

The Impact of Internal Control on the Performance of Faith-Based NGOs in Accra

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Abstract

The global financial crisis has caused a re-awakening of the donor community's desire to monitor the activities of NGOs operating in various parts of the world. Recent operational and financial scandals involving some Africa-based NGOs are causing uneasiness among financiers of faith-based NGOs in sub-Saharan Africa. Management of such NGOs fears that they must strive to avoid operational inefficiencies in their efforts to achieving intended objectives. Many believe internal control holds the key to achieving such desires. This study examines the current level of internal controls operated by seven faith-based NGOs and how that is affecting their performance. Primary data obtained using self-administered structured questionnaire and the Statistical Packages for Social Sciences (SPSS 20.0 version) was used to analyse the data. The study found that internal control systems significantly enhances the performance of the faith-based NGOs, in two aspect; economy and efficiency but does not necessarily make the them effective. Again, we found that existing internal control systems functioned satisfactorily in four components of the COSO model except risk assessment where the procedures were found to be very weak. We recommend that Management of faith-based NGOs should have holistic measures in place to constantly assess its effectiveness and impact on operations. Moreover, management should institute a rigorous risk management framework which will be able to detect all risk inherent in the internal control system to improve efficiency.

Keywords: Internal Control, Faith-based NGOs, Performance, Accra

1. Introduction

The collapse of Enron, Worldcom and a host of other companies in recent times has heightened the demand for sound accountability practices on regular and timely basis. Internal control systems has become very popular and important in recent times in the wake of these fraudulent financial reporting in different countries around the globe. Additionally, the rapidly changing business environment is putting immense pressure on corporate leaders to institute sound and effective internal control system to meet objectives. It is noted that the implementation of sound and effective internal controls will significantly ensure that objectives are met. These changes and practices are predominant visible in the profit making businesses due to the profit maximizing motive. NGOs on the other hand had previously relied on traditional and informal practices to sustain their social agenda. Quite unfortunately, judging by the recent spate of financial malfeasance reported among NGOs, it appears this is not yielding the desired results.

Bongani (2013) argued that internal control procedures help to place reliance on financial reporting, improves operational efficiency and effectiveness whiles at the same time ensuring compliance with regulations and laws. Mawanda (2008) asserted that internal control systems do not necessarily provide absolute assurance particularly when they are characterized by inherent limitations which affect the likelihood of achieving objectives. This view does not preclude the NGOs. Abdulkadir (2014) observed that NGOs are faced with competition in obtaining funds from donors. To ensure trust which is precedent to funds being released by most donors, NGOs must demonstrate that they have the necessary control systems and competencies whiles adhering to the social and developmental programmes. In view of this, many NGOs design and implement effective internal controls to help achieve operational efficiency, goals, safeguard resources and also comply with the relevant laws.

Ayom (2013) wholly agrees with this submission and expanded the conception that a sound and effective internal control over the administrative, operational, financial, procurement, systems and procedures contribute significantly to the success of organizations. He however conceded that weaknesses and internal control failures leads to fraud, errors, and inherent misstatements of financial reports and mentioned few examples that include the cases of Enron, WorldCom and Global Crossing. In spite of this argument, 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).

Ayom, (2013) again, conceptualizes a Non-Governmental organization (NGO) as an organization that is not state funded and is not part of a government. NGO's are organizations usually self-governing and independent of governments. Their activities are non – commercial and therefore not for profit. Their primary goal is to ensure that resources are effectively and efficiently used to achieve intended objectives. By virtue of this, non - governmental organizations place much importance on performance.

Performance, according to Ali (2013), is the effort of an individual or group of people contribute to the development of any activity leading to either positive or negative results. In that regard, organizations are expected to use resources prudently and efficiently for the intended purpose to improve the living standards of the populations meant to benefit. On the other hand, Mawanda (2008) discusses performance as the ability to operate efficiently, survive and growing with the potential of reacting to the threats and opportunities in its environment. This description clearly demonstrates the fact that efficiency for that matter performance has not been given the attention it deserves in many NGOs. Most often, funds are diverted to serve other interest outside the scope and work plans of donors. It is in this regard that Ali (2013) strongly noted that sound leadership and best management practices require that key concepts and principles such as sustainability, accountability and transparency are necessary when good and strong internal control procedures are in place to promote administrative and operational efficiency. He also noted that, proper application of internal control procedures and policies improves on the performance of an organization.

From the foregoing discussion, it could be concluded that accountability has been of major concern for NGOs. Ayom (2013) observed that in spite of support from donors, most NGOs are not performing well as expected. For instance, Management Sciences for Health (MSH); a Sudanese NGO, could not account for \$17,788 intended for vulnerable people of South Sudan owing to evidence of fraudulent activities. A key observation was that most of donor funds to NGOs for project implementation lacked accountability. Ayom (2013) mentioned that a report conducted by MSH between 2001-2013 showed credible evidence of fraudulent activities particularly inflated workshop activities/expenses, forged receipts and insufficient support documentations. The report further indicated that management oversight responsibility, a key control measure was ineffectively carried out.

The Sarbanes – Oxley Act (Amended) requires all organizations to periodically assess and disclose the effectiveness of the internal control systems put in place. Additionally, the law mandates auditors to attest to the disclosures to keep users of the report well and better informed. However, most NGOs do not comply fully with this Act. Shim (2011) agrees to this fact but added that although NGOs help in addressing a wide variety of social needs globally, the fall in operational efficiency has affected NGOs to achieve far less than its intended strategic objectives. Additionally, he was of the view that the inability of NGOs to achieve their intended objectives was primarily because of the existence of weak and ineffective internal control systems. Although, implementing sound, functional and effective internal control system deter and detect errors, fraud, and theft and ensures the reliability of accounting records, Jenna (2012) contests the fact that there are the inherent limitations that affect its credibility.

Most NGOs operating in Ghana depend mostly on overseas funding. Most of the bigger NGOs operating in Ghana are either foreign or have foreign affiliations that serves mainly as the source of funding for the various activities. All funding received; whether local or foreign must be put to efficient use to enable achievement of organizational objectives. Any failure could undermine the efforts at helping the marginalized. If effective internal control could ensure achievement of objectives as alleged by Shim, (2011), then any effort at it will be a worthwhile venture. This study therefore seeks to examine the functional effectiveness of the internal controls and how it impacts performance of NGO, particularly in achieving its desired objectives. Specifically, the study assesses the current state and functionality of internal controls in the organization of NGOs and how it impacts on the achievement of organizational objectives. This report assesses the current state of internal control practices and how it has impacted the performance of NGOs whiles concurrently equipping the fund managers and donors to design, implement and monitor effective internal control systems and practices.

2. Literature Review

2.1 The Concept of Internal Control

The Committee of Sponsoring Organisations (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. 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. They are measures that provide credible financial reporting (Gray, 2008). Ndungu (2013) added that understanding the concept of internal controls is very central for developing a framework for its impact in the

organization.

Internal controls are established to achieve objectives that are interlinked to the general objectives of the organization; public or private. 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. Mawanda (2008) considers the elements of effectiveness, efficiency of operations and compliance with rules and regulations as key objectives of internal control system. In other words, internal control includes all the entire processes and procedures instituted by management to ensure sure 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 organisations 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.

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. First type is the accounting controls which are controls of safeguarding assets which eventually ensures accuracy in financial records. The second type accordingly, is the 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. 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 Components of Internal Control

Internal control consists of five interrelated components (COSO, 2013). These are derived from the way management runs an organisation. 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 must be integrated in the management process. The five elements are Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring.

2.2.1 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. 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.

2.2.2 Risk Assessment

All organisations 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). Because

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.

2.2.3 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, 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.

2.2.4 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.

2.2.5 Monitoring Activities

Monitoring is the process that assesses the quality of the organisations 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.

2.3 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' Measurement of 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).

2.5 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 pre-requisite 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. 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). 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 programme'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/programme 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 programme 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. In evaluating partnership quality, the concentration is on the number of partners, their significance to the field of NGO and their satisfaction. The quality is assessed by the satisfaction of donors', innovativeness of services and the application of international standards of quality. The efficiency of fundraising is considered a key variable that is most mentioned when referring to financial performance of NGOs. 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.

3. Research Methodology

Internal control is important in both profit oriented organizations and non-for-profit organization. The purpose of this research is to assess the current state of internal control practices in faith based institutions and how those internal control impacts on the performance of those organisations. Current state of internal control is assessed using variables such as preparation of reconciliations, regularity of internal and external audit. The effect of internal control is assessed using three main variables mainly efficiency, effectiveness and economy. This section of the research deals with the methodology. We shall discuss the variables included in the study, sampling and the sources of data as well as methods of data analysis.

3.1 Population, Sampling and Data

The population of the study consisted of all the faith-based non-governmental organisations with presence in Accra. We use homogeneous sampling, a type of purposive sampling which is aimed to obtain a sample which has the same or similar characteristics. NGOs that are not faith-based receive their funding from sources other than faith-based sources and were accordingly excluded for not meeting the set criteria. Patton, (2002) argued that homogeneous sampling is usually preferred when the research question refers to a specific issue or particular group of interest and it is afterwards assessed in detail. The first consideration made in the sample selection was to look for NGOs with presence in Accra and have been operating for more than 4 years. A total number of seven faith-based NGOs were selected. The researchers considered it as the suitable technique because the sample to be selected consisted of informed persons who could assist in the provision of comprehensive data that will be enough to give a better insight into the problem. In all, 150 staff of the organisations mainly working in administrative and or supervisory capacity was selected. Out of the people who received the questionnaire, 118 (representing approximately (74%) of them returned the questionnaire.

In undertaking this study, we made use of predominantly primary data. The methods of data collection were designed in a way that facilitated results in possible minimal inconvenience to respondents. Primary data was collected from respondents using carefully structured questionnaire. A single set of questionnaires were used for all respondents. The questions were structured to include the observation of respondents groups regarding internal control and how it influences performance of their individual organization. Data analysis involved summarizing and analyzing the data to ensure completeness and consistency. The data was then analysed using pie charts and bar charts.

4. Analyses and Discussion

4.1 Introduction

The section presents data and analysis of the results of the study. The section discusses two main issues the study seeks to address namely, the current state and functionality of internal controls, and impact of internal control on performance.

Table 1: Level of Experience of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5 years	109	92.0	92.0	92.0
	6-10 years	9	8.0	8.0	100.0
	Total	118	100.0	100.0	

Source: Authors' Computations (2015)

From Table 1, we notice that, respondents who have worked between 1-5 years for the organization of study were the majority constituting 92%. For the younger NGOs, some of these staffs have been with the organization since their inception. Again, the high proportion of the respondents appears to also suggest that the NGOs have been enjoying significant growth in scope and volume of work and hence the expansion to meet the needs of the organization. It indicates that the respondents have all worked long enough and have adequate knowledge and information about the operations of the organization and therefore are better positioned to implement the control system and provide meaningful responds to questions.

Table 2: Level of Education of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma	24	20.0	20.0	20.0
	Degree	66	56.0	56.0	76.0
	Professional	28	24.0	24.0	100.0
	Total	118	100.0	100.0	

Source: Author's Computations (2015)

From Table 2, it was observed that 56% of the respondents had a University degree. Moreover, those with other qualifications such as professional and diploma represented 24% and 20% respectively. We think higher qualification is an indication that the respondents are academically qualified persons for the positions. This gives us the assurance regarding the respondent's ability to provide accurate, reliable and valuable information on the questionnaire. More so, people with such level of education could be expected to have much understanding about how systems, control and monitoring activities operate as well as its implications on the organisation.

4.2 Current State of Internal Controls

This section presents results and analysis of the current state of internal controls of the organizations selected for the study. In this study, we assess the current state of internal control using the elements of internal control identified in the COSO (2013) model. Per the model, the elements of internal control include Monitoring Activities, Control Activities, Information and Communication, Control Environment and Risk Assessment.

4.2.1 Control Environment

This section presents results about control environment as an element of internal control. Respondents indicated their agreement on the elements on control environment influence operational performance. Under this section only key results relating to control environment were interpreted and discussed.

4.2.1.1 Code of Conduct on Duty and Integrity Expectations

Similar to any formal working environment, results of the study presented in figure 1 confirmed the availability of code of conduct on duty and integrity expectations of the organization. Thus, about 77% of the respondents agreed to the availability of code of conduct whiles 18% were neutral. This implies that staffs were aware that their conduct must conform to the organization's code of conduct to ensure maximum impact. The confirmation by respondents indicates that the control environment is strong and being the foundation, upon which the other control components operate, indicates its influence on the entire control system. Such a strong control environment is considered very effective according to Mawanda (2008). However, this contradicts earlier findings of Ponemon (1994) as cited in William and Rama, (2003) who found that code of conduct may have minimal effect if staffs are just aware and senior management does not enforce it with required actions.

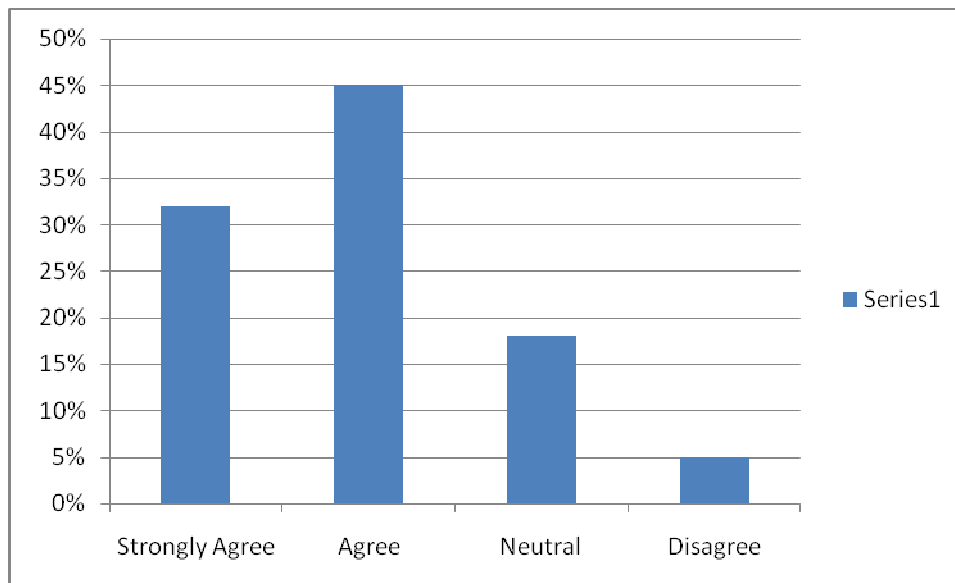


Figure 1: Code of Conduct on Duty and Integrity Expectations

4.2.2 Risk Assessment

This section presents results of risk assessment of internal control. The risk assessment deals with the most critical factors that affect the possibility of a faith-based NGO not achieving the desired results, (Ndungu, 2013). We focus on the availability of control system; a major element of concern was interpreted and discussed.

4.2.2.1 Availability of control systems to safeguard assets and manage risk

As presented in figure 2, it was found that existing systems of controls put in place to safeguard assets and to manage risk were very weak. This was evidenced by 35% of respondents remaining neutral while about 45% agreed. The finding implies that, information about risk assessment process was not sufficient and as a result, all risks may not be identified and mitigated.

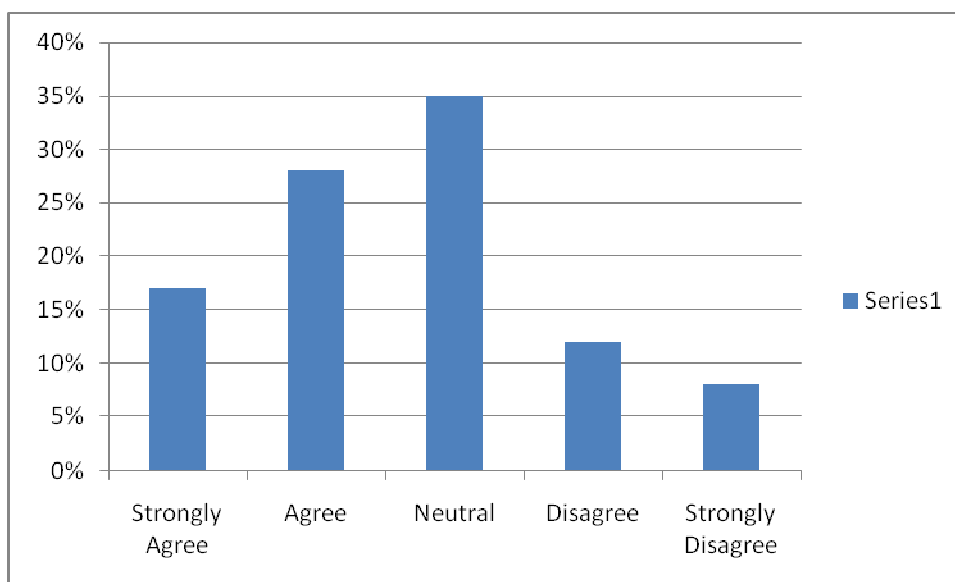


Figure 2: Availability of Control Systems to Safeguard Assets and Manage Risk

4.2.3 Control Activities

This section presents results of key control activities of internal controls. Under this section, results on adequacy of control policies to ensure authorization of transactions, segregation of duties and the availability of systems to assess adequacy of internal controls are discussed.

4.2.3.1 Adequacy of Control Policies to Ensure Authorization of Transactions

It was found that control policies were adequate and ensured that all transactions were authorized and recorded

in the appropriate ledger. Results in figure 3 indicates that, 32% (strongly agree), 45% (agree) and 5% (disagree) to this statement. However, 18% of the respondents remained neutral suggesting that they may not be aware of such policies. This implies that, all payments were authorized and approved by appropriate and responsible persons and that financial payments were adequately supported with relevant supporting documents.

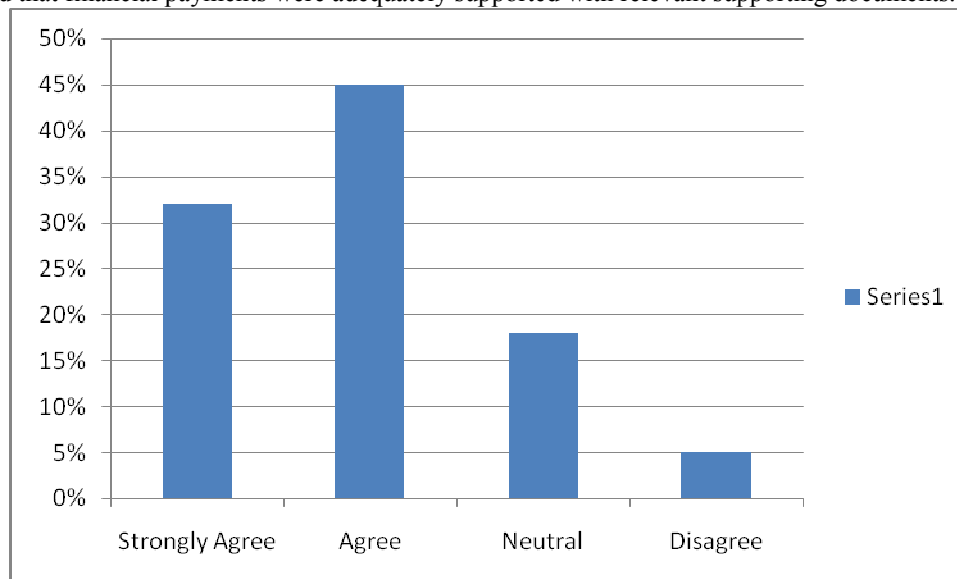


Figure 3: Adequacy of control policies to ensure authorization of Transactions

4.2.3.2 Segregation of Duties

The findings presented in figure 4 indicate that the faith-based NGOs have effective segregation of duties. This was represented by 78% of respondents and it implies that staff supervision is effective since individuals were able to work independently with minimum supervision. It also suggests that roles and responsibilities have been clearly assigned to appropriate officers who could ensure accountability. This confirms work of Shandly (2004) as cited in Ayom (2013) which emphasize that separating the duties of employees is a means of maintaining accountability in the organization.

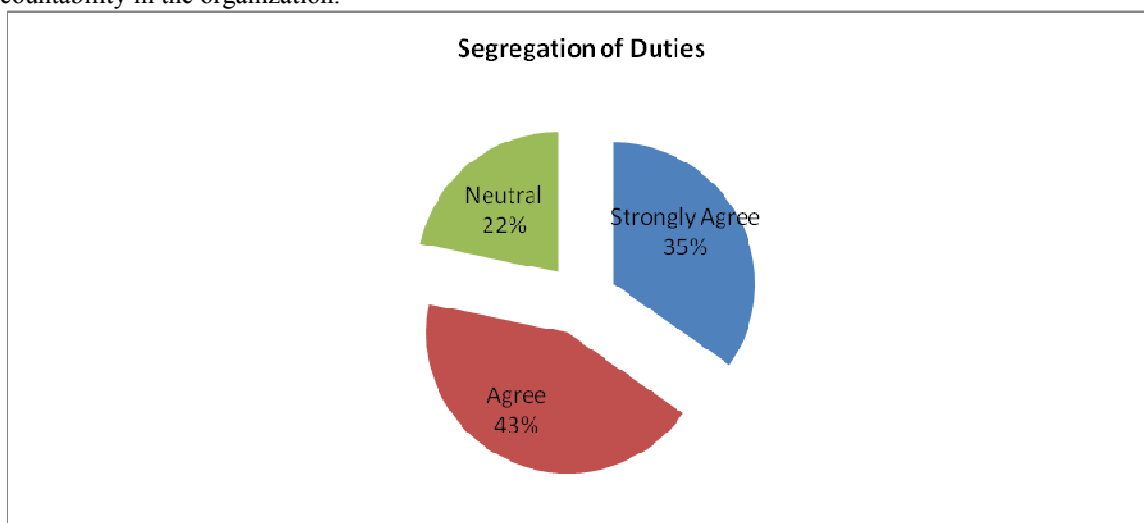


Figure 4: Segregation of Duties

The presence of these control activities imply that the current internal control systems are functional and effective as intended. This is confirmed by Adebayo and Annukka (2009) who empirically emphasized those organizations that employed high level of control activities turns to yield high effectiveness of their internal control systems.

4.2.3.3 Availability of Systems to Assess Adequacy of Internal Controls

From Table 3, it can be seen that systems put in place are not able to assess the adequacy of the internal controls. Thus, only 48% agreed whiles 32% remained neutral to show that they are uncertain about the adequacy of the system in place.

Table 3: Availability of Systems to Assess Adequacy of Internal Controls

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	33	28.0	30.	30
	Agree	24	20.0	22	52
	Neutral	38	32.0	35	87
	Disagree	9	8.0	8	95
	Strongly Disagree	5	4.0	5	100.0
	Total	109	92.0	100.0	
Missing	System	9	8.0		
Total		118	100.0		

Source: Author's Computations (2015)

4.2.4 Information and Communication

This section presents results concerning information communication as an element of internal control. Under this section only key results relating to information communication were discussed.

4.2.4.1 Documentation of Internal Control Policies

From figure 5, organizational internal control policies are well documented. By these findings which constitute 68% of respondents, its respondents confirmed that internal control policies were documented and consistently communicated to all staff of the organization. This enhanced the generation of accurate reports and facilitated accountability and even spelt out specific channels for reporting activities to management. This underscores the relevance of documenting internal control procedures which was consistent with a paper issued from the office of the state auditor of Minnesota in 2014 which emphasized that documented procedures and policies specifies authority and duties of all employees, provide accountability guidelines and serves as a point of reference and training tool for new and existing staff.

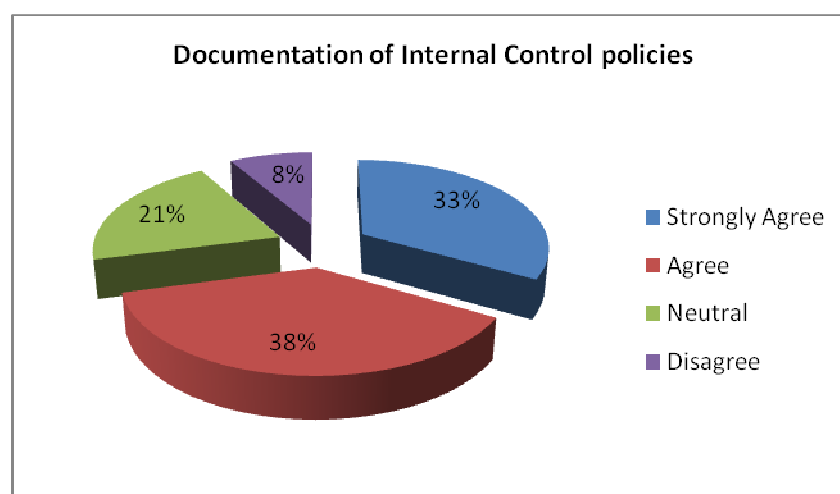


Figure 5: Documentation of Internal Control policies

4.2.5 Monitoring Activities

This section presents results of key monitoring activities of internal controls. Under this section, results on reconciliation of bank statements, regular internal and external audit of control system as well as tools to monitor and evaluate the control system are discussed.

4.2.5.1 Bank Reconciliations Statements Preparation and Review

Figure 6 is a diagrammatic presentation regarding preparation and review of bank reconciliation statement. From the figure, 77% of the respondents confirmed that there is regular preparation and review of bank reconciliation statements. This implies that balance sheet accounts were reconciled monthly and that there were clear procedures over disbursement of cash and receipts. This also confirms that financial reviews of partners' of the organization were also effective and that keeping of accurate financial records to show that funds were utilized and accounted for effectively.

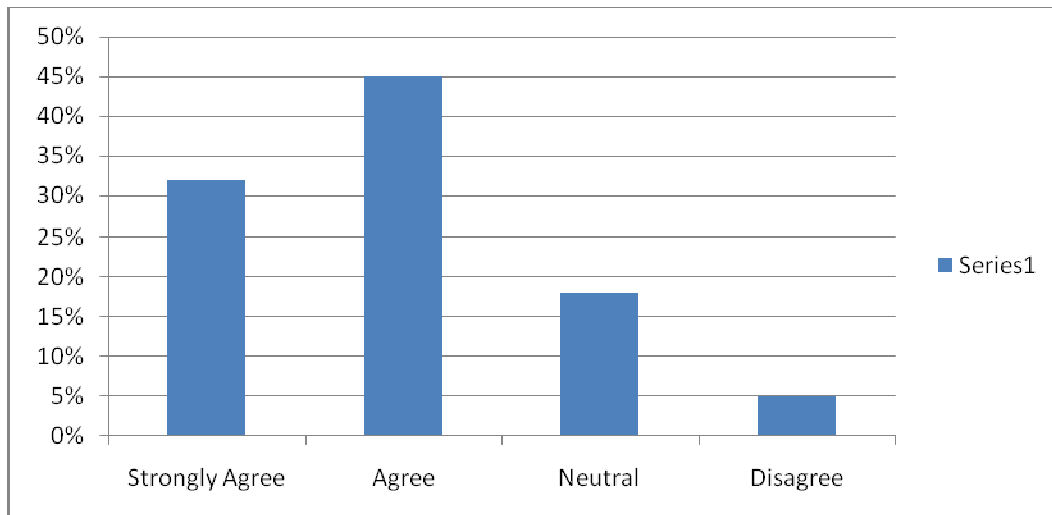


Figure 6: Preparation and Review of Bank Reconciliations Statement

4.2.5.2 Internal and External Audits

Figure 7 represent a question that sought to confirm the regularity of internal audit and external audit. About 75% of the respondents agreed that there is regular internal and external audit in the NGOs. This is an indication that internal controls are independently assessed by both the internal and external auditors. We infer that they offer objective opinion on controls as they should be. Regular internal audit serves as an added value tool which aided management in making relevant decisions for improvement (Daniela and Atila, 2013).

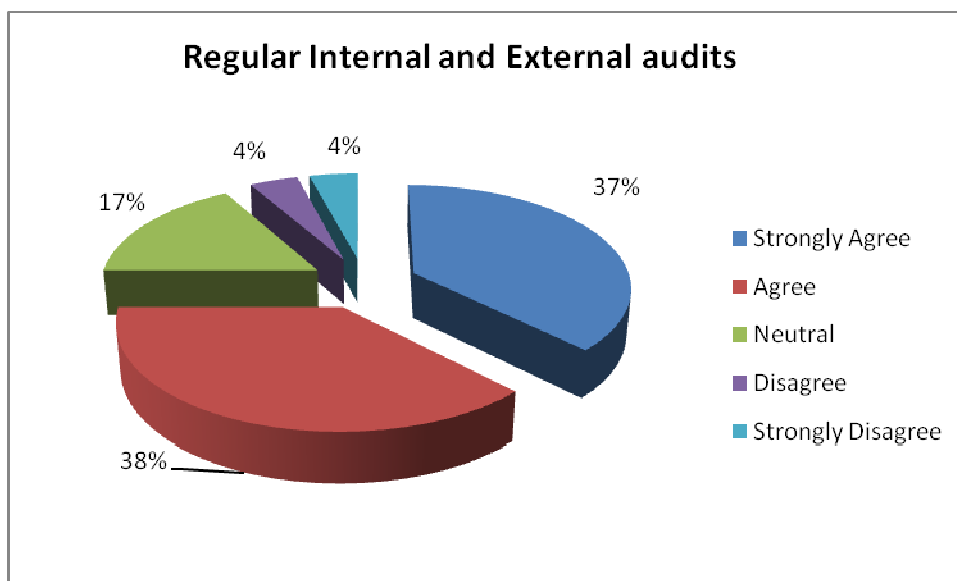


Figure 7: Regular Internal and External Audits

4.2.5.3 Tools to Monitor and Evaluate Internal Control System

Figure 8 represents a question that sought to ascertain the existence of tools to monitor and evaluate internal control. Approximately 61% of the response gathered confirmed the availability of tools to monitor internal controls. As a result, management is regularly informed to constantly review the system to ensure that they are fit for purpose in the organization.

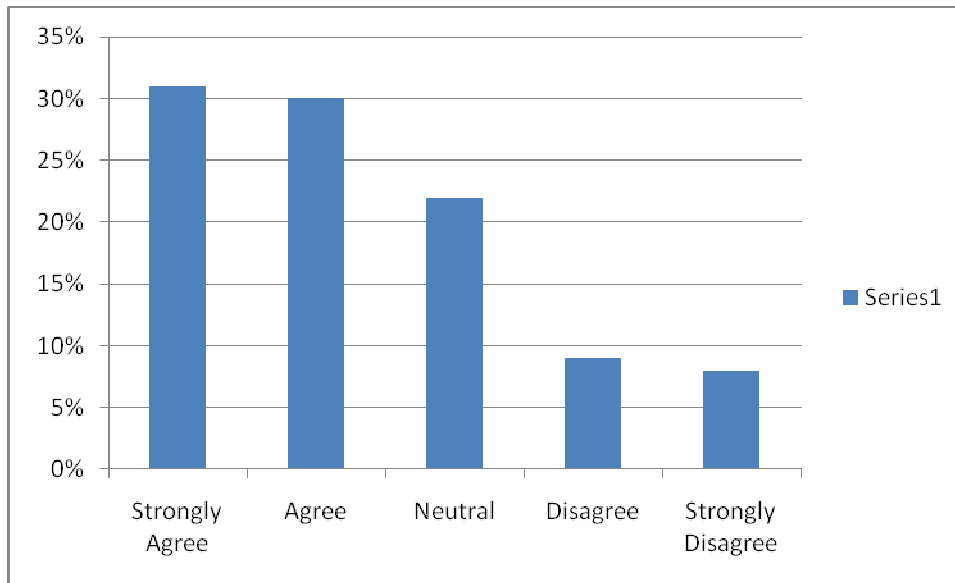


Figure 8: Tools to Monitor and Evaluate Internal Control System

Overall, the above confirm that monitoring controls are considered effective by the respondents. This finding is in line with the study carried out by Adebayo and Annukka (2009).

4.3 Impact of Internal Control on Performance

This section presents results and analysis of the impact of internal control on performance in the organizations. The main performance indicators used were; Efficiency, Effectiveness and Economy.

4.3.1 Efficiency

Under efficiency the study concentrated on assessing whether internal control system affects the efficient utilization of donor funds to achieve desired objectives. Figure 9 presents the findings on efficiency.

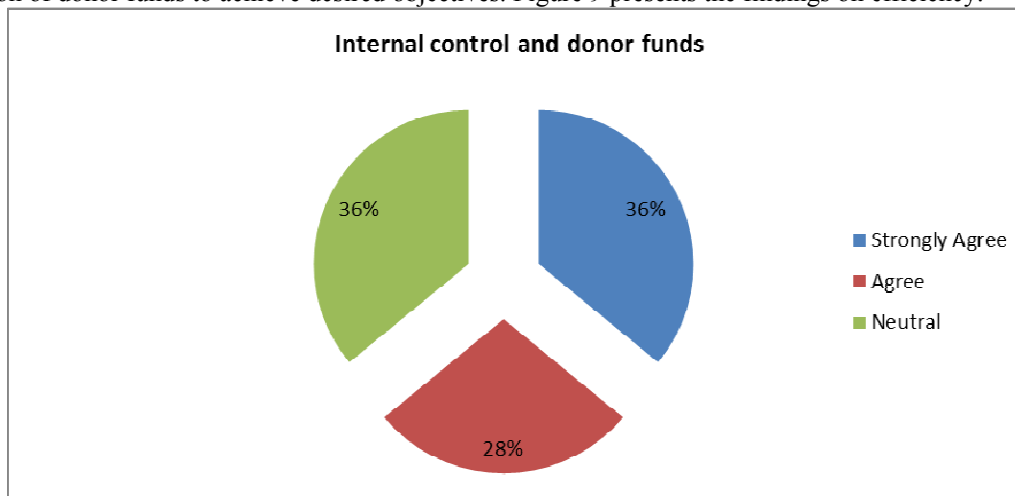


Figure 9: Internal control and Donor funds

From the results presented in figure 9, we find that significant majority (64%) of the respondents associate with the assertion that the internal control procedures put in place ensures that donor funds are used prudently to achieve desired outputs. The implication is that, internal control system ensures that non-financial resources such as time, staff and expertise were used prudently to achieve desired results. However, 36% were uncertain about this control procedure and therefore may not be aware of its existence. This percentage seems worrisome and calls for management to improve its education, information sharing and necessary awareness creation. These findings were consistent with those of Gray (2008).

4.3.2 Effectiveness

Under effectiveness the study assessed whether internal control system contributed to the achievement of the projects long-term social conditions of individuals and communities in which the organization operated. Findings presented in figure 10 indicates that 71% of respondents agreed that internal control system has contributed to the attainment of the project's overall (long-term) social goals among individuals and the communities. This implies that there is a positive impact of internal control on performance. It can therefore be

stated that, internal control system reduces the risk of not achieving the intended results of projects.

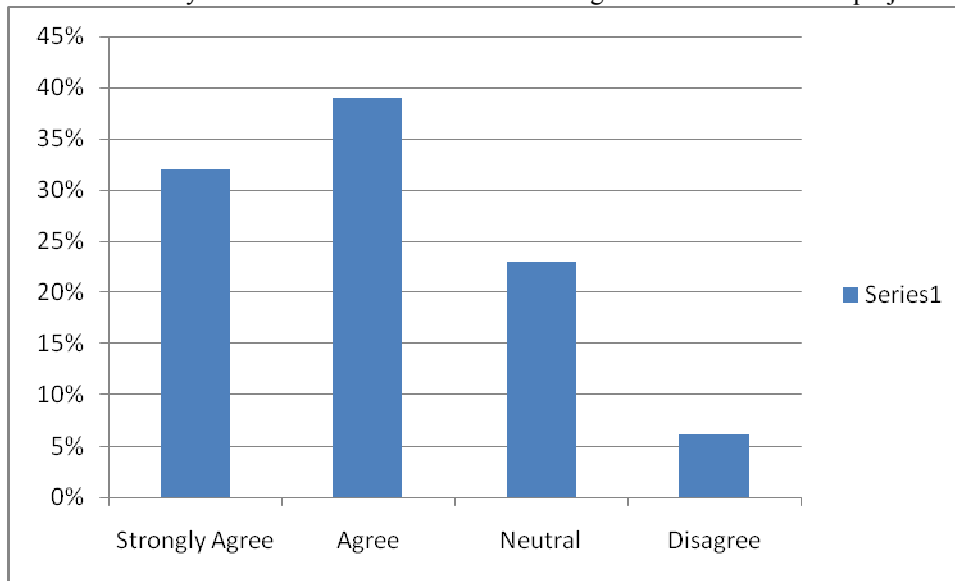


Figure 10: Internal control system and achievement of the project's objectives

4.3.3 Economy

Economy (measured in terms of value for money for procurement) as a performance measure is an important indicator. The findings appear to suggest that internal control has positive effect on the performance on the faith-based NGOs sampled. Approximately 56% of respondents agree to the fact that internal control positively impacts value for money. This implies that, 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.

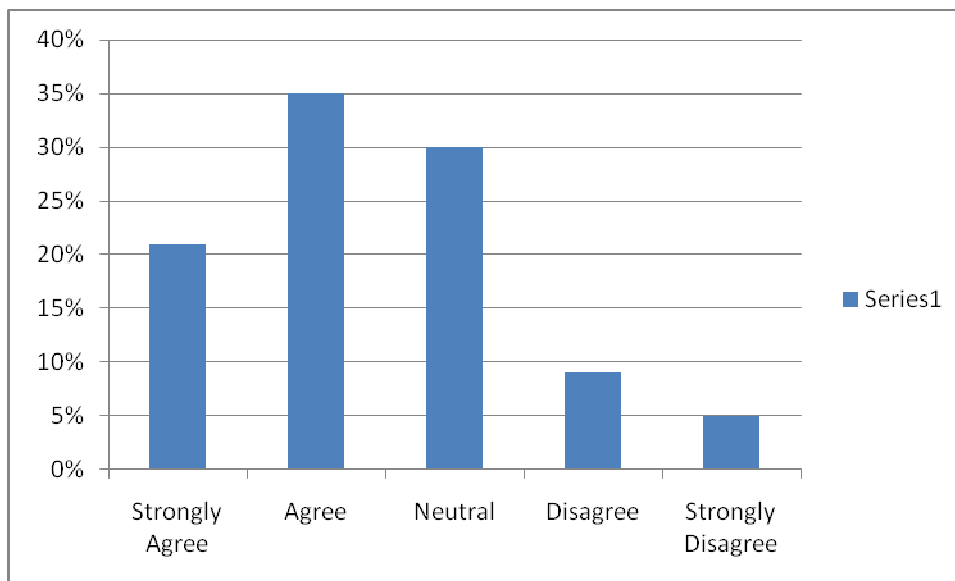


Figure 11: Internal Control and value for Money

5. Findings, Conclusions and Recommendation

5.1 Findings

The purpose of the research was to examine the current level of internal control in the organisations and how these have affected the performance of the faith-based NGOs. Current state of Internal Control was assessed using Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring. Three popular indices for measuring performance of NGOs namely; efficiency, effectiveness and economy were used to assess the performance. Control environment was assessed using the availability of code of conduct and integrity. We find that 76% of the respondents confirmed the availability of code of conduct and integrity in the faith-based NGOs selected. A section of the respondents however stated that controls established to safeguard assets and manage risk were weak and unable to identify risk inherent in the operations of the

organization. Closely related to the control environment is the risk assessment. We find that the NGOs have strong systems to safeguard organizational resources and manage risk associated with their operations. Key internal control activities considered by the study were; adequacy of control policies to ensure authorization of transactions, segregation of duties and availability of systems to assess adequacy of internal controls.

Again, there was evidence that control activities were very strong in the organisations. We find that control policies over authorization of transactions were adequate and separation of duties and responsibilities was effective. We however find that systems instituted to assess the adequacy of internal control were weak. Also, when we assessed the information and communication using documentation of internal control policies, we find that the NGOs have well-documented internal control policies. Monitoring activities was assessed using three key variables. The study found that bank reconciliations statements preparation and review, internal and external audits and tools to monitor and evaluate internal controls were the key monitoring activities in the organization. Bank reconciliation statement preparation and review were effective and in addition review of partners financial records were conducted regularly. Both internal and external audits were conducted consistently to ensure that records are accurate. However tools available to monitor and evaluate internal control system was found to be functioning but performed averagely.

Effect of internal control on the performance of the NGOs was measured on three main indices effectiveness, efficiency and economy. Findings showed that internal controls system contributed to the achievement of long term project and social conditions of individual and communities, an indication that internal control was very effective. Moreover, it reduced the risk of not achieving the intended results of the program as revealed during analysis of the results. For efficiency, the study revealed that existing controls were adequate enough to ensure that donor resources were used judiciously to achieve planned or desired outputs. Furthermore, the study found out that the internal controls ensured that non-financial resources (staff, time, expertise) were used to achieve planned results and also revealed timely usage of financial resources to achieve results. Similar to the above, the study found out that procurement controls ensured value for money whiles budgetary controls over expenditure yielded proper utilization of funds,

5.2 Conclusions

Based on the findings above, we conclude that the organizations have effective internal control. Again, the rules and regulations are being complied with. The study further established that internal control has significant positive impact on performance of the faith-based NGOs when measured using economy and efficiency. Respondents confirmed that the internal control in the NGOs does not necessarily make them effective since a significant proportion of the respondents showed a neutral indication.

5.3 Recommendations

Based on the results from the study, the following recommendations were made to improve the effectiveness of the control system and its positive impact on operational performance. As noted by the findings, the neutral concern expressed by many respondents implied that they were not sure of the presence of some of the existing controls and therefore do not know their individual roles they are expected to play to make the systems very strong. It is recommended that management should communicate its responsibility for establishing and maintaining controls, and improve communication and education to all employees. These should be periodically reviewed and assessed.

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