examine the current level of internal controls operated by seven faith-based NGOs and how that is affecting their performance. The study used quantitative research approach and contacted 150 staff of

the organizations mainly working in administrative and or supervisory capacity. The study conclude that internal control system has contributed to the attainment of the project's overall (long-term) social goals among individuals and the communities and has positive impact performance .In addition, internal controls helped to ensure value for money during procurements and further ensured that there was budgetary control on expenditure which led to proper utilization of funds. It was also found internal control system ensures that non-financial resources such as time, staff and expertise were used prudently to achieve desired results.

Several studies have attempted to highlight the effect of control environment on financial performance. Among the list are the studies conducted by Muraleetharan (2013), Ali (2013), and Kinyua et al. (2015), among others. Muraleetharan (2013) conducted study to examine whether ICSs lead to an increase in the financial performance of an organization and found a statistically insignificant relationship between control environment and financial performance.

Ali (2013) in his study on the contribution of ICS to the financial performance of financial institutions found a significant positive relationship between control environment and financial performance of financial institutions. Similarly, Kinyua et al. (2015) in their study on the effect of internal control environment on the financial performance of companies quoted on the Nairobi Securities Exchange (NSE) found a significant association between internal control environment and financial performance.

Visser and Erasmus (2008) put it that an ICS contains certain control activities, including policies and procedures with regard to approval, authorization, verification, reconciliation, review of operational activities, safeguarding of assets, and segregation of duties. Control activities can be conceptualized as the policies and procedures that help ensure management directives are carried out (Whittington & Pany, 2001). They help to ensure that necessary actions are taken to address risks to the achievement of the entity's objectives (Muraleetharan, 2013). Amongst the former studies conducted on the effect of control activities on financial performance that warrant discussion here are studies by Muraleetharan (2013) and Ejoh and Ejom (2014). Muraleetharan (2013) in his study on control activities and performance of organisations established a positive relationship between control activities and performance. Ejoh and Ejom (2014) did a study to establish the relationship between internal control activities

and financial performance in Tertiary Institutions in Nigeria. The findings of their study revealed no significant relationship between internal control activities and financial performance.

## ***2.7 Conclusion of Literature Review***

As many studies and literature, the main purpose of internal control is to improve the operation of any organizations and achieve the organization objective efficiently.

For example, The International Standards on Auditing (ISA 400) defined internal control to mean that all the policies and procedures adopted by the management of an entity to assist in achieving management's objective of ensuring as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of asset, the prevention and detection of Fraud and errors, the accuracy and completeness of accounting records and the timely preparation of reliable financial information

It is clearly indicated in many literatures that there are various types of internal control, Based on the purpose of control the are classified as accounting control, administrative , detective and preventive control. Meanwhile, the objectives of every internal control system were to achieve organizational efficiency and effectiveness, meet corporate objective and ensure adherence to rules and regulations.

Internal control is integration of elements which are used to operate and control its system. Internal control consists of five interrelated components (COSO, 2013). These are derived from the way management runs an organization. The five elements of internal control that need to be implemented and integrated into the business processes to ensure that the overall business objectives are met and must be integrated in the management process. The common elements/frame works are control environment, control activities, risk assessment, information and communications and monitoring. The control environment comprises the overall culture and tone of the organization encompassing factors such as integrity and ethical values, management's philosophy, and enforced policies and procedures.

Control activities are policies and procedures used to operate the internal control system. Risk Assessment is an assessment that uses appropriate procedures to identify and assess the risk of

materials misstatement in financial statement .Identifying risks caused by failure of internal control and an inherent risk of the system also a standard of ICS. A flow of communication by financial reports and accounting system plays role in effective internal control. Monitoring internal control system is designed to assess whether control environment is conducive, the design and the implementation of control activities are appropriate , the firm undertaken valuable risk assessment and communicate information properly. Motioning internal control continuously by management or internal auditor is made to determine whether the existing design and practice of internal control is effective and efficient to achieve overall objective of the given organization

Internal control is not without limitation. Obviously ICS cannot guarantee an absolutely free of errors and fraud performances. The system is designed and operated by people, who can cause failure of internal control by inherent nature of errors or an intentional collusion

Most non-governmental organizations particularly in the developing countries face the challenge to demonstrate efficiency in their operations. In recent times, due to this , there are many calls for NGOs to design and implement strong internal control systems These calls comes after the recent embezzlements and misappropriation of funds by some NGOs. As the result, many donors set strong rule and regulation that should be strictly followed and force mangers to make conscious efforts to the design and implementation of internal controls since the design of the controls greatly impacts the success of the organization.

Recently, the ethical-social motivation and the technical professionalism are not sufficient since NGOs are required to account for how the limited financial and non-financial resources are utilized. In general, NGOS are required to manage and assess their performance from several angles by considering the projects/programs performance as well as the motive and targets of the donors and the specific needs of the beneficiaries and the internal effectiveness,

In Non-Governmental organizations, performance are measured at out put ,outcome and impact level. The main indicator of performance is efficiency and effective utilization of the funds

Many empirical evidence reveled that sound internal control provides reasonable assurance that the firms limited resource are prevented from fraud and misappropriation which are highly

distorted the efficiency and effectiveness of the organization. Several reported cases of multibillion dollar fraud and reporting scandals over the world is brought by failure of internal controls .Therefore, internal control become an issue of considerable interest to policy makers and management to avoid those fraud. There is little knowledge on the effect of Internal control on the performance of NGOs operating in Ethiopia. Therefor the focus of this study is to evaluate the effectiveness of internal control and its impact on the operation of NGOS located in Arada sub. It is designed to provide empirical evidence to assure that one objective of internal control which is effective and efficient operation prescribed by COSO,ISA and many researchers are achieved

## **CHAPTER THREE- METHODOLOGY OF THE STUDY**

### ***3. Introduction***

This chapter describes the research methodology of the study that the researcher have used to attain the objectives of the study.

The methodology that have been used for this study is clearly stated in this chapter

The procedural plan that is adopted by the researcher to validly, objectively, economically and accurately answer the research questions is known as research methodology. It is a detailed explanation of the procedures and techniques that shall be used while collecting, processing and analyzing data. The research design, target population and sampling frame, sample and sampling technique, data collection instruments, procedures, data analysis tools and technique are included in this chapter.

#### ***3.1. Research Design***

The researcher chooses explanatory research design because the research was conducted to determine whether dependent variable is explained by independent variables . Simply the study tried to determine whether the performance of NGO is significantly affected by internal control components .

More ever the study is designed to answer whether the relation ship between internal controls and NGOs performance is significant and positive or not. So the appropriate research design for this study is explanatory research design.

This study used quantitative research method .Quantitative research approach is one in which the investigatory primarily uses postpositive claims for developing knowledge, employs strategies of inquiry such as experiments and surveys, and collect data on predetermined instruments that yield statistics data. Survey research provides a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population.

#### **3.2 Population**

A study population is a well-defined or specified set of people, group of things, households, firms, services, elements or events which are being investigated. The population should fit a

certain specification, which the researcher is studying. Target population refers to the entire group of individuals or objects to which researchers are interested in generalizing the conclusions (Ngumi, 2013).

Therefore, For this study target populations are all NGOs registered by Addis Abeba bureau of finance and economy which are currently operating in Arada sub city ,Addis abeba

According to Addis Abeba bureau of finance and economy report, currently (2017) there are about 50 (Fifty) NGOs operating in Arada Sub city about 15 out of 50 NGOs have maximum of 2 million annual budget.

Sampling frame is list of population from which sample is drawn , for this study, sample frame is list of 50 NGOs with detail of information about all staff which show their job position .

### **3.3 Sample Design**

#### **3.3.1 Sampling Technique.**

This study used *Non-probability sampling* where the probability of a person being selected is unknown.

The researcher employed multistage sampling technique. In first stage convenient sampling method was deployed to select certain number of NGOs which are near to researcher work place. So that Convenient sampling technique was used because the researcher believe that it is convenient to get reliable and qualified data in shortest period of time as economically as possible. In the second stage purposeful sampling was used. Therefore, respondent was purposely selected from selected NGOs based on their job position relevant to the study on hand

#### **3.3.2 Sample Size**

According to research scholars, sample shouldn't be too large to be economical and shouldn't be too small to keep validity of findings. Accordingly, as stated in above this study use two sampling . The first one is to select some number of NGOS operating in Arada sub city and secondly take almost all relevant staff from conveniently taken NGOs.

At the first stage 10 NGOs working around Arada sub city were selected from target population of 50 NGOS operating in Arada sub city which are nearer and convenient to collect data

Kothari (2004) recommends that a sample of 10% to 30% of the target population is a sufficient representation of the population. So the sample size for this study is  $10/50 = 20\%$  of the total population.

As presented in the below table, since the size of selected NGOs is small, almost all relevant respondents were selected.

The number of respondents and their job positions in their organizations selected from each sample NGO is presented in the following table

**Table 1-Selected sample.**

S.no	Name of Selected NGOs operating Arada Sub city	No of Selected Respondent with their Job position							Total
		Manager	HR manager	Finance Head	Accountants	cashier	purchaser	program officer	
1	Future hopes integrated development organization	1	1	1	1	1	1	3	9
2	Ethiopian orthodox church –DICAC	1	1	1	2	1	1	3	10
3	Society for Women and Aids in Africa Ethiopia	1		1	1	1		2	6
4	Sheger Child and Family charitable society	1	1	1	1	1	1	2	8
5	Ethiopian orthodox church Children and family affair	1	1	1	1	0	0	2	6
6	Abebech Gobena Children development charitably society	1	1	1	1	1	1	1	7
7	Arat killo care and community Development	1		1	1		1	1	5

	-Christian Child fund								
8	Love for children charitable society	1	1	1	1	1	1	1	7
9	Brothers of Good work	1			1	1		2	5
10	Mother Teresa	1	1	1	1	1		1	6
	<b>Total</b>	<b>10</b>	<b>7</b>	<b>9</b>	<b>11</b>	<b>8</b>	<b>6</b>	<b>18</b>	<b>69</b>

Table 1 – sample respondents

As indicated in above table total of 69 respondent were selected from 10 NGOs of which 10 are manager , 7 are HR manager, 9 are Finance Head, 11 are Accountant ,8 are Cashier and 6 are purchaser and 18 were program officer .These all respondent are key personally for proper functioning of internal control .Their answer to the questionnaires is deemed to be reliable. The number of sample is in line with Delice (2010) who argues that if the research has a relational survey design, the sample size should not be less than 30 because this study sample size is 60 .

### 3.4 Data Type And Data Source

Donald (2006) notes that there are two major sources of data used by researchers; Primary and Secondary data. The study relied only primary data type. Primary data was collected using structured questionnaires.

### 3.5 Data Collection Instrument

The main data collection instrument for this study is self-administered Questioner

A few Self-administered questionnaires were distributed to 69 selected respondents. The questionnaires were designed in liker scale format and the questions have been carefully extracted from literature review which are highly related with performance measurement and the functionality of commonly known internal controls standard articulated in various literature . The respondents were asked to determine to what extent the current internal control practice positively affect the efficient and effective utilization of resource in their organization in a five point Likert scale. The range was very great extent" (5) „no extent" (1).

In addition to this the meaning of the extent of current internal control practice influence on performance have been discussed with some key respondent selected from each sample NGOs and the meaning each likert scale have been communicated to each respondent at the time of the questionnaires were distributed.

Example, the meaning of the ethical value such as honesty and integrity currently demonstrated by all staff affect the performance (efficient and effective resource utilization) to little or great extent is deeply discussed and communicated to each respondent.

### ***3.6 Model Development***

#### **The model of this study**

$$Y=aX_1+bX_2+cX_3+dX_4+eX_5+U$$

Y= is efficient and effective utilization of NGOS in arada subsidy where effective and efficient utilization of fund is considered to be typical performance indicator in NGO setting.

X<sub>1</sub>- control environment

X<sub>2</sub>= risk assessment

X<sub>3</sub> –control activities

X<sub>4</sub>= information and communication

X<sub>5</sub> = monitoring of internal control system

U is error term

#### **3.6.1 Variable Measurement**

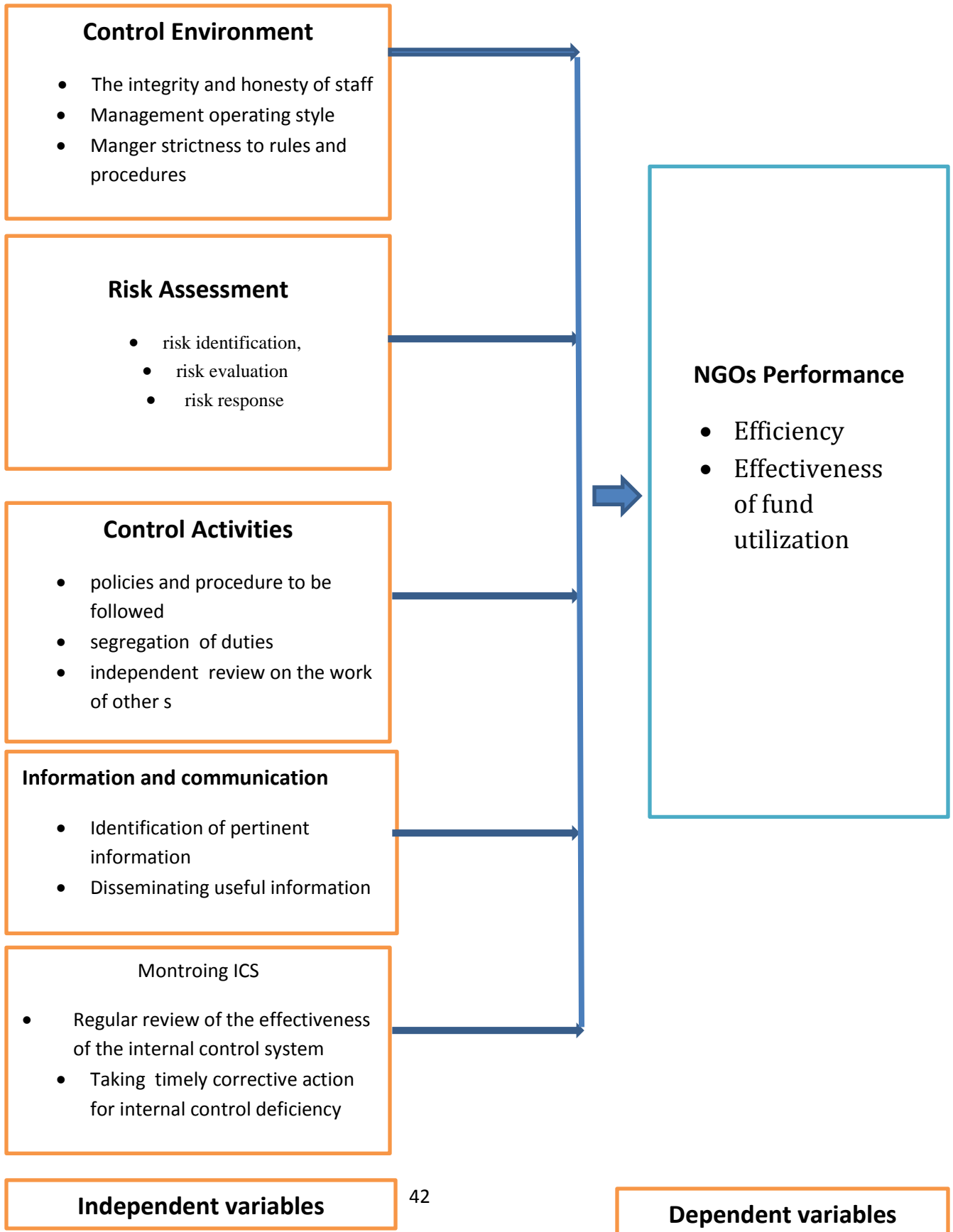
Here the main independent variables are components of internal control articulated in COSO such as control environment, risk assessment, control activities, information and communication monitoring of internal control system

Dependent variables are those factors that are the measurement of performance NGOs. The major performance indicator in NGOs is: efficient and effective utilization of resource shortly Value for money.

**Table 2– Variable definition and measurement**

Dependent variable		
Variable	Description	Measurement
Overall performance of NGOs	Ability to operate efficiently, utilize the given fund by donors to achieve each program objectives articulated in annual operational plan.	Is determined based on information acquired from respondent that assure the presence of effective and efficient utilization of fund in their respective organization
Predictor variables		
Control environment	Presence of integrity and ethical values , commitment to competence, management commitment to adhere the rules and procedure ,human resource practices and organization structure.	This is measured by the level of integrity, ethical values, and competence of personnel tasked with creating, administering, and monitoring the controls
Risk assessment	Entails risk identification, risk evaluation and risk response.	This is measured by The frequency of risk assessment performed and responses to risk made
		Is measured by the number of effective policies, procedures and mechanisms put in place to ensure directives of the management are properly carried out
Control activities	These are the policies, procedures and mechanisms put in place tolerance ensure management directives are properly carried out.	Is measured by measured in terms of how information is identified, communicated to all staff and stakeholders
Information and Communication	This involves good identification of and proper capturing of pertinent information	
Monitoring internal controls	This involve regular review of the effectiveness of the whole internal control system	Is how frequently and effectively the management as well as donor review the entire internal control system And the reaction to the detected internal control deficiencies

# Conceptual Framework



### ***3.6 Data Analysis***

Firstly, descriptive statistics is presented using statistical tools such as mean and standard deviation and percentage. The result of data analysis is demonstrated using tables.

Secondly, Cross tabulation analysis is made to see the relationship between each component of internal control and actual performance of NGOs operating in Arada sub city. The result is again presented with tables.

Finally, this study used mean responses on each elements of internal control to evaluate their impact on efficient and effective utilization of resource using Optimal Scaling regression model which is appropriate for categorical variables. Then adjusted R square of the regression model was determined in order to see how much percentage of change in the performance of NGOs explained by internal control system components.

## **CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION OF FINDINGS**

### **4. Introduction**

The previous chapter discussed appropriate methodologies of evaluating the effect of internal control on the effective and efficient utilization of the resource by NGO operating in Arada sub city Ethiopia .

This chapter presents the analysis and findings of the study as set out in the research objective and research methodology. The study findings are presented on the effect of each internal control components internal controls on overall performance NGOS operating in Addis abeba sub city Ethiopia. In order to achieve the research objective stated in introduction section, respondent were instructed and persuaded to respond to the statements in the questionnaire objectively to ensure the validity and reliability of the result.

The chapter is organized into four broad sections. Section 4.1 present descriptive statistics result, section 4.2 presents cross tabulation result, section 4.3 present regression analysis, section 4.4 presents the summary and interpretation of data analysis.

### **4.1 Descriptive Statistic Analysis**

#### **4.1.1 Response Rate**

The researcher distributed 69 questionnaires to relevant respondents. From the total 69 questioners distributed ,60 were returned and 10 were not returned. The overall response rate was 86.9%. According to a response rate of 50% is considered average, 60-70% is considered adequate while anything above 70% is considered to be excellent response rate. This response rate was therefore, considered good representative of the respondents to provide information for analysis and derive conclusions.

#### **4.1.2 Respondent profile**

It is necessary to analyze the demographic profile of the respondents to validate reliability of data collected. Accordingly the respondents were asked to respond to their gender category, year of experience, level of education and field of qualification. The information processed by SPSS is summarized as follows.

##### **4.1.2.1 Work Experience of the Respondent**

###### **Table 3 4.1 Respondent's Work Experience**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0-10 YEARS	23	38.3	38.3	38.3
	GREATER THAN 10 YEARS	37	61.7	61.7	100
	Total	60	100	100	

Experience is one of the competences to understand internal control in a company. Experience also referred to as professional competence. In the literature, it is indicated that commitment to this competence by employees is one part of effective control environment in internal control system. The more experienced employees are the more they understand about the internal control they execute. Out of the survey, 61.7% of the respondents as indicated in table 4.1 were experienced with years more than 10. The remaining 38.3% of the respondent has an experience between 0 to 10 years. This indicates that the employees working in the key areas of internal control system are well experienced, so that they can objectively respond to the questionnaire

#### ***4.1.2.2 Education Level of the Respondents***

Another commitment of employees to competence that contributes to effectiveness of internal control is the level of education the employees possess. This competence is referred to as academic competence. The control environment component of internal control system reveals that a good education level has a positive impact on effectiveness of internal control. As summarized in table 4.2, almost all the respondents (90%) were qualified in degree and above. This is an indication that the respondents are also at adequate education level to understand the concept of internal control system and play key roles to the effectiveness of internal control.

**Table 4.2 Education Level of the Respondents**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Diploma	6	10.0%	10.0	10.0
Degree and Above	54	90 %	88.3	98.3
Total	60	100.0	100.0	

#### 4.1.3 Reliability Test of Instrument

One of the common methods to test the reliability and validity of data collected through questionnaire is use of Cronbach's alpha coefficient. Lee Cronbach (1951) defines Reliability as an attribute of an instrument used to measure consistency. Consistency indicates that an instrument has constructive value it used to measure. Reliability on the other hand is the ability of the instruments to consistently yield the same results when repeated measurements are taken of the same individuals under the same conditions (Koul, 2004). This was ensured by carrying out Cronbach's (1951) alpha ( $\alpha$ ) test. A commonly accepted rule of thumb for describing internal consistency using Cronbach's alpha is as follows.

Table 4.5 Lee Cronbach' Reliability Estimation Table

Cronbach's alpha	Internal consistency
$\alpha \geq 0.9$	Excellent
$0.8 \leq \alpha < 0.9$	Good
$0.7 \leq \alpha < 0.8$	Acceptable
$0.6 \leq \alpha < 0.7$	Questionable
$0.5 \leq \alpha < 0.6$	Poor
$\alpha < 0.5$	Unacceptable

Table 4.6 Reliability coefficient of the study variables

Variables	Number of Items	Reliability Cronbach's Alpha	Comments
Control Environment	9	0.869	Accepted
Risk Assessment	5	0.906	Accepted
Control Activity	11	0.913	Accepted
Information and communication	5	0.875	Accepted
Monitoring	5	0.958	Accepted
Organizational Performance	4	0.858	Accepted

Source ,SPSS Produce study result

As indicated in above table ( table 4.6) ,all the alpha coefficients for each component of internal control is ranged between 0.858 and 0.958 .Therefore, based on the coefficient values, the items tested were deemed to be reliable and consistent for this study.

#### **4.1.4 Descriptive Statistics of Examining the Influence of Each Component of Internal Control**

Recalling statement of COSO (1994); an effective internal control has five components; control environment, control activities, risk assessment, information and communication and monitoring. The effective functioning of components of internal control provides a reasonable assurance regarding achievement of stated objectives to ensure high levels of organizational performance. The design and implementation of each element of internal control affects the overall effectiveness and efficiency of operation. The specific objectives of this study were to evaluate the effect of each component on efficient and effective utilization of resource.

The respondents were requested to determine to what extent each internal control components current condition and practice have positive influence to their organization efficient and effective utilization of resource.

They were requested to answer range from very great extent to no influence at all. The five point liker scale were (5) very great extent, (4) to great extent (3) to Moderate extent (2) little extent (1) to no extent at all.

The score of 'no influence' is equivalent to mean score of 0 to 1.5 on the continuous Likert scale [ $0 \leq \text{no extent} \leq 1.5$  or  $0 \leq \text{NE} \leq 1.5$  ],The score of 'little influence' is equivalent to mean score of 1.51-2.50 on the continuous likert scale. 'Moderate influence' is equivalent to mean score of 2.51 to 3.5 . 'Great influence' is equivalent to mean score of 3.51 to 4.5 on continuous liker scale. Lastly 'very great influence means' is equivalent to mean score above 4.51 on continuous liker scale

#### **4.1.4.1 Examining the Effect of Control Environment on Efficient and Effective Utilization of Resource**

Control environment considered as a tone on the top in internal control system. It indicates the general atmosphere of internal control which includes the policies and procedures of internal control, management structure, reporting structure, competence of employees and discharging responsibility and others

The study was conducted to investigate the effect of internal control on overall performance of NGOs operating in Arads sub city. Shortly the study was conducted to see how each components of internal control have significant positive effect on efficient and effective utilization of resource ( which is one critical indicator of the performance in NGOs sector )

The influence current condition and practice of control environment of selected NGOS have been examined and the result is shown in table 4.7

As the table indicate below (Table 4.7),the Overall mean of Control environment is 3.9 SD= 1.02

It means that majority respondent agree that the control environment is highly favorable for functionality of internal control policies and procedure and other internal control component (risk assessment , motoring internal control procedure and information and communication )

As the result, majority respondents who are key personnel for functionality of internal control in their organization responded that their organization control environment current conditions have significant positive influence on efficient and effective utilization of their donor fund.

Table 4.7- Control Environment

	Control environment Items	N	Mean	Std. Deviation
1	The ethical values such as honesty and integrity currently demonstrated by all staff	60	4.5	0.813
2	The management high commitment to strictly adhere internal control policies and procedure (it means, is your senior management are high committed to internal control policies and procedure so that if affect wise use of the resource positively ?	60	3.9	0.9514
3	The ethical values such as integrity , curiosity, honesty that have been demonstrated by manager in all managerial Decisions	60	4.03	0.9909
4	The existence of competent staff in your organization who have adequate knowledge skill and experience to discharge their responsibility effectively	60	4.07	0.9543
5	The existence of safeguard for protection against conflicts of interest between procurement officers and third party	60	3.25	1.5363
6	The presences of financial manual that clearly describe internal control policies, procedures and guidelines that must be followed by your organization all staff	60	3.95	1.1112
7	The existence clearly organizational structure which clearly assigns duty and responsibility to all staff	60	4	1.0251
8	The investigation and timely action taken for all deviations from established policies and procedure	60	3.72	0.8847
9	The presence of code of conduct and the strict follow up by senior management to enforce the organization code of conduct are adhered	60	3.65	0.9174
10	<b>OVER ALL MEAN OF CONTORL ENVIOMENT</b>		3.9	1.02

Source- study finding obtained from SPSS

Similarly, mean value for each item (9 items) listed under control environment was calculated for all respondents. If it is between 0 to 1.5, it mean it has no influence at all and if it above 4.5 it has very great positives influence ( as it was described earlier ).

Based on the above assumption the following frequency table were produced by SPSS

Table 4.8 Over all mean of Control environment

		Frequency	Total N	Percent	Valid Percent
					1.639344
1	to little extent	2	60	3.333%	3.278689
2	Moderate extent	14	60	23.333%	22.95082
3	great extent	29	60	48.333%	47.54098
4	very great extent	15	60	25.000%	24.59016
5	Total	60		100.000%	100

As it is indicated in above table 4.8, majority respondent  $29+15=44/60=73\%$  of respondent agree that the current internal control environment is favorable. As the result they stated that CE affect the efficient and effective use of the resources to great or very great extent . only 2 out of 60 (3.3) state the control environment influence on performance is to little extent .

From each element of control environment, the finding show that the ethical value such as honesty and integrity of all staff holds the highest mean value 4.5 SD= 0.83103 ( Table 4.7)

In other word, 52 respondent out of 60 respondent (86.87 %) (Annex state that the ethical value current demonstrated currently by their organization staff in their day to day activities have positive influence on their efficient and effective utilization to great or to very great extent.

About management strictness to policies and procedure, it was found that mean value 3.9 SD= 0.9 or about 66.% respondent (APPINDEX CE-02 ) state that management is highly

committed to implement the internal control policies and procedure strictly. As the result, they perceive that management strictness to the adherence of internal control policies and procurement contributes for wise use of the resource to great extent.

In addition to this, the existence of competent staff in their organization greatly influence the effective and efficient use of their donor fund because majority respondent ( mean 4.07 SD 0.97 ).or as per APPINDEX CE-04) that is 68 % of respondent states that there are competent staff in their respective organization who greatly makes control environment more favorable to function internal control. As the result, the wise use of resource is significantly and positively influenced.

However, the respondent feeling about the existence of safe guarding the conflict of between procurement officer and 3<sup>rd</sup> party is somehow questionable. As indicated in APPINDEX CE-05 6 (10%) respondent state that there is no means of safeguarding conflict of interest between procurement officer and 3<sup>rd</sup> party. So that they don't have opinion whether it affects the wise use of the resource or not . Nine respondent or 15 % of the respondent state that there is somehow means of safeguarding conflict of interest between procurement officer and third party but they believe that its impact on wise use their organization resource is only to little extent or no influence at all .13 respondent (21%) state that the existence of safeguarding conflict of interest and its influence to the wise use of the resource positively is to moderate extent .

Generally, the mean value for this item 3.25 is which is the lowest one as compared to other item listed under CE.

The mean values ( As per table 4.7) for other element of control environment such as the management integrity upheld during decision, presence of financial manual , the existence of clearly formulated organizational structure, presence of code of conduct falls between 3.5-4.5. Therefore, it can be said that these control environment factors current practice influence the performance positively and to the great extent

In general majority of the respondent agree first that their organization control environment is adequately favorable and at the same time it influence the performance of their organization positively and significantly.

#### **4.1.4.2 Examining the Effect of Current Risk Assessment Procedure and Practice on Overall Performance**

The researcher examined the effects of risk assessment the current practice on efficient and effective utilization of donor fund of NGOs operating in Arada sub city . Risk assessment as a component of internal control, plays a key role in the selection of the appropriate control activities to undertake. It is the process of identifying and analyzing relevant risks to the achievement of the entity's objectives and determining the appropriate response .The management has to identify and assess control risk caused by failure of internal control. There should be strategies to identify the condition events or practice that adversely affect the wise use of resource which in turn distort the achievement of program objective efficiently. That means having in place an ongoing process for evaluating and addressing the impact of risks in a cost effective way and having staff with the appropriate skills to identify and assess the potential risks (Jesse, 2012).and at the same time control police and procedures have to designed and implement to respond to risk and reduce the risk.

Below are the findings of the study

As it is indicated in table 4.9, it is found that risk assessment procedure have somehow not been regularly conducted by most NGOs operating in Arada sub city .As the result, most of the respondent state that the overall risk assessment procedure improve the efficient and effective use of the resource to achieve organization objective only to little extent ( over all mean was 3.31 SD=1.44 (As stated above mean value 2.5 to 3.5 is considered as to little influence)

Table 4.9 Risk Assessment

	Risk Assessment items			
1	The management current practice to identify all risks that can potentially affect the achievement of the objectives	60	3.62	1.22255
2	Having a criteria to assure which fraud-related risks to the organization are the most critical	60	3.03	1.67703
3	The incentives and pressures, attitudes and rationalizations, as well as opportunity to commit fraud which have been considered highly by manger while assessing fraud risks	60	3.18	1.54582
4	Having fraud policies and procedures which are communicated and understood by all staff	60	3.38	1.30308
5	The Management critical examination of the risk of inflated procurement associated with procurement officers unethical behavior and the presence of adequate response to mitigate such type of risk	60	3.33	1.43405
	Overall Mean		3.31	1.44

Source-research finding

Similarly speaking, mean value of 5 items in Risk assessment was calculated for each respondent. If the mean for given individual is between 0 to 1.5 , He/she mean risk assessment has no influence on performance and if the mean value for given respondent is above 4.5, He said that risk assessment has very great influence on performance ( note that it was described earlier ).

The result processed by SPSS is shown below.

Table 4.10 over all mean of each item of Risk assessment

	Frequency		Percent	Valid Percent
No idea	3	60	5%	4.918033
to little extent	13	60	22%	21.31148
Moderate extent	15	60	25%	24.59016
great extent	15	60	25%	24.59016
very great extent	14	60	23%	22.95082
Total			100	100

As the finding described in above table 4.10 ,it reveal that only 48 % (15+14=29 out of 60) respondent state the current practice affects positively to great or very great extent –majority respondent ( 52 %) collectivity stated that the effect of current risk assessment procedure on the efficient and effective use of resource is to less or moderate extent or no influence at all.

9 respondent (15% of the respondent) state that there is no criteria to assure which fraud related risks to organization are the most critical. As result, they don't know whether it affect the wise use of the resource positively. 8 person (13.3%) explain that there is somehow criteria to assure which fraud related risks to organization are the most critical but its effect on performance is only to less or no influence at all . Only 26 ( 43 %) person agree that there is a criteria to assure which fraud related risks to organization are the most critical and at the same time they state that it help there organization use the resource wisely to great or very great extent. As clearly shown in APPINDEX RA-02 ) and Table 4.10 the mean value for this item is 3.03 SD 1.22 the lowest as compared to other risk assessment practices items which mean that existence criteria

to assure which fraud related risks to organization are the most critical have little influence on the performance of NGOs.

In addition as indicated in table 4.10, incentives and pressures, attitudes and rationalizations, as well as opportunity to commit fraud by employees have not adequately examined by management. As the result, most respondent state that such risk assessment practice positively influence the wise use of the resource only to little extent .Mean =3.18 SD=1.545 which is below M=3.5. APPINDEX RA-03 ( 13.3%) respondent state that, there is no practice of identifying the factor or conditions ( incentives, pressure ,opportunity) attributes to commit fraud .due to this, they are unable to determine whether it affect the wise use of the fund or not . only 46 % of the respondent collectively agree that there is such practices that influence the wise use of the resource either to great extent or little extent . To describe again, the result for such practice is Mean =3.18 ( Less that 3.5) which means that the practice of identifying fraud risk factors such as incentives, pressure , opportunity to committee fraud) is some how questionable as the result major key internal control personnel said that its positive influence is only to less extent.

However, management is currently working to identify potential risk that adversely affect the achievement of objective. As the result, majority key respondent collectively (33 person 55 % of the respondent) state that this management practice positively influence the efficient and effective use of the fund either to great extent or to very great extent. The mean value for such practice 3.62 which great than all other risk assessment current practices.

Having communicated fraud policy and procedure and management critical examination of risk of inflated procurement current practice are not that much satisfactory. That is why majority respondent said that it has little positive influence on the wise use of the resource. M= 3.38 and 3.31 respectively.

#### **4.1.4.3 Examining the effect of current practice of control activities on overall performance**

Control activates are financial policies and procedure which are designed to be implemented in day to day operation of firm which are very much useful to safeguard the organization asset from misuse, theft abuse so that they are designed and carried out to ensure the resource of the

organization is used efficiently to achieve the stated organization short-term as well as long term objectives.

The study has also examined the effect of control activities on the overall performance of Nongovernmental organization operating in Arada sub city .

The influence current internal controls activities practice of selected NGOS on overall performance have been examined and the result is shown in table 4.11

As the table indicate below (table 4.11) , the overall all mean of Control activities is 3.9 SD =1.02 this means that .As the result, majority respondent who are key personnel for functionality of internal control in their organization responded that their organization internal control activities practices have significant positive influence on efficient and effective utilization of their donor fund to great extent.

**Table 4.11 Control activities**

	Control activities items			
1	The presence of adequate segregation of duties	60	4.02	0.92958
2	The existence of independent review the work of others	60	3.65	1.31259
3	The finance department as well as the managers due care to effect all payments in accordance with organization policies and procedure and supported by all necessary documents	60	4.35	0.8402
4	The prior Authorization of all expenditure before effecting payment	60	4.48	0.81286
5	The existence of mechanism to ensure that all payment are made within approved budget to avoid over spends	60	4.10	1.03662
6	The management as well as finance staff's great attention to assure that the specification of goods be purchased described by all competitors are the same as the organization requirement and item received is exactly the same as the required specification	60	3.80	1.0704
7	The existence of clear procurement policy that can be economically followed	60	4.15	0.7089
8	Strict compliance to procurement policy and procedure at the time of purchase	60	4.07	0.82064
9	The strict adherence to disposal policy and procedure while disposing organization properties .	60	3.47	1.34626
10	Presence of regular reconciliation of bin card, stock card and actual physical count	60	3.90	1.28485
11	The independent review s conducted on all documents used to distribute item for beneficiary as well as government office ( Appropriate Verification of Distribution list	60	3.80	1.31226
	over all mean		3.98	1.04

Similarly, mean value of 11 items listed under control activities was calculated for each respondent. If the mean for given individual is between 0 to 1.5, he/she mean control activities has no influence on performance and if the mean value for given respondent is above 4.5, He said that control activities has very great influence on performance ( as it was described earlier.

The result is shown below process by SPSS

**Table 4.12 over all mean of each item of control activities**

CA					
		Frequency		Percent	Valid Percent
1	no influence	2	60	3.3%	3.278689
3	Moderate extent	14	60	23.3%	22.95082
4	great extent	29	60	48.3%	47.54098
5	very great extent	15	60	25.0%	24.59016
	Total	60	60	100.0%	100

As it is indicated in above table 4.12, majority respondent  $29+15=44/60=73\%$  of respondent agree currently there is effective control activities. As the result they responded that the current control activities positively affect the efficient and effective use of the resources to great or very great extent. Only 2 out of 60 (3.3) state the control activities practices influence on performance is to little extent.

From each element of control activities, the finding reveled that there is strong of prior authorization of all expenditure before effecting payment practice. As the result, majority respondent 50 person out of 60 respondent (83.3 %) collectively explain that the existence of prior authorization of all expenditure before effecting payment have positive influence on efficient and effective utilization of their organization resource to either great or very great extent (Appendix CA-04 ). It means the organization efficient utilization of resource to the achievement of program objective is highly improved due to mangers and finance staffs are strict in effecting payment upon only prior authorization of expenditure. This practice holds

the highest mean value 4.48) SD 0.812 among other element of internal control activities  
APPINDEX CA-04

Furthermore, finance department as well as manager of the NGOs provide adequate care to effect all payments in accordance with the organization policies and procedure that is why majority respondent (mean = 4.35 SD=0.840 table 4.11 ) states that management and finance due care for policies and procedure while effecting payments have significant positive influence on wise use the resource. To support this 51 respondent out of 60 (83 %) collectively state this internal control activities improve the efficient and effective utilization either to great or very great extent . (APPINDEX CA-03 )

The findings showed in table 4.11 explained that most NGOs had clear separation of roles (M=4.02 , S.D=0.929 ), had mechanism to ensure that all payment are made within approved budget ( M=4.1 = SD 1.03 ) , great attention have been given for specification of item received as per their organization requirement M= 3.8 SD 1.07, strict compliance to procurement policies and procedure M= 4.07 SD=0.820, goods distribution list document are properly reviewed independently ME = 3.8 SD 1.31,As the result most respondent states that the existence of these practice have greatly contribute for wise of the resource. All mean value is between 3.5-4.5 ( which means the positive influence of such internal control practice is to great extent )

However, there is somehow weakness in strict compliance to disposal policies ( M=3.47) majority disagree that there is strong compliance to disposal policies. So they feel that its influence to wise use of the resource is only to little extent (Table 4.11)

#### **4.1.4.4 Examining the effect of current practice of information and communication on overall performance**

Based on frameworks of an effective information and communication in an internal control system the survey result and interpretation is presented below

As it is indicated in table 4.13,It is found that the current practice of information and Communication ( IC) which is one of integral part of the entire internal control system

positively affects the efficient and effective utilization of the resource to great extent ( over all mean = 3.91 SD=1.12)

Table 4.13 Information and communication

	Information and Communication	N	M	SD
1	The understanding of all staff on the concept and importance of internal controls including the division of responsibility	60	3.62	1.29001
2	The frequent Communications to evaluate how well guidelines and policies of the organization are working and being implemented	60	3.62	1.1061
3	The Information and Financial report that was communicated to all stakeholders.	60	4.22	0.80447
4	The promptly recording and classifying transactions to provide reliable information.	60	4.22	1.12131
5	The reporting system on organizational structures that spells out all the responsibilities of each section/unit in the organization	60	3.88	1.26346
	Over all mean communication		3.91	1.12

Source-Study finding produced by SPSS

To similarly discuss, The mean value of 5 items in information and communication was calculated for each respondent. If the mean for given individual is between 0 to 1.5 , mean the current practice of IC has no influence on performance and if the mean value for given respondent is above 4.5,he said that current practice of IC has very great influence on performance.

The result processed by SPSS is Cleary shown in the following table

Table 4.13 (a) over all mean of each item of Information and communication

IC					
		Frequency		Percent	Valid Percent
	to little extent	7	60	11.7%	11.47541
	Moderate extent	10	60	16.7%	16.39344
	great extent	22	60	36.7%	36.06557
	very great extent	21	60	35.0%	34.42623
	Total	60	60	100.0%	100

As it is indicated in above table 4.13(a), majority respondent  $21+22=43/60=71.66\%$  of respondent agree that the information and communication current practices in NGOs is effective. Therefore, current practice of IC affect the efficient and effective use of the resources to great or very great extent .only 7 out of 60 (11.7%) state their organization current practice of IC influence on performance is to little extent .

As stated in above table 4.13 information and financial reports are adequately communicated to stack holders and there is strong practice of recording transaction promptly to produce reliable financial report. Consequently, both element of information communication affects the wise use of the resource positively to great extent ( Mean value for both = $M=4.22$ )

The understanding of all staff on the importance of internal control including the division of responsibility is somehow lower than other element (  $M=3.62$  table 4.13 .3 respondent states that all staff do not understand the importance of internal control.23 respondent (38%) collectively replied that all staff in their organization understand to little or moderate extent . as the result they responded that the poor understanding on the importance of internal control brought little influence on the wise use of the resource. APPINDEX IC-01

The frequent Communications to evaluate how well guidelines and policies of the organization are working and being implemented and the reporting system on organizational structures that spells out all the responsibilities of each section/unit in the organization has somehow been

greatly contributing to the financial performance of the organization resource ( Mean value = 3.62 and 3.88) respectively Table=4.13

#### 4.1.4.5 Examining the Effect of Current Practice of Monitoring on Overall Performance

An ongoing monitoring of internal control is vital to ensure whether internal control is achieving desired objectives. Monitoring entails the activities and procedures designed to assess the effectiveness of the internal control system in achieving the entity's financial reporting objectives. The result and interpretation of the survey is presented as follows

Table 4.14 Monitoring the whole internal control system

	Monitoring Internal control	N	Mean	SD
1	The existence of independent review of the proper functionality of internal control system on ongoing basis	60	3.43	1.52234
2	The existence of a mechanism for capturing and reporting identified internal control deficiencies.	60	3.38	1.46243
3	The regular review of the organization Internal control as well as financial records and supporting document that have been conducted by donor driven compliance auditor to detect internal control deficiency and irregularities	60	3.67	1.60155
4	The timely corrective action taken to the report on deficiencies of internal control detected during donors compliance audit	60	3.72	1.50808
5	The timely corrective action taken for external auditor recommendations	60	3.97	1.44933
	<b>Monitoring over all mean</b>		3.63	1.51

Source -Research finding

As indicated in above table 4.14, the overall mean is 3.63 which means that majority of key personnel for the functionality of internal control agree that monitoring internal control practice is some how strong but it still require some improvement ( M= 3.63 SD 1.51 ).So that majority

respondent state the current monitoring practices in their organization have positively influence on efficient and effective utilization of the resource to great extent .

Similarly, the mean value of 5 items in monitoring ICS was calculated for each respondent. If the mean for given individual is between 0 to 1.5, he/she mean risk assessment has no influence on performance and if the mean value for given respondent is above 4.5 , he said that risk assessment has very great influence on performance ( as it was described earlier )

The result is shown below process by SPSS

**Table 4.15 over all mean of each item of monitoring internal control system**

M						
		Frequency	N	Percent	Valid	
					Percent	
	no influence	7	60	11.7%	11.47541	
	to little extent	5	60	8.3%	8.196721	
	Moderate extent	11	60	18.3%	18.03279	
	great extent	16	60	26.7%	26.22951	
	very great extent	21	60	35.0%	34.42623	
	Total	60	60	100.0%	100	

As it is indicated in above table 4.15, majority respondent 38/60=71.7 % of respondent agree that the current internal control environment is favorable as the result it affect the efficient and effective use of the resources to great or very great extent. Only 12 out of 60 (20. % 00) states that the current monitoring IC practice positively influence the wise use or the resource to little extent or even it does not help at all.

As indicated in APPINDEX M-01, 4 respondent (6.7 %) respondent said that there is totally no independent review of the proper functionality of control system on ongoing base so that they could not see its effect on wise use of the resource . about 23 respondent which constitute 28% of total respondent collectively state that the functionality and the effectiveness of their internal control the whole system is not that much examined on ongoing base. That is why they respond

that its influence of proper utilization of the resource is to somehow moderate or a little or not at all which in turn means there is some weakness in evaluating the functionality of internal controls. So it does not help to improve the efficient and effective use of the resource by enhancing the whole internal control system

But the other items that describe the adequacy of monitoring internal control such as (Table 4.14 ) the regular review of the organization Internal control as well as financial records and supporting document that have been conducted by donor driven compliance auditor to detect internal control deficiency and irregularities mean value =3.67, the timely corrective action taken to the report on deficiencies of internal control detected during donors compliance audit Mean 3.72 SD 1.5 ,the timely corrective action taken for external auditor recommendations (Mean 3.97 SD 1.44 ) has been greatly contributing for efficient and effective utilization

How ever, the mean value for the existence of a mechanism for capturing and reporting identified internal control deficiencies that affect the efficient use of the resource is 3.22 which is below 3.5 ( table 4.14) which is in turn means most of respondent state that the means of capturing and reporting internal control deficiency is some how weak relative to other item listed under monitoring internal control. As the result they feel that its contribution to their organization effective and efficient use of the resource is only to less extent. If there is resource misuse, it can be continued unless internal control deficiencies are detected and timely action is taken.to

To clearly discuss the above item, the existence of a mechanism for capturing and reporting identified internal control deficiencies. It is also demonstrated in APPINDEX M-0 . Three individual states that in their organization there no such practice of capturing and reporting internal control deficiency. So they are not able to determine whether it help them or no. 10 respondent (16.7%) state that the existence of mechanism to capture internal control deficiency contribute to improve the wise use of the resource is only little or moderate extent . but 58.3 % a agree that the contribution of having mechanism of capturing and report internal control deficiency to wise use of the resource is either to great extent or less extent. In general there is a gap in capturing and internal control deficiency. So management should strive improve the practice of capturing internal control deficiency because it is vital to take timely

action to reduce or eliminate IC deficiency so as to improve the efficient and effective utilization of the resource. Remember that as internal control is more weak, more donor fund is used in inefficient manner.

#### 4.1.4.6 Examining Overall Performance Of NGOs Operating In Arada Sub City

In order to link each component of internal control practice with organizational performance ,this study has also examined the over performance of NGO operating in Arada sub city .The major indicator of performance in NGO sector is the efficient and effective utilizations of the resource which means the resource must be used to achieve the program objectives at lowest cost as possible.

The result of the study is shown below

**Table 4.16 –Overall performance of NGOs**

1	all activities listed on annual operational plan are performed efficiently	60	3.95	0.81146
2	Organization specific short term and long-term objective are achieved	60	3.97	0.75838
3	Management carried out monitoring and evaluation to ensure the resources are wisely used to achieve the program objectives	60	3.88	0.97584
4	Effective and efficient utilization of the organization is improved by reducing the level of irregularity and fraud through strong internal controls placed in your organization	60	4.07	0.84104
	Overall mean		3.97	0.85

As it is shown in above table –over mean is 3.97 which means that majority confirm that the resource of their organization have been used efficiently and effectively to realize their goals.

Similarly , the mean value of 4 items in performance measurement was calculated for each respondent .If the mean for given individual is between 0 to 1.5 ,he/she strongly disagree that his/her firm use resource effectively and efficiently. If the mean value for given respondent

is above 4.5 he/she strongly agree that his organization use the resource efficiently and effectively.

The result of the study is shown below process by SPSS

**Table 4.16(a) over all mean of each item of performance.**

P					
		Frequency		Percent	Valid Percent
	Disagree	2	60	3.33%	3.278689
	Neutral	10	60	16.67%	16.39344
	Agree	32	60	53.33%	52.45902
	strongly agree	16	60	26.67%	26.22951
	Total	60	60	100.00%	100

As it is indicated in above table 4.16 (a) , majority respondent  $16+32=48/60=80\%$  of respondent collectively agree or strongly agree that resources of their organization have been utilized efficiently and effectively to achieve program objectives.

As indicated in above table 4.15  $M=4.07$  and  $SD=0.8104$  and APPINDEX P-04 78 % of respondent agree or strongly agree that the level of irregularity and fraud is reduced through strong internal control which cause the fund to be utilized more effectively and efficiently. Only 5 respondents is disagree with this statement. Regarding the execution of all activities listed in annul operation plan efficiently Mean = 3.95 SD =0.811. As APPINDEX P- 01 63.3 % respondent and 20 % of the total respondent agree and strongly agree that all activities are performed in efficient manner. Only 4 individual ( 6.7 % ) are disagree or strongly disagree .

The short term and long term objective of NGO operating in Arada sub city is achieved because majority respondent (  $M=3.97$  ) agree that their organization short term and long term objectives are achieved. (58.3 %) agree and 21.7 % strongly Agree

This is because, the mean of almost all component of IC stated in above findings are greater than 3.5 ( all component except risk assessment ) current practice in their organization is jointly contribute to the efficient and effective use of the resource to great extent.

That is why majority respondent agree that their organization resources have been used efficiently and effectively to achieve the planed short term and long term goals. Therefore, beneficiary of the respective NGO operating in arada sub city is highly benefited.

#### **4.2-Cross Tabulation Analysis**

The main objective of this study is to establish the relationship between each component of ICs and the efficient and effective utilization of resource :the indicator of NGOs’ performance. Shortly to build relationship between CE,RA,CA,RA and M and over all performance of NGOs operating in Arada subcity.

One means of determining the relation between dependent and independent variable is cross tabulation analysis (Shaik Abdul Majeed and Tolosa Negussie (2014)

The study finding is present as follows

#### **4.2-1The Relationship Between Internal Control Environment and the Performance of NGOs**

Through cross tabulation analysis, the relationship between one independent variable control environment (CE) and the efficient and effective use of the resource have been critically examined. The finding produced by SPSS is hereunder.

**Table 4.17 – Control environment and Performance**

The No respondent who state the extent to which the Control Environment influence the efficient and effective utilization of the resource	( strongly disagree ( 0-1.5)		disagree( 1.5-2.5)		natural( 2.5-3.5)		agree( 3.51- 4.5)		strongly agree( 4.5-5)		Total	
	N	%	N	%	N	%	N	%	N	%	N	%
To little extent( 1.5-2.5)	0	0	0	0.00%	0	0%	2	100.00%	0	0.00%	2	100.00%
To moderate extent ( 2.51-3.50)	0	0	0	0.00%	6	43%	8	57.14%	0	0.00%	14	100.00%
To great extent( 3.51-4.51 )	0	0	2	6.90%	4	14%	18	62.07%	5	17.24%	29	100.00%
To very great extent above ( 4.51)	0	0	0	0.00%	0	0%	4	26.67%	11	73.33%	15	100.00%
Total	0	0	2	3.33%	10	17%	32	53.33%	16	26.67%	60	100.00%

chi-Square Tests for CE

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	93.887 <sup>a</sup>	16	0
Likelihood Ratio	44.361	20	1
N of Valid Cases	60		

Note that, The mean response of each respondent for all item listed under control environment is taken .similarly the mean of response of performance question is taken for each individual respondent.

From the total 14 respondent who stated the current CE( control environment ) practice affect the efficient and effective utilization to moderate extent , 6 respondent 43% are neutral or unable to decide there fund utilization is efficient and effective (Table 4.17)

About 11 out of 15 respondent ( 73.33 %) who stated the current CE practice affect the efficient and effective utilization to great extent have also strongly agree that their organization funds have actually used efficiently and effectively to achieve their organization program objectives. 4.17

Only 2 respondent out of 29 ( 6.9% ) disagree that their organization have used its resource wisely even though they state that the control environment affect the wise use of the resource to great extent . They may want to say the control environment is favorable but the resource utilization is still inefficient due to many other reasons.4.17

From the total 29 respondent who stated the current CE( control environment ) practice affect the efficient and effective utilization to great extent, 18+5=23 76% respondent collectively have also agreed or strongly agreed that their organization funds have actually used efficiently and effectively to achieve their organization program objectives

In general from total 44 respondent (29+15) who stated collectivity that the current CE practice affect the efficient and effective utilization to great extent (18+5=23) or very great extent (4+11= 15) , totaling 38 respondent (76.6%) collectively agreed or strongly agreed that

their organization funds have actually been used efficiently and effectively to achieve their organization program objectives. This result indicates that the relationship between favorable control environment and efficient and effective utilization resource is significant and positive. It means as the organization control environments are more favorable to function internal control procedure, it will highly enhance the efficient and effective utilization of the resource. In addition, the chi square test result  $P=0.00$  (table 4.17) tell us that the relationship between CI and the performance of NGOs is significant at 5%

#### **4.2.2 The Relationship Between Risk Assessment Current Practice And The Performance of NGOS**

The study have also been conducted to analyze how the risk assessment procedure currently practiced by NGO affect their overall performance measured by efficient and effective utilization of the resource.

Here is the finding obtained by cross tabulation analysis produced by SPSS

From the total 14 respondent who stated the current risk assessment practice affect the efficient and effective utilization to very great extent , 4 of them (29 %) are neutral or unable to decide there fund utilization is efficient and effective due to their on various reason 4.18

10 out of 15 respondent ( 66.67 ) who stated the current risk assessment procedure and practice affect the efficient and effective utilization to great extent have also agreed that their organization funds have been actually used efficiently and effectively to achieve their organization program objectives and 3 of them Strongly agree . (Table 4.18)

**Table 4.18 ( Risk assessment and Performance)**

the Number of respondent who state the extent to which the current practice risk assessment affects the efficient and effective utilization of the resource		The Number of responder who agree that their organization fund have actually been utilized efficiently and effectively													
		Note applicable		(strongly disagree (M=0-1.5)		disagree (M=1.5-2.5)		Neutral (M2.5-3.5)		agree (M=3.51-4.5)		Strongly agree (M=4.5-5)		Total	
		N	%	N	%	N	%	N	%	N	%	N	%	N	%
No idea						0		0	0	3		0		3	
T litter extent( 1.5-2.5)		0		0	0	0	0.0	3	23%	6	46.15	4	30.7	13	100%
To modern extent ( 2.51-3.50)		0		0	0	2	13.3	1	7%	7	46.67	5	33.3	15	100%
to great extent (3.51-4.51 )		0		0	0	0	0.0	2	13%	10	66.67	3	20.0	15	100%
to very great extent (above (4.51)		0		0	0	0	0.0	4	29%	6	42.86	4	28.	14	100%
Total		0		0	0	2	3.33 %	10	17%	32	53.33 %	16	26.6 7%	60	100.0 0%

chi-Square Tests for risk assessment

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	73.887 <sup>a</sup>	20	0
Likelihood Ratio	23.498	20	0.265
N of Valid Cases	61		

Only 3 respondent stated that there is no risk assessment practice as the result they states they don't have idea about its effect on their organization overall performance. However, they agreed

that their organization uses the resources wisely without having risk assessment procedures and practices( Table 4.18)

Only 2 respondent out of 15 (13% ) disagree that their organization have used its resource wisely even though they state that their organization risk assessment procedure affect the wise use of the resource to moderate extent . They may want to say their organization risk assessments practice is some how moderate and moderately influence the wise use of the resource but the resource utilization is still inefficient due to many other reason.

In general, from total 29 respondent (15+14) who stated collectively the current risk assessment procedure and practice positively influence the efficient and effective utilization ,to great extent (10+3=13) or very great extent (6+4 =10) , totaling 23 respondent (79.3%) collectively agreed or strongly agreed that their organization funds have actually been used efficiently and effectively to achieve their organization program objectives. This result indicate that the relation ship between risk assessment procedure is significantly and positively related with the performance of NGOs operating in Addis Abeba Arada Subcity. (Table 4.18)

It means ,As the organization strive to regularly conduct risk assessment procedure and set adequate response, the organization efficiently and effective fund utilization will be highly improved.

In addition, the chi square test result  $P=0.00$  ( table 4.18 )tell us that the relation ship between risk and the performance of NGOs is significant at 5%

#### **4.2.3.The Relationship between Control Activities and The Performance of NGOS**

The study have also been conducted to analyze how internal control activities and procedures currently practiced by NGO operating in Arada sub city affect their overall performance measured by efficient and effective utilization of the resource.

Here is the finding obtained by cross tabulation analysis produced by SPSS see table 4.19

From the total 15 respondent who stated the current control activities affect the efficient and effective utilization to very great extent , 3 of them (20 %) are neutral or unable to decide their organization fund utilization is efficient and effective due to their on various reason table 4.19

15 out of 29 respondent ( 51 %) who stated the current control activities affect the efficient and effective utilization to great extent, have also agreed that their organization funds have actually been used efficiently and effectively to achieve their organization program objectives. and 9 out of 29 (31% ) of them Strongly agreed . Table 4.19

**Table 4.19 Control activities and Performance.**

The Number of responder who agree their donor fund have been actually utilized efficiently and effectively														
The Number respondent who state the extent to which the current internal control activities affects the efficient and effective utilization of the resource	Note applicable		(strongly disagree ( 0-1.5)		Disagree (1.5-2.5)		Neutral (2.5-3.5)		agree ( 3.51-4.5)		strongly agree ( 4.5-5)		Total	
	N	%	N	%	N	%	N	%	N	%	N	%	N	%
No influence at all ( 0-1.5 )	0		0	0	0	0.00%	0	0%	2	100.	0	0.00%	2	100%
To moderate extent ( 2.51-3.50)	0		0	0	1	7.14%	3	21%	6	42.00	4	28.57%	14	100%
To great extent ( 3.51-4.51 )	0		0	0	1	3.45%	4	14%	15	51.72	9	31.03%	29	100%
to very great extent above 4.51)	0		0	0	0	0.00%	3	20%	9	60.00	3	20.00%	15	100%
Total	0		0	0	2	3.33%	10	17%	32	53.33%	16	26.67%	60	100.00%

### Chi-Square Tests Control Activities

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	65.268 <sup>a</sup>	16	.000
Likelihood Ratio	15.533	16	.486
N of Valid Cases	61		

a. 21 cells (84.0%) have expected count less than 5. The minimum expected count is .02.

From the total 15 respondent who stated the current procedure and practices affect the efficient and effective utilization to very great extent, 9 respondent( 60%) and 3 respondent (20%) collectively have also agreed and strongly agreed respectively that their organization funds have been actually used efficiently and effectively. Table 4.19

Only 2 out of 32 = 6.25% agreed that their organization fund utilization is effective and efficient but not due to the current Control activities ( they state no influence at all) which mean there is no casual relationship between CA and performance.

Only 1 respondent out 29 (3.4 % ) disagree that their organization used its resource effectively and efficiently even though they states that the current control activities have greatly and positively influence the performance of NGOs. He/she may want to say that there is no relationship between performance and CA or the inefficiency and ineffectiveness may be emanated from other reason.

3 out of 29 (20 %) are neutral or unable to decide their organization have used its resource wisely even though they state that the control environment affect the wise use of the resource to great extent . they may want to say that there is other concrete reason for inefficient utilizations of the resource table 4.19

In general, from total 44 respondent (29+15) who stated collectively control activities positively influence the efficient and effective utilization to great extent (15+9=24) or very great extent (9+3=12) , totaling 36 respondent (81.8%) collectively agreed or strongly agreed that there is effective and efficient utilization of resource in their organization. This result indicates that the relationship between the current practice of internal control activities and efficient and effective utilization of resource is significant and positive (Table 4.19)

It means as control activities becomes more sound and strong, the organization efficient and effective fund utilization will be highly improved

In addition, the chi square test result  $P=0.00$  (table 4.18) tell us that the relationship between Control activities and the performance of NGOs is significant at 5%

#### **4.2.4 The Relationship between IC and Performance .**

The studies have also been conducted to analyze how the current functionality of Information and communication affect their overall performance measured by efficient and effective utilization of the resource.

As indicated in table 4.20 ,from the total 10 respondent who stated the current information and communication affect the efficient and effective utilization to moderate extent , 6 of them (60 %) are neutral (unable to decide their organization fund utilization is efficient and effective due to their on various reason

Again from the total 21 respondent who stated the current information and communication affect the efficient and effective utilization to very great extent, 6 of them (60 %) are neutral (unable to decide their organization fund utilization is efficient and effective due to their on various reason (table 4.20)

Even if 10 % respondent are Neutral or unable to decide whether their organizations utilize the resource wisely or not , they are saying that IC influence the efficient and effective use of resource to very great extent table 4.20 which means there is no link between IC and performance

**Table 4.20 Information communication and performance**

the Number of responder who agree their donor fund actually utilized efficiently and effectively														
The No respondent who state the extent to which the Information communication practice influence the efficient and effective utilization of the resource	Note applicable		( strongly disagree ( 0-1.5)		disagree( 1.5-2.5)		neutral( 2.5-3.5)		agree( 3.51-4.5)		strongly agree( 4.5-5)		Total	
	N	%	N	%	N	%	N	%	N	%	N	%	N	%
Note applicable					0		0	0	0		0			
Little extent ( M= 1.51-2.5)	-		0	0	0	0.00%	0	0%	7	100.00%	0	0.00%	7	100.00%
To modern extent ( M=2.51-3.50)	-		0	0	0	0.00%	6	60%	4	40.00%	0	0.00%	10	100.00%
To great extent( M =3.51-4.51 )	-		0	0	2	9.09%	2	9%	16	72.73%	2	9.09%	22	100.00%
to very great extent above (M 4.51)	-		0	0	0	0.00%	2	10%	5	23.81%	14	66.67%	21	100.00%
Total	1.00		0	0	2	3.33%	10	17%	32	53.33%	16	26.67%	60	100.00%

Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.069E2 <sup>a</sup>	16	.000
Likelihood Ratio	54.638	16	.000
N of Valid Cases	61		

16 out of 22 respondent ( 72.00 %) who stated the information and communication practice affect the efficient and effective utilization to great extent, have also agreed that their

organization funds have been actually used efficiently and effectively to achieve their organization program objectives and only 2 out of 29 (9.09% ) of them Strongly agree table 4.20

From the total 21 respondent who stated the current procedure and practices affect the efficient and effective utilization to very great extent, 14 respondent 66.66 % , strongly agreed that their organization funds have actually used efficiently and effectively table 4.20

About 7 respondent from total 32 (21.8%) who agree that the fund utilization in their organization is efficient and effective with little influence of IC ( this percentage is a little bit higher than other components stated in above

In general from total 43 respondent (22+21) who stated collectively that information and communication have positively influenced the efficient and effective utilization to great extent (16+2=18) or very great extent (5+14=19) , totaling 37 respondent (86.08%) collectively agreed or strongly agreed that their organization funds have actually been used efficiently and effectively to achieve their organization program objectives. This result indicate that the relationship between information and communication and efficient and effective utilization of resource is significant and positive. (Table 4.20)

It means as information and communication of the organization is more strengthened the organization efficiently and effective fund utilization will be highly enhanced.

In addition, the chi square test result  $P=0.00$  ( table 4.20) tell us that the relationship between IC and the performance of NGOs is significant at 5% . Table 4.20

#### **4.2.5) The Relationship Between Monitoring Internal Control System and Performance**

Lastly the study have also examined how Monitoring ICS and Performance are related

Their relation is presented in table 4.21

From the total 5 respondent who stated the current monitoring ICS affect the efficient and effective utilization to moderate extent , 11 of them (45.0 %) are neutral or unable to decide

Whether their organization fund utilization is efficient and effective due to their own various reasons. Table 4.21

**Table 4.21 – monitoring internal control and operational performance**

the No respondent who state the extent to which the monitoring internal control practice influence the efficient and effective utilization of the resource	The Number of responder who agree their donor fund actually utilized efficiently and effectively													
	Note applicable		(strongly disagree (0-1.5)		disagree(1.5-2.5)		natural(2.5-3.5)		agree( 3.51-4.5)		strongly agree( 4.5-5)		total	
	N	%	N	%	N	%	N	%	N	%	N	%	N	%
No influence					0		0	0	7	100.00%	0		7	
Little extent ( M= 1.51-2.5)	-		0	0	0	0.00%	2	40%	3	60.00%	0	0.00%	5	100.00%
To moderate extent ( M=2.51-3.50)	-		0	0	2	18.18%	5	45%	4	36.36%	0	0.00%	11	100.00%
to great extent( M3.51-4.51 )	-		0	0	0	0.00%	1	6%	12	75.00%	3	18.75%	16	100.00%
to very great extent above (M 4.51)	-		0	0	0	0.00%	2	10%	6	28.57%	13	61.90%	21	100.00%
Total	1.00		0	0	2	3.33%	10	17%	32	53.33%	16	26.67%	60	100.00%

Source- study finding

Those who are neutral about the presence of wise of resource in their orgaganization,2 out of 5 are agree that the current motoring ICS practice is some how weak and influence the performance to little extent. So it can be said that the performance is affected to little extent due to week practice of monitoring internal control system . according to them, therefore, there is direct relation ship between monitoring and performance . Table 4.21

Again from total 21 respondent who stated the current monitoring affect the efficient and effective utilization to very great extent , 6 of them (28 %) at the same time respond that they agree their organization use resources to efficiently and effectively. Table 4.21

12out of 16 respondent ( 75.00 %) who stated motoring ICS affect the efficient and effective utilization to great extent, have also agreed that their organization funds have actually used

efficiently and effectively to achieve their organization program objectives and only 2 out of 29 (9.09% ) of them Strongly agree . table 4.21

From the total 21 respondent who stated the current motoring ICS practice affect the efficient and effective utilization to very great extent, 13 respondent 61.9 % , strongly agreed that their organization funds have actually used efficiently and effectively.

About 7 respondent from total 32 (21.8%) who agreed that the fund utilization in their organization is efficient and effective states that this achievement is without any contribution of monitoring . This percentage is a little bit higher than other components stated in above

In general from total 37 respondent (16+11) who stated collectively monitoring and positively influence the efficient and effective utilization ,to great extent (12+3=15) or very great extent (6+13=19) , totaling 34 respondent (91.89%) collectively agree or strongly agree that their organization funds have actually been used efficiently and effectively to achieve their organization program objectives. This result indicates that the relationship between motoring IC and efficient and effective utilization of resource is very significant and positive. Table 4.21

In addition, the chi square test result  $P=0.00$  ( table 4.21 )tell us that the relation ship between Monitoring ICS and the performance of NGOs is significant at 5%

How ever from the total respondent (60) only 37 respondent( 61.66%) confirm that their organization motoring ICS practice contribute for improvement of efficient and effective utilization of their donor funs to great or very great extent . this indicate that there is a gap in their organization on regular review of the functionality of internal control . so the management of NGO should work to strengthen monitoring the effectiveness of IC. So their efficient and effective use of resource undeniably will be improved.

### ***4.3 Regression Analysis***

In order to strengthen the result obtained from descriptive and cross tabulation, regression analysis was performed to examine the relationship between internal control and overall performance of NGOs operating in Armada sub city. To strengthen the finding of cross table analysis Categorical regression is performed. The study evaluated the independent variables and the dependent using questionnaires and mean responses on each elements of internal control are

used to evaluate their impact on performance of NGO where efficiency and effectiveness ( achievement of value for money) is main indicator of performance using Optimal Scaling regression model which is appropriate for categorical variables.

### 4.3.1 Regression Result

#### 4.3.3.1 Model Summary

Table 4.22 Model Summary

Multiple R	R Square	Adjusted R Square
.790	.624	.556

Dependent Variable: EFFICIENCY AND EFFECTIVENESS

Predictors: CONTROL Environment, Risk Assessment, Control activities , information and communication and monitoring ICS

Source – Research finding produced by SPSS

In order to explain the percentage of variation in the dependent variable which is efficient and effective utilization resource of NGOs explained by the independent variables. The researcher used coefficient of determination that was obtained from the model summary in the table 4.22 Coefficient determination was used to explain whether the model is a good predictor. From the results of the analysis, the findings show that the independent variables (Control Environment, Risk Assessment, Control Activities, Information and Communication and monitoring) contributed to 55.6% of the variation in effective and efficient utilization of resource of NGOs operating Arada sub city as explained by adjusted R<sup>2</sup> of 0.556 which shows that the model is a good prediction. 45.5% variation in efficient and effective utilization of resource by NGO operating in arada sub city is explained by other factor which is outside the scope of this study.

This result is close to Christine et.al (2011) and Moses (2011) with prediction percentage of 35.69% and 37.1% respectively and The research conducted by Kamau Caroline njeri ( 2017) on topic ‘effect of internal controls on the financial performance of manufacturing firms in

Kenya' ) found the 75.7 % variation in financial performance of Manufacturing company in Kenya is explained by effectiveness of the five component of internal control.

To support this result ,research conducted by Moses Oppong, Alexander Owiredu, Virgil Nbellah Abedana and Evans Asant ( 2016) entitled The Impact of Internal Control on the Performance of Faith-Based NGOs in Accra found there is a positive impact of internal control on performance in the case of NGOs in Accra

#### 4.3.2 Analysis of Variance

The study conducted an analysis of variance, in order to test the impact of the relationship between internal controls and effective and efficient t utilization of resource of NGOs operating Arada sub city The findings were as shown below:

Table 4.24 - ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	37.445	9	4.161	9.223	.000
Residual	22.555	50	.451		
Total	60.000	59			

Dependent Variable: EFFICIENCY AND EFFECTIVENS

Source –research finding

The results of the findings above revealed that the level of significance was .000(a) this implies that the regression model is significant at 5 % in predicting the relationship between internal control and the performance of NGOs. This result is in line with the result of Eniola, Omoniyi Jacob, ,Akinselure and Oluwafemi Philip (2016) on topic ‘Effect of Internal Control on Financial Performance of Firms in Nigeria A Study of Selected Manufacturing Firms’ which

found that there is significant relationship between attainment of organization objectives and internal control of the selected organization  $P=0.000$

Shortly in my study, the regression model achieves a high degree of fit as reflected by an adjusted  $R^2$  of 0.556 ( $F = 9.223$   $P = 0.000 < 0.05$ ). Which is again in line with the result of

Hassan Adam Mire 2016 entitled ‘The effects of internal control system on the organizational performance of remittance companies in Mogadishu-somalia) who found that control environment, risk assessments and control activity determine organizational performance of the remittance companies in Mogadishu are significant factors in predicting the performance of remittance company in Mogadishu in his study ,the regression model achieves a high degree of fit as reflected by an  $R^2$  of 0.993 ( $F = 9193.961$ ;  $P = 0.000 < 0.05$ ).

Moreover the study conducted by Cheng, Qiang; GOH, Beng Wee; and KIM, Jae Bum.( (2015) entitled . ‘Internal control and operational efficiency’ demonstrate that ,there is significant negative association between internal material weakness and operational efficiency which means as weakness in internal control increases, the firms operational efficiency will decrease and if the Internal control material weakness decrease , the firms operational efficiency will be increase. This result is same as the finding of this study.

#### **4.3.3 Test for Coefficients (Hypothesis test result)**

F-test was carried out in order to determine whether a particular coefficient is significantly different from zero or not. The results of this are shown in Table 4.23

This table shows the level of significance on the variables, it also provides the *standardized Coefficient as shown below:*

Table 4.25 Coefficients

Independent variables	Standardized Coefficients		Df	F	Sig.
	Beta	Std. Error			
Control Environment	0.45	0.12	2	14.115	0.00
Risk Assessment	0.377	0.119	1	10.047	0.003
Control activities	0.329	0.14	2	5.503	0.007
Information and communication	0.169	0.152	2	1.237	0.299
Monitoring ICS	0.139	0.099	2	1.97	0.15

Source study finding

As shown in above F-test results for all independent variable were between 1.97 and 14.115 with the probability of these occurring by chance being equal to 0.000, that is,  $P < 0.005$  (95% confidence interval ) implying these were statistically significant.

From the above table 4.10, the researcher sought to establish the extent to which internal control impact on overall performance of NGOs operating in Arada sub city

The following regression equation was obtained:

$$\text{NGOs Performance} = 0.450X_1 + 0.377X_2 + 0.329X_3 + 0.169X_4 + 0.139X_5$$

### Hypothesis test 1

Ho- There is no relation between Control environments and the performance of NGOs in Arada subcity

H1- There is significant positive relationship between internal control environment and the performance of NGOs in arada subcity

As indicated in the table there was positive and significant effects of control environment on organizational performance ( $\beta = 0.450$ ;  $P = 0.000$  which is below 0.05 table 4.25 ).

Which mean that keeping other factor constant a unit increase in control environment result in 45 % increase in efficient and effective utilization of the resource and the relation ship between control environment and performance is significant at 5 % significant level . This result is in line with the result found by cross tabulation analysis stated in above as well as Kamau Caroline Njeri (2014) who tried to build the relationship between control environment and finical performance of Manufacturing firms in Kenya and found that there is significant positive relation ship between Control environment and organizational financial performance (Beta0.483 P value=0.004) and Hassan Adam Mire (2016) who investigate the Effects of internal control system on the organizational performance of remittance companies in modadishu-somalia and found that there is significant positive relation ship between Internal control environments and financial performance ( beta =0.342 and P=0.00)

Therefore, Null hypothesis is rejected and Alternate Hypothesis that state there is significant positive relationship between internal control environment and the performance of NGOs in Arada sub city will not be rejected

### **Hypothesis Test 2**

Ho: There is no relation between risk assessment practices and the performance of NGOs in Arada sub city

H1- there is significant positive relationship between risk assessment practices and the performance of NGOs in Arada sub city

There was positive and significant effects of risk assessment on organizational performance ( $\beta = 0.377$ ;  $P = 0.003$  which is below 0.05) Table 4.25. According to decision rule here the null hypothesis is rejected and Alternant hypothesis is not rejected because the obtained P value is below 0.05 ( $0.003 < 0.05$ ). So the relationship between Risk assessment and organizational performance is positive and statically significant at 5 %. which is interpreted as keeping other factor constant as single unit increase (Decrease ) in risk assessment procedure result in 37.% correspondent increase or decrease in efficient and effective utilization of resource of NGO operating in Arada subcity . So the relationship between these variable is direct and significant. this result is in line with the result found by cross tabulation analysis stated in above as well as Kamau Caroline njeri (2013) who tried to build the relationship between risk assessment and

financial performance of Manufacturing firms in Kenya and found that there is significant positive relation between Risk assessment and financial performance ship between risk assessment and organizational financial performance (Beta 0.101 p value=0.001) .Again Hassan Adam Mire (2016) who investigate the Effects of internal control system on the organizational performance of remittance companies in modadishu-somalia and confirm that there is significant positive relationship between risk assessment and financial performance ( beta =0.342 and P=0.00)

### **Hypothesis test 3**

Ho- There is no relation between control activities and the performance of NGOs in Arada sub-city.

H1- there is significant positive relation ship between internal Control activities and the performance of NGOs in arada sub city

Again, there was positive and significant effects of current practice of Control activities on organizational performance ( $\beta = 0.329$  ;  $P = 0.007$  which is below 0.05). According to decision rule ,the the null hypothesis is rejected and alternate hypothesis is not rejected because the obtained P value is below 0.05 ( $0.007 < 0.05$ ) So, the relationship between current internal control practice and organizational performance is positive and statistically significant at 5 % . Which is interpreted as keeping other as single unit increase (Decrease ) in control activities procedure result in 32.9.% correspondent increase or decrease in efficient and effective utilization of resource of NGO operating in Arada sub city . So the relationship between these variable is direct and statistically significant at 5% .This result agree with the result of cross tabulation analysis stated in above as well as Kamau Caroline Njeri (2014) who tried to build the relationship between control activities and finical performance of Manufacturing firms in Kenya and found that there is significant positive relationship between control activities and organizational financial performance (Beta 0.213 p value=0.003)

### **Hypothesis test 4**

Ho: There is no relationship between information and communication and the performance of NGOs in Arada sub City.

H1: There is significant positive relationship between information and communication and the performance of NGOs in Arada Sub city.

Again, there was positive and insignificant effects of current practice of information and communication control activities on organizational performance ( $\beta = 0.169$ ;  $P = 0.229$  which is above 0.05). So the relationship between current Information and communication practice and organizational performance is positive but statistically insignificant at 5%. As single unit increase (decrease ) in current information and communication practice result in 16.9% correspondent increase or decrease in efficient and effective utilization of resource of NGO operating in Arada sub city. So the relationship between these variable is direct and statistically insignificant at 5% .

### **Hypothesis Test 5**

Ho- there is no relation between monitoring of internal control system and the performance of NGOs in arada sub city

H1- there is significant positive relationship between monitoring of internal control system and the performance of NGOs in armada

Lastly, there was positive and significant effects of current practice of monitoring internal control and on organizational performance ( $\beta = 0.139$ ;  $P = 0.150$  which is above 0.05 table 4.25). So the relationship between current practice of motoring internal control and organizational performance is positive but statistically insignificant at 5%. It is interpreted as keeping other factor constant, as single unit increase (decrease ) in current practice of motoring internal control result in 13.9% correspondent increase or decrease inefficient and effective utilization of resource of NGO operating in Arada sub city . So the relationship between these variable is direct (positive) and statistically insignificant at 5%

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### ***5.1 Introduction***

This section covers the summary of findings, conclusions, recommendation. The study was sought to determine the effect of internal controls on overall performance of NGOS Operating Arada sub city Addis Abeba Ethiopia

#### ***5.2 Summary of Findings***

The main objective of this study was to investigate the effect of internal control systems and the overall performance of NGOs operating in Operating Arada subcity Addis Ababa Ethiopia . Explanatory research design was adopted for this study. The sample of 10 NGOs from a targeted population of 50 NGOS operating in Arad sub city is taken . and again 60 relevant respondent were purposefully selected from 10 NGOs to ensure that sample is representative of population ( all NGO working around Arada sub city) .So the study used multi stage purposive sampling technique. The study used primary data collected from semi-structured questionnaires. Quantitative data were analyzed using descriptive statistics. The Analysis was, then, based on descriptive statistics, cross tabulation analysis and categorical regressions analysis to establish the relationship between internal controls and overall performance of NGOS Operating Arada sub city Addis Abeba Ethiopia

From the study findings, regarding to their level of education, the study findings revealed that most of the respondents were degree and above holders ( 90 % of respondents were graduates. This enable the researcher to conclude that all respondent commonly understand the questionnaires properly .Regarding to work experience and profession of respondent , majority respondent have more than 10 year ( 61.7 %) and work in accounting and management profession ( 71 % ) .It can be said that majority respondent are key personnel in implementation of internal control. Therefore their responses to each question are reliable and consistent.

### **The following are summary of finding of the study**

- Control environment is considered as a tone on the top in internal control system. It indicates the general atmosphere of internal control which includes the policies and procedures of internal control, management structure, reporting structure, competence of employees and discharging responsibility and others
- In generally majority of the respondent agree first that their organization control environment is adequately favorable at the same time it positively influence the performance of their organization to great extent.
- The honesty and ethical value upheld by management as well as all staff, the existence of competent staff, the presence of financial manual togetherly make control environment favorable to functioned other element of internal control as the result CE in generally positively influence the wise use of the resource to great extent
- However, majority states that there is no means of safeguarding conflict of interest between procurement officers and third party =M 3.25 ( 10 individual states that there is no means of safeguarding conflict of interest between procurement officer and 3<sup>rd</sup> party. As the result they states that the influence of having means of safeguarding conflict of interest on performance is only to little extent
- It is found that risk assessment procedure have somehow not been regularly conducted by most NGOs operating in Arada sub city .As the result most respondent state the overall risk assessment procedure improve the efficient and effective utilization of the resource of NGO only to little extent
- Majority respondent collectively stated that the effect of current risk assessment procedure and on the efficient and effective utilization is to less or moderate extent Simply, the effect of RA is not that much satisfactory
- The practice of identifying fraud risk factors such as incentives, pressure, opportunity to committee fraud is some how questionable as the its positive influence on performance is only to less extent .
- Most NGOs don't have fraud policy and procedure which is communicated to all staff and risk or inflated purchase is not adequately practiced. As the result, its influence on organization performance is only little extent.

- The overall all mean of control activities is 3.9 SE =1.02. This means the current practice of control activities by NGOs operating in Arada sub city is sound and effective .As the result, majority respondent who are key personnel for functionality of internal control in their organization responded that their organization internal control activities practices have significant positive influence on efficient and effective utilization of their donor fund to great extent .
- It was found the NGO's operating in Arada sub city efficient utilization of resource to achievement of program objective is highly improved due to managers and finance are strict and effect payment upon only prior authorization of expenditure.
- In addition to this, the manager as well as all finance staffs of NGOs operating in Arada Sub city provide due care to effect the payments in accordance with their organizational police and procedure. As the result, the NGOs efficient and effective utilization of the resource is improved to great extent or very great extent
- Moreover, no effecting payment without prior authorization and payments are made only when the expenditure is within approved budget. So that the majority respondent declare that these practice influences the efficient and effective use of the resource to great extent.
- However, there is somehow weakness in strict compliance to disposal policies ( M=3.47) in the case of NGOs operating in Arada Sub city, Majority disagree that there is strong compliance to disposal policies. So, they feel that its influence on wise use of the resource is only to little extent
- Communication and information practice of NGO operating in Arada subs city is also great influential to efficient and effective operation ( over all mean= 3.91) majority agree that IC is effective so that it influence to the wise use of the resource to great extent .
- Promote recording of transaction to produced reliable report and regular report on the activities of their organization and clear reporting system on organizational structure have significant impact on overall performance of NGO operating in Arad sub city.
- Overall mean of regular review of internal control practice by NGOs to determine whether all other component of internal control system are strong and sound in terms of their design and implementation is somehow satisfactory but require management attention to improve it

- From the total respondent only 37 respondent( 61.66%) confirm that their organization motoring ICS practice contribute for improvement of efficient and effective utilization of their donor funds to great or very great extent.
- There is weakness in developing mechanism to capture and report internal control deficiency. That is why majority responded that its influence to improve the wise use of the resource is only little extent( M=3.22)Moreover, the review of the proper functionality of internal control system on ongoing basis is also some how weak=3.43 ( more that 50 %) respondent stat that its effect on efficiency and effectiveness is only little extent .
- As many respondent strongly agree or agree all activities listed in annul operation plan of NGO operating in Arada subsidy have been performed efficiently, Moreover, the organization specific short term and long term objectives were achieved. One of key factor for this great achievement is existence of sound internal control system.

In order to establish relationship between each component of IC and performance one statistical tool which is cross tabulation is used.

**Summary of cross tabulation analysis is presented as follows**

- 76.6 % of respondent who state that CE practice affect the efficient and effective utilization to great or very great extent have also agree or strongly agree that their organization funds have actually been used efficiently and effectively which means there is strong positive relation ship between CE and performance
- 79 % of respondent who state that current risk assessment practice affect the efficient and effective utilization to great or very great extent have also agree or strongly agree that their organization funds have actually been used efficiently and effectively which means there strong positive relationship between RA and performance
- Those respondent who states that current internal control activities affect the efficient and effective utilization to great or very great extent have also agree or strongly agree that their organization funds have actually been used efficiently and effectively( 80 % of the total respondent) which means there strong positive relationship between CA and performance

- 86 % of respondent who state that communication and information practice affect the efficient and effective utilization to great or very great extent have also agreed or strongly agreed that their organization funds have actually been used efficiently and effectively this indicate that there is strong positive relationship between IC and performance
- 91.8 % of respondent who state that the current monitoring internal control practice affect the efficient and effective utilization to great or very great extent have also agreed or strongly agreed that their organization funds have actually been used efficiently and effectively which means that very strong positive relationship between monitoring and performance as compared to other components.
- In general all component of Internal control such as CE,RA,CA,IC,M have strong positive relationship with efficient and effective utilizations of the resources.

To strengthen, the result of cross table finding, categorical regression analysis was made

- The regression analysis result obtained by SPSS show that there is a positive relationship between internal controls and overall performance of NGOs operating in arada sub city This is demonstrated by the level of significance attained by each of the independent variables and its coefficient.
- All the independent variables such as CE,RA,CA,IC and M are stastically significant at 5 % . because the P value for all coefficient is below 0.05
- The coefficient of each component of IC ( independent variables such as CE,RA,CA,IC and M ) are positive
- This is an indication that there is statistically significant positive relation between each components of IC and the overall performance NGO operating in Arada subcity.
- The coefficient of determination proved that the independent variables contributed to 55.4% of the variation in efficient and effective utilization of resource which is explained by adjusted R2 of 0.554 % which shows that the model was a good predictor.
- The established regression equation was  

$$\text{NGOs performance} = 0.450X_1 + 0.377X_2 + 0.329X_3 + 0.169X_4 + 0.139X_5$$

### **5.3 Conclusion**

COSO (1992) revealed that; internal control effectiveness is resulted from an effective function of the control environment, control activities, the risk assessment, information flow and

communication and monitoring of the system itself. INTOSAI (2004) indicates an effective functioning of these elements helps in achieving Value for Money which is an objective of effective internal controls.

One of the main objective of designing and functioning internal control as per COSO is to ensue effective and efficient operation. One of the most key means of achieving program objective in efficient manner in NGO sector is designing and implementing sound internal control

As stated in problem statement little is known about how effective internal control contributes for improvement of effective and efficient utilization of resource in the case of NGOs operating in Ethiopia. So, this study is conducted to provide concert evidence to one of objective of internal control stated by COSO 'to ensure effectiveness and efficient of the operation by any organization' is practically realized in case of NGOs operating in Arada sub city Addis Abeba through effective internal control.

Therefore, it concluded from the above facts and finding that NGOs operating in Addis Ababa Arada Sub City have been utilizing their resource efficiently and effectively due to sound internal control they have been practicing which significantly and positively influence their operations.

#### ***5.4 Recommendations***

Generally , there is needs for NGOs operating Arada sub city to make control environment more favorable than it has been so far, to strengthen risk assessment procedure more that than they have been doing, to make control activities more effective than they are actually practiced now, increase the information and communication practice, improve their current monitoring internal control practice than it has been performance because this study found out that all component of control system such as control environment ,Risk assessment , control activities , Information communication and monitoring ICS have significant positive influence the efficient and effective utilization of resource of NGOs operating in Arada sub city.

In order to do so, the following specific recommendations were drawn from the area of internal control deficiency observed in above findings.

- In order to make control more favorable, the management of all NGOs working around Arada sub city has to strive to get means of avoiding conflict of interest that can be aroused between procurement officers and 3<sup>rd</sup> party. So that the interest of their organization can be maintained.
- One of the most internal control component in which control deficiency observed is risk assessment procedure . So in order to make their risk assessment procedure more effective than before the following 2 recommendation are spell out.
  - I. Management should assess and identify the presence of fraud risk factor in its organization such as in incentives, pressure, and opportunity to committee fraud. So that management can easily formulate and implement effective control policies and procedure that can avoid or reduced fraud in its organization.
  - II. One type of fraud mostly exhibited by NGOs are practice of inflated purchase (purchase of goods or service at higher price than the market) which makes the utilization of fund inefficient. So management should strictly asses risk of inflated purchase by comparing the price of goods to be purchased and the fair market price of goods or service before making purchases. If management succeeds in purchasing the required quality of goods or service at lower price than the market, the efficient utilization of resource will be highly improved.
- The ethical values currently demonstrated by all staff and management in their day to day activities are very good. So Management should encourage all staff to retain their integrity and honesty forever.
- Whenever the properties of NGOs are disposed, it should be in the way it realize efficiency. All NGO managers should pay great attention to strictly follow disposal policies that enhance efficiency.
- In order to strengthen the effectiveness of the whole internal control system which is the key factor to the improvement of efficient and effective utilization of donor fund, the design as well as the implementation of all internal control components have to adequately and regularly examined to detect material internal control weakness and take necessary action timely. Therefore, the board of director as well as the manager of all NGOs operating in Arada sub city should assign competent staff and organize resources in order

to regularly monitor the effectiveness of internal control system and take timely corrective action for any control deficiency detected.

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Before responding to the following statements be sure that the existence and the extent of such practice condition experience in your organization before you determine the extent of its positive influence on efficient and effective utilization of the resource

If you say it influence to very great extent (marking scale 5) you mean that there is such practice to very great extent (there is strong internal control practice)

**1) Control Environment**

Rank to what extent the following control environmental factors positively affects your organization efficient and effective utilization Donner funds (Note that positive influence means that it improve the efficient and effective utilization of resource)

Give (5) if it affect to very great extent (4) to great extent (3) to moderate extent (2) to little extent, (1) to no extent or no influence at all

N/A (Not applicable) if there is no such practices , condition .experience, so that you are not sure that it affects the wise use of resource

	Control Environment	1	2	3	4	5	NA
1	The ethical values such as honesty and integrity currently demonstrated by all staff especially finance staffs						
2	The management high commitment to strictly adhere internal control policies and procedure (it means, is your senior management are high committed to internal control policies and procedure so that if affect wise use of the resource positively ?						
3	The ethical values such as integrity , curiosity, honesty that have been demonstrated by manager in all managerial Decisions						
4	The existence of competent staff in your organization who have adequate knowledge skill and experience to						

	discharge their responsibility effectively						
5	The existence of safeguard for protection against conflicts of interest between procurement officers and third party						
6	The presences of financial manual that clearly describe internal control policies, procedures and guidelines that must be followed by your organization all staff						
7	The existence clearly organizational structure which clearly assigns duty and responsibility to all staff						
8	The investigation and timely action taken for all deviations from established policies and procedure						
9	The presence of code of conduct and the strict follow up by senior management to enforce the organization code of conduct are adhered						

## 2) Risk Assessment.

To what extent the following risk assessment current practice have positive influence on you organization efficient and effective utilization of resource.( Note that positive influence means that it improves the efficient and effective utilization of funds or resources)

Give ( 5) if it affect to very great extent ( 4) to great extent ( 3 ) to moderate extent (2) to little extent, (1) to no extent or no influence at all

N/A ( Not applicable) if there is no such practices , condition .experience, so that you are not sure that it affects the wise use of resource

	Risk Assessment	1	2	3	4	5	N/A
1	The management current practice to identify all risks that can potentially affect the achievement of the objectives						
2	having a criteria to assure which fraud-related risks to the organization are the most critical						
3	The incentives and pressures, attitudes and rationalizations, as well as opportunity to commit fraud which have been considered highly by manger while assessing fraud risks						
4	Having fraud policies and procedures which are communicated and understood by all staff						
5	Management critical examination of the risk of inflated procurement associated with procurement officers unethical behavior and the presence of adequate response to mitigate such type of risk						

### 3) Control Activities

To what extent the following control activities and current practices have positive influence on the efficient and effective utilization of your organization funds (resources)

Note that positive influence means that it improve the efficient and effective utilization of resource(Funds)

Give (5) if it affect to a very great extent (4) to great extent (3) to moderate extent (2) to little extent, (1) to no extent or no influence at all

N/A ( Not applicable) if there is no such practices , condition .experience, so that you are not sure that it affects the wise use of resource

	<b>Control Activities</b>	1	2	3	4	5	N/A
1	The presence of adequate segregation of duties						
2	The existence of independent review the work of others						
3	The finance department as well as the mangers due care to effect all payments in accordance with organization policies and procedure and supported by all necessary documents						
4	The prior Authorization of all expenditure before effecting payment						
5	The existence of mechanism to ensure that all payment are made within approved budget to avoid over spends						
6	The management as well as finance staff's great attention to assure that the specification of goods be purchased described by all competitors are the same as the organization requirement and item received is exactly the same as the required specification						
7	The existence of clear procurement policy that can be economically followed						
8	Strict compliance to procurement policy and procedure at the time of purchase						
9	The strict adherence to disposal policy and procedure while disposing organization properties.						
10	The Presence of regular reconciliation of bin card, stock card and actual physical count						
11	The independent review s conducted on all documents used to distribute item for beneficiary as well as government office ( Appropriate Verification of Distribution list						

#### **4) Information and Communication**

Give ( 5 ) if it affect to very great extent ( 4 ) to great extent ( 3 ) to moderate extent (2) to little extent, (1) to no extent or no influence at all N/A ( Not applicable) if there is no such practices , condition .experience, So that you are not sure that it affects the wise use of resource.

	Information and communication	1	2	3	4	5	N A
1	The understanding of all staff on the concept and importance of internal controls including the division of responsibility						
2	The frequent Communications to evaluate how well guidelines and policies of the organization are working and being implemented						
3	The Information and Financial report that was communicated to all stakeholders.						
4	The promptly recording and classifying transactions to provide reliable information.						
5	The reporting system on organizational structures that spells out all the responsibilities of each section/unit in the organization						

### 5) Monitoring the entire internal control system

To what extent the following monitoring internal control system current practice have positive influence on the efficient and effective utilization of your organization

Note that positive influence means that it improve the efficient and effective utilization of resource

N/A ( Not applicable) if there is no such practices , condition .experience, so that you are not sure that it affects the wise use of resource

	<b>Monitoring internal control</b>	1	2	3	4	5	NA
1	The existence of independent review of the proper functionality of internal control system on ongoing basis						
2	The existence of a mechanism for capturing and reporting identified internal control deficiencies.						
3	The regular review of the organization Internal control as well as financial records and supporting document that have been conducted by donor driven compliance auditor to detect internal control deficiency and irregularities						
4	The timely corrective action taken to the report on deficiencies of internal control detected during donors compliance audit						
5	The timely corrective action taken for external auditor recommendations						

## 6) Performance

To what extent do you agree to following statements regarding to performance of your Organization (1) strongly disagree (2) disagree (3) neutral (4) agree (5) strongly Agree

	Performance measurement	1	2	3	4	5
1	all activities listed on annual operational plan are performed efficiently					
2	Organization specific short term and long-term objective are achieved					
3	Management carried out monitoring and evaluation to ensure the resources are wisely used to achieve the program objectives					
4	Effective and efficient utilization of the organization is improved by reducing the level of irregularity and fraud through strong internal controls placed in your organization					

**APPINDEX II FREQUENCY TABLES**

**APPINDEX -CE-01 The ethical values such as honesty and integrity currently demonstrated by all staff especially finance staffs**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	2	3.3	3.3	3.3
	3	6	10.0	10.0	13.3
	4	12	20.0	20.0	33.3
	5	40	66.7	66.7	100.0
	Total	60	100.0	100.0	

**APPINDEX CE-02 The management high commitment to strictly adhere internal control policies and procedure (it means, is your senior management are high committed to internal control policies and procedure so that if affect wise use of the resource positively**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	5	8.3	8.3	8.3
	3	15	25.0	25.0	33.3
	4	21	35.0	35.0	68.3
	5	19	31.7	31.7	100.0

**APPINDEX CE-02 The management high commitment to strictly adhere internal control policies and procedure (it means, is your senior management are high committed to internal control policies and procedure so that if affect wise use of the resource positively**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	5	8.3	8.3	8.3
	3	15	25.0	25.0	33.3
	4	21	35.0	35.0	68.3
	5	19	31.7	31.7	100.0
	Total	60	100.0	100.0	

**APPINDEX CE-03 The ethical values such as integrity , curiosity, honesty that have been demonstrated by manager in all managerial Decisions**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	5	8.3	8.3	8.3
	3	13	21.7	21.7	30.0
	4	17	28.3	28.3	58.3
	5	25	41.7	41.7	100.0
	Total	60	100.0	100.0	

**APPINDEX CE-04 The existence of competent staff in your organization who have adequate knowledge skill and experience to discharge their responsibility effectively**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	3	5.0	5.0	5.0
	3	16	26.7	26.7	31.7
	4	15	25.0	25.0	56.7
	5	26	43.3	43.3	100.0
	Total	60	100.0	100.0	

**APPINDEX CE-05 The existence of safeguard for protection against conflicts of interest between procurement officers and third party**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	6	10.0	10.0	10.0
	1	3	5.0	5.0	15.0
	2	6	10.0	10.0	25.0
	3	13	21.7	21.7	46.7
	4	19	31.7	31.7	78.3
	5	13	21.7	21.7	100.0
	Total	60	100.0	100.0	

APPINDEX CE-06 The presences of financial manual that clearly describe internal control policies, procedures and guidelines that must be followed by your organization all staff

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	2	3.3	3.3	3.3
	2	3	5	5	8.3
	3	9	15	15	23.3
	4	26	43.3	43.3	66.7
	5	20	33.3	33.3	100
	Total	60	100	100	

**APPINDEX CE-07 The existence clearly organizational structure which clearly assigns duty and responsibility to all staff**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	3.3	3.3	3.3
	2	1	1.7	1.7	5.0
	3	16	26.7	26.7	31.7
	4	17	28.3	28.3	60.0
	5	24	40.0	40.0	100.0
	Total	60	100.0	100.0	

**APPINDEX CE-08 The investigation and timely action taken for all deviations from established policies and procedure**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	3	5.0	5.0	5.0
	3	25	41.7	41.7	46.7
	4	18	30.0	30.0	76.7
	5	14	23.3	23.3	100.0

**APPINDEX CE-08 The investigation and timely action taken for all deviations from established policies and procedure**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	3	5.0	5.0	5.0
	3	25	41.7	41.7	46.7
	4	18	30.0	30.0	76.7
	5	14	23.3	23.3	100.0
	Total	60	100.0	100.0	

**APPINDEX CE-09 The presence of code of conduct and the strict follow up by senior management to enforce the organization code of conduct are adhered**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	4	6.7	6.7	6.7
	3	27	45.0	45.0	51.7
	4	15	25.0	25.0	76.7
	5	14	23.3	23.3	100.0
	Total	60	100.0	100.0	

APPINDEX RA-01 The management current practice to identify all risks that can potentially affect the achievement of the objectives

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	3	5.0	5.0	5.0
	2	3	5.0	5.0	10.0
	3	21	35.0	35.0	45.0
	4	17	28.3	28.3	73.3
	5	16	26.7	26.7	100.0
	Total	60	100.0	100.0	

APPINDEX RA-02 Having a criteria to assure which fraud-related risks to the organization are the most critical

		Frequency	Percent	Valid Percent	Cumulative Percent
	0	9	15	15	15
	1	3	5	5	20
	2	5	8.3	8.3	28.3
Valid	3	17	28.3	28.3	56.7
	4	12	20	20	76.7
	5	14	23.3	23.3	100
	Total	60	100	100	

*APPINDEX RA-03 The incentives and pressures, attitudes and rationalizations, as well as opportunity to commit fraud which have been considered highly by manger while assessing fraud risks*

	Frequency	Percent	Valid Percent	Cumulative Percent
0	8	13.3	13.3	13.3
1	1	1.7	1.7	15
2	3	5	5	20
Valid 3	20	33.3	33.3	53.3
4	16	26.7	26.7	80
5	12	20	20	100
Total	60	100	100	

**APPINDEX RA-4-Having fraud policies and procedures which are communicated and understood by all staff**

	Frequency	Percent	Valid Percent	Cumulative Percent
0	4	6.7	6.7	6.7
1	1	1.7	1.7	8.3
2	5	8.3	8.3	16.7
Valid 3	19	31.7	31.7	48.3
4	20	33.3	33.3	81.7
5	11	18.3	18.3	100
Total	60	100	100	

APPINDEX RA-5 Management critical examination of the risk of inflated procurement associated with procurement officers unethical behavior and the presence of adequate response to mitigate such type of risk

	Frequency	Percent	Valid Percent	Cumulative Percent
0	5	8.3	8.3	8.3
1	1	1.7	1.7	10
2	7	11.7	11.7	21.7
Valid 3	17	28.3	28.3	50
4	16	26.7	26.7	76.7
5	14	23.3	23.3	100
Total	60	100	100	

APPINDEX CA-01 The presence of adequate segregation of duties

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 2	6	10.0	10.0	10.0
3	7	11.7	11.7	21.7
4	27	45.0	45.0	66.7
5	20	33.3	33.3	100.0
Total	60	100.0	100.0	

APPINDEX CA-02 The existence of independent review the work of others

	Frequency	Percent	Valid Percent	Cumulative Percent
0	3	5	5	5
2	7	11.7	11.7	16.7
3	14	23.3	23.3	40
4	17	28.3	28.3	68.3
5	19	31.7	31.7	100
Total	60	100	100	

APPINDEX CA-03 The finance department as well as the managers due care to effect all payments in accordance with organization policies and procedure and supported by all necessary documents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 2	2	3.3	3.3	3.3
3	8	13.3	13.3	16.7
4	17	28.3	28.3	45.0
5	33	55.0	55.0	100.0

APPINDEX CA-03 The finance department as well as the managers due care to effect all payments in accordance with organization policies and procedure and supported by all necessary documents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	2	3.3	3.3	3.3
	3	8	13.3	13.3	16.7
	4	17	28.3	28.3	45.0
	5	33	55.0	55.0	100.0
	Total	60	100.0	100.0	

APPINDEX CA-04 The prior Authorization of all expenditure before effecting payment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	1.7	1.7	1.7
	3	9	15.0	15.0	16.7
	4	10	16.7	16.7	33.3
	5	40	66.7	66.7	100.0
	Total	60	100.0	100.0	

APPINDEX CA-05 The existence of mechanism to ensure that all payment are made within approved budget to avoid over spends

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	3.3	3.3	3.3
	2	3	5.0	5.0	8.3
	3	8	13.3	13.3	21.7
	4	21	35.0	35.0	56.7
	5	26	43.3	43.3	100.0
	Total	60	100.0	100.0	

APPINDEX CA-06 The management as well as finance staff's great attention to assure that the specification of goods be purchased described by all competitors are the same as the organization requirement and item received is exactly the same as the required specification

		Frequency	Percent	Valid Percent	Cumulative Percent
	0	2	3.3	3.3	3.3
	2	3	5	5	8.3
Valid	3	12	20	20	28.3
	4	29	48.3	48.3	76.7
	5	14	23.3	23.3	100

APPINDEX CA-05 The existence of mechanism to ensure that all payment are made within approved budget to avoid over spends

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	3.3	3.3	3.3
	2	3	5.0	5.0	8.3
	3	8	13.3	13.3	21.7
	4	21	35.0	35.0	56.7
	5	26	43.3	43.3	100.0
	Total	60	100	100	

APPINDEX CA-07 The existence of clear procurement policy that can be economically followed

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	11	18.3	18.3	18.3
	4	29	48.3	48.3	66.7
	5	20	33.3	33.3	100.0
	Total	60	100.0	100.0	

APPINDEX CA-08 Strict compliance to procurement policy and procedure at the time of purchase

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	1.7	1.7	1.7
	3	15	25.0	25.0	26.7
	4	23	38.3	38.3	65.0
	5	21	35.0	35.0	100.0
	Total	60	100.0	100.0	

APPINDEX CA-09 The strict adherence to disposal policy and procedure while disposing organization properties .

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	4	6.7	6.7	6.7
	1	2	3.3	3.3	10.0
	2	4	6.7	6.7	16.7
	3	14	23.3	23.3	40.0
	4	24	40.0	40.0	80.0
	5	12	20.0	20.0	100.0

APPINDEX CA-08 Strict compliance to procurement policy and procedure at the time of purchase

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	1.7	1.7	1.7
	3	15	25.0	25.0	26.7
	4	23	38.3	38.3	65.0
	5	21	35.0	35.0	100.0
	Total	60	100.0	100.0	

APPINDEX CA-10 Presence of regular reconciliation of bin card, stock card and actual physical count

		Frequency	Percent	Valid Percent	Cumulative Percent
	0	3	5	5	5
	2	3	5	5	10
Valid	3	13	21.7	21.7	31.7
	4	16	26.7	26.7	58.3
	5	25	41.7	41.7	100
	Total	60	100	100	

APPINDEX CA-11 The independent review s conducted on all documents used to distribute item for beneficiary as well as government office ( Appropriate Verification of Distribution list

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	3	5.0	5.0	5.0
	1	1	1.7	1.7	6.7
	2	2	3.3	3.3	10.0
	3	16	26.7	26.7	36.7
	4	15	25.0	25.0	61.7
	5	23	38.3	38.3	100.0
	Total	60	100.0	100.0	

APPINDEX IC-01 The understanding of all staff on the concept and importance of internal controls including the division of responsibility

		Frequency	Percent	Valid Percent	Cumulative Percent
	NA	3	5	5	5
	2	6	10	10	15
Valid	3	17	28.3	28.3	43.3
	4	16	26.7	26.7	70
	5	18	30	30	100
	Total	60	100	100	

APPINDEX IC-3 The Information and Financial report that was communicated to all stakeholders.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	1.7	1.7	1.7
	3	11	18.3	18.3	20.0
	4	22	36.7	36.7	56.7
	5	26	43.3	43.3	100.0
	Total	60	100.0	100.0	

APPINDEX IC-02 the frequent Communications to evaluate how well guidelines and policies of the organization are working and being implemented

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	3	5.0	5.0	5.0
	2	6	10.0	10.0	15.0
	3	16	26.7	26.7	41.7
	4	21	35.0	35.0	76.7
	5	14	23.3	23.3	100.0
	Total	60	100.0	100.0	

APPINDEX IC-4 The promptly recording and classifying transactions to provide reliable information.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	2	3.3	3.3	3.3
	2	2	3.3	3.3	6.7
	3	6	10.0	10.0	16.7
	4	19	31.7	31.7	48.3
	5	31	51.7	51.7	100.0
	Total	60	100.0	100.0	

APPINDEX IC-5 The reporting system on organizational structures that spells out all the responsibilities of each section/unit in the organization

		Frequency	Percent	Valid Percent	Cumulative Percent
	0	2	3.3	3.3	3.3
	2	7	11.7	11.7	15
	3	10	16.7	16.7	31.7
Valid	4	16	26.7	26.7	58.3
	5	25	41.7	41.7	100
	Total	60	100	100	

APPINDEX M-01 The existence of independent review of the proper functionality of internal control system on ongoing basis

	Frequency	Percent	Valid Percent	Cumulative Percent
0	4	6.7	6.7	6.7
1	5	8.3	8.3	15
2	4	6.7	6.7	21.7
Valid 3	13	21.7	21.7	43.3
4	16	26.7	26.7	70
5	18	30	30	100
Total	60	100	100	

APPINDEX M-02 The existence of a mechanism for capturing and reporting identified internal control deficiencies.

	Frequency	Percent	Valid Percent	Cumulative Percent
0	3	5	5	5
1	7	11.7	11.7	16.7
2	3	5	5	21.7
Valid 3	12	20	20	41.7
4	21	35	35	76.7
5	14	23.3	23.3	100
Total	60	100	100	

APPINDEX M-03 The regular review of the organization Internal control as well as financial records and supporting document that have been conducted by donor driven compliance auditor to detect internal control deficiency and irregularities

	Frequency	Percent	Valid Percent	Cumulative Percent
0	3	5	5	5
1	7	11.7	11.7	16.7
2	2	3.3	3.3	20
Valid 3	11	18.3	18.3	38.3
4	9	15	15	53.3
5	28	46.7	46.7	100
Total	60	100	100	

APPINDEX M-04 The timely corrective action taken to the report on deficiencies of internal control detected during donors compliance audit

	Frequency	Percent	Valid Percent	Cumulative Percent
0	2	3.3	3.3	3.3
1	7	11.7	11.7	15
2	3	5	5	20
Valid 3	7	11.7	11.7	31.7
4	16	26.7	26.7	58.3
5	25	41.7	41.7	100
Total	60	100	100	

APPINDEX M-05 The timely corrective action taken for external auditor recommendations

	Frequency	Percent	Valid Percent	Cumulative Percent
0	2	3.3	3.3	3.3
1	5	8.3	8.3	11.7
2	2	3.3	3.3	15
Valid 3	7	11.7	11.7	26.7
4	12	20	20	46.7
5	32	53.3	53.3	100
Total	60	100	100	

APPINDEX P- 01 All activities listed on annual operational plan are performed efficiently

	Frequency	Percent	Valid Percent	Cumulative Percent
1	1	1.7	1.7	1.7
2	3	5	5	6.7
Valid 3	6	10	10	16.7
4	38	63.3	63.3	80
5	12	20	20	100
Total	60	100	100	

APPINDEX P-02 Organization specific short term and long-term objective are achieved

	Frequency	Percent	Valid Percent	Cumulative Percent
2	3	5	5	5
3	9	15	15	20
Valid 4	35	58.3	58.3	78.3
5	13	21.7	21.7	100
Total	60	100	100	

APPINDEX P-3 Management carried out monitoring and evaluation to ensure the resources are wisely used to achieve the program objectives

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1	2	3.3	3.3	3.3
Valid 2	3	5	5	8.3
Valid 3	11	18.3	18.3	26.7
Valid 4	28	46.7	46.7	73.3
Valid 5	16	26.7	26.7	100
Total	60	100	100	

APPINDEX P-04 Effective and efficient utilization of the organization is improved by reducing the level of irregularity and fraud through strong internal controls placed in your organization

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 2	3	5	5	5
Valid 3	10	16.7	16.7	21.7
Valid 4	27	45	45	66.7
Valid 5	20	33.3	33.3	100
Total	60	100	100	