



St. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

**EXPLORING INTERNAL CONTROL PRACTISES OF SAVE
THE CHILDREN INTERNATIONAL ETHIOPIA COUNTRY
OFFICE**

BY

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JANUARY 2016

ADDIS ABABA, ETHIOPIA

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SAVE THE CHILDREN INTERNATIONAL ETHIOPIA
COUNTRY OFFICE**

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TABLE OF CONTENTS

	Pages
APPROVAL	i
ACKNOWLEDGMENTS.....	ii
LIST OF ABBREVIATIONS.....	viii
LIST OF TABLE	ix
LIST OF FIGURES.....	x
ABSTRACT.....	xi
APPENDICES.....	xii
I. Questionnaire to Selected Respondents.....	xii
II. Interview Guide to CD and SMT.....	xvi
DECLARATION.....	xvii
ENDORSEMENT.....	xviii
CHAPTER ONEINTRODUC-	
TION.....	1
1.1. Background of the study.....	1
1.1.1 Internal Control	1
1.1.2 Background of the Organization.....	2
1.2. Statement of the problem.....	4
1.3. Research questions.....	5
1.4. Objective of the study.....	5
1.5. Significance of the study.....	6
1.6. Scope and limitation of the Study.....	6
1.7. Organization of the Study.....	6
CHAPTER TWO LITRATURE REVIEW.....	7
2.1 Introduction	7
2.2 Definition of Internal control.....	7
2.3 Internal Control System.....	9
2.4 Internal Control Objective	10
2.5 Importance of Internal Control.....	11

2.6 Types of Internal Control	11
2.6.1 Directive Control	11
2.6.2 Preventive Control.....	12
2.6.3 Compensating Controls.....	12
2.6.4 Detective Controls	12
2.6.5 Corrective control.....	13
2.7 Basic Components of Internal Control	13
2.7.1 Control Environment	14
2.7.2 Risk Assessment	15
2.7.3 Control Activities	15
2.7.4 Information and Communication	16
2.7.5 Monitoring	16
2.8 Parties Responsible for and Affected by Internal Control	17
2.9 Problems of Internal Controls	19
2.9.1 Judgment	19
2.9.2 Breakdown	19
2.9.3 Management Override	19
2.9.4 Collusion	20
2.10 Internal Control on Logistic and Financial Activities	20
2.10.1 Logistics	20
2.10.2 Effective procurement policy	21
2.10.3 Inventory Management.....	21
2.10.4 Inventory Management Techniques.....	23
2.10.5 Effective whistle Blowers Protection Policy.....	23
2.10.6 Effective payment.....	25
2.10.7 Exercising Budgetary capital on the Expenditure.....	28
2.10.8 Accountability.....	28
2.10.9 Reporting	26
2.10.10 Performance.....	29
2.11 Review of Empirical Studies.....	30
CHAPTER THREE: RESERCH DESIGN AND METHODOLOGY	33
3.1 Introduction.....	33
3.2 Research Design	33
3.3 Study population/target group /	33
3.4 Sample size	34

3.5	Sampling methods	34
3.5.1	Purposive sampling	34
3.5.2	Random sampling	34
3.5.3	Stratified random sampling	34
3.6	Data Sources	35
3.7	Data collection instruments.....	35
3.5.4	The self-administered questionnaire	35
3.5.5	Interviews	35
3.8	Data Processing and Analysis Techniques.....	36
3.9	Reliability and Validity.....	36
3.10	Ethical Consideration.....	37
CHAPTER FOUR; DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS.....		38
4.1	Introduction	38
4.2	Demographic characteristics of respondents.....	38
4.2.1	Age of the respondents.....	38
4.2.2	Gender of the Respondents.....	39
4.2.3	Level of Education of the respondents.....	40
4.2.4	Year of Experience on the job by the respondents	40
4.2.5	Position held by the respondents	41
4.3	Examining the functionality of Internal Control systems	42
4.3.1	Descriptive statistics on Internal Control environment.....	42
4.3.1.1	Logistic, Accounting & Financial management system.....	43
4.3.1.2	Management commitment on the operations of the system.....	43
4.3.1.3	Monitoring implementation of Internal Control system.....	44
4.3.1.4	Provision of feedback to junior officers	44
4.3.1.5	Measures taken to correct Errors in Accounting and Financial management system.....	44
4.3.1.6	Management Integrity.....	45
4.3.1.7	Ethical values in management decisions.....	45
4.3.1.8	Objectivity and independent of the audit committee.....	45
4.3.1.9	Independence of Governing council and its committee.....	46
4.3.2	Descriptive statistics on Internal Audit.....	46
4.3.2.1	Existence of internal audit department.....	47
4.3.2.2	Internal Audit sufficiently staffed.....	47

4.3.2.3	Internal audit staff conducts regular internal audit activities in the SCI EtCO.....	47
4.3.2.4	Internal audit report addresses weaknesses in the internal control system.....	47
4.3.2.5	Internal audit reports are produced regularly.....	48
4.3.2.6	Management discusses internal audit reports frequently.....	48
4.3.2.7	Internal auditor makes appropriate recommendations to management.....	48
4.3.2.8	Internal audit department visiting up country centres.....	49
4.3.2.9	Internal audit issuing audit reports on upcountry centres.....	49
4.3.2.10	Degree of independence of internal audit department.....	49
4.3.3	Descriptive statistics on Control activities.....	50
4.3.3.1	Separation of roles within the SCI EtCO.....	50
4.3.3.2	Internal checks within the SCI EtCO.....	50
4.3.3.3	Supervision by senior staff.....	51
4.3.3.4	Action taken to address weaknesses.....	51
4.3.3.5	Staffs are trained to implement Logistic, Accounting and Financial management system.....	51
4.3.3.6	Well-developed chart of account.....	51
4.3.3.7	Restriction of access to valuable information.....	52
4.3.3.8	Controls over expenditure.....	52
4.3.3.9	Departmental budgets review.....	52
4.3.3.10	Security system on safeguard of organizational assets.....	52
4.3.4	Descriptive statistics on Payment Procedures.....	53
4.3.4.1	Originals of Payment vouchers were verified.....	53
4.3.4.2	Payments vouchers were in prescribed form.....	53
4.3.4.3	All payment vouchers are filed in numerical order.....	53
4.3.4.4	Payment procedures affect its internal control system.....	54
4.3.5	Descriptive statistics on Financial Records.....	54
4.3.5.1	Proper review over receipts are performed.....	54
4.3.5.2	SCI EtCO has enough Data and document reviewer staffs.....	55
4.3.5.3	Data and document reviewer staffs are easily compromised.....	55
4.3.5.4	Data and document reviewer has led to the reduction of fraud in SCI EtCO.....	55
4.3.6	Descriptive statistics on Procurement policies and procedure.....	56
4.3.6.1	Implementation of procurement policies and guidelines.....	56
4.3.6.2	Strict adherence to procurement guidelines.....	56

4.3.6.3	Procurement process in accordance with SCI EtCO and Donor policies..	57
4.3.6.4	Segregation of duties on authorization of expenditures and payment.....	57
4.3.6.5	Conflicts of interest among SCI EtCO staffs.....	57
4.3.7	Descriptive statistics on Budgetary Control.....	57
4.3.7.1	Objectives are clearly set in the budget framework.....	58
4.3.7.2	Payments were made according to the budget.....	58
4.3.7.3	There is a budget desk at SCI EtCO.....	58
4.3.7.4	Previous year’s budget performance reports are used for future planning	58
CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMEN-		
DATIONS.....		59
5.1	Introduction.....	59
5.2	Summary findings.....	59
5.2.1	Appropriateness of Internal Control policy and procedure.....	59
5.2.2	Functionality and effectiveness of the established internal control system.....	59
5.2.3	Internal control systems and Logistic, Accounting and financial practices.....	60
5.2.4	Independency and potential impairment of SMT member’s decision.....	61
5.2.1	Summary of interview questionnaires.....	61
5.3	Conclusions.....	62
5.4	Recommendations.....	63
5.5	Suggestions for further research.....	64
	Bibliography.....	64

LIST OF ABBREVIATIONS

SCI- Save the Children International

EtCO- Ethiopia Country Office

FO- Field Office

SAP- Standard Auditing Practice

FSL - Food Security and Livelihoods

WASH - Water and Sanitation

SMT- Senior Management Team

CoP- Chief of Party

BvA- Budget versus Actual

ACCA- Association of Chartered Certified Accountants

IFRS- International Financial Reporting Standards

SOX- Sarbanes- Oxley Act

COSO- Committee of Sponsoring Organisations

AICPA -American Institute of Certified Public Accountants

LIST OF TABLES

	Pages
Table 1: Reliability test Results.....	37
Table 2 Age Groups of Respondents.....	38
Table 3 Gender Characteristics of Respondents.....	39
Table 4 Education Levels of Respondents.....	40
Table 5 Experience on the current Job	41
Table 6 Position held in the organization.....	41

Table 7 Mean and Standard deviation of Control Environment.....	42
Table 8 Mean and Standard deviation of Internal Audit.....	46
Table 9 Mean and standard deviation of Control Activities.....	50
Table 10 Mean and standard deviation of Payment Procedure.....	53
Table 11 Mean and Standard deviation of Financial Records.....	54
Table 12 Mean and standard deviation of Procurement Policy and Procedure.....	56
Table 13 Mean and standard deviation of Budgetary Control.....	57

LIST OF FIGURES

	Pages
Figure 1: Save the children International. Ethiopia Country Office Senior staff Organizational Chart, 2015	4
Figure 2: COSO Internal Control Integrated Framework.....	14

ABSTRACT

The study sought to examine internal control systems and practises in Save the Children International Ethiopia county office and focused on logistic, accounting and financial activities in Country offices and Hub offices. Internal controls were looked at from the perspective of Control Environment, Internal Audit and Control Activities whereas payment procedures, financial records, procurement policies, budgetary control Accountability and Reporting as the measures of effectiveness of internal control. The Researcher set out to establish the causes of persistent poor internal control policy, procedure and practises from the perspective of internal controls.

The research was conducted using both quantitative and qualitative approaches using Survey, and Case study as Research Designs. Data was collected using Questionnaires and Interview

guide as well as review of available documents and records targeting basically Country office Senior management teams, Hub office senior management team members, logistic staffs, Accounting and finance staffs, Human resource staffs, Internal audit staffs, and other budget holders and chief of parties as respondents from a population of 104 save the children Ethiopia country office staff. Data was analysed using the Statistical Package for Social Scientists where conclusions were drawn from tables, figures from the Package.

The study assessed SCI EtCO internal control policy and procedure and current practices. Based on the findings of the study, it is concluded that the organization has an effective internal control policy, procedure and system as supported by the study findings. However, there are challenges in the implementation of controls especially considering that the audit function is not well extended to the upcountry centres, lack of clear separation of roles, supervision, training, and commitment of management, lack of proper financial accountability, weakness regarding procurement control and budgetary control on the expenditure which clearly has affected their efficiency as revealed by this study on internal control system of the organization. The study recommends competence profiling in the Internal Audit department which should be based on what the organization expects the internal audit to do and what appropriate number staff would be required to do this job. It also recommends all staffs should get awareness training and orientation. The SMT should review their standing agenda to include items such as review of key risks, review of logistic and financial, programme and other management information.

CHAPTER ONE

1. INTRODUCTION

1.1 BACKGROUND OF THE STUDY

1.1.1 INTERNAL CONTROL

Internal controls are systems of policies and procedures that protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations. These systems are not only related to accounting and reporting but also relate to the organization's communication processes, internally and externally, and include procedures for Handling funds received and expended by the organization, Preparing appropriate and timely financial reporting to board members and officers, Conducting the annual audit of the organization's financial statements, Evaluating staff and programs, Maintaining inventory records of real and personal property and their whereabouts and Implementing personnel and conflicts of interest policies (Andrew Cuomo: 2005).

An effective internal control system is one that exhibits certain characteristics that facilitate the evaluation and improvement of existing internal control systems by highlighting areas where the practical application of such guidelines often fails in many organizations (IFAC: 2013).

Drawing from Statements of Standard Auditing Practices No. 6 (SAP 6) defines internal control as "the plan of organization and all the methods and procedures adopted by the management of an entity to assist in achieving management objectives of ensuring as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of accounting records and the timely preparation of reliable financial information". Soudani (2013)

According to Mawanda (2008) internal controls are processes designed and affected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of entity's objectives. As such internal control plays a direct role in influencing management performance as they are charged to provide a reasonable assurance of the reliability of financial reporting, the compliance with laws and regulations and to uphold good corporate governance.

Besides, internal control have always been a sensitive issues, especially for non-profit organizations in which the internal control system is expected to be sound, efficient and effective, while he/she is the employees of the organization, above all, not clearly organized

structure, deliberate or erroneously overriding and awareness of internal control policy and procedure make the problem more complicated. (SCI EtCO internal audit report 2013 and 2014)

Therefore, the researcher wants to find out why Save the Children Ethiopia Country office continues facing such problem despite putting in place a number of policies and internal controls.

1.1.2 BACKGROUND THE ORGANIZATION

Save the Children first worked in Ethiopia in the 1930s and set up its permanent offices by Save the Children Sweden in the 1960's and Save the Children UK in the 1970's. The earliest work in Ethiopia focused on humanitarian and emergency relief, and has evolved into a range of longer-term development initiatives for the most vulnerable children. On 1 October 2012, seven Save the Children Member organisations which had all been working in Ethiopia (Canada, Denmark, Finland, Norway, Sweden, UK and USA) came together to form a single organisation; Save the Children International. Save the Children International Ethiopia Country Office (SCI EtCO) remains committed to ensuring the realization of Save the Children's dual mandate of equally supporting both development and humanitarian works. Save the Children will pursue this through its nine thematic areas in Health, Nutrition, Food Security and Livelihoods (FSL), Water and Sanitation (WASH), HIV and AIDS, Child Protection, Education, Building Child Friendly Systems and Structures and Humanitarian Response. For FY 2015 the estimated budget is USD\$117 million. More than 60 % the budget is managed by the logistic department. Save the Children Ethiopia CO has since its inception had management of the highest qualifications, calibre and dedication. Management meets regularly (weekly), monthly and quarterly to review the affairs of the organization and to direct the strategic path of the SCI EtCO and to ensure continued goal congruence. <https://onenet.savethechildren.net/strategy/Pages/Strategy-Development-Documents.aspx>, 11 May, 2015

Systems have evolved over time and all the departments and units of the organization have undergone positive transformations. Internal controls have been put in place to ensure safe custody of all organization assets; to avoid misuse or misappropriation of SCI EtCO assets and to detect and safeguard against probable frauds. <https://intranet.sciet.org.et>, 2015

The SCI EtCO accounts, records and systems are audited by external professionally trained and recognized auditors with local and international reputation and global assurance internal auditors. The organization has always had a local internal audit department to help in compliance with the internal policies and procedures.

Recently, SCI policymakers have focused considerable attention on perceived weaknesses in the accountability, transparency and practices of logistic and financial procedures and systems. Opponents of any increased regulation argue that the current policy and procedures are adequate but need to be enforced, that most donors will not use any additional information to make a giving decision, and that SCI do not have the funds to comply with burden-some policy and procedures. <https://intranet.sciet.org.et>

It is thus evidenced that the application of internal control systems has the potential to help in the effective and efficient delivery of services, but such an approach is relatively new and is sometimes at odds with the customary informal processes that have been applied in SCI EtCO.

However, while many SCI EtCO field offices have customarily relied on informal management processes to help develop and sustain their social capital, there has increasingly been pressure from donors, government and other official agencies for SCI EtCO to show accountability, managerial competence and strong internal control system. SCI EtCO are being confronted with the competitive nature of acquiring funds and need to demonstrate that they have particular competencies to funders, while at the same time continuing to adhere to their traditional welfare or development values. <https://intranet.sciet.org.et,2015>

This state of affairs creates a need to establish how the SCI EtCO and FOs approach to service delivery affects the application of the increasingly important internal control systems.

<https://onenet.savethechildren.net/strategy/Pages/Strategy-Development-Documents.aspx,11May,2015>

Moreover internal control on logistic and financial practises are one area that is given a lot of prominence all over the world, it has been widely researched. A lot of literature has been written on logistic and financial practises, and internal and external auditors normally place a lot of emphasis internal controls as measure to ensure sustainable and improved logistic and financial practises, however, it is the perception of the researcher that there are still gaps in the research so far done. This study will therefore, try to establish/explore/ the linkage between internal controls and improved logistic and financial practises as measured by segregation of duties, accountability, financial reporting, effective communication & budget burning rate.

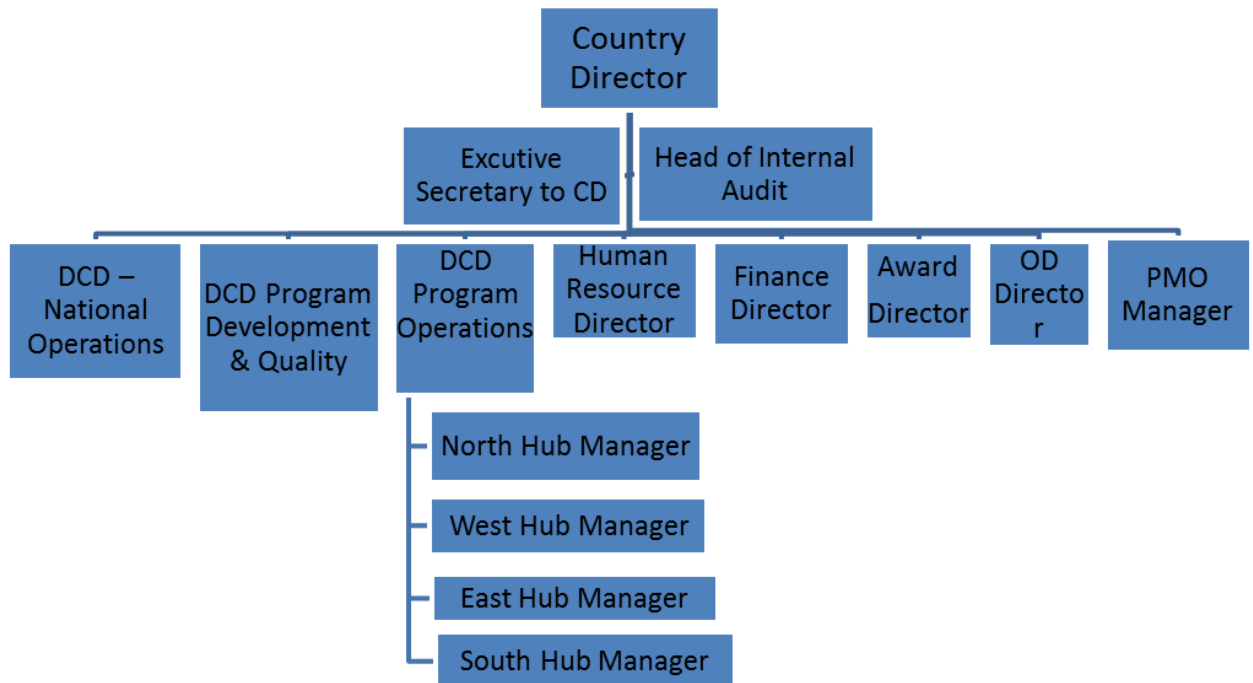


Figure1; Adapted from Save the children International. Ethiopia Country Office Senior staff Organizational Chart, 2015

1.2 STATEMENT OF THE PROBLEM

An effective internal control system is one that exhibits certain characteristics that facilitate the evaluation and improvement of existing internal control systems by highlighting areas where the practical application of such guidelines often fails in many organizations. (IFAC: 2013).

Internal control is facing many challenges; some of the challenges are; acknowledge that despite the contribution of faith-based development work, obstacles, and challenges still exist both from within the faith and from broader SCI EtCO society. Traditionally, the management of SCI EtCO has relied on informal processes based on shared norms and values of delivering humanitarian services, rather than on formalized procedures. The commitment of workers, volunteers and other organizational members has tended to be facilitated through strong reliance on a shared belief in the purpose of the organization, and not primarily through control system and remuneration based on profit making. However, the Ethiopian government is still considering the appropriate partner that can introduce regulatory framework that can help and controls all NGOs including SCI EtCO build capacity to manage themselves soundly.

However despite all the above efforts, the SCI EtCO still struggles with logistic and financial management problems, financial reports are not made timely, accountability for the organization financial resources is still wanting, frauds and misuse of organizational resources have been unearthed and a number of decisions made have not yielded the expected results. This research

will therefore attempt to investigate the persistent poor logistic and financial practices from the perspective of internal controls which has hitherto been ignored.

1.3 RESEARCH QUESTIONS

The study is trying to answer the following research questions.

1. Does Save the Children Ethiopia Country Office have appropriate internal control policies and procedures?
2. Does the Current reporting relationship and grievance policy of Save the Children Ethiopia Country Office actually or potentially impair the decision and independency of SMT members
3. To what extent are the internal control policies effective in achieving the objectives they are established for?
4. Are internal control practices are strictly compliant with established internal control systems?
5. Is the organizational foundation prudent for the formulation and implementation of internal control policies and procedures?

1.4 OBJECTIVE OF THE STUDY

The main purpose of this research is to explore and establish the relationship between internal control systems and logistic & financial practices in SCI EtCO. In particular the researcher is focus on the following specific objectives:

- 1 To examine the appropriateness of SCI EtCO Internal Control policy and procedure
- 2 To examine the functionality and effectiveness of established Internal Control systems in SCI EtCO
- 3 To examine the practices of internal control systems in logistic and financial activities of SCI EtCO
- 4 To examine the CO grievance policy and the independency and potential impairment of SCI EtCO SMT members
- 5 Identify the major problems in complying with established internal controls in the organization and recommend alternative solutions

1.5 SIGNIFICANCE OF THE STUDY

The researcher believes that the result of this research project would have the following significances.

- ✓ This project paper could be used as an initiation for those who are interested to conduct a detailed and comprehensive study regarding the internal control practices in save the Children international Ethiopia Country office or on the Overall Non-Governmental Organizations.
- ✓ It will enable governing body, specifically the management and donors, the higher responsible body, and audit committee of save the Children Ethiopia Country office, to be aware of the importance use of internal control , and gives insight how they use the internal control systems most effectively and efficiency.

1.6 SCOPE AND LIMITATION OF THE STUDY

The researcher believes that the findings of this study would have been more productive if it has been conducted on all governmental and nongovernmental organizations in Ethiopia. However due to time and financial constraints, it is out of the reach of the researcher to incorporate all in this study. Due to this, the project is limited to 8 randomly selected field offices from the overall 46 field offices of Save the Children International Ethiopia Country Office. The curiosity of the Researcher was to answer the question; do the systems really work as expected?

The other limitation was the belief that the research may never be read, thus people may not get the benefit of the study. It is therefore the Intention of the Researcher to write papers out of the research and present them in conferences.

1.7 ORGANIZATION OF THE STUDY

The study was organized in five chapters. The first chapter deals with introductory part consisting of introduction/background of the study , statement of the problem, research question, objectives, significance and scope and limitations parts of the study. The next section deals with review of the literatures and empirical results of prior studies. . In the third chapter, research design, sample size, sampling methods, data collection instrument and analysis techniques were discussed. Analysis of collected data, interpretation of the analyzed data is presented in the fourth chapter. The final chapter deals with summary of findings , conclusions drawn from the findings and recommendations to the organization“ management.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Introduction

The purpose of this chapter is to describe and document what has been written and recorded in different manuals, literatures, and authors about internal control system .For this particular study, the researcher has documented the views, concepts and definitions forwarded from selected manuals and authors on internal control system. In short it summarizes the conceptual framework of this study

The research was intended to assess the effect of internal controls in Save the Children with emphasis on logistic and financial activities The review also examined narrative, analytical and financial reports with regards to current practices of the organization and in particular focusing on procurement, inventory , financial reviewing, Accountability , performance and Reporting. All other logistics and financial activities were ignored for purposes of the study. The review examined the common systems of internal controls employed by organization. The review also tried to determine the main objectives systems of internal control are normally intended to achieve.

2.2 Definition of Internal Control

Internal Control have no one common definitions, various authors defines Internal control in different ways: Gupta (2001) drawing from Statements of Standard Auditing Practices No. 6 (SAP 6) defines Internal control as “the plan of organization and all the methods and procedures adopted by the management of an entity to assist in achieving management objectives of ensuring as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of accounting records and the timely preparation of reliable financial information”. It is therefore worth noting from the above that; properly instituted systems of internal control will ensure; completeness of all transactions undertaken by an entity, that the entity’s assets are safeguarded from theft and misuse, that transactions in the financial statements are stated at the appropriate amounts, that all assets in the company’s financial statements do exist, that all the assets presented in the company’s financial statements are recoverable and that the entity’s transactions are presented in the appropriate manner.

According to the applicable reporting framework (ACCA- Audit and Assurance Services, 2009) internal control is the term generally used to describe how management assures that an

organization does meet its financial and other objectives? Internal control systems not only contribute to managerial effectiveness but are also important duties of corporate boards of directors. As per (CPA Australia 2011), internal controls are systems of policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations. These systems not only relate to accounting and reporting but also include communication processes both internally and externally, staff management and error handling. Sound internal controls include procedures for: handling funds received and expended by the organisation, preparing appropriate and timely financial reporting to board members and senior management, conducting the annual audit of the organisation's financial statements, evaluating the performance of the organisation, evaluating staff and programs, maintaining inventory records of property, implementing personnel and conflicts of interest policies.

(Verschoor; 1999). Hitt, Hoskisson, Johnson, and Moesel (1996) argued that there are two types of major internal controls associated with the management of large firms, particularly diversified firms, which have an important effect on firm innovation, these are; strategic controls and financial controls. Strategic controls entail the use of long-term and strategically relevant criteria for the evaluation of business-level managers' actions and performance. Strategic controls emphasize largely subjective and sometimes intuitive criteria for evaluation (Gupta, 1987).

The use of strategic controls requires that corporate managers have a deep understanding of business-level operations and markets. Such controls also require a rich information exchange between corporate and divisional managers (Hoskisson, Hitt, & Ireland, 1994). On the other hand, financial controls entail objective criteria such as return on investment (ROI) in the evaluation of business-level managers' performance. They are similar to what Ouchi (1980) and Eisenhardt (1985) referred to as outcome controls. Thus, top-level managers establish financial targets for each business and measure the business-level managers' performance against those targets. Such an approach can be problematic when the degree of interdependence among business units is high. Thus, emphasis on financial controls requires each division's performance to be largely independent. As a firm grows especially through acquisition, it also grows in complexity and the number of units that corporate executives must oversee and manage (thereby increasing their spans of control). Clearly, each acquisition increases corporate managers' need for information processing, sometimes dramatically so. These changes make it difficult for corporate managers to use strategic controls. To reduce information-processing demands, they may change their emphasis from strategic to financial controls. (Michael A. Hitt, et al, 1996)

The three major categories of management objectives comprise; effective operations, financial reporting and compliance (Hayes et al., 2005). Effective operations are about safeguarding the assets of the organization. The physical assets like cash, non-physical assets like receivables, important documents and records of the company can be stolen, misused or accidentally destroyed unless they are protected by adequate controls. The goal of financial control requires accurate information for internal decision because management has a legal and professional responsibility to ensure that information is prepared fairly in accordance with applicable accounting standards. Organizations are equally required to comply with many laws and regulations including company laws, tax laws and environment protection laws.

The authoritative 1994 Principles of Corporate Governance of the American Law Institute recommends that “every large publicly held corporation should have an audit committee that would review on a periodic basis . . . the corporation’s internal controls . . .” According to Verschoor, (1999), approximately three-quarters of the 500 largest publicly held U.S. corporations voluntarily make a public assertion of management’s responsibilities for properly reporting financial results and also maintaining an effective system of internal control. These management statements on internal control are contained in the company’s annual report to shareholders. He asserts that; virtually all of these companies report using the same strategies to execute management’s internal control responsibilities. These include references to segregation of functions, programs of selection and training of personnel, the results of an internal auditing function, oversight from the audit committee of the board of directors, and the work of the company’s external auditors. Verschoor believes that management declarations about internal controls represent a management commitment and are not just a promotional statement.

2.3 Internal Controls Systems

Internal control is a major part of managing an organization. It comprises the plans, methods, and procedures used to meet mission, goal, and objectives and, in doing so, support performance based management. Control also serves as the first line of defence in safeguarding asset & preventing & detecting errors & fraud (Ahlawat, and Lowa, 2004).

In short, internal control, which is synonymous with management control, helps government program managers achieve desired result through effective stewardship of public resources(ibid).Internal control should provide reasonable assurance that the objectives of the organization are being achieved in the effectiveness and efficiency of operation including the use of the entity’s resources, reliability of financial reporting, including reports on budget execution,

financial statement, and other reports for internal and external use, and compliance with applicable laws and regulations (Ahlawat, and Lowe, 2004)

2.4 Internal Control Objectives

Internal Control objectives are desired goals or conditions for a specific event cycle which, if achieved, minimize the potential that waste, loss, unauthorized use or misappropriation will occur. They are conditions which we want the system of internal control to satisfy. For a control objective to be effective, compliance with it must be measurable and observable. (IIA April 2009).

A system of internal control can be evaluated by accessing the ability of individual process controls to achieve seven pre-defined control objectives. The control objectives include authorization, completeness, accuracy, validity, physical safeguards and security, error handling and segregation of duties.

Authorization: The objective is to ensure that all transactions are approved by responsible personnel in accordance with specific or general authority before the transaction is recorded.

Completeness: The objective is to ensure that no valid transactions have been omitted from the accounting records.

Accuracy: The objective is to ensure that all valid transactions are accurate, consistent with the originating transaction data and information is recorded in a timely manner.

Validity: The objective is to ensure that all recorded transactions fairly represent the economic events that actually occurred, are lawful in nature, and have been executed in accordance with management's general authorization.

Physical safeguards & security: The objective is to ensure that access to physical assets and information systems are controlled and properly restricted to authorized personnel.

Error handling: The objective is to ensure that errors detected at any stage of processing receive prompt corrective action and are reported to the appropriate level of management.

Segregation of duties: The objective is to ensure that duties are assigned to individuals in a manner that ensures that no one individual can control both the recording function and the procedures relative to processing the transaction.

A well designed process with appropriate internal controls should meet most, if not all of these control objectives.

2.5 Importance of Internal Control

The effective implementation and monitoring of a sound internal control system helps ensure that Not For Profit Organizations (NFPOs) meet their objectives, such as providing services to the community professionally, while utilising resources efficiently and minimising the risk of fraud, mismanagement or error. (CPA Australia, 2011)

According to CPA Australia 2011, good internal controls will:

- **Help align the performance of the organisation with the overall objectives** – through continuous monitoring of the performance and activities carried out by the NFPO
- **Encourage good management** – allowing management to receive timely and relevant information on performance against targets, as well as key figures that can indicate variances from targets
- **Ensure proper financial reporting** – maintaining accurate and complete reports required by legislation and management, and minimising time lost correcting errors and ensuring resources are correctly and efficiently allocated
- **Safeguard assets** – ensuring the organisation’s physical, intellectual property and monetary assets are protected from fraud, theft and errors
- **Deter and detect fraud and error** – ensuring the systems quickly identify errors and fraud if and when they occur
- **Reduce exposure to risks** – minimising the chance of unexpected events.

2.6 Types of Internal Controls

Different writers have come with different types of internal control systems. Milichamp (2002) puts the types of internal controls as; Safeguarding assets, Separation of duties, supervision, Verification, Approval and authorization, Documentation, Safeguarding Assets, and Reporting. However, many other authors such as Dr Lousteau (2006), the state university of New York and Napoli (2005) have agreed that the types of internal control are directive controls, preventive controls, compensating controls, detective controls, and corrective actions. These types of internal controls are explained below.

2.6.1 Directive Controls

Directive Controls relate to policies and put in place by top management to promote compliance with independence rules. To ensure compliance with directive controls, a clear, consistent

message from management that policies and procedures are important must permeate the organization. They provide evidence that a loss has occurred but do not prevent a loss from occurring. Examples of detective controls are reviews, analyses, variance analyses, reconciliation, physical inventories, and audits. However, detective controls play critical role providing evidence that the preventive controls are functioning and preventing losses. Control activities include approvals, authorizations, verifications, reconciliation, and reviews of performance, security of assets, segregation of duties, and controls over information systems. (Di Napoli, 1999).

2.6.2 Preventive Control

Preventive controls relate to measures designed by a firm to deter (forestall) errors, irregularities, or noncompliance with policies and procedures and thereby avoid the cost of corrections. They are proactive controls that help to prevent a loss. Examples of preventive controls include: Segregation of duties, Proper authorization to prevent improper use of organizational resources, Standardized forms, adequate documentation and physical control over assets, Computer passwords, computerized techniques such as transaction limits and system edits (Dr. Lousteau, 2006)

2.6.3 Compensating Controls

Compensating controls are intended to make up for a lack of controls elsewhere in the system. For example, firms with an electronic database could maintain a hard copy of the client list in the office library. Such a list would compensate for downtime in electronic systems and difficulties in locating client names in an electronic system. While the list would have to be reprinted from time to time to add new clients would mitigate some of the obsolescence that exists with hard copies. (Lannoye .M. A., (1999).

2.6.4 Detective Controls

Detective controls are aimed at uncovering problems after they have occurred. Although necessary in a good internal control system, detection of an independence violation after the fact is less desirable than prevention in the first place. Detective controls rarely work well as a deterrent in the absence of severe penalties (Dr Lousteau (2006). According to Anderson,; detective controls are Those controls that detect if the problems have occurred. They are designed to pick up errors those have not been preventive. These could be exception report that reveal that the controls have been achieved its objectives these controls measure the effectiveness of preventive controls and detect errors or irregularities when they occur. These controls are less effective and more expensive than preventive controls because they occur at the

back end of the process. Examples of common detective control activities include: Performance and quality assurance reviews, Reconciliations, Cash counts; Physical inventory counts and comparisons with inventory records (Anderson, U., 2003).

2.6.5 Corrective Controls

These are controls that address any problem that have occurred. Therefore any problem is identified, these types of controls ensures that are property rectified. Examples of corrective control system include the following procedures and management actions. These types of control system are less effective than other system because it applied after the errors are committed .Clearly; the most powerful control system is preventive. It is more effective to have a control that minimizing problems before occurring rather than to detect or correct them once have occurred. These are always a possibility (Allegrini,M. and E.Bandettini,2006).

2.7 Basic Components of Internal Control

Effective internal controls require planning and assessment by the organisation from the outset. This is particularly true for NFPOs as personnel, logistics and financial resources are often limited. Where this occurs, it is essential for internal controls to be established within the limits of the organisation to ensure they are effective and can be supported by the available resources. It is important that internal controls are supported by everyone within the organisation, including volunteers, and therefore the process of establishing internal controls is as important as the internal controls themselves.

According to COSO Internal Control–Integrated Framework December ,2013, Allegrini and bandetin ,2006, CPA Australia 2011,and Hayes et al., 2005 ; internal control comprises five components; Control environment, Risk assessment, Control activities, Information and communication systems, and control activities and the monitoring of controls .



Figure 2: Adapted from COSO Internal Control Integrated Framework, 2013

2.7.1 Control Environment

Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude towards internal control and conscientious management. A positive control environment is the foundation of all other standards (Allegrini et.al, 2005; 25)

Several key factors affect the control environment

One factor is the integrity & ethical values maintained & demonstrated by management and staff .Organization management play a key role in providing leadership in this area, especially in setting & maintaining the organization’s ethical tone, providing guidance for proper behaviour, removing temptation for unethical behaviour and providing discipline when appropriate(ibid:p30). Management’s philosophy and operating style also affect the environment. This factor determines the degree of risk the organization is willing to take and management’s philosophy towards performance-based management. Further the attitudes and philosophy of management toward information system, accounting, personnel functions, monitoring and audits & evaluations can have a profound effect on internal control (Allegrini & Bandettini, 2006:29).

Another factor is management’s commitment to competence. All personnel need to possess & maintain a level of competence that allows them to accomplish the assigned duties ,as well as understand the importance of developing & implementing good internal control .Management’s needs to identify appropriate knowledge & skill needed for various jobs and provide needed training, as well as candid and constructive counselling, and performance appraisals(Allegrini & Bandettini,2006:20).

2.7.2 Risk Assessment

All entities large or small profit or non-profit , service or manufacturing encounter risks. Many of these risks, if not addressed can cause misstatement in the entity's financial statement. Risk assessment is an entity's identification, analysis and management of risk relevant to the preparation of financial statements that are fairly presented in conformity with generally accepted accounting principles. An entity's risk assessment process considers external and also internal events and circumstances that may adversely affect its ability to record, process and report financial data consistent with management's assertions in the financial statement (Anderson, 2003: 19)

2.7.3 Control Activities

Internal controls activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the organization's control objective. Control activities are policies, procedures, techniques, and mechanisms that enforce management's directives such as the process of adhering to requirements for budget development and execution. They help ensure that actions are taken to address risks (Anderson, 2003: 19)

Control activities are an integral part of an entities planning, implementing, reviewing, and accountability for stewardship of government resources & achieving effective result. Control activities occur at all levels & functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriated documentation. Control activities may be applied in a computerized information system environment or through manual process. Activities may be classified by

Specific control objectives, such as ensuring completeness and accuracy of information processing (Anderson, U.2003:19).

Example of control activities;-

- Top level reviews of actual performance
- Segregation of duties
- Proper execution of transaction and events

- Accurate and timely recording of transaction and events
- Appropriate documentation of transaction and internal control etc(Anderson ,2003:19)

2.7.4 Information and Communications

Information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities. For an entity to run and control its operations, it must have relevant , reliable , and timely communications relating to internal as well as external events (Anderson,2003 :19)

Information needed throughout the organization to achieve all of its objectives. Program managers need all both operational and financial data to determine whether they are meeting their organization strategic and annual performance plan & meeting their goals of accountability for effective and efficient use of resources .For example operating information is required for development of financial reports. This covers a broad range of data from purchases ,subsidiaries and other transactions to data on fixed assets, inventories and receivables(Anderson, U.2003:19).

2.7.5 Monitoring

Internal control mentoring should assess the quality of performance over time and ensure that the findings of audit and other reviews are promptly resolved. Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operation. It is performed continually and is ingrained in the company's operations. It includes regular management and supervisory activities, comparisons, and other actions people take in performing their duties. Separate evaluations of control can also be useful by focusing directly on the controls' effectiveness at a specific time. The scope and frequency of separate evolutions should depend primarily on the assessment of risks and the effectiveness of ongoing monitoring procedures. Separate evaluation may be taken the form of self-assessment as well as review of control design and testing of internal control. Monitoring of internal control should include policies and procedures for ensuring that the finding of auditing and other reviews are promptly resolved (Anderson, M.G.Kats,P.B, 2003)

2.8 Parties Responsible for and Affected by Internal Controls

According to Audit and Management Advisory Services (AMAS) Nov 12, 2009, everyone in an organization has responsibility for internal control. While all of an organization's people are an integral part of internal control, certain parties merit special mention. These include management, the board of directors (including the audit committee), internal auditors, and external auditors.

The primary responsibility for the development and maintenance of internal control rests with an organization's management. With increased significance placed on the control environment, the focus of internal control has changed from policies and procedures to an overriding philosophy and operating style within the organization. Emphasis on these intangible aspects highlights the importance of top management's involvement in the internal control system. If internal control is not a priority for management, then it will not be one for people within the organization either as an indication of management's responsibility, top management at a publicly owned organization will include in the organization's annual financial report to the shareholders a statement indicating that management has established a system of internal control that management believes is effective. The statement may also provide specific details about the organization's internal control system.

Internal control must be evaluated in order to provide management with some assurance regarding its effectiveness. Internal control evaluation involves everything management does to control the organization in the effort to achieve its objectives. Internal control would be judged as effective if its components are present and function effectively for operations, financial reporting, and compliance. The boards of directors and its audit committee have responsibility for making sure the internal control system within the organization is adequate. This responsibility includes determining the extent to which internal controls are evaluated. (Audit and Management Advisory Services (AMAS) Nov 12, 2009)

Management

The chief executive officer is ultimately responsible and should assume "ownership" of the system. More than any other individual, the chief executive sets the "tone at the top" that affects integrity and ethics and other factors of a positive control environment. In a large company, the chief executive fulfils this duty by providing leadership and direction to senior managers and reviewing the way they're controlling the business. Senior managers, in turn, assign responsibility for establishment of more specific internal control policies and procedures to personnel responsible for

the unit's functions. In a smaller entity, the influence of the chief executive, often an owner-manager is usually more direct. In any event, in a cascading responsibility, a manager is effectively a chief executive of his or her sphere of responsibility. Of particular significance are financial officers and their staffs, whose control activities cut across, as well as up and down, the operating and other units of an enterprise. Anderson, M.G.Kats,P.B, 1998

Board of Directors

Management is accountable to the board of directors, which provides governance, guidance and oversight. Effective board members are objective, capable and inquisitive. They also have knowledge of the entity's activities and environment, and commit the time necessary to fulfil their board responsibilities. Management may be in a position to override controls and ignore or stifle communications from subordinates, enabling a dishonest management which intentionally misrepresents results to cover its tracks. A strong, active board, particularly when coupled with effective upward communications channels and capable financial, legal and internal audit functions, is often best able to identify and correct such a problem.

Internal Auditors

Internal auditors play an important role in evaluating the effectiveness of control systems, and contribute to ongoing effectiveness. Because of organizational position and authority in an entity, an internal audit function often plays a significant monitoring role. Anderson, M.G.Kats,P.B, 1998

Other Personnel

Internal control is, to some degree, the responsibility of everyone in an organization and therefore should be an explicit or implicit part of everyone's job description. Virtually all employees produce information used in the internal control system or take other actions needed to effect control. Also, all personnel should be responsible for communicating upward problems in operations, noncompliance with the code of conduct, or other policy violations or illegal actions.

A number of external parties often contribute to achievement of an entity's objectives. External auditors, bringing an independent and objective view, contribute directly through the financial statement audit and indirectly by providing information useful to management and the board in carrying out their responsibilities.

Others providing information to the entity useful in effecting internal control are legislators and regulators, customers and others transacting business with the enterprise, financial analysts, bond ratters and the news media. External parties, however, are not responsible for, nor are they a part of, the entity's internal control system. Anderson, M.G.Kats,P.B, 1998 &2003.

2.9 Problems of Internal Controls

No matter how well internal controls are designed, they can only provide reasonable assurance that objectives have been achieved. Some problems are inherent in all internal control systems (Mercer University – United States of America (Georgia) 2013. These include:

2.9.1 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. Internal control may become ineffective with management fails to minimize the occurrence of errors for example misunderstanding instructions, carelessness, distraction, fatigue, or mistakes. (Mercer University – United States of America (Georgia) 2013

2.9.2 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. (Mercer University – United States of America (Georgia) 2013

2.9.3 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. Management override must not be confused with management intervention (i.e. the departure from prescribed policies and procedures for legitimate purposes). Intervention may be required in order to process non-standard transactions that otherwise would be handled inappropriately by the internal control system. A provision for intervention is needed in all internal control systems since no system anticipates every condition. (Mercer University – United States of America (Georgia) 2013

2.9.4 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).

2.10 Internal Control on Logistics and Financial Activities

2.10.1 Logistics

Porter (1987) characterizes logistics as an integral element of the enterprise value chain, relating both to primary and support activities. Moeller (1994) highlighted the importance of logistics as competitive advantage as a search to promote cost, quality and time differential advantages. Ballou (1996) classifies logistics as a strategic operational function with a high power to add competitive benefits for organizations, pointing out the need deliver the right product to the right customer, in the right quantity and conditions, at the right place and time, at the right cost. Bowersox and Closs (1996) present logistics as an administrative function, describing it as the project and systems management to control flows of material, products being processed and stocks of finished products to support the strategy of a business unit. Christopher (1997) points out that it took long for companies to realize the importance of logistics for developing competitive advantage against competitors. Moeller (1994) and Alvarenga and Novaes (2000) show the evolution of the concept of logistics as it correlates with the environment and focus of economic sectors, pointing out the adaptations of logistics as the business environment becomes more dynamic. In the beginning of this

century, logistics is based on systems theory, meaning that it depends both on the external and internal environment, and therefore it becomes inefficient if it is regarded as an isolated element.

2.10.2 Effective Procurement policies

According to Minahan, (2006) as the need to satisfy stakeholders' demands increases, NGO leaders today acknowledge the frontline played by the procurement department. Procurement not only provides organizations with a competitive edge for funding, but also makes a very big contribution to the organization's goals achievement and success. According to Lysons (2000) the term procurement is defined as the acquisition by purchase, franchise, rental, lease, hire purchase, tenancy or any other contractual means of goods, services, works or any combination of the two, which are required by an organization for use in the production, service provision or resale. Procurement is a very important function within an organization that accounts for the biggest share of the expenditure in many firms. Today, it would be difficult to find an organization, large or small that does not understand the importance of procurement and how successful implementation of this function would have positive impact on their overall success. 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.

According Tackett and Gregory (2006) in India the past corruption cases showed that procurement processes are prone to manipulation and malpractice, such as favouritism in the sourcing and selection of suppliers or service providers, leakage of information and connivance at sub-standard goods or services. However, today a Best Practice Checklist on Procurement is available for reference at the ICAC website: (www.icac.org.hk.) to avert these tendencies. This section 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;

2.10.3 Inventory Management

Inventory management is a branch of management that deals with management of fixed and current assets. Also, it entails the management of daily operational supplies .Inventory is also a critical asset

in any organization though according to Barnes (2008) inventory is looked at as a liability under the just-in-time (JIT) control system. He agrees with the way accountants treat inventory as an asset to the organization. In the statement of financial position, inventory appears under the current assets of the organization regardless whether it's for profit or not for profit organization. Inventory plays a major role and its management goes a long way in helping a firm to grow as it relates to its external customers as well as the internal customers (Gibson, 2013). Therefore, inventory is essential in the operation of NGOs in the humanitarian sector since they may hold inventory as finished goods, work in progress or raw materials for further processing (Fellows and Rottger (2005) and Shapiro (2009).

Shapiro, (2009) also advises that inventory plays a vital role when it comes to demand planning and as a result, the organization needs to be versatile in its management of its inventory when it comes to periodic or seasonal inventories. Managers cannot avoid inventory management because it forms the basis of their overall performance through elimination of uncertainties in their management. For the boards and management of NGOs to ascertain that they are performing above standards, inventory management metric measures should be above board so that they may maintain the management's confidence (Shapiro, 2009). Inventory management on the other hand faces numerous barriers when it comes to holding costs, shortage costs and demand distributions for products under the detailed stock keeping unit (SKU) level (Porter and Montgomery, 1991).

However, the management of inventory is important because the firm will be keen to ensure that its assets and stock are well managed and demand forecasting is enhanced to avoid unplanned procurement. Inventory can double up as stock and assets respectively. Therefore, when an organization enhances demand forecasting, it enables the minimization of operational costs as well as customer satisfaction (Hines and Bruce, 2007). When this is done, it enables an organization plan for the future hence applying various variables that an organization can use for its goal achievement namely: demand and supply, cost and personnel requirements. Incorporation of inventory management and supply chain decision helps organizations rationalize their operations through ensuring the total supply chain cost is well managed. This may be an uphill task since integration of inventory management decisions and supply chain optimization model involves parameters and associations such as market demand variance, delivery time and stock outages impacts which are not easily signified in optimization model (Heckmann, Shorten and Engel, 2003) and (Shapiro, 2009).

2.10.4 Inventory Management Techniques

Inventory management techniques are extremely important for business operations because their success and cost reduction of the firm's expenditure necessitate improved supply chain performance and knowledge to the employees (Lambert, 2008). These techniques are critical and knowledge in them is highly desirable thus, managers and procurement staff need to be able to apply the techniques for the benefit of the organization (Fellows and Rottger, 2005). Wild (2002) recommends, proper warehousing of inventory so that when goods items are ordered, they are kept at the warehouse for the least time possible minimizing holding cost of inventory. Consequently, other operational costs may increase inventory management costs. The way an organization is able to maintain its costs at low levels the better it is for the year end profits (Palevich, (2012), Wisner, Tan and Leong (2011). Organizations buy and sell their inventory; there always arises balance at the end of the year which ought to be carried over to the next year. Once an organization realizes this, it can develop online inventory management tool to monitor its inventory information by breaking it down into groups by correlating the categories with its customers. Since organizations operates differently in different fields, the inventory can be classifies by either seasons or economic year end of your most significant customers hence, demand forecasting need to be employed to have an efficient supply chain (Poiger, 2010).

2.10.5 Effective Whistle-Blowers Protection Policy

Protecting whistle-blowers is an essential component of an ethical and open work environment. Whistle-blower protection should not be viewed only as a prophylactic mechanism designed to avoid employee lawsuits. Instead, protecting whistle-blowers from retaliation and encouraging constructive whistleblowing benefits non-profits by increasing transparency and by giving management the opportunity to learn early on of unethical or unlawful practices directly from their employees rather than from the media, law enforcement, or a regulatory agency. In addition, effective whistle-blower protection helps foster a work environment in which all employees are held accountable, thereby improving performance and empowering employees. (Jason M. Zuckerman, April, 2013).

According to Jason M. Zuckerman, 2013 the following article provides general guidance for the establishment of a comprehensive whistle-blower protection program at a non-profit.

Provide Employees Multiple Avenues to Report Concerns: While employees will hopefully feel comfortable raising concerns directly with their supervisors, many employees are reluctant to raise concerns with line management for fear of retaliation, especially where their concerns pertain to unethical or illegal conduct by their line managers. Therefore, non-profits should provide several options for employees to raise concerns, including the option of raising a concern anonymously.

Establish an Ombudsperson Program: Establishing a forum in which employees can raise concerns internally and have assurance that their concerns will be investigated and appropriately addressed is an effective means of mitigating the risk of whistle-blower retaliation lawsuits and resolving employee concerns internally before the concerns are exposed in the media or in regulatory enforcement proceedings. In addition, an ombudsperson program can help alert the board of directors or management to alleged violations early on, thereby providing an opportunity to intervene and prevent further damage.

To be successful, such a program must be perceived by employees as credible. Accordingly, the ombudsperson should be independent of line management and conduct objective investigations that are not geared toward reaching a conclusion favoured by management. Sham investigations always backfire. Employees who suspect that their concerns are not being taken seriously will go outside the organization and report them to someone who they believe will take them seriously, such as the media, a regulatory agency, or law enforcement. Accordingly, the ombudsperson investigating an employee's concern should frequently update the employee on the status of the investigation and on corrective actions taken to remedy the problems identified by the concerned employee.

Preferably, the ombudsperson should report directly to the board. This ensures adequate independence and strengthens the credibility of the program, thereby increasing the likelihood that employees will raise their concerns internally.

Adopt a Policy Prohibiting Retaliation: Employees should be put on notice that all forms of retaliation against whistle-blowers, including harassment, termination, and blacklisting, will not be tolerated and will result in disciplinary action. In addition, the policy should provide that individuals who blow the whistle will be protected from retaliation. While the policy needs to incorporate relevant legal requirements, including federal and state whistle-blower protection statutes and common law claims, the policy should be concise and easy to understand. The policy should

unambiguously state that employees have the right to raise concerns without being subjected to reprisal.

Train Managers and Supervisors: Merely adopting a policy is not enough to prevent retaliation against whistle-blowers. Instead, managers and supervisors should be educated about whistle-blower protections and provided the tools to address employee concerns. To be effective in sensitizing managers and supervisors to the rights and responsibilities of employees to raise concerns, training should be practical and interactive. A PowerPoint presentation filled with legalese will not have a lasting impact. Instead, the training should be in plain English and should provide case studies that offer participants the opportunity to apply what they learn in the training. Moreover, training should address Section 1107 of SOX, which makes it a criminal offense to "knowingly" retaliate against a whistle-blower who has provided to a law enforcement officer any truthful information relating to the commission or possible commission of any federal offense.

Take Disciplinary Action against Those Who Engage in Retaliation: When a manager or supervisor retaliates against an employee who voiced a concern, other employees are dissuaded from raising concerns for fear that they will also suffer retaliation. Failing to hold an employee accountable for violating an anti-retaliation policy signals to other employees that the organization is not truly committed to maintaining an open and ethical work environment. Accordingly, non-profits should enforce their anti-retaliation policies and monitor compliance with those policies.

2.10.6 Effective Payment

Gazzada (2009) asserts that a valid authorization of any payment includes a full approvable signature; initials or "Okay to Pay" Payments without approvable signature do not represent a proper authorization. Signatures should be legible or include the printed name below the signature. Proper approval for any payment request should be provided using a Payment. If an alternate form such as a note, letter, or memo is attached to a payment request, it must include: Name of Person/Vendor to be paid, account number to be charged, amount of payment being approved, purpose of payment being approved, and signature authorization. Some departments that process a higher volume of regular vendor invoices make use of an approval stamp instead of attaching a Payment Order Form for each invoice. This is a rubber stamp that is stamped directly onto the invoice and filled in by the payment approver.

Wedhon (2002) argued that in order to ensure strong control over receipts, when cashier received, it should be acknowledge by means of printed receipt which should have a counterfoil or a carbon receipt. The receipt should be consecutively numbered. The unused receipt should be cancelled and must not be detached from the counterfoil. No blank counterfoils should be accepted. As soon as cash is received, it should be entered in a rough cash book or dairy. According to Mpabanga, (2005) The NGO sector in India is largely in the form of what can be termed as an ‘unorganized sector’, with a preponderance of small outfits that have been floated by either individuals or small groups of people. The NGOs are generally founded by people passionate about a ‘cause’, which often results in an organizational infrastructure that is focused on operations rather than efficiencies and management processes. One result of this is the wastage of resources especially where unnecessary payments are paid to individuals. Limited statistics that are available indicate that on an average 70 percent of the funds are utilized for the administrative purposes of the NGOs. In addition, the disproportionate focus on the operations versus management efficiencies and planning results in people with inadequate management competencies to hold senior positions. This exposes the sector to higher degree of risk from corruption and frauds, both intentional and consequential.

2.10.7 Exercising Budgetary Control on the Expenditure

According to Anderson (2008) NGO accounting is dominated by budgeting. A budget is plan expressed in quantitative or monetary terms aimed at pursuing specific objectives during a defined period of time. He further states that budgeting has three main objectives: The first one being planning, Budgets provide a detailed plan of action for a given period of time, the plan relates to all aspects of the organization-production, labour, sales, and expenses among others. The second one is controlling, budgetary controls help responsible officers/ accounting officers to be focused on only certain activities. This makes a comparison between the actual achieved results and the expected results possible. The third one is coordination; Budgeting helps manager (accounting officers) to coordinate their activities so as to be able to achieve the overall objectives of the organization.

Alridge 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 most 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. Aldridge, C.R. Colbert, J. L., 1994 goes further to state that budgeting can be useful in identifying bottlenecks for example one service department may slow down the preceding departments either due to absenteeism or any other reason, whatever the bottleneck budgeting helps identify it and provides management an opportunity for planning how to solve it before it is too later to affect the organizational performance.

Hinks, G,(2005 indicates that budgeting in organizations services as a benchmark against which actual results are measured and performance of individual managers evaluated. Significant variations from planned results may require explanations and in some cases, corrective action by the individuals responsible for the results. One benefit of benchmark is that managers will know what is expected of them. According to Pandey (2008) as a basis for judging performance, budgeted activity is generally regarded as more appropriate than historical or industry data. The major drawback of using historical data is that inefficiencies in the past performance may be concealed and allowed to continue. Also, changes in economic conditions technology, competition, and personnel make comparisons of present with past performance invalid. Budgeted data are more realistic for performance evaluation because the benchmark minimizes the carry-over of past inefficiencies and reflect changes pertaining to the current period.

According to Haller, 1992 in the bid to control spending, the Spending authority for the signing officers is normally provided in the annual budget of the organization. In most organizations, the board of directors delegates authority to the signing officers for day to day purchases outlined in the budget. This means that the treasurer does not have to wait for approval at a board meeting every time a new pencil needs to be purchased (provided that pencils/office supplies are included in the

budget). Expenditures not included in the budget should be approved by motion at a meeting of the board. The organization may set out spending limits for the officers on major purchases. Expenditures over a predetermined dollar level may require board approval. A sample board policy could state that "any purchases over \$500 require approval by motion at a board meeting". For larger expenditures or for capital expenditures, the organization may have a policy that requires a competitive bidding process. Written quotes from 2 or 3 vendors would be obtained and presented to the board before a purchase was approved.

2.10.8 Accountability

According to Hayes, et al., 2005, Managers need regular financial reports so as to make informed decisions. Reporting (particularly financial reports) is one way through which managers make accountability for the resources entrusted to them. Emasu (2010) asserts that Accountability can be political, social or financial accountability.

2.10.9 Reporting

Whittington & Pany (2001), talk about the comprehensiveness of internal controls in addressing the achievement of objectives in the areas of financial reporting, operations and compliance with laws and regulations. They further note that "Internal control also includes the program for preparing, verifying and distributing to the various levels of management those current reports and analyses that enable executives to maintain control over the variety of activities and functions that are performed in a large organization" They mention internal control devices to include; use of budgetary techniques, production standards, inspection laboratories, employee training and time & motion studies among others.

According Bakibinga 2001, corporate law requires a divorce between ownership and management of an entity. Owners normally entrust their resources in the hands of managers. Managers are required to use the resources entrusted to them in the furtherance of the entity's objectives. Managers normally report to the owners on the results of their stewardship for the resources entrusted to them through a medium called financial statements. It is these financial statements that reveal the financial performance of an entity. John J. Morris (2011) believes that Enterprise Resource Planning systems provide a mechanism to deliver fast, accurate financial reporting with built-in controls that are designed to ensure the accuracy and reliability of the financial information being reported to shareholders.

2.10.10 Performance

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. 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. 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.

In this current era of the Sarbanes-Oxley Act of 2002 (USA), it has the objective of assurance on financial control and compliance. Some of the peak performance indicators are: reports issued on time, staff training and certifications, employees survey measuring professional staff satisfaction, staff utilization, and hours of training. They conclude that adaptability and flexibility will stand out as key characteristics of successful internal control functions. An optimised internal control function will tailor its activities to areas of greatest risk and opportunities for greatest value. Such firms can then attain the benefits of sustainable compliance and enhanced competitiveness. 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.

According to Lektorwe (2007), there are numerous NGOs working in remote and challenging regions of India. Many of the well-funded organizations have large geographically spread-out set-ups with regional branches in such areas. Consequently, such set-ups in the remote regions have inadequate means for internal control, further exposing to the risk of inadequate functional and financial monitoring. Internal control mechanisms form an integral part of any organization since it is essential that the 'child' outfits work in tandem with the parent organizations. It will be less

beneficial if the parent organization (often, set up in a large city) adheres to regulations and internal policies/controls but the branches do not. The scenario is not different from what happens in South Sudan, You find that controls are exercised at the head office in Juba but if one moves to other states where the NGO is operating it may not be the case sometimes this is also attributed to lack of qualified manner power to work in some areas and the rigidity of the law that may require only local people of that area to be employed there In order to better understand internal control; Dan Sampson asserts that one must be able to understand the five interrelated components of an organization. The components are; organization's operation environment, the goals and objectives and related risk management, controls and related policies and procedures, information systems and communication methods and finally the activities to monitor performance (Dan Sampson, 2005).

A report from on DANIDA South Africa has a useful chapter on internal controls. It reveals how changes in the performances of overall work will automatically introduce effective transformation of the internal control to the latter's advantage (DANIDA Audit Report, 2005) 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)

2.11 Empirical Studies

Boyle, Cooper and Geiger on their study of Internal Control Weaknesses Under SAS No. 78: An Examination of State Audit Reports in USA they examine theoretical control components using actual internal control system weaknesses. Specifically, they present a descriptive analysis of internal control weaknesses communicated by 32 Rhode Island state agencies categorized according

to SAS No. 78. Such an evaluation provides needed feedback on the practical application of internal control currently adopted by the profession, as well as provides information on the frequency of types of internal control weaknesses that are relevant for overall audit planning decisions in government audits. They use the SAS No.78 internal control framework to analyze internal control weaknesses reported in 32 state audit reports. The usefulness of the SAS No. 78 integrated framework is found to be relatively high, in that the researchers were able to independently code the weaknesses into the five-component categories very consistently. While the five-component framework is believed to effectively capture the weaknesses identified, the weaknesses were not evenly distributed among the five components. The control activities component had the highest proportion of identified weaknesses (i.e., around 30%) and the monitoring component was found to contain the lowest proportion of weaknesses (i.e., around 10%). Thus, based on this study, actual control activities performed in the organization remain a very important aspect of the system of internal control, and are most likely to be identified by the auditor as deficient. Monitoring weaknesses were found to be positively associated with size of the audited organization. The larger the audited agency/department, the higher the likelihood that the audit report would contain a monitoring weakness. Size, however, was not related to any of the other types of weaknesses. Additionally, the type of government agency/department was not related to the number or type of weaknesses identified.

Interpretations of their results indicate the predominance of the control activity component highlights the need for government managers to closely review, evaluate and amend their existing network of policies and procedures to insure that they include those designed specifically to prevent or detect control activity weaknesses. The correlation of the monitoring component to size is also significant for practice and research. As government agencies grow in size, the need for monitoring activities increase, as well as the possible need for comprehensive and timely audits of those monitoring mechanisms. In their study, the data suggests that larger government entities should continue to establish monitoring mechanisms as a worthwhile activity of an integrated system of internal control. Their analysis gives an indication of the robustness of the SAS No. 78 framework for varying types of organizations. Although not originally designed exclusively for government agencies, based on the results of this study, the framework provided in SAS No. 78 appears useful in evaluating control systems in governmental agencies.

Petrovits, Shakespeare and Shih (2009) on their study examine the Causes and Consequences of Internal Control Problems in Non-profit Organizations using a sample of 6,572 public charities from 1999 to 2003. They first document that the likelihood of reporting an internal control problem increases for non-profit organizations which are smaller and in poor financial health. They then present evidence that weak internal controls over financial reporting have a significant negative effect on the amount of subsequent public support received after controlling for the current level of public support and other factors influencing donations. Their results suggest that first, the IRS and other regulators are reformulating laws in an attempt to increase public confidence in the integrity of exempt organizations second, donors want to make more informed charitable decisions third, watchdog groups, such as BBB Wise Giving Alliance, and promulgate standards on charitable accountability including the establishment of appropriate accounting procedures.

Finally, management and boards of trustees of non-profit organizations are wrestling with a difficult economic climate. Their evidence suggests that addressing internal control weaknesses can increase public support. Non-profit organizations should consider conducting periodic, thorough internal reviews of their own internal controls structure. If attestations of internal controls by external auditors are cost-prohibitive, the non-profit sector may consider promoting a peer-review process to assess internal controls. As an alternative, non-profit organizations can seek in-kind support to help them improve their internal controls. For example, technology companies often donate technical support to non-profit organizations. Similarly, other corporate donors with Sarbanes-Oxley experience can provide guidance on creating and maintaining adequate internal control systems.

The above empirical review of literature emphasizes that all the studies so far conducted are mainly discussing Internal Control Weaknesses and problem. The researcher also observed in the review of literature that there are no studies conducted on internal control system and practices in Save The Children international Ethiopian country office. Thus, the researcher felt it appropriate to take up the present study entitled “Exploring Internal Control Practice of Save the Children International Ethiopia Country Office” to assess the internal control problems and thereby to recommend courses of action that are assumed to promote quality internal control system.

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter presented a detailed description of the research methods that are used to collect relevant data to the study. It contains the research design, study population, sample size, data collection methods, data processing, data presentation, and data analysis. It includes the anticipated limitations and anticipated solutions.

3.2 Research Design

This is historical and analytical research based on a case study approach. The study followed a descriptive research design. The qualitative and quantitative approaches were employed based on Save the Children International Ethiopia Country office staff drawn from different departments in Addis Ababa and four hub offices. The quantitative technique was used to collect and analyse data on the role of internal controls on the performance of Save the Children International Ethiopia Country office. The qualitative approach was used to examine the practices of internal control system in Save the Children International Ethiopia Country office. This design was used because it brought out clearly the relationship between internal control policy and practices on the ground. The study are specifically non experimental because the researcher intended to describe and make observations of what the real results were for purposes of making decisions based on the facts to improve the situation.

3.3 Study population/target group /

The study is mainly focused on logistic and finance and other departments of the organization. targeting particularly from different departments of accounting and finance, internal audit , Human resource ,Country office SMT member's procurement and logistic , Other budget holders and managers and hub offices SMT. due to these currently the organization have 169 full time staffs on these departments ,for this research ,104 respondents selected and it comprised SCI EtCO staff drawn from different departments of accounting and finance (22), internal audit (03), Human resource (06), Country office SMT member's (10) procurement and logistic (18), Other budget holders and managers (20) and hub offices SMT members (25).The rationale is that, all the above respondents are stake holders on the organization.

3.4 Sample size

A sample size of 104 respondents is taken as stated above. But this was not because the numbers of respondents were not able to fill the questionnaires due to a number of reasons and only 91 respondents were able to do so. This was above the 40 mark which is said to be representative enough. This was in conformity with Roscoe (2003) who contends that the sample size larger than 30 and less than 500 respondents is appropriate for most studies. The researcher selected respondents according to the nature of their work and their position in the organization.

3.5 Sampling methods

The research used varieties of sampling which include: Purposive, random and stratified sampling.

3.5.1 Purposive sampling

Purposive sampling involved selecting a certain number of respondents based on the nature of their work in relation to internal controls SCI EtCO (CO SMT members, Head of Departments and hub SMT members). This method is appropriate because the sample selected comprised of informed persons who provide data that will be comprehensive enough to gain better insight into the problem.

3.5.2 Random sampling

Random sampling involved selecting respondents from the population listing by chance. In this way, every member had an equal chance to be selected; this includes employees working at finance, logistic internal audit, budget holders, and human resource and hub office employees. The main disadvantage of this method is with the bias which it could diminish the integrity of random selection but this will overcome since the population listing involved only members with relevant information.

3.5.3 Stratified random sampling

Stratified random sampling was applied in consideration of the categorization of accountants, senior administrators, auditors, cashiers, budget holders, and support staff to compose an appropriate representative sample. This method involved organizing the units in the population into strata using common characteristic of activities performed.

3.6 Data Sources

Both primary and secondary data collection methods are used to collect relevant data to the study. Data collection methods that considered in such a way that relevant information to be collected as much as possible with little inconvenience to respondents.

Primary data means to first hand data. It is collected from the respondents through inter-views, and self-administered questionnaire. Primary data is important in answering questions about internal controls, and their effects on organizational performance in non-governmental organizations. Secondary data means to second-hand data. This is obtained from recorded documents, earlier studies and some publications on internal controls.

3.7 Data collection instruments

The researcher used the following instruments in this study, questionnaire and interview

3.7.1 The self-administered questionnaire

The questionnaires are the main primary source of data collection. The identified samples are served with the questionnaire directly by the researcher. To obtain quantitative data, one set of questionnaires are used for all respondents. The questionnaire is be filled in by accountants, auditors, cashiers, senior administrators, procurement staffs, the human resource staff , other budget holders and managers and field officers and support staff. The questions involved the feelings of respondent groups regarding the contribution of internal controls and practices in SCI EtCO. The questionnaire also aimed at getting responses from the respondents about their views on internal controls and how it can be improved.

3.7.2 Interviews

Interview means face to face interaction between the interviewee and the interviewer. The interviews are held with those respondents identified purposely crucial to the provision of explanations to the topic under study. The questions for the interview are both open-ended and closed. The open-ended questions gave chance to more discussions, while the closed questions asked for particular responses. The interview method helped to collect additional views from respondents on the theme of the study. The interview is conducted with Country director, logistic and finance director procurement staffs, Hub office managers and other SMT members. The

questions are filled on spot and the respondents are interviewed from their offices to save time. This method allowed further probing and clarification of questions that tended to be difficult and not clear to the respondents. It also enhanced responses for questions which were regarded as sensitive.

3.8 Data Processing and Analysis Techniques

The data obtained from the questionnaire is double checked to make sure that the information provided are complete, consistent, reliable, and accurate. Data processing involved scrutiny of the responses given on the questionnaires by different respondents. The data sorted, edited, and interpreted. The coding and tabulation of the data obtained from the study then followed. To achieve data quality management, the questionnaires is tested on 15 respondents. This is to test consistency and to ensure that instruments remain consistent over time.

After data processing, it is summarized and analysed so as to make sense of the data to ensure completeness and consistence. In order to evaluate the current practices and internal control system of SCI EtCO and also to achieve the objective of this study: Findings, which reflect a high magnitude of problems, is selected from interview and questionnaires, the raw data is summarized , analysed, presented, and interpreted to give solutions for the research problem. Moreover, most of the data were summarized and presented in tables and Figures, by the help of the Statistical Program for Social Sciences, version .20, (SPSS, 2005). Quantitative data will be edited first and coded before analysis. Data validation also is done. Thereafter, the data will summarized in form of tables and other statistical forms found suitable for presentation of the findings.

3.10 Reliability and Validity

The reliability was ensured by testing the instruments for the reliability of values (Alpha values) as recommended by Cronbatch, (1946). Cronbatch recommends analysis for Alpha values for each variable under study. According to Sekaran 2001 Alpha values for each variable under study should not be less than 0.6 for the statements in the Instruments to be deemed reliable. Consequently, all the statements under each variable were subjected to this test and were proven to be above 0.6. The validity of the data collection instruments was done with the help of an expert (the Researcher's Supervisor) to edit the questionnaire and the Interview guide. The researcher forwarded the structured Questionnaire to Supervisor who is an expert in the area covered by the research for editing and reviewing.

Table 1: Reliability Test Results

Constructs	Alpha value
Control Environment	0.88
Internal Audit	0.87
Control Activity	0.83
Payment Procedure	0.91
Financial Records	0.70
Procurement Policy and procedure	0.72
Budgetary Control	0.78

Source; primary data, June 2015

The table 1 above reveals that all the variables have Alpha Values above 0.6 mark recommended by Sekaran. Therefore, all the variables in the instrument are deemed reliable.

3.11 Ethical Consideration

There is important ethical concern connected with the collection and validity of data. In fact ethical issues are not only important during the data collecting phase, but throughout the whole research process including during the phase of data analysis and dissemination of findings to ensure that the final thesis report provides an honest, fair and unbiased account and does not negatively affect those who might have participated in this research. To ensure that the interest of all parties are protected and respondents are informed of the objective of the interview prior to each interview. Validity of data is another concern. This is achieved by checking one interview transcript against other interviews to assess the level of consistency and contacting respondents if necessary to check the accuracy or meaning of statements. On top of that, the researcher already got an introductory letter from St. Mary University Save the Children International Ethiopia country office which shows that the researcher is a student from St. Mary University.

CHAPTER FOUR

4. DATA ANALYSIS, PRESENTATION, AND INTERPRETATION OF FINDINGS

4.1 Introduction

In this Chapter the presentation, data analysis, tables and figures were presented and interpretation made in accordance with the research objectives of the study. The chapter is divided into sub-chapter namely: Demographic characteristics of respondents, payment procedures undertaken, financial records subject to internal audit, effective Procurement policies, budgetary control on expenditure and performance.

4.2 Demographic characteristics of respondents

The respondents demographic characteristics include; Age, Gender, Level of education, Time spent on the job and Position held.

4.2.1 Age of the respondents

The distribution of the respondents by age is presented in the study as shown in table 2 below.

Table 2: showing distribution of age of the respondents

Age	Frequency	Percentage (%)
18-25 Years	5	5.5%
26-35 Years	24	26.4%
36-45 Years	49	53.8%
46-55 years	10	11.0%
56+ years	3	3.3%
Total	91	100%

Source; Primary data June, 2015

From Table 2 above, it is clearly evident that the majority of the respondents are in the age bracket of b/n 36-45, followed by 26-35, 46-55, 20-25 and +56 in the orders of 53.8%, 26.4%, 11%, 5.5% and 3.3% respectively. It can therefore be concluded that the majority of the respondents are in the most productive age brackets of their life and are reasonably experienced (assuming that an average Ethiopian starts work at the age of 22 years).

4.2.2 Gender of the Respondents

The study captured gender of the respondents in order to establish the most dominant working group of the employees with Save the Children International Organization in the environment of Ethiopia CO which has just come out of transition. The respondents were asked to state their sex and the distributions shown in table 3 below.

Table 3: Gender of the Respondents

Sex	Frequency	Percentage (%)
Male	67	73.63%
Female	24	26.37%
Total	91	100%

Source: primary data June, 2015

According to the results for gender of the respondents on table 3 above, the total numbers of the respondents were 91 out of 104 that the researcher had targeted. The majority of the respondents were male with the percentage of 73.3%, while the female were 26.37%. This therefore implies that the most dominant working group of employees with save the children International Ethiopia Country office was males. The imbalance in the organization was also one of the major findings on 2012/2013 gender audit, in Ethiopia there was a traditional culture that the women are responsible for home keeping rather than going to school or work, some religions also encourage early marriage of girls which hinders them from furthering their education and due to the fact that there is high illiteracy rate of girls child education. Hence there were no many qualified and educated females to compete with few males that got their education. The findings represent the views of the two sex groups about internal control systems and practices in the organization. This was necessary for the

study to get a balanced picture of the respondents' views.

4.1.1 Level of Education of the respondents

The researcher asked the respondents to state their level of education to find out whether the respondents could be able to interpret the questionnaires given to them by the researcher. The findings indicated some of the respondents in the targeted group have relevant knowledge to read, interpret and answer the questionnaires given to them by the research as presented in table 4 below.

Table 4: Showing level of education of the respondents

Level of Education	Frequency	Percentage (%)
Bachelor	35	38.46%
Masters	40	43.96%
PhD	16	17.58%
Total	91	100%

Source: primary data June, 2015

The study highlighted that in table 4 above, it can be revealed that majority of respondents who are also the employees show that they hold master's degree, followed by bachelors, and PhD in the orders of 43.96%, 38.6%, and 17.58% respectively. This means that the respondents are adequately qualified persons academically and they were equipped with the information concerning internal control and practice of save the children international Ethiopia country office and they were able to interpreted and responded accurately on the questionnaire given to them by the researcher.

4.2.4 Year of Experience

The researcher asked the respondents the period they had spent on their jobs to find out their experience about the internal control and practice of save the children international Ethiopia country office and the findings resulted to a high level of experience on the jobs by the respondents as captured in table 5 below

Table 5: Showing Experience on the current job by the respondents

Period	Frequency	Percentage (%)
1-3 years	30	32.97%
4-6 years	40	43.96%
7-10 years	14	15.38%
10+ years	7	7.69%
Total	91	100%

Source; Primary data June, 2015

The findings on table 5 above indicated that out of the 91 respondents who answered the questionnaires, majority had spent 4-6 years on their current job 43.96%, they were followed by those who had spent 1-3 years on their current job 32.97%, those who had spent 7-10 years were 15.38% and the least number of respondents who had spent above 10 years on their job were only 7.69.

4.2.5 Position held by the respondents

The position held by the respondents in save the children international Ethiopia country office, was also considered by the researcher and the findings were shown in the table 6 below

Table 6: Shows responses on the position held by the respondents

Department	Frequency	Percentage (%)
Accountant and Finance	20	21.98%
Internal Audit	3	3.30%
Human resource	4	4.40%
Hub offices SMT members	20	21.98%
Procurement and logistic	16	17.58%
Country office SMT member's	10	10.99%
Other budget holders and managers	18	19.78%
Total	91	100%

Source Primary data June, 2015

From table 6 above, 21.98% Finance and accountant , 3.3%Internal Auditors, 4.4% human resources staff, 21.98% Hub offices SMT members, 17.58% Procurement and Logistics Staff, 10.99 % Coun-

try office SMT members and 19.78% other Budget holders and manager staffs. This indicated that the study captured different respondents in all field, though the majority of the information was obtained from finance and accounting staffs and Hub offices SMT members and Procurement and logistic and Other budget holders and managers who were directly involved on internal control and practice of save the children international Ethiopia country office. They were having a better and clear understanding of internal control system and that gave a researcher an upper hand to obtained required relevant information for the study.

4.3 Examining the functionality of Internal Control systems

The study sets one of its objectives to critically analyse and reveal how the Internal Control Systems of the Institution actually performs, and details are presented in the descriptive statistics shown by the values of the respective means and standard deviations of the key empirical references. Mean of 3 & above describes that the respondents are agreed with the matter. Details of these analyses are shown in table 7 below;

4.3.1 Descriptive statistics on Internal Control Environment.

Table 7: Mean and Standard deviation of Control Environment

	N	Minimum	Maximum	Mean	Std. Deviation
Accounting & Financial mgt system	91	3	5	4.96	.295
Management Commitment	91	1	4	1.76	1.004
Management's close Monitoring	91	1	5	1.79	.995
Management providing feedback	91	2	5	3.99	.723
Correction of errors in the system	91	1	5	1.85	.930
Management Integrity	91	1	4	2.00	1.000
Ethical values	91	2	5	3.97	.836
Independent audit committee	91	2	5	3.29	1.068
Council independence and its committees	91	1	4	2.36	.863
Internal auditor performs his/her duties with a greater degree of autonomy and independence from management	91	2	5	3.36	1.017
Valid N (listwise)	91				

Source: primary data June, 2015

In table 7 above details of the measures of effectiveness of the control environment under different key statements obtained from the respondents. The statements have been ranked in terms of their means and standard deviations so as to deduce meaning out of the results. Therefore, the details of the table are discussed under sub headings of the corresponding statements tested.

4.3.1.1 Logistic, Accounting & Financial management system

The study (as reflected in table) found that the respondents seem to agree that the SCI EtCO has a logistic, accounting and financial management system in place with a mean value of 4.96 which appears to be close to the maximum rank of 5. This shows that they generally agree about the existence of a logistic and accounting system. However, the corresponding standard deviation also revealed a significant value of 0.295. This also shows that there is a clear variation in the responses provided by the respondents about the existence of logistic, accounting and financial management system. Having a logistic, accounting and financial management system as reflected by the above results is in line with John J. Morris' advocacy for an Enterprise Resource Planning system that deliver fast and accurate financial reports with inbuilt controls necessary to ensure accuracy and reliability of information being reported to Shareholders. It is also an indication that Whittington and Pany's requirement of preparing, verifying and distributing reports to the various management levels is achievable.

4.3.1.2 Management commitment on the operations of the system

The results reflected in table 7 above, show a mean of 1.76, this is below the mean average, implying that respondents disagree as to the statement regarding management's commitment to the operation of Logistic, Accounting and Financial management system. Consequently, a greater standard deviation figure of 1.004 raises concerns regarding the management's commitment to the operation of Logistic, Accounting and Financial management system. The figure of standard deviation further reveals that the respondents had varied opinion about management commitment and this could also mean that besides disagreeing about management commitment, they could also be in disagreement with the degree and type of commitment provided by management. The results are at odds with Whittington and Pany (2001)'s Management commitment to the operations of the logistic, accounting and financial management system rhymes with Whittington and Pany's assertion of the control environment setting the tone of the organization and influencing the control consciousness of everyone in the organization. It supports the assertion by Whittington and Pany that control environment (especially management philosophy and operating style) is the foundation for

all other components of internal control. Management's commitment to the operations of the internal control system is also supported by Verschoor, (1999) where he notes that "Internal control systems not only contribute to managerial effectiveness but are also important duties of the corporate boards of directors". Therefore management commitment to the operations of the system is a fulfilment of their obligation as highlighted by Verschoor.

4.3.1.3 Monitoring implementation of Internal Control system

In Table 7 above, respondents provided their understanding in regard to how management closely monitors implementation of the controls and their perceptions show mean of 1.79, implying that they disagree with the statement. Moreover, a standard deviation of 0.995 suggests significant differences in responses as regards management's monitoring of implementation of internal control system. The finding is in line with Wallace & Kreutzfeldt (1991), Goodwin-Stewart & Kent (2006), and Sarens & De Beelde (2006) all of whom advocate for management (control environment) as the cornerstone for an effective internal control system. Sarens & De Beelde in particular emphasizes the "tone at the top, the level of risk and control awareness" as critical to the success of an internal control system.

4.3.1.4 Provision of feedback to junior officers

The results as reflected in table 7 show a mean of 3.99. This implying, they agree with the statement regarding feedback to junior officers regarding the operation of the system. However, the corresponding standard deviation also revealed a significant value of .723 raises concerns regarding the feedback given to junior officers regarding the operations of the accounting and financial management system. The figure of standard deviation further reveals that the respondents had varied opinion about feedback and this could also mean that even though agreeing about feedback, they could also be in disagreement with the type of feedback provided by management. According to Whittington and Pany (2001)'s requirement for management to include programs for preparing, verifying and distributing reports and analyses to various level of management to enable them maintain control over a variety of activities.

4.3.1.5 Measures taken to correct Errors in Accounting and Financial management system

The results of the survey in table 7 suggest that respondents seem to disagree that appropriate action is taken by management to correct misfeasance in the operations of the system, their perception shows a mean of 1.85, although the standard deviation of 0.930 provided by the same respondents suggests that they possess varied understanding about the aspect of the measures taken to correct any weaknesses in the controls. This could also imply that measures taken are

sometimes, not communicated or formal. Management's action to correct misfeasance in the system is an indication of management's commitment to the operation of the internal control system. This is a general (entity-wide) control advocated for by John J. Morris (2011). This can as well be classified as a strategic control advocated for by Hitt, Hoskisson, Johnson and Moesel (1996).

4.3.1.6 Management Integrity

The results of the survey as revealed by Table 7 suggest that management Integrity is below average. This is evident when the mean of respondents as computed by the system is slightly below the average (i.e. 2.00). Nevertheless, the corresponding standard deviation of 1.000 suggests that respondents had a significant variation in responses on management integrity in the execution of their role; a highly contentious issue. However, this could also be construed to imply that respondents might not have clearly understood the dimensions of integrity in this context. The results in this section are in tandem with Whittington and Pany (2001)'s assertion where they talk of the control environment to include factors like integrity and ethical values of persons responsible for creating, administering controls. This can also be likened to "the control environment setting the tone of the organization by influencing the control consciousness of people" stipulated by Cohen et al., (2002).

4.3.1.7 Ethical values in management decisions

The analysis results in table 7 reveals that to some extent, ethical values are upheld in all management decisions as reflected by a mean value well above average, 3.97. However, even then the respondents seemed to have varied in their responses regarding ethical values in all management decisions as revealed by a standard deviation of .836 (shown in table 6) Upholding ethical values in management decisions is in line with Cohen et al. (2002) where he state that "the tone at the top refers to a company's ethical values, management's philosophy and operating style" which are reflected in the code of conduct or code of ethics.

4.3.1.8 Objectivity and independent of the audit committee

The analysis of results in Table 7 reveal a mean of 3.29, implying that the respondents were slightly in agreement in regard to the objectivity and independence of the Audit committees. However, a standard deviation of 1.068 reveals a significant variation in the opinions which could also relate to not clearly understanding the role of the committee. Audit Committee's independence is in line with Whittington and Pany (2001)'s requirement for audit committees to be independent from the management of an institution and to possess the requisite experience

and status. The independence and objectivity of the audit committee also rhymes well with (DeZoort et al., 2002; & Spira, 2002)’s statement that “the audit committee, as a subcommittee of the board of directors, plays a role in protecting the owners’ interests by monitoring management’s actions, in terms of financial reporting, risk management and internal control”

4.3.1.9 Independence of Governing council and its committee

The results of the survey as reflected in Table 7 revealed that the governing council and its committees seems not independent of management as shown by a mean of 2.36, moreover, there were variations in responses to this test as revealed by the standard deviation of 0.863. However, the variations in responses do not show a big movement from the mean. This finding is also in line with DeZoort et al., (2002); and Spira, (2002)’s statement that the audit committee, as a subcommittee of the board of directors (Governing Council), plays a role in protecting the owners’ interests by **monitoring** management’s actions, in terms of financial reporting, risk management and internal control. This role can only be effectively executed if governing council and all its subcommittees are independent. The governing council’s independence was also highlighted by the American Institute of Certified Public Accountants (AICPA) through its Auditing Standards Board through the issuance Statement on Auditing Standards (SAS) No. 78.

4.3.2 Descriptive statistics on Internal Audit.

Table 8: Mean and Standard deviation of Internal Audit

Internal Audit	N	Minimum	Maximum	Mean	Std. Deviation
Existence of Internal Audit Department	91	3	5	4.96	.295
Sufficiently staffed Internal audit	91	1	4	1.76	1.004
Conduct regular internal audit activities	91	1	5	1.79	.995
Report addresses weaknesses	91	2	5	3.99	.723
Regular reporting of weaknesses	91	1	5	1.85	.930
Management discusses Internal audit	91	1	4	2.00	1.000
Appropriate recommendations for	91	2	5	3.97	.836
Internal auditor visits upcountry centers	91	2	5	3.29	1.068
Internal auditor issues upcountry	91	1	4	2.36	.863
Degree of autonomy from management	91	2	5	3.36	1.017
Valid N (listwise)	91				

Source: Primary data June, 2015

In the Table 8, the researcher set out to examine the internal audit function (another component of the internal control system) as a way of examining the functionality of the internal control system. The test statements were equally ranked in terms of their mean and standard deviation

as a way of interpreting the results. The details of the survey in this regards are discussed under the sub headings of the corresponding statements tested as follows;

4.3.2.1 Existence of internal audit department

From the results in table 8, it is clearly evident that respondent were almost in total agreement as to the existence of the Internal audit function in SCI EtCO as reflected by a mean value of 4.96 which is tending towards maximum value of 5 (i.e. strongly agreeing). However, the standard deviation of 0.295 suggests variations in responses by the various respondents. Virtually all the writers (reviewed) underscore the importance of an internal audit department in helping an organization achieve its objectives. Notable among these are Subramaniam, (2006), Reid & Ashelby, (2002) and Millichamp (1993) among others. Therefore the finding is in tandem with the reviewed literature.

4.3.2.2 Internal Audit sufficiently staffed

Results of the survey in table 8 shows a mean of 1.76 which is below the average; this suggests that respondents don't believe that the internal department is sufficiently staffed. However, a standard deviation of 1.004 suggests varied responses as to whether the internal audit department is sufficiently staffed. The understaffing in the internal audit department could be compensated for by an active and independent Council and its Sub Committee. This is what Gerrit and Mohammad (2010) refer to as "a substitution effect, which means that independent board members may be considered as an alternative monitoring mechanism to the Internal Audit Function".

4.3.2.3 Internal audit staff conducts regular internal audit activities in the SCI EtCO

From the results of the survey as reflected by Table 8, respondents seem to strongly disagree as to whether the Internal audit staff conduct regular internal audit activities. This is revealed by a mean of 1.79 which is below the average of 3. However, a standard deviation of 0.995 suggests a significant variation in the responses generated by the respondents. This means that the internal auditor's role of examining and evaluating the effectiveness, efficiency and the economy of the management control system as advocated by Subramaniam, (2006) may not be achieved. This is however in contrast with findings 4.3.1.2 "Management commitment on the operations of the system" and 4.3.1.3 "Monitoring implementation of Internal Control system"

4.3.2.4 Internal audit report addresses weaknesses in the internal control system

Results of the survey as reflected in table 8 suggest that Respondents agree that the Internal audit reports address weaknesses in the internal control system. This is revealed by a mean of 3.99, although the standard deviation of 0.723 seems to suggest variation in the responses generated for the test. This therefore confirms Whittington and Pany (2001)'s suggestion that "internal auditing is performed as part of the monitoring activity of an organization". This is also in line with Gupta (2001) assertion that "the objective of internal audit is to assist members of the organization in the effective discharge of their responsibilities".

4.3.2.5 Internal audit reports are produced regularly

Results of the study in table 8 suggest that staffs are strongly disagreement that internal audit reports are produced regularly. This is revealed by a mean value of 1.85 which is below the average. However, a significant standard deviation of .930 which suggests that internal audit reports are not produced regularly. This could also imply that the staffs beliefs that audit reporting schedule since they are submitted directly to the Country Director, senior management team or regional office. The finding does not augur well with Sebbowa (2009)'s suggestion that internal auditing is a consulting activity designed to add value and improve an organization's operations. This therefore means that Zabihollah (2001)'s assertion of internal audit procedures ensuring reliability of financial statements, operational reports, safeguarding corporate assets and effective organizational controls may not be achieved.

4.3.2.6 Management discusses internal audit reports frequently

From the survey, as reflected in table 8, it can be deduced that respondents were dis agreed that management discusses internal audit reports frequently, this is revealed by a mean value of 2.00, although the standard deviation under the same test revealed a variations in responses generated. Management discussing internal audit reports is an indication of management commitment. It reaffirms Wallace & Kreutzfeldt (1991)'s finding that companies with internal audit functions are well run entities, are more competent in their management and accounting personnel and are subject to better management controls. This is also in line with Earnest and Young (1995)'s statement that the work of the internal auditor should appear to be properly planned, controlled, recorded and reviewed.

4.3.2.7 Internal auditor makes appropriate recommendations to management

From table 8 above, respondents seem to marginally agree with statement regarding internal audit recommendations to management regarding improvement in system of control as reflected by the mean value of 3.97. However, a significant standard deviation figure of .0836 reveals

varied responses from the respondents on the same, implying that they have different opinions about this role played by internal auditor. This could also infer as to whether the internal auditor makes appropriate recommendations for management to improve. The finding is in agreement with Gupta (2001)'s statement that "the objective of internal audit is to assist members of the organization in the effective discharge of their responsibilities".

4.3.2.8 Internal audit department visiting up country centres

From the results of the survey as reflected in table 8 above, respondents slightly agree about the internal auditor visiting up-country centres. This is revealed by a mean value of 3.29. However, a significant standard deviation of 1.068 suggests varied responses over the control. Therefore Gupata's statement of "the objective of internal audit is to assist members of the organization in the effective discharge of their responsibilities" may be true in this respect.

4.3.2.9 Internal audit issuing audit reports on upcountry centres

The results of the survey as revealed by table 8 in this regard suggest a disagreement by respondents as to whether the internal auditors issues reports on upcountry centres regularly. This is shown by a mean value of 2.36. It worth noting that in as much as the respondent disagreed with the Internal auditor's issues audit report to up country centers regularly, they were tending towards the average value of 3, implying that to some extent the respondents were not sure as to whether the Internal auditor issues audit report to up country centres regularly This is in tandem with the revelation in 4.3.2.8 where respondents slightly agree that the internal auditor visit up country centres regularly. However, a standard deviation of 0.863 suggests varied responses over the control. Therefore Gupata's statement of "the objective of internal audit is to assist members of the organization in the effective discharge of their responsibilities" may not hold true in this respect.

4.3.2.10 Degree of independence of internal audit department

The results of the survey as reflected in table 8 suggest those respondents are indifferent as to the internal auditor's independence from management. This is revealed by a mean value of 3.36. However, a significant standard deviation of 1.017 reveals that there were varied responses from the respondents as to the independence of the internal auditor from management. This does not rhyme with Gupta (2001) Millichamp (1993) and Sebbowa (2009) who advocate for independence of the internal auditor in the execution of his/her duties.

4.3.3 Descriptive statistics on Control activities

Table 9: Mean and standard deviation of Control Activities

Control Activities	N	Minimum	Maximum	Mean	Std. De- viation
Clear separation of roles	91	1	5	3.64	1.140
Employees' work checked by others	91	1	5	2.31	1.122
Appropriate supervision by senior staff	91	1	5	2.77	1.274
Corrective action taken to address weakness	91	2	5	3.69	1.008
Staff trained to implement system	91	2	5	3.60	.917
Well-developed Chart of Account	91	2	5	3.82	.811
Information accessed with consent of senior staff	91	2	5	4.09	.825
No expense is incurred in excess of budgeted	91	1	5	2.65	1.361
Variance reports generated with explanations	91	1	5	3.45	1.232
Security systems safeguards Assets	91	1	4	2.21	.983
Valid N (listwise)	91				

Source: Primary data June, 2015

In the table 9 above the researcher set out to examine the functionality of the internal control systems in SCI EtCO using control activities as an internal control component. The results were analyzed used mean and standard deviations so as to drawing conclusions from the survey. The results are discussed under the various headings of the statements tested. These are discussed as follows;

4.3.3.1 Separation of roles within the SCI EtCO

The results of the survey as reflected in table 9 suggest that respondents agree there is a clear separation of roles while executing logistic, finance and accounting functions. This is shown by a mean of 3.64. However a significant standard deviation of 1.140 is a clear manifestation of varied responses from respondents as far as clear separation of roles is concerned. This is in line with Ray and Pany's (2001) "suggestion of segregation of duties" such that no one person should handle all aspects of a transaction from the beginning to the end.

4.3.3.2 Internal checks within the SCI EtCO

To results of the survey as reflected in table 9 in this regard suggest a disagreement by respondents as to whether every employee's work is checked by others as revealed by the mean value 2.31. However, a significant standard deviation of 1.122 reveal varied responses from the respondents interviewed as far as checking other employees' work is concerned. The lack of internal checks within an institution is at odds with Whittington and Pany's recommendation of

“information processing” in which he recommends checks to ensure accuracy and completeness of information being processed.

4.3.3.3 Supervision by senior staff

The table 9 reveals that respondents disagree that there is appropriate supervision of junior staff by their seniors. This is revealed by a mean value of 2.77, though it is not significantly far from the “not sure” position. There is a significant standard deviation of 1.274 reveals that there were varied responses from the respondents interviewed. The lack of supervision by senior staff is an indication of deficiencies in strategic controls as advocated for by Hitt, Hoskisson, Johnson, and Moesel (1996) which if not addressed may lead to material internal control weaknesses.

4.3.3.4 Action taken to address weaknesses

The results in table 9 above reveal that respondents agree that corrective action is normally taken to address weaknesses as shown by a mean value of 3.69. This value is close to the midpoint position, implying that respondents were almost not sure as to whether corrective action is taken to address weaknesses. However, a significant standard deviation of 1.008 shows that there are very varied responses as far as responses to this control test was concerned. Action being taken to address weaknesses in the system is an indication of the commitment to system by management as recommended by Sarbanes-Oxley Act of 2002 (SOX). This is the commitment referred to by Whittington and Pany (2001)

4.3.3.5 Staffs are trained to implement Logistic, Accounting and Financial management system

Table 9 reveals that respondents agree that staffs are trained to implement Accounting and financial management system and this is shown by a mean value of 3.60. However, this implying that the respondents do seem to appreciate internal control activities. Nevertheless, a standard deviation of 0.917, however suggests varied responses from respondents as far as staff training in the implementation of logistic, accounting and financial management systems are concerned. Staff being trained in the use of Logistic, Accounting and Financial management system is an indication of the commitment to the effectiveness of systems of internal control. It is what Verschoor, (1999) recommended as “programs of selection and training of personnel”.

4.3.3.6 Well-developed chart of account

The results in table 9 suggest that respondents agree to a small extent that SCI EtCO has a well-developed chart of accounts. This is revealed by a mean of 3.82 .However standard deviation of

.811 suggests that there were varied responses as far as this test concerned. Having a well-developed Chart of Account is both a strategic control and a financial control referred to by Hitt, et al; (1996)

4.3.3.7 Restriction of access to valuable information

The results in table 9 indicate that respondents were agreed that in SCI EtCO “it is impossible for one staff to have access to all valuable information without the consent of senior staff. This is revealed by a mean value of 4.09. However the standard deviation of 0.825 indicates the respondents varied greatly as far as this test was concerned. This may be an indication of lack of segregation of duties which may impact on the reliability of financial reports and procurement activities referred to by Whittington and Pany.

4.3.3.8 Controls over expenditure

The results in table 9 above revealed that respondents were slightly not sure as to whether controls are in place to exclude incurring expenditure in excess of allocated funds. This is revealed by a mean value of 2.65 which is close the average of 3 (i.e. the not sure position). However, there is a significant standard deviation of 1.361 suggests varied responses to the test from the respondents interviewed. The finding could be a failure in the monitoring aspect referred to by Hayes, et al, (2005)

4.3.3.9 Departmental budgets review

The results in table 9 suggest that respondents slightly agreed with the test statement that “departmental budgets are reviewed with actual expenditure compared with budgets and explanations for the variances obtained”. This is revealed by a mean value of 3.45. However, in as much as respondents agreed with the test statement, they were tending towards the “not sure” position of 3. However the significant standard deviation of 1.232 over the same test suggests varied responses from the respondents interviewed. The failure by SCI EtCO to provide budget reviews is at odds with Ray and Pany (2001)’s recommendation for “performance reviews” where he recommends comparing actual performance with budgets, forecasts and prior period performance.

4.3.3.10 Security system on safeguard of organizational assets

The results of the survey as reflected in table 9 suggest that respondents disagree with the security system ability to identify and safeguard assets of SCI EtCO. This is revealed by a mean value of 2.21. However, standard deviation of 0.983 suggests that respondents varied greatly in

their responses to the test statement. The failure by the system to identify and safeguard assets of SCI EtCO does not augur well with Ray and Pany (2001)'s recommendation for "physical controls" (necessary to provide security over both records and other assets.)

4.3.4 Descriptive statistics on Payment Procedures

Table 10: Mean and standard deviation of Payment Procedure

Payment Procedure	N	Minimum	Maximum	Mean	Std. Deviation
Originals of Payment vouchers were verified	91	1	5	4.08	.885
Payments vouchers were in prescribed form	91	2	5	4.00	.894
All payment vouchers are filed in numerical order	91	3	5	4.34	.562
Payment procedures affect its internal control system	91	3	5	4.32	.535

Source ; primary data June ,2015

4.3.4.1 Originals of Payment vouchers were verified

The researcher asked the respondents whether original payment vouchers certified by the responsible by the authorized officers in SCI EtCO Organization. The findings revealed that there was a better improvement in certifying payment vouchers. This is revealed by Table 10 with a mean value of 4.08 which appears to be close to the maximum rank of 5. However, the corresponding standard deviation also revealed a significant value of 0.88. This also shows that there is a clear variation in the responses provided by the respondents about the originality of payment voucher verification.

4.3.4.2 Payments vouchers were in prescribed form

Respondents were asked if all payments were supported by the vouchers in a prescribed form. The findings revealed that payments were supported by the vouchers and other supporting documentations require for completing the payment process. This is revealed by table 10 above, with a mean value of 4 which is above average and close to the maximum rank 5, although the standard deviation of 0.894 seems to suggest variation in the responses generated for the test.

4.3.4.3 All payment vouchers are filed in numerical order

The study (as reflected in table) found that the respondents seem to agree that All payment vouchers are filed in numerical order with a mean value of 4.34 which appears to be close to the maximum rank of 5. This shows that they generally agree about all payment vouchers are filed in numerical order. Standard deviation also revealed a value of 0.562. This also shows that there is a slightly variation in the responses provided by the respondents.

4.3.4.4 Payment procedures affect its internal control system

As reflected on table 10 above, the respondents seem to agree that payment procedure undertaken by SCI EtCO affect its internal control system with mean score of 4.32 which appears to be near to the maximum rank. The corresponding standard deviations also have slightly variation in the responses provided by the respondents which is 0.535.

4.3.4 Descriptive statistics on Financial Records

Table 11: Mean and standard deviation of Financial Records

Financial Records	N	Mini mum	Maxi mum	Mean	Std. Deviati on
Proper review over receipts are performed	91	1	5	2.49	1.377
SCI EtCO has enough Data and document reviewer staffs	91	2	5	3.73	1.096
Data and document reviewer staffs are easily compromised	91	1	5	2.89	1.354
Data and document reviewer has led to the reduction of fraud in SCI EtCO	91	1	5	3.27	1.265

Source primary data June, 2015

4.3.4.1 Proper review over receipts are performed

The results as reflected in table 11 show a mean of 2.49. This is below the mean average, implying that respondents disagree as to the statement regarding proper review over receipts are performed. Consequently, a greater standard deviation figure of 1.377 raises concerns regarding proper review over receipts is performed. The figure of standard deviation further reveals that the respondents had varied opinion about the appropriate review of receipts is performed.

4.3.4.2 SCI EtCO has enough Data and document reviewer staffs

From the table 11 above, respondents seemed to agree that SCI EtCO has enough data and document reviewer staffs to make reviews as reflected by the mean value of 3.73 which is tending towards the maximum point of 5. However, a significant standard deviation of 1.096 suggests a varied response regarding the organization has enough data and document reviewer staffs to make reviews.

4.3.4.3 Data and document reviewer staffs are easily compromised

The results as reflected in table 11 show a mean of 2.89. This is below the mean average, implying that respondents disagree as to the statement regarding the organization data and document reviewer staffs are easily compromised. Consequently, a greater standard deviation figure of 1.354 raises concerns regarding the organization data and document reviewer staffs are easily convince. The figure of standard deviation further reveals that the respondents had varied opinion.

4.3.4.4 Data and document reviewer has led to the reduction of fraud in SCI EtCO

The respondents were asked by the researcher whether internal auditing reduced fraud in SCI EtCO. Respondents provided their understanding in regard to data and document reviewer staffs have led to the reduction of fraud in the organization .it is revealed by the above table 11, 3.27 mean which show the respondents agree with the statement. But since the mean appears so close to the actual average, then the need to closely focus on the variation. Thus, a standard deviation of 1.265 suggests significant differences in responses as regards data and document reviewer staffs have led to the reduction of fraud in the organization.

4.3.5 Descriptive statistics on Procurement policies and procedure

Table 12: Mean and standard deviation of Procurement policies and procedure

Procurement policies and procedure	N	Minimum	Maximum	Mean	Std. Deviation
Implementation of procurement policies and guidelines	91	2	5	3.89	.912
Strict adherence to procurement guidelines	91	1	5	2.58	1.292
Procurement process in accordance with SCI EtCO and Donor policies	91	1	5	2.34	1.185
Segregation of duties on authorization of expenditures and payment	91	3	5	4.38	.553
Conflicts of interest among SCI EtCO staffs	91	1	5	2.54	1.409

Source: primary data June, 2015

4.3.5.1 Implementation of procurement policies and guidelines

The researcher asked the respondents whether SCI EtCO has procurement policies and guidelines that can be followed. The respondents agree that SCI EtCO has procurement policies and guidelines that can be followed this is shown on table 4.9 with a mean value of 3.89 which is tending towards the maximum point of 5. However, a significant standard deviation of 0.912 suggests varied responses regarding the organization have procurement policies and guidelines that can be followed.

4.3.5.2 Strict adherence to procurement guidelines

The results as reflected in table 12 show a mean of 2.58. This is below the mean average, implying that respondents disagree as to the statement regarding there has been strict adherence to procurement guidelines when undertaking procurement at the organization. Consequently, a greater standard deviation figure of 1.292 raises concerns regarding SCI EtCO strict adherence to procurement guidelines. The figure of standard deviation further reveals that the respondents had varied opinion.

4.3.5.3 Procurement process in accordance with SCI EtCO and Donor policies

The result as shown on table 12 indicate that a mean of 2.34 this is below the mean average, indicate that respondents disagreed to the sentence regarding the procurement process is follow in accordance with the organization policies and Donor policies. There is also a greater standard deviation of 1.185 which reveals that the respondents had varied opinion.

4.3.5.4 Segregation of duties on authorization of expenditures and payment

From the table 12 above, respondents seemed to agree that Staff who authorized purchases or expenditures do not issue the payment as reflected by the mean value of 4.38 which is tending towards the maximum point of 5 and there is standard deviation of 0.553 which show there is slight deviation.

4.3.5.5 Conflicts of interest among SCI EtCO staffs

A question as to whether there is a safeguard for protection against conflict of interest among the procurement officers. Findings therefore are shown on below table 12 majority of the respondents disagreed that there is a safe guard for protection of conflict of interest among the procurement officers which is revealed by mean of 2.54 which is below average. There is also a greater standard deviation of 1.409 which reveals that the respondents had varied opinion.

4.3.6 Descriptive statistics on Budgetary Control

Table 13: Mean and standard deviation of Budgetary Control

Budgetary Control	N	Minimum	Maximum	Mean	Std. Deviation
Objectives are clearly set in the budget framework	91	2	5	3.77	1.065
Payments were made according to the budget	91	1	5	2.86	1.261
There is a budget desk at the organization	91	3	5	4.05	.621
Previous year's budget performance reports are used for future planning	91	2	5	3.87	1.002

Source primary data June, 2015

4.3.6.1 Objectives are clearly set in the budget framework

The researcher asked the respondents whether organizational objectives were clearly set in the budget, the intention of researcher want to know if the objectives were achieved. The results as reflected in table 13 show a mean of 1.79 which is below the mean average ,implying that respondents disagree as to the statement regarding the organization objectives are clearly set in the budget framework. Consequently, a greater standard deviation figure of 0.995 raises concerns regarding the organization objectives are clearly set in the budget framework. The figure of standard deviation further reveals that the respondents had varied opinion.

4.3.6.2 Payments were made according to the budget

The researcher asked the respondents whether payments and expenditures were made in accordance with the current budget. As shown on table 13 the mean is 2.86 which is below the mean average. This result imply that respondents disagree as to the statement payment are made in accordance with the current budget. The figure of standard deviation which is 1.261 reveals that the respondents had varied opinion about payment are made in accordance with the current budget.

4.3.6.3 There is a budget desk at SCI EtCO

The researcher asked the respondents whether there is a budget desk at SCI EtCO organization. The majority of the respondents agree that there is a budget desk at SCI EtCO organization, it is revealed on table 13 with a mean value of 4.05 which is above average and near to the maximum value of 5. Although the standard deviation of 0.621 seems to suggest variation in the responses generated for the test.

4.3.6.4 Previous year's budget performance reports are used for future planning

The researcher asked the respondents if the previous year budget performance was used for future planning. From table 13 it can be early observed that the respondents did not agree on previous year's budget performance reports are used for future planning, this is indicated by a mean value of 1.76.however, a greater standard deviation figure of 1.004 raise concerns regarding the use of previous year's budget performance reports are used for future planning and the figure of standard deviation also reveals that the respondents had varied opinion.

CHAPTER FIVE

5. SUMMARY FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents summaries of the study findings as per the study objectives, conclusions based on those findings and recommendations which are based on both the study findings and other relevant literature considered necessary and vital to be used in future to improve the study situation.

5.2 Summary of findings

This part presents the summarized results and interpretation (findings) based on the study objectives as established at the beginning of the study.

5.2.1 Appropriateness of Internal Control policy and procedure

The study found that all policy and procedures, (logistic, accounting and finance and grievance) were in place however there were not fully practised by the staffs and management according to the research, this is due to various reason; for example lack of awareness, deliberate overriding of policy and procedure, lack of segregation within the logistic and finance function, particularly at hub level. Staffs in the field are performing incompatible duties with limited management oversight which compromises controls and exposes the organisation to risk of increased errors/ loss of funds.

5.2.2 Functionality and effectiveness of the established internal control system

The study found out that management of SCI EtCO is not committed to the controls of the organization and they are not actively participating in monitoring and supervision of the activities of the organization. The study also reveals that even though, all the activities of the organization are initiated by the top level management, there are lack of management oversight to review and validate the activities. On the effectiveness of the internal audit, the study found out the internal audit department is not efficient, doesn't conduct regular audit activities and doesn't produce regular audit reports. They however, agree that the few reports that are produced in the department address the weaknesses in the system. The study also found that the internal audit department is understaffed and this could be one of the reasons for not producing reports as expected. Regarding control activities, the study found that, there is no clear separation of roles, supervision of activities by senior staff, weaknesses that are realized are addressed, and there is a

training program for capacity building in the organization. However, the study also found out that there is lack of information sharing in the organization and also no security measures are put in place to safeguard the assets of the organization

5.2.3 Internal control systems and Logistic, Accounting and financial practices

The study established that proper financial payments and records procedures were being followed. In summary and basing on the findings from the respondents the majority agreed that to some extent proper financial payments procedures were being followed .However lack of due diligence on reviewing procurement and financial documents still challenges for the organization due to this, the organization data reviewers compromised the established internal control policy and procedure .It can then be concluded that payment and record procedures when undertaken well affect internal control system negatively of SCI EtCO.

The researchers also find out how SCI EtCO has ensured effective procurement policies hence the development of the organization. The findings clearly indicated that this area had a number of problems which impacted on the performance of the organization, in addition to the questions that gave a negative response, as per interview questions and discussion with SCI EtCO senior management they admitted that there is a gap b/n logistic and accounting & finance departments to follow up all internal control system and work on collaboration. Thus the research identified significant weaknesses in the procurement process which exposes the organisation to the risk of fraud and corruption and /or/ failure to obtain value for money, and conflict of interest .The implication here is that SCI EtCO lost a lot of funds under dubious procurement undertakings.

The researcher also examined how SCI EtCO had exercised budgetary control on the expenditure of all departments in the organization. A summary review indicates that, there has been a lack of reliable budget planning information .Budgetary control is very weak. Although there are well established monitoring mechanisms, management information is not sufficiently reliable to facilitate effective monitoring and control of spending against award budgets. The budgetary control as an internal control method put in place by the SCI head office and as highlighted in SCI EtCO policy did not perform as expected and therefore affected its performance. The findings were supported by the questions which were asked directly to the respondents in line with the stated objectives and the performance indicators of the organization to which the majority indicated that there was an improper application of the objectives set.

5.2.4 Independence and potential impairment of SMT member's decision

Based on the findings of the study majority of the respondents were not believe that the SMT members independent and their decision also free from impairments. During interview with SMT members we also noted a failure to take appropriate action in response to mistakes, misappropriation and suspicions of fraud and corruption. Management stated that they were taking a strong stance against mistakes, misappropriation and fraud and corruption, yet we observed a dislocation between management assertions regarding zero tolerance and decisions/actions being taken on the ground.

5.2.5 Summary of interview questionnaires

The interviews are held with those respondents identified purposely crucial to the provision of explanations to the topic under study. The questions for the interview are both open-ended and closed. The open-ended questions gave chance to more discussions, while the closed questions asked for particular responses. The interview method helped to collect additional views from respondents on the theme of the study. The interview is conducted with Country director, logistic and finance director procurement staffs, Hub office managers and other SMT members. The questions are filled on spot and the respondents are interviewed from their offices to save time. This method allowed further probing and clarification of questions that tended to be difficult and not clear to the respondents. It also enhanced responses for questions which were regarded as sensitive.

The study found that all most all interviewee believed that the organization have comprehensive internal control policy and procedures and also the SMT decisions are free from any biasedness however ,they admitted the following gaps ;

- Staff awareness regarding policy and procedure are poor
- There are collusions of internal and external parties to override the policy and procedure
- They believe that the country labour low by itself is also a huge challenge , it doesn't allow to take action
- People they are not using whistle blowing mechanism properly finally, the management promised to the researcher that they addressed all the gap which is unidentified by this research by reviewing the current policy and procedure, re-structuring of logistic and

finance departments ,provide awareness and orientation to all staffs regarding internal control system and key policies of the organization

5.3 Conclusions

The study assessed SCI EtCO internal control policy and procedure and current practices. Based on the findings of the study, it is concluded that;

- There was lack of awareness about internal control and procedure, deliberate overriding of policy and procedure and Inadequate segregation of duties due to this the study concluded that internal control policy and procedure is not appropriate.
- According to the study, established policy and procedure was not exercised and effective as expected, There was lack of management oversight and commitment, Inefficient internal audit department
- The current practices of logistic, accounting and finance departments are not in line with the organization policy and procedure. According to the study there is lack of due diligence on reviewing procurement and financial documents, Significant weaknesses in the procurement process which exposes the organisation to the risk of fraud and corruption and /or/ failure to obtain value for money, and conflict of interest . lack of reliable budget planning information , Ineffective monitoring and control of budget
- Based on the study The SMT members were independent and their decision also not free from impairments.

Moreover internal controls affect the performance of an organization this could be positively or negatively depending on how it has been done. Based on the findings of the study, it is concluded that the organization has a comprehensive internal control policy, procedure and system as supported by the study findings. However, there are challenges in the implementation of controls especially considering that the audit function is not well extended to the upcountry centres, lack of clear separation of roles, supervision, training, and commitment of management, lack of proper financial accountability, weakness regarding procurement control and budgetary control on the expenditure which clearly has affected their efficiency as revealed by this study on internal control system of the organization.

5.4 Recommendations

- Since it was evident in the study, that the staffing level in the internal audit department is not adequate to cover the entire organization set up, evidenced by not conducting regular audit activities, not operating efficiently as well as their reports not being regular, the study therefore recommends competence profiling which should be based on what the organization expects the internal audit to do and what appropriate number of staff would be required to do this job.
- It is recommended that each functional manager should be tasked with reviewing SCI policies applicable to their function, localising them and ensuring that relevant staff and other parties are aware of the key SCI requirements in their area and any changes to ways of working.
- The researcher recommended that The SMT should review their standing agenda to include items such as review of key risks, review of logistic and financial, programme and other management information.
- The researcher recommended that Review the roles and responsibilities of the logistics and financial staffs to ensure that they are adequately segregated.
- It is recommended that high level finance reports should be submitted to the SMT for review on a regular basis, including budget versus actuals analysis and funding gap analysis
- The researcher recommended that Procurement committees should be set up with an appropriate make up and adequate degree of independence to ensure that there is an open and transparent procurement process.
- It is recommended that Conduct refresher training for all relevant staff to reinforce SCI procurement and financial procedures and documentation protocols.
- The researcher recommended that provide refresher training/orientation to finance and other staff involved in the payment process on the corporate policies and procedures, key supporting documentation required, and the controls to exercise.
- Budget holders are monitoring expenditure against their budgets on a monthly basis. Budget holders should be required to include a variance analysis. Action taken to address

variances e.g. budget amendment should be documented. Budget holders should exercise more rigour when discharging their responsibility for reviewing/ approving payments, to ensure that these are appropriately coded. To maintain an adequate audit trail, we recommend that the monthly BvAs with the variance analysis is retained on the award file.

- The organization establishes and manages knowledge/information management system within the organization so as to enable all parties within the organization to freely access and utilize the official information including grievance procedure.

5.5 Suggestions for further research

The researcher suggests that, if further research is done in the following topics, which are not adequately studied here, it would be of paramount importance to the case organization and other stakeholders

- 1 The influence of ICT on the effectiveness of internal control system
- 2 The role of Internal controls on the performance of Public organisations.

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APPENDICES

I. Questionnaire to Selected Respondents

St. Mary University Addis Ababa, Ethiopia

SCI EtCO /Hub office /Senior Management /Administrative Staff Questionnaire

Dear Respondent, My name is **Belayneh Gizaw Gebeyehu** I am currently carrying out a study for the purpose of writing a dissertation as a requirement for the award of Master of Business Administration of Finance and Accounting of St. Mary University. The topic of study is EXPLORING INTERNAL CONTROL PRACTISE OF SAVE THE CHILDREN INTERNATIONAL ETHIOPIA COUNTRY OFFICE. You have been selected to participate in this study due to the importance of your information in the study. The information you provide will only be used for the purpose of this study and will be treated with utmost confidentiality. Please feel free and answer all the questions truthfully. There are no right or wrong answers.

Section A

RESPONDENT'S BACKGROUND

1 Gender (Circle where appropriate)

A Male

B Female

2 What is your highest level of education? (Circle where appropriate)

A Certificate/Diploma

B Bachelor

C Masters

D PhD

E Other (Specify).....

3 What position do you currently hold in the Organization that you work for? (Circle where appropriate)

- A Senior Management Committee member
- B Departmental head, BH, or COP
- C Former Departmental head, BH, or COP
- D Management staff
- E Logistic and /or/ Finance & Accounts staff

4 In what age bracket do you fall? (Circle where appropriate)

- A 18-25
- B 26-35
- C 36-45
- D 46-55
- E 56+

5 For how long have you served in this organization?

- A 1-3 years
- B 4-6 years
- C 7-10 years
- D 10+ years

Section B:

To examine the functionality of Internal Control systems of Save the Children Ethiopia Country Office

Please rank the following statement on Likert scale ranging from strongly disagrees to strongly agree

Where;

1= strongly disagree

2= disagree

3= not sure

4= agree

5= strongly agree

Statements	1	2	3	4	5
Control environment	1	2	3	4	5
The organization has a logistic and an accounting & financial management system					
Management is committed to the operation of the system					
Management closely monitors implementation of Internal control systems in the organization					
Management provides feedback to the junior officers about the operation of the system					
Appropriate measures are taken to correct misfeasance in operation of the logistic and Accounting & Finance Management System					
Management acts with a great degree of integrity in execution of their roles					
Ethical values are upheld in all management decisions					
The organization has an objective, independent and active audit committee					
The governing council and its committees are independent of management					
Internal audit	1	2	3	4	5
The organization has an internal audit department					
The Organization audit is sufficiently staffed					
Internal audit staff conduct regular audit activities in the organization					
Internal audit report address weaknesses in the internal control system					
Internal audit reports are produced regularly					
Management discusses internal audit reports frequently					
Internal auditor makes appropriate recommendations for management to improve					
Internal audit department visits up-field offices often times					
Internal auditor issues Up-country reports regularly					
Internal auditor performs his/her duties with a greater degree of autonomy and independence from management					
Control activities	1	2	3	4	5
The organization has clear separation of roles					
Every employee's work check on the others					
There is appropriate supervision by senior staff on the work of their juniors					
Corrective action is taken to address weaknesses					
Staff are trained to implement the organization system including logistic and accounting & financial management system					
The organization has a well-developed Chart of Account					
The organization Accounting system adequately identifies the receipts and expenditure of grant contracts					
It is impossible for one staff to have access to all valuable information without the consent of senior staff					
Controls are in place to exclude incurring expenditure in excess allocated funds					
Departments have budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the variances given					

The organization system identifies and safeguard organizational Assets					
Payment Procedures					
Originals of payment vouchers are certified in fully by the responsible officer					
All payments are supported by vouchers in a prescribed form					
All payment vouchers are filed in numerical order					
Payment procedures undertaken by the organization affect its performance					
Financial Records	1	2	3	4	5
The organization as an internal audit function which performs review					
Proper review over receipts are performed					
The organization has enough internal audit staff to make reviews					
The organization Audit staff is easily compromised					
Internal auditing has led to the reduction of fraud in					
Procurement Policies	1	2	3	4	5
The organization has procurement policies and guidelines that can be followed					
There has been strict adherence to procurement guidelines when undertaking procurement at the organization					
The procurement process follow is in accordance with the organization policies and Donor policies					
Staff who authorized purchases or expenditures do not issue the payment					
There is a safeguard for protection against conflicts of interest among the procurement officers					
Invoices received checked against orders confirming pricing and the receipt of the goods or services ordered?					
Budgetary Control	1	2	3	4	5
The organization objectives are clearly set in the budget framework					
Payment are made in accordance with the current budget					
There is a budget desk at the organization					
Previous year's budget performance reports are used for future planning					

If you have any additional comment or suggestions regarding SCI EtCO internal control system and practices. Please mention?

II. Interview Guide to CD and SMT

EXPLORING INTERNAL CONTROL PRACTISE OF SAVE THE CHILDREN INTERNATIONAL ETHIOPIA COUNTRY OFFICE.

Dear Respondent:

My name is **Belayneh Gizaw Gebeyehu**. I am currently carrying out a study for the purpose of writing a dissertation as a requirement for the award of Master of Business Administration of Finance and Accounting of St. Mary University. You have been selected to participate in this study due to the importance of your position in the organization. The information you provide will only be used for the purpose of this study and will be treated with utmost confidentiality. Kindly help me generate solutions to the following Questions:

- 1 In your opinion, does the organization operate systems of internal controls? If so how does your role support it?
- 2 Are the systems of internal controls that are currently applied in the organization referred to in 1 above functioning as they are intended to? If not what is the gap
- 3 How do you validate whether logistic and financial activities are strictly compliant with established internal control system? Give example
- 4 In your opinion, do you think your organization has adequate internal control system and practices to meet its obligations? Any success factor.
- 5 In your opinion, is the Accountability process adequate in your organization? Give reasons.
- 6 How would you rate the whistle blowing reporting process in your organization?
- 7 Does the SMT members decisions are independent and free from bias? If yes, How do you validate

Thank you for your valuable contribution

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Tiruneh Legesse (Asst. Professor). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree in any university.

BELAYNEH GIZAW

Name

Signature

St.Mary's University, Addis Ababa

January, 2016

ENDORSEMENT

This thesis has been submitted to St.Mary's university, school of graduate studies for examination with my approval as a university advisor.

Advisor

St. Mary's University Addis Ababa

Signature

January, 2016