



**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**ASSESSMENT OF INTERNAL CONTROL EFFECTIVENESS:
IN CASE OF CARE ETHIOPIA**

BY

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ID NO SGS/0267/2009A

JUNE, 2018

ADDIS ABABA, ETHIOPIA

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**RESEARCH REPORT SUBMITTED TO ST. MARY'S UNIVERSITY,
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ACCOUNTING AND FINANCE**

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ST. MARY'S UNIVERSITY

DEPARTMENT OF IN ACCOUNTING AND FINANCE

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Asmamaw Getie (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.

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June, 2018

ENDORSEMENT

This thesis has been submitted to St. Mary's University for examination with my approval as a university advisor.

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June, 2018

AKNOLOGMENTS

The Almighty God, I do not know how I can state for all; I am heartily grateful to him for his bright gifts throughout my life from the beginning wherever I go.

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Abstract

The objectives of this study was assessing the internal control effectiveness of international NGOs in Ethiopia taking CARE Ethiopia as a case study. To achieve its objective, the study was tried to assess about five control elements of internal control. These are Control Environment, Control Activities, Risk Assessment Practice, Information and Communication using system and Monitoring and Evaluation system of internal control. Based on this, the study collected data from employee of the organization using structured questionnaire and interview. Accordingly, 32 respondents were participated. Both the questionnaire and interviews results were used to answer the research questions. For the interview purposive sampling techniques was made. The data gathered from questionnaire analyzed by descriptive statistics such as mean, standard deviation, minimum and maximum through statistical tool SPSS version 23. The study finds out that the control environment of the internal control system is inadequate to be judged as effective, particularly, the organization didn't continuously provide mentoring and training opportunities needed to attract, develop, and retain appropriate and competent personnel. The study further finds out organization has not sufficiently designed appropriate strategy of identifying risk, no sufficient system designed to respond to risk, lack of monitoring and evaluation system of internal control, The study recommends that monitoring in an effective internal control system is required to continuously evaluate whether the system is performing as per the designed system and the management should establish good internal control environment to control activities on an on-going basis.

Key Words: -Control Activities, Control Environment, Internal Control, Information and communication, Monitoring and Evaluation

LIST of ACRONYMS

AIS	Accounting Information Systems
AAID	Australian Agency for International Development
ADA	Austrian Development Agency
AICPA	American Institute of Certified Public Accountants
CARE	Cooperative for Assistance and Relief Everywhere
CAI	Community Associations Institute
CSA	Charity and Society Agency
CIDA	Canadian International Development Agency
COSO	Committee of Sponsoring Organizations of the Trade Way Commission
DFID	Department for International Development
EBS	Egyptian Banking Sector
EC	European Commission
ECHO	European Commission Humanitarian Aid Office
FFP	Food for Peace
FDRE	Federal Democratic Republic of Ethiopia
GAAP	Generally Accepted Accounting Principles
GAO	General Accounting Office
IAS	Internal Accounting Standards
MSH	Management Sciences for Health
NGO	Non-Governmental Organization
OCHA	Office for the Coordination of Humanitarian Assistance
FDA	Foreign Disaster Assistance
PIE	Pathfinder International Ethiopia

SOX	Sarbanes Oxley Act
SPSS	Statistical Package for Social Science
USAID	U.S. Agency for International Development

CHAPTER ONE

1 INTRODUCTION

1.1 Background of the Study

Recently several enterprises suffered great losses and collapsed because of a poorly designed internal control system or because of a failure to implement the designed internal control systems. Subsequently, issues regarding internal control and corporate governance have attracted considerable attention and responses from government, industries, and academic world Bailey (2005). An internal control system is a vital mechanism that enables an organization to achieve its operational goals, improves operational efficiency and effectiveness, strengthens its corporate constitution and enhances its competitiveness. Furthermore, the technological advancement and hastily changing business environment is putting substantial pressure on organizational leaders to maintain sound and effective internal control system to meet its objectives Oppong, Owiredu and Abedana (2016).

Mawanda (2008) argued that internal controls are processes designed and effected by those charged with management, governance, and other personnel to provide reasonable assurance about the achievement of objectives of an entity's. 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, guidelines and regulations and to uphold good corporate governance. As IFAC (2012) stated 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.

According to Hamed and Babak (2009) control procedures and policies has to be established and executed to help ensure that actions necessary to achieve the organization's objectives are effectively carried out. They further argued that control activities are the control procedures and policies that help to ensure that management

directives are carried out and also controlled activities includes authorizations, approvals, verifications, reconciliations, security of assets, reviews of operational performance and segregation of duties and responsibilities.

All these business environment changes and practices are mostly observable in the profit making businesses organizations due to their main objective is profit maximization. On the other hand, NGOs had earlier depend on traditional and informal practices to address their social objective. The recent rampant of financial malfeasance reported among NGOs shows that the internal control practices are not yielding the desired results. William (2007) stated that fraud and corruption cases, involving organizations such as Red Cross, Enron, Tyco, WorldCom and United Way have raised consciousness of and demand for financial responsibility by stakeholders. William further argue that internal control integrities suggest one way to demonstrate responsibility is through the use of a strong and effective internal control system. Thus, it is that the implementation of sound and effective internal controls is mandatory to ensure that the strategic objectives of NGOs are encountered.

This study focused on assessing internal control system of international NGOs in Ethiopia, regard to this Freeman (1998) conceptualizes a Non-Governmental organization (NGO) as an organization their activities are non – commercial and therefore not for profit, not state financed and is not parts of a government. NGO's are independent of governments and usually self-governing organizations. They provide services to society through welfare works for community growth, sustainable system development and assistance in national disasters. The primary goal of NGO is to insure that resources are effectively and efficiently used to attain desired objectives.

Regard to this Saleemi (2009) indicated that internal control must be designed to provide reasonable assurance regarding prompt detection or prevention of disposition of an agency's assets use or unauthorized acquisition. Similar NGOs need to design, implement and monitor effective internal control system in order to prevent the malpractices and misuse of funds to address their intended objectives. Therefore, this study assesses internal control effectiveness of International NGOs in Ethiopia, taking Care Ethiopia as a case study.

1.2 Background of the Organization

CARE (Cooperative for Assistance and Relief Everywhere), is formerly, cooperative for American remittances to Europe is a major Humanitarian Agency delivering emergency relief and long term internal development projects. CARE founded in 1945, it is one of the largest and the oldest humanitarian aid organization focused fighting on global poverty. In 2016 CARE reported working in 94 countries supporting 962 poverty fighting projects and humanitarian projects and reaching 80 million people 256 million people indirectly. CARE started working in Ethiopia in 1984 in response to severe drought and famine that devastated the population and claimed the lives of nearly one million people. Since then, the organization's activities have expanded to address the root causes of poverty and vulnerability. CARE's programs focus on the areas of livelihoods and food security, sexual and reproductive health, education, governance, water and sanitation, and emergency preparedness and response. As part of CARE Ethiopia's development of a focused and long-term programs approach to poverty, the office targets three groups of people: pastoralist girls, chronically food-insecure rural women, and poor young girls living in cities and on the outskirts of urban areas.

CARE Ethiopia Donated by, Several partners such as, U.S. Agency for International Development (USAID), Food for Peace (FFP), the Embassy of Norway, Australian Agency for International Development (AusAID), Proctor and Gamble, Souter Charitable Trust, Canadian International Development Agency (CIDA), UK Department for International Development (DFID), European Commission (EC), European Commission Humanitarian Aid Office (ECHO), United Nations Office for the Coordination of Humanitarian Assistance (OCHA), Austrian Development Agency (ADA), Conrad N. Hilton Foundation, Michael and Susan Dell Foundation, Bill and Melinda Gates Foundation, Howard G. Buffett Foundation, Richard and Rhoda Goldman Fund, Nike Foundation, Office of U.S. Foreign Disaster Assistance (OFDA), and private donors.

1.3 Statement of the Problem

Sound and effective internal controls is very important to Non-Governmental Organizations reason being that NGOs are recipients of huge amounts of donor funding and assets which require a sound internal control system for proper care and management of these resources. Flores (2013) stated that Ethiopia is a focus of international attention in the Horn of Africa due to both its consistently high rates of economic growth and for its continued problems with widespread hunger and poverty. Flores farther argue that the nation is also significant for being among the most dependent on foreign aid. Topping the worldwide list of countries receiving aid from the US, UK, and the World Bank, Ethiopia has been receiving \$3.5 billion on average from international donors in recent years, which represents 50 to 60 percent of its national budget. In order to proper management of these huge amount of funds, the management of the NGOs has to be establish procedures to be followed in their day to day operations which among other things are meant to safeguard NGOs' assets and ensure reliable recording of the monetarily transactions. In addition to this cases of fraud and other malpractices are rarely publicized by media and other communication channels, it is probable that misuse of funds due to lack of financial control systems is a reality among NGOs donated for poor countries. Ayom (2013) observed that despite support from donors, most NGOs are not effective asexpected. This indicated that NGOs has to be design, implement and monitor effective internal control systems and practices.

There are several types of international NGOs in Ethiopia that have been existed and they contribute a lot in solving several challenges of the society, however, due to the inherent limitations of internal controls and pressure, opportunity and excuses by management and perhaps the credibility of controls, discussing and benchmarking is still not high enough within Ethiopia. In recent year there were a controversy between Ethiopian Government and NGOs, after, the government revised regulatory of NGOs that operated in Ethiopia, one of the government officials reason the interference of government on the activities of NGOs was misuse of resources received in the name of poor peoples of Ethiopia. As a results the government were enforced NGOs with a rule known as 70 – 30 (seventy – thirty), which is 70 % of the donated money should spend for beneficiaries and 30% for

administrative activities. This implied that, the International NGOs internal controlling system is not transparent FDRE, Charity, Association, (2003).

Despite the various measures put in place to enhance proper management of NGOs in Ethiopia, there are significant policy risks and challenges that NGOs currently face CSA report (2013). Therefore, the need to keep implementing, monitoring and evaluation of internal controls, should not be left to the public and private sectors, but should also be instituted by NGOs as well. It is this background therefore that the study sought to assess internal control effectiveness of International NGOs in Ethiopia

In this study attempts tried assessing internal control effectiveness of International NGOs in Ethiopia, in the case of CARE Ethiopia. As already explained CARE Ethiopia is one of the largest international NGOs participated in several sectors of aid in Ethiopia and Donated by several partners. Though, CARE Ethiopia has made progress with programs implementation, resulting in diverse achievements and improvement in several area of organization structures using several parameters, such as, capacity building of employee, monitoring and delivery strategy of aid funds for beneficiary, however, the annual Report of the organization (2016) implied the organization were not efficient in internal control system. This was the base of practical problem of the study area that motivated the researcher to assess further internal control practice of the organization, and identify major challenges that affect the organization internal control system.

Theoretically, there are some studies conducted on internal control systems of organization in Ethiopia including international NGOs, such as, a study conducted by Belayneh (2016) on internal control of Save the Children. In this study all of the organization employee were considered as participant of the study, this might diminish retrieving deep knowledge from related area population, to solve this gap in this study focused of population were concerned from related departments that concerned internal control. There was also a study conducted by, Genet (2015) to assess the functionality of internal control system of Non-Government, Organizations (NGOs) a case study of Pathfinder International Ethiopia (PIE). The study was assessed very few areas such as, organizational control of PIE, personnel controls of PIE, and assess operating controls, however, it is difficult to reached on conclusion assessing those few

areas, to fill this gap the study include further elements of internal control such as, risk controlling activities, activitiescontorting system, information communication system, monitoring and evaluation. There was also one more related area conducted by Getu (2016) on internal control system of NOGs of Ethiopia. One of the major gaps of the study were that,the study focused to give insight on International NGOs in Addis Ababa working on health sector, internal control system, so that the finding was not discussed in deep challenges of individual organization. Therefore, this study focused to investigate some practicalchallenges observed in CARE Ethiopia as well as fill theoretical gaps of previous studies.

1.4 Research Question

To assess internal control effectiveness of International NGOs in Ethiopia, the study has focused to address the following basic research questions:

1. How organizational control environment ensuredinternal control system?
2. How controlling activitiesensured effective internal control system?
3. How risk controlling system applied in the organization?
4. How the information and communication application implemented in the organization internal control system?
5. How monitoring and evaluation system has been executed in the organization?

1.5 Objectives of the Study

The study will have to achieve both the general and specific objectives

1.5.1 General Objective of the Study

The main objective of this study was to assess internal control effectiveness of International NGOs in Ethiopia, in case of CARE Ethiopia

1.5.2 Specific Objectives of the Study

The specific objectives of the study:

1. To assess organizationalcontrol environment of internal control system.
2. To assess the ongoingcontrol activities of the organization.

3. To examine risk controlling system applied in the organization.
4. To examine information and communication application of internal control system.
5. To examine the implementation of monitoring and evaluation of internal control system.

1.6 Scope and limitation of the study

The scope of the study was delimited to assess internal control effectiveness of international NGOs, in Ethiopia, both financial and non-financial controlling systems. Though it has been important to include all of international NGOs existed in Ethiopia, however, infeasibility from resource and time perspectives, the focus of this study has been only on the assessment of internal control in non-governmental organizations selectively. Hence, this study has been delimited to as case study in Care Ethiopia, an International NGO.

The limitation of the study was the researcher couldn't get and used secondary data to analyze the result. The other limitation was the belief that the research may not be read, thus people may not be benefited from the study. Therefore, it is the aim of the researcher to write papers out of the research and present them in the meetings.

1.7 Significance of the Study

The findings of this study may help identify gaps within the systems of internal control and their effectiveness, focusing on financial and non – financial controls in international NGOs. The findings may also benefit to the management and donors since they are bound to enable them streamline the systems of internal controls. Ultimately, the findings are likely to ensure improved financial management and also attainment of the sector organizations' objectives. The study also adds to the existing knowledge regarding internal control. The study generates knowledge to internal control elements and may guide policy makers in the planning for NGOs resources. The findings of the study also helpful to all academicians in finance and accounting, management, and other pertinent fields.

1.8 Organization of the Study

The study has been organized in to five chapters. The first chapter deals with introduction of the study, background of the study area, statement of the problem, objective of the study, significance of the study and delimitation of the study. The second chapter has introduced review of related literature in the area. The third chapter deals with the research design and methodology. The forth chapter presents the analysis and the fifth chapter contained summary of the major findings, conclusion and recommendation of the study. Finally list of references and appendix annexed at the end pages of the paper.

CHAPTER TWO

2 REVIEW OF RELATED LITERATURE

2.1 Definition of Internal Control System

Internal controls are the processes designed and affected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity's objectives (Batra, 2002). 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.

According to Paula (2000) control policies and procedures must be established and executed to help ensure that actions necessary to achieve the institution's objectives are effectively carried out. It is further argued that control activities are the policies and procedures that help ensure that management directives are carried out and also controlled activities occur as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties. Similarly, reviews should be made of actual performance versus budgets, forecasts and performance in prior periods and performance reviews should be made of specific functions or activities.

Woolf (2007) proposes that a variety of control activities should be achieved to check the accurateness and completeness of information along with the authorization of transactions. Development of new systems and changes to existing ones should be controlled. Additionally, access to programs and data base should be restricted. Physical controls include control of inventories, equipment's, cash and other assets which should be secured physically and sporadically counted and matched with amounts shown on control records. Performance indicators may be through anticipating certain operating results by investigating unexpected results that expose the achievement of the organizations objectives. Duties are segregated among different people to reduce the risk of error or inappropriate actions. For instance, responsibilities for authorizing transactions, recording them and handling the related assets should be segregated.

2.2 Types of Internal Control Techniques

Hamed (2009) stated that internal controls can be mostly classified as detective or preventive. *Preventive controls* are designed to discourage errors or irregularities and they include such things as: reading and understanding business Human Resource policies, a computer application which checks validity prevents the entry of an invalid account number, such as Work Hours helps prevent violations of the Fair Labor Standards, and a manager's review of purchases for propriety and validity prior to approval prevents inappropriate expenditures.

Detective controls are designed to identify an error or irregularity after it has occurred. It includes things like: an exception report detects and lists incorrect or invalid entries or transactions, a comparison of validated Cash Receipt Vouchers to monthly financial statements will detect deposits posted to erroneous accounts, and the manager's review of long distance telephone charges will detect improper or personal calls that should not have been charged to the account among others.

Effective internal control system operates when some specific procedures are adopted by the management. Internal Accounting Standards (IAS) categorizes internal control types as plans of organization, segregation of duties, control of documents, safeguarding of assets, competence of staff arithmetic and accounting controls recording and record keeping supervision, authorization and approvals, vacation and rotation of duties, cost feasibility and routine automatic checks (snap checks).

2.2.1 Plan of Organization

Plan of organization is an organization chart which shows the organization structure Saleemi(2009). Drawing an organizational plan is used to show how it has been divided into departments and departments into sections. This is important to show what responsibility and duties are assigned to each officer. Authority and responsibility are clearly drawn. Employees easily perform their duties according to organizational plan. This plan allocates and defines responsibilities and identifies lines of reporting for all aspects of business operations. There for, the plan of organization is needed for effective internal control over the organizations activities.

2.2.2 Segregation of Duties

The term segregation of duties is used these days for internal responsibilities (Millchamp (2009)). One of the main means of control is the separation of duties which would enable an individual to record and process complete transaction. Segregation of duties reduces risks of internal manipulation of finances and increase the element of checking. Division of duties thus makes frauds more difficult to be committed because one transaction is completed by even more than two different employees. Manasseh (2009) indicated that any internal control system will only be strong if duties and responsibilities are segregated. The segregation of duties reduces the risk of frauds and errors and manipulation in the business accounting system. It also increases efficiency in company's operations due to specialization and facilitates supervision. The duties which must be segregated are recording, authorization, execution of duties, custody of company's assets and systems development for computer operations.

2.2.3 Control of Documents

Batra, (2002) states that control of documents involves the control of the company's sensitive documents e.g. receipts, cheques, local purchase order, debit and credit notes. These documents must be handled by a responsible officer and should be pre-numbered to ensure control and minimize misuse. They must be kept under key and lock and must be controlled from a central point for example the headquarters or any other convenient control point.

2.2.4 Physical Control

De Paula (2000) noted that internal control also requires that asset of the business enterprise like plant and machinery equipment, motor vehicle, stock and cash to be kept safely. The access to these should be limited only to authorized personnel. The procedure designed and security measures taken for safeguarding assets should be adequate and comprehensive. Cash and stock should be under the custody of some reliable persons. Safeguarding of assets is also known as physical controls. The types of physical controls common to all organizations are employment of watchmen, alarm system, strong electrified gates, strong rooms and safer strong fences, security lights and use of dogs.

This means a process by which an asset is utilized for its intended purpose only and thus ensuring that it contributes a lot to the company before it can be disposed or written off. It also involves securing assets against misuse and physical attack. The objectives of physical controls are to ensure proper authorization of company assets, their maintenance, used only in the business, ensure that assets are properly accounted for and recorded properly and finally to ensure proper disposal of fixed assets.

2.2.5 Arithmetic and Accounting Controls

Woolf (2007) noted that these controls are aimed at ensuring the accuracy of transactions and also ensures proper recording of company transactions according to the Generally Accepted Accounting Principles (GAAP). He further noted that controls are usually boosted by the use of calculators and computers. He later suggested that while examining the systems of internal control, the auditor should consider the possibilities of collisions between close relatives working in related party or business, the possibility of collusion as well as combination of duties which would enable one to conceal irregularities, the extent to which employees in positions of trust especially those handling cash fail to take regular holidays and the possible conflict of interest in the case of responsible official having other business interest. Saleemi (2009) suggests that the recording of business transactions should be accurate and arithmetically correct. For this purpose, some controls are introduced for example checking of totals, reconciliations, control accounts and trial balances. An effective internal control requires proper implementations of arithmetical and accounting controls. He concluded that the auditor has to examine the adequacy of the internal control system differently for different organizations. He said it's worth nothing here that no set of rules for internal control can be or may be framed so as to be equally applicable to every concerned, as it would depend upon the nature, size and scope of each organization".

2.2.6 Supervision

Manasseh (2009) suggested that any system of control should include the supervision of day to day transactions by responsible officials and recording of these transactions for example working hours of employees recorded on clock cards should be checked or inspected by the supervisors. Mill champ (2009) noted that supervisors must be

watchful in their duties and ensure that people under their supervision perform their duties as per the laid down organization or company policies and this supervision must be done in a humane way so as to promote morale among the employees and avoid frustration among those under supervision. He further noted that the management should check the interim statements, budgetary control, and standard costing statements and also review departmental procedures and functions, thus the management therefore must be able to supervise the entire organization to ensure operational efficiency. Such type of supervision is done by higher authorities for example managing directors and internal auditors. Supervision basically means ensuring that employees work for hours expected and as per the laid down policies and procedures of the organization. The organization should therefore employ qualified and competent supervisors to ensure its success.

Barta(2002) noted that the system to be installed must be within the limits affordable by the organization and its cost must not outweigh the benefits to be derived from such a system of internal control. Regarding cost feasibility, the cost benefit analysis should be used to weigh the advantages and disadvantages of the undertaking.

2.2.7 Routine and Automatic Checks (snap checks)

Spencer and Pegler (2008) explains that internal check is an arrangement of staff duties whereby no one person is allowed to carry through a process and to record every aspect of a transaction to avoid collision between two or more persons thus preventing fraud and reducing errors to the minimum. Barta (2002) suggests that internal check refers to checks on the day to day transactions continuously as a part of the routine system whereby the work of one person is independently counter checked by another person with a view to detecting and correcting errors as early as possible and avoiding fraud. It includes matters such as the delegation and allocation of authority and the division of work, the method of recording transactions and the use of independently ascertained totals against which a large number of individual items can be proved.

2.3 Elements of Internal Control

The components of internal control are no different in many sources. Some sources refer them the elements or frameworks while some other refer it standards of internal control. The Committee of Sponsoring Organizations Batra(2002), Act of Sarbanes Oxley,

American Institute of Certified Public Accountants (AICPA) and General Accounting Office (GAO) claim effective internal control should primarily have five elements namely; control environment, control activities, risk assessment, information and communication, and monitoring. Each of the elements will be discussed as follows.

2.3.1 Control Environment

The control environment is considered as the tone at the top of an organization, influencing the control consciousness of its employees. Beneish et al. (2008), defines the control environment as the tone of an organization and the way it operates. He further says that it concerns the establishment of an atmosphere in which people can conduct their activities and carry out their control responsibilities effectively. The control environment is the foundational context within which the other aspects of internal control operate Konrath (1999). The philosophy and management style, organizational structure, methods of imposing control, assignment of authority and responsibility are all key aspects of the control environment Jones (2007). Likewise, COSO (2004) looks at the ethical environment of an organization to encompass aspects of upper management's tone in achieving organizational objectives, their value judgments and management styles. COSO argue this component is the foundation for all other components of internal control, providing both discipline and structure to the organization. Ethical business practices, management philosophy and a sense of business integrity all play key parts in the control environment component.

The control environment represents the control atmosphere for the entity and is the foundation for the other components Nicolaisen(2004). Bates (2001) considers the factors relating to the control environment to include the integrity, ethical values, and competence of employees and management, management's philosophy and operating style, the manner in which authority and responsibility are assigned, the organization and development of employees, and the attention and direction of the board of directors towards organizational success. Lou (2008) concurs that higher level administrators of an organization are responsible for establishing the appropriate control environment. Guy et al (1999) states that good control environment should provide guidelines related to: ethic and integrity values that should be owned by the member of entity; commitment to

competence; participation or the board of director and audit committee; philosophy and management style; job description of each personnel; and lastly policy and procedure of human resources.

2.3.2 Risk Assessment

Community Associations Institute CAI (2003) described risk assessment as identification of potential misstatements and designing controls to prevent or promptly detect of misstatements. Risk assessment is the process used by an organization (management) to decide how it will deal with the risks that pose a threat to achieving its objectives Furrugia(2002). According to Meisser (2003) risk assessment is the component related to the identification of risk, analysis of risk and management of risk. According to Meisser, Risks are assessed through management's awareness of the environment in which it operates and its direct involvement with the day to day operations of the client community association. Risk assessment entails to identification and prioritization of objectives, the identification of risks and assessment of their likelihood and impact Jones (2007).

2.3.3 Control Activity

Under Act of Sarbanes Oxley act SOX(2002) Control activities are the policies and procedures that assist in ensuring that management directives are successfully implemented. They provide the means to address the various risks that may hinder the achievement of the organization's objectives. In essence, control activities are established in response to perceived risks. The COSO framework (2013) defines control activities as the policies and procedures that help ensure management directives are carried out.

2.3.4 Information and Communication

Effective communications should occur in a broad sense with information flowing between the departments of the organization. Information flow is important to effecting control, information about an organization's plan, control environment, risks, control activities and performance must be communicated up, and access an organization.

This aspect of the internal control elements requires that all pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and

control the business (COSO, 2013). They deal not only with internally generated data, but also information about external events, activities and conditions necessary to informed business decision-making and external reporting. Effective communication also must occur in a broader sense, flowing down, across and up the organization.

2.3.5 Monitoring and Evaluation

According to Spencer (2008) to ensure the reasonable assurance regarding achievement of the organizations objectives, the monitoring process should be performed to evaluate and assess the systems of internal control to ensure that the procedures are consistently applied over an extended period of time.

Spencer believes internal audit is part of monitoring internal control system. Managers should promptly evaluate findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors and others who evaluate agencies' operations, to determine proper actions in response to findings and recommendations from audits and reviews.

Jones (2008) refers monitoring as the process of assessing the quality of a systems performance over time. On an on-going basis, staff should evaluate the various systems of internal control and updates/modifies/enhances where needed. Any discovered deficiencies are addressed immediately and added to the overall systems of internal control. Monitoring of internal control should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved. According to Coffin (2003) monitoring entails the activities and procedures designed to assess the effectiveness of the internal control system in achieving the entity's financial reporting objectives.

Monitoring activities may be ongoing or may be separate evaluations and it is important given the complex and dynamic environments faced by most organizations Henle (2005). It seeks to ensure that systems are performing as intended. However, this is accomplished through ongoing monitoring activities, periodic evaluations or a combination of the two COSO (2004). Henle(2005) further contends that these activities permeate the entire organization, at all levels and in all functions.

2.4 Effective Internal Control System

IFAC (2012) stated 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.

While internal control is a process, its effectiveness is a state or condition of the process at a point of time. Accordingly, the effective functioning of components of internal control provides a reasonable assurance regarding achievement of one or more of the stated categories of objectives to ensure high levels of organizational performance. Thus the company's criteria for effective internal control and success of the entire organization.

Apart from different measurements of internal control some argue internal control effectiveness is more dependent on one or more of the elements.

For example, Spencer (2008) argue that to judge internal control effective depends on the criteria's established by management to evaluate the effectiveness. However internal control effectiveness is much dependent on control environment. Spencer (2008) confirms that if an organization gets the control environment right the rest will tend to follow.

2.5 Empirical Review

Despite rare studies on internal control in Ethiopia, several investigations were made in world to evaluate internal control of businesses and governmental institutions. Accordingly, Ronald (2011) evaluated internal Control Weaknesses in Local Government. Towns and villages account for more than 1,400 municipal government entities in New York State constituted in the study. The study focused on the internal control issues identified in an extensive, ongoing series of audits of towns and villages undertaken by the New York State Comptroller's Office. All towns and villages audit reports issued by the office were examined. These general internal control audits were used to identify towns and villages with internal control weaknesses. The budgets of the towns reviewed were limited to an examination of the annual budget for the following year, reviewing the reasonableness of projected revenues and expenditures, the proper use of accumulated fund balance, and general financial condition of the municipality (especially deficit issues).

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 Wise Giving Alliance, and promulgate standards on charitable accountability including the establishment of appropriate accounting procedures. Mahdi, Mahmoud, Shiri and Fatemeh (2011) investigated the effectiveness of internal control in the Iranian banking sector with special reference to Bank Mellat. The study used questions that needed to be answered in the study are: (1) Does an internal control system in Bank Mellat has proper power in preventing fraud and

error? (2) Is there a significant relationship between the weakness of internal control system components (control environment, risk assessment, information and communication, control activities and monitoring) and the occurrence of error and fraud? To test the validity of the questions, hypotheses are postulated relating frequency of fraud reported as failure of internal control with the questionnaire answered on the relationship between the fraud and components of internal control. The paper evaluated the effect of control environment, control activities, risk assessment, information and communication and continuous monitoring on failure of internal control quantified as reported errors and fraud. The empirical evaluation found out that all the elements of the internal control have significant effect on occurrence of errors and fraud, though the magnitudes are different. Accordingly, Weakness of control environment, control activities, risk assessment, information and communication and monitoring as a component of internal control system in an incident of error and fraud is effective.

A study by Roth and Espersen (2003) on the situation of internal control in companies introduced the components of an internal control (control environment, evaluating risks, control activities, information and communication and supervising) as an advocator for a company to achieve its goals as well as its own progressive procedures. The results suggest (a) Recognizing an internal control system and the role of corporate relationship; (b) Propagating self-control systems, (c) Identifying risk factors; and (d) Preventing incidents of fraud and financial mistakes.

Abu-Musa (2004) examined the existence and adequacy of implemented security controls in the Egyptian Banking Sector (EBS). The results revealed that the computer departments paid relatively more attention to technical security controls, while internal audit departments emphasized more on the behavioral and organizational security controls. The study also provided valuable empirical results regarding inadequacies of implemented Accounting Information Systems (AIS) security controls, and introduced some suggestions to strengthen and improve the security controls in the EBS.

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Alaudin et al. (2006) focused on management control systems, justice and trust in the Malaysian Islamic banks with the help of a questionnaire and interview and examined the documents relating to the concepts of justice and trust. Due to the inherently complex nature of the internal control process, a study by O'Leary et al. (2006) spread itself across a broad range of auditing, accounting and general business areas, and stated that an adequate system of internal control is considered critical for good corporate governance.

Tekalign (2011) investigated if the existing internal control in public enterprises in Ethiopia contributing to accounting fraud. The survey instruments on 11 major public enterprises in Addis Ababa were conducted using self-administered questionnaires to auditors and accountants. Frauds were represented as any violation of principles, manipulation of sales, expenses or inventories. The result indicated that the respondents believe the existed internal controls were sufficient to keep possibility of accounting fraud to reasonably low level. Even though the internal control would detect accounting fraud, respondents require codes of conduct and employees training as additional tool to detect fraud events.

There was a study done by Belayneh (2016) regarding internal control of Save the Children the study examine internal control systems and practices focused on logistic, accounting and financial activities. 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 practices from the perspective of internal control. In this study one of the limitation and the gap were the study more depend in indicating internal control system of logistic. Rather it was not considered overall internal control emplanes.

There was a study done by Genet Kore (2015). This paper sought to assess the functionality of internal control system of Non-Government Organizations (NGOs) a case study of Pathfinder International Ethiopia (PIE). The study was guided by the following objectives: to assess organization organizational control of PIE, to assess personnel controls of PIE, to assess operating controls of PIE, to assess periodic review of PIE. The researcher used descriptive quantitative design. A simple random sampling technique was used. The major findings of the study were that PIE has a sound internal control system overall in terms of the control operation, controls procedures and monitoring controls, human resource controls. One of the gap in this study was, the study collected the data using random sampling technique, this sampling technique may include population that are not more concerned on internal control system and/therefore the conclusion may reach on unreliable data.

The study by Getu(2016) were assessed NGO'S internal control effectiveness. The Study focused on internal control system considering 30 Non – Governmental NGOs working in health sector using multistage sampling methodology through questionnaires. Data was collected using questionnaires distributed to those individuals. The findings revealed that there is insignificant internal control effectiveness. Particularly, there is negative insignificant relationship between the management support and internal control, though there is insignificant positive relationship between adequate and competent internal control staff and internal control. However, one of the gap sought in this study were the study consider large sample size NGOs however, all NGOs problem of internal control might be the same.

2.6 Summary and Knowledge gap

The study had sought several empirical studies that were done both in Ethiopia and outside of Ethiopia. In general, the literature indicates that organizations should invest heavily on the internal control and used to improve the quality of their internal control systems. The devotion of resources, knowledge, time and human power is needed for a number of reasons, notably: good internal control is good business by itself. It helps organizations ensure that operating, financial and compliance objectives are met.

Literatures also indicate that there are different types of internal control. While most of the classifications are based on purposes of the controls, some other classifies them based on the control methods applied in the system. However, the objectives of every internal control system were to achieve organizational efficiency and effectiveness, meet corporate objective and ensure adherence to rules and regulations. Specifically, when the study come to Ethiopia, there were few stress conducted on the area, such as, there were a study done by Belayneh (2016) regarding internal control of Save the Children, but he was more focused on logistic of internal control, Genet(2015) this paper assess internal control system of Non-Government Organizations (NGOs) a case study of Pathfinder International Ethiopia. In this study, one of the gap observed were the population were included using simple random sampling technique this may include more unconcerned departments. The study by Getu(2016) were assessed NGO'S internal control effectiveness. One of the study gap were it was focused on large size organization (30 Non – Governmental NGOs) which may lack of deep study. Therefore, one of the research gaps that observed on the previous study may filled under this study, such as, the study considered only departments related to internal control. In addition, assess the whole internal controlling system that may affect internal control effectiveness, such as, including departments from Finance, Procurement as well as Administration.

CHAPTER THREE

3 METHODOLOGY

This chapter presented a detailed description of the research methodology that used in this study. It contains the research design, research approach, data source, population of the study, sampling technique used and procedures and method of data analysis.

3.1 Research Design

The objectives of this study was to assess internal control effectiveness of International NGOs in case of CARE Ethiopia. The study followed case descriptive research design. There are three types of case studies. Exploratory case study, explanatory case study and descriptive case study Yin(2003). The major aim of descriptive case study is recording analyzing and presenting things that exist at present. This is because the study more focused on describing the assessed variables of internal control system of the studied organization. According to Richad(2003) the descriptive design used to investigate the status and phenomena of internal control system of the study organization. This design used as the researcher proposed to describe and make observations of what the real results were for purposes of making judgments based on the realities to improve the situation.

3.2 Research Approach

Descriptive case study research design involves both quantitative and qualitative data. Qualitative approach required qualitative data and quantitative approach required quantitative data. Research approach can be qualitative approach, quantitative approach or mixed approach. Quantitative approach involves numerical data subjected quantitative analysis whereas qualitative approach involves data in textual form that concerned with subjective valuation of attitudes, thoughts and behavior (Kothari, 2004). This study employed mixed approach. This is because the study focused on the data that collected from the respondents using questionnaires and interview as well. Mixed approach is appropriate for this study because in analyzing case study descriptive research, both qualitative and quantitative research approach is needed.

3.3 Sources of Data

The study used primary data sources. The primary sources of data questionnaire and interview were focus on employee respondents. Questionnaires distributed to Managers, Finance director and several departments related with internal control. Accordingly, the questionnaires were distributed for all finance staffs, the supervisory level and above of Procurement, Programs Support and Administration and Food aid programs departments. The interview also done with each department heads.

3.4 Population of the Study Sampling Techniques and Procedures

The study use non-probability sampling technique. From the given non – probability sampling frame purposive sampling technique were applied for conducting interviews. The choice of respondent’s employees from the given organization were only focused on the employee working in the departments related to the internal control and the organization management body. Hence, all finance staff from finance department and the supervisory and above level from procurement, programs support and administration, as well as food aid programs departments of CEAR Ethiopia Addis Ababa office. Accordingly, 34 employees worked on the related departments.

Table 3-1: Distribution of Organization Departments

Organization hierarchy	Total Employee	Sample Employee
Procurement	5	5
Finance	19	19
Programs support and administration	4	4
Food aid programs	6	6
Total	34	34

3.5 Method of Data Analysis

The data collected from different sources, quantitative and qualitative. The qualitative data analysis was done using content analysis. Quantitative data processed and analyzed with descriptive statistic. Descriptive statistics employed for the data analysis process by using computer software called Statistical Package for Social Science (SPSS) version 23. The descriptive statistics were including max, min, means and standard deviation.

3.6 Ethics in Research

During the course of administering the questionnaires, names and any identifying remarks were not use. The confidentiality of the respondents kept and any data received for the study kept at the hands of the researcher and the advisor. The data was analyses based on the questionnaires and interview of respondents rather than using the researcher opinion and input. The researcher was stay truth full to responses of the respondents and free from any personal assessment. This is why the researcher spend his time to clarify for the respondents the significance of the study and therefore request the respondents to participate in the study by giving information appropriate for the study. Results depicted were only from out puts of truth full inputs.

CHAPTER FOUR

4 DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This core chapter deals with the discussion and analysis of data collected from employee of CAR Ethiopia. As indicated in the methodology part the study conducted basically using questionnaires filled by respondents. The study totally distributes 34 questionnaires however, the analysis was done based on 32 correctly filled questionnaires, and the rest 2 sample questionnaires were not returned back. Accordingly, the response rate of the study is 97%. Based on this, the study analyzed background of respondents and the main questionnaires of internal control.

4.2 Background of Respondents

It is necessary to analyze the demographic profile of the respondents to validate reliability of data collected. Accordingly, the respondents were asked to respond to their gender category, age, educational qualification, years stayed at the organization, and department/work unit and their respective profile indicated below in the table

Table 4-1: Characteristic of respondents

Item	Category	Frequency	Percentage (%)
Sex	Male	15	47
	Female	17	53
	Total	32	100
Age	20-30 Years Old	5	12.5
	31-40 Years Old	17	53.0
	Over 40 Years Old	11	34.5
	Total	32	100
Education	College		
	Diploma/Certificate	1	3.2
	First Degree (BSc, BA)	19	59.3
	Second Degree (MSc, MA)	12	37.5
	Total	32	100

Item	Category	Frequency	Percentage (%)
Department	Procurement	5	15.6
	Finance	19	59.4
	Programs Administration	4	12.5
	Food Aid Program	4	12.5
	Total	32	100
Years stayed at the organization	Under 2 Years	6	18.8
	2-5 Years	9	28.0
	6 - 10 years	10	31.4
	Above 10 years	7	21.8
	Total	32	100

Source questionnaire, 2018

As indicated in table 4.1 the gender proportion of female respondents is 53 % while the male respondents were 47%. Though the ratio of the respondents not proportional and varied both category of gender was participated in the survey.

The study also considers respondents age, accordingly, 12.5% belongs (20-30 Years Old), 53 % belongs between the age category of (31-40 Years Old) and the rest 34.5% belongs (Over 40 Years Old), therefore, employee in terms of their age distribution it can be said balanced age of adults and youngest.

Another commitment of employees to competence that contributes to effectiveness of internal control is the level of education the employees possesses. The control environment component of internal control system reveals that a good education level has a positive impact on effectiveness of internal control. As summarized in the above table, 3.2% have diploma/certificate, 59.3% first degree and 37.5% second degree. Majority of respondents are qualified of first and second degree. However, respondents accounted for 3.2% who still have diploma and this employee need to advance their education as their position need advanced educational qualification.

Internal control is primarily the responsibility of management. The broader category of internal control is operational and accounting control. Obviously the respondents with knowledge of management and accounting understand the concept of internal control system than others. Thus the investigation made to assess the areas of qualification or

their department. Accordingly, the respondents indicated that 59.4% of the respondents were belongs finance department, 15.6% were procurement, 12.5% programs support and administration, and 12.5% food and aid programs. This means the respondents at least had the theoretical education on the concept of internal control.

Experience is one of the competences to understand internal control in a company. Knowledge also referred to as professional competence. In the literature it is indicated that commitment to this competence by employees is one part of effective control environment in internal control system. Out of the survey, 18.8% belongs less than two years of experience, while 28% belongs between 2 – 5 years of work experience, 31.4 belongs between 5 – 10 years of work experience and the rest 21.9% of the respondents have more than 10 years' work experience. This indicates that the employees working in the key areas of internal control system are well experienced both to respond to the questionnaire, and to understand or implement the control system.

In general, the respondents profile indicates that most respondents are in the medium range in their knowledge and experiences to understand and perform internal control system in their organization. In this regard, Kotur and Anbazhagan(2014) argued that workers in the medium range on educational qualification and work experience perform better compared those in the extremes.

4.3 Descriptive Statistics Analysis

In line with the objectives articulated under chapter one, here effort was made to describe employee view regarding the internal control effectiveness of the organization. To achieve the overall objective of the study were tried to assess related areas using questionnaires. Accordingly, the study assesses the overall internal control working environment such as rules, regulation, management system and so forth, risk assessment practice of the organization, activities controlling system, information and communication effect on internal control as well as monitoring and evaluation system.

4.3.1 Control Environment

Control environment indicates the general atmosphere of internal control which includes the policies and procedures of internal control, proper code of conduct and ethics, proper

financial administration manual, proper reporting and evaluating structure, competence of employees and discharging responsibility and others. In this regard the study provided related questions to assess organizational facilities and activities to create effective internal control environment.

To examine the benefit of control environment on internal control, interviews were conducted with the management. In addition to these the respondents asked five-point Likert Scale types of questions. To interpret the questionnaires, mean responses were determined on a five-point Likert scale representing 1 strongly disagree to 5 representing strongly agree. Mean result tells us the extent of respondents' agreement and the standard deviation shows the responses variability. To analyze the data distractive statics such as mean and standard deviation employed.

Table 4-2: Employee view regarding the organization Control environment

Control Environment	N	Minimum	Maximum	Mean	Std. Deviation
The Management establish attitude of internal control significances at the top.	32	2.0	4.0	2.625	.6091
There is code of conduct and ethical policy.	32	2.00	4.00	2.8437	.76662
The organization have proper financial and administrative manuals.	32	2.00	5.00	3.4688	.67127
The compliance/ harmonization of Code of Ethics and Organizational regulations have assessed regularly	32	2.00	4.00	3.0000	.91581
There is procedure for reporting the violation of rules on the ethics and thus, undertaking measures as a result of this.	32	1.00	4.00	3.0625	.84003
There is established structures, reporting lines, authorities and responsibilities in the career of objectives.	32	3.00	5.00	3.9375	.61892
Mentoring and training opportunities are provided to attract and develop competent personnel continuously.	32	1.00	3.00	2.0313	.64680
Grand Mean	32			3.0045	0.724079

Sources Questioner (2018)

As indicated in Table 4.2 the overall mean of the control environment can be approximated to 3.0045 which indicate that respondents both agreement and disagreement on assessed several questions. Accordingly, the highest mean 3.9375 implied that majority of respondents agreed there is established structures, reporting lines, authorities and responsibilities in the career of objectives. Similarly, respondents were assuring their agreement on the mean value of 3.4688 that the organization has a proper financial and administrative manual that has been communicated to all staff and external parties. However, as implied by a mean of 3.0000, even though the organization is effective in providing manuals on inter internal control, there is a gap in managing harmonization of rules and regulation.

There are also two areas where the control environment of the organization is not effective. Accordingly, the least mean value of 2.0313 indicates that majority of respondents disagreed that, the organization continuously provides mentoring and training opportunities needed to attract, develop, and retain appropriate and competent personnel. Similarly, respondents at mean value 2.6250 indicates that majority of the respondents disagreed that the organization establish the attitude at the top regarding the significance of internal control. This result is agreed with a recent study by R. Hermanson, L. Smith, and M. Stephens (2012), who identify several areas for potential improvement of internal controls, especially related to assessing the “tone at the top,” as well as following up on deviations from policy and management override of controls

From the table 4.2 above, there is also areas indicated that a doubt by the respondent's whether there is clear and proper code of conduct and/or ethics policy that has been communicated to all staff and external parties which is mean value of 2.8437 and whether this procedure for reporting the violation of rules on the ethics and thus undertaking measures to reduce the challenges which shows the mean value of 3.0625.

4.3.2 Effectiveness of Risk Assessment

Risk assessments become an integral part of internal control system. The management is responsible to identify and assess control risk caused by failure of internal control. There should be strategies of identifying Risk, system to respond to risk and reduce the risk.

The study assesses some of basic related areas such as, empathies of management in risk identification process, whether the organization designed internal controls that mitigate the identified risks or not, risk assessment broadness, periodic risk assessment practice, safety and security procedure of the organization, the assessment result and analysis on this issue therefore; is presented as follows.

Table 4-3: Employee view regarding the organization Risk controlling activities

Risk Assessment	N	Minimum	Maximum	Mean	Std. Deviation
Risk identification considers both internal and external factors.	32	1.00	3.00	2.1250	.65991
Risks to the organization effectively managed and has designed internal controls that mitigate the identified risks.	32	1.00	4.00	2.2188	.83219
Physical assets are reconciled with the accounting records periodically	32	2.00	4.00	2.5625	.75935
There is mechanisms in place to detect and respond to risks presented by changes in government regulation and economic operation.	32	1.00	4.00	2.6250	1.18458
The Internal Audit staff involved during implementation of programs activities	32	1.00	5.00	2.4375	1.04534
Grand Mean	32			2.39376	0.89674

Sources Questioner (2018)

As indicated in table 4.3 the mean value of the response computed based on Likert scale indicated the average disagreement of respondents on existence and practice of each element of risk assessment and controlling system. The overall mean of the risk controlling activities indicated at average mean value of **2.39376** implied overall respondents' disagreement on the risk controlling effectiveness of the organization.

Accordingly, respondents implied the least mean value 2.1250 and .65991 standard deviation imply that, the management is not effective in risk identification by considering both internal and external factors and their impact on the achievement of objectives.

Similarly, respondents at a mean value 2.2188 also implied the organization didn't design internal controls that mitigate the identified risks.

The mean value 2.5625 also implied there was lack follow up on reputable policies, procedures, and processes to periodically reconcile physical assets with the accounting records producers. The study also indicated in mean value of 2.6250 that there is a doubt standard deviation by the respondent's whether there is a mechanism in place to detect and respond to risks presented by changes in government regulatory, economic operation or other circumstances that could affect the accomplishment of its goals and objectives. This activity also has high standard deviation of 1.18458 which implied the respondent have different understanding in some area.

Furthermore, the study assured at a mean value 2.4375 and standard deviation of 1,04534 the internal audit staff were not involved during implementation of programsactivities which deemed reduces the occurrence of risk and the high standard deviation shows the variation of the understanding of the respondents in the area.

Generally, from the response of risk assessment the study implied that, there were few employees implied their agreement on some of the risk controlling assessment questions and thisimplied there were no appropriate strategies exists to identifying risks. The organization has not sufficiently designed appropriate strategy of identifying risk and no sufficient system designed to respond to risk which have adverse effect on effectiveness of internal control. In this regard Oppong, Owiredu and Abedana (2016) argued that, management should institute a rigorous risk management framework which will be able to detect all risk inherent in the internal control system to improve effectiveness of internal control.

4.3.3 Effectiveness of Control Activities

Control activities include methods such as; preparation of reliable reports, update documentation, authorization of transactions, independent review and others. The result of the survey indicated in the table 4.4 shows that the degree of agreement ranged from 1 to 5 by respondents in all criteria of control activities. Below the table implied respondents view regarding the provided assessment questions of control activities.

Table 4-4: Employee view regarding Control activities of internal control

Control Activities	N	Minimum	Maximum	Mean	Std. Deviation
The organization functions are clearly segregated.	32	2.00	5.00	4.0313	.78224
Guidelines and processes are periodically reviewed to determine their constant applicability and refreshes them as needed.	32	1.00	4.00	2.6250	.87067
System privileges and access controls are regularly reviewed for their applicability.	32	1.00	4.00	2.8125	.89578
Management selects and expands control activities over the procurement, development, and repairs of technology and its structure.	32	2.00	4.00	2.9375	.91361
The management supports guidelines and processes to simplify the processing of accounting transactions in compliance with requirements of grant agreements.	32	2.00	4.00	3.5000	.76200
Invoices or requests for disbursements are backed by appropriate supporting documents.	32	1.00	5.00	3.6875	1.11984
Grand Mean	32			3.2656	0.89069

Sources Questioner (2018)

The lowest mean 2.6250 implied respondents of that, Management didn't accomplish periodic review of guidelines and processes to determine their constant applicability and refreshes them as needed. Another lowest means is 2.9375 and 2.8125 respectively implied that, the management didn't select and expand control activities over the procurement, development and repair of technologies and its structure to achieve management objectives procedure under the organization programs and system privileges and access controls are not regularly reviewed for their applicability.

On the other hand, the highest mean value of 4.0313 implied respondent's agreement over the organization activities of authorization process, cheque signing and accounting functions are clearly segregated under the organization programs. In addition, respondents in mean value of 3.5000 also agreed that the organization supports guidelines

and processes to simplify the processing, recording and accounting of transactions in compliance with laws, regulations, and requirements of contracts and grant agreements. Finally, respondents were assuring their agreement on the mean value of 3.6875 that, the organization invoices or requests for disbursements are backed by appropriate supporting documents. On the other hand, this activity has shown the highest standard deviation of 1.11984 indicated that there is knowledge gap between employees about this control activity.

The Overall the grand mean value of **3.2656** implied the organization control activities in some area are effective while ineffective in some activities as shown in each of the six estimated questions. All control activities could be effectively implemented by establishing effective internal control system. The past studies by Genet (2016) has shown that control activities are the basis of assurance and are only possible with the establishment of effective internal control system. Genet further argued that executing preventive controls which are proactive in nature and seek to avoid undesirable events from occurring as well as prevent losses and includes; separation of duties, proper authorization, adequate documentation, and physical control over assets.

4.3.4 Effectiveness of Information and Communication

Information and communication is necessary for the entity to carry out internal control responsibilities to support the achievement of its objectives. Management obtain or generates and use relevant and quality of information to support the achievement of its objectives. Management obtained and use relevant information both internal and external sources to support the function of internal control. Internal communication is the means by which information is disseminated throughout the organization, flowing up, down, and across the entity. Based on frameworks of an effective information and communication in an internal control system, the survey result and interpretation as presented below.

Table 4-5: Employee view regarding the organization information system to perform internal control

Information and Communication	N	Minimum	Maximum	Mean	Std. Deviation
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Information and Communication	N	Minimum	Maximum	Mean	Std. Deviation
Management has a communication process emphasizing to all employees their parts in ensuring that internal control responsibilities.	32	2.00	4.00	3.1562	.67725
Transactions are promptly recorded and classified to provide reliable and up-to-date information	32	2.00	5.00	3.7500	.87988
Regular backups performed for organization data to protect from unexpected loss.	32	2.00	5.00	3.9375	.91361
There are techniques which identifies and assign the accountability for gathering and reporting necessary information.	32	1.00	5.00	3.8438	1.01947
There is channel of communication the outcomes of reports provided by: Independent, Internal and Donor Auditors to the Board of Directors	32	2.00	5.00	3.6875	.69270
The rules and regulations of the organization are accessible for employee and external parties	32	1.00	5.00	2.2813	1.22433
The organization has written policy guidance which is provided to staff and/or concerned parties the proper use of funds approved and received.	32	1.00	5.00	3.7188	.85135
Grand Mean	32			3.4822	0.894084

Sources Questioner (2018)

The highest mean value 3.9375 implied the respondents' agreement of organization perform regular back up and the mean value of 3.7500 also implied the organization is effective in recording reliable and up-to-date information of transaction promptly. Similarly, respondents also revealed on various activities and effectiveness of information and commutation system and its application for the effectiveness of internal

control. Hence, the mean values of 3.8438 and 3.6875 indicated that there are also techniques which identifies and assign the accountability for gathering and reporting necessary information and there are well established procedures to communicate the outcomes of reports provided by: Independent Auditor, Internal Auditor and Donor Auditor to the Board of Directors respectively. There is also employee’s agreement that the organization has written policy guidance which is provided to staff and concerned parties the proper use of funds approved and received which showed in mean value of 3.7188.

However, the lowest mean values implied the organization also have some gaps in providing effective information and communication regarding internal control system such as, the lowest mean value 2.2831 and its standard deviation of 1.2243 implied that, the rules and regulations of the organization are not accessible for employees and external parties.

Generally, the grand mean value 3.4822 implied respondents’ agreement on several expected questions, therefore the organization in general is good in using information and communicating across departmental level for the effective internal control. In contrast to this study, Kalkidan (2016) argue that there is inadequate flow of information and communication in Ethiopia Resident Charity Organization in Addis Ababa.

4.3.5 Effectiveness of Monitoring and Evaluation

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

Table 4-6: Employee view regarding the organization monitoring and evaluation system of internal control

Monitoring and evaluation	N	Minimum	Maximum	Mean	Std. Deviation

Monitoring and evaluation	N	Minimum	Maximum	Mean	Std. Deviation
The organization has the procedure to monitor procurement, contracting and out sourcing activities on a regular basis.	32	1.00	3.00	2.2188	.75067
The results of the monitoring recorded, reported and any gaps are addressed	32	1.00	5.00	2.9688	1.57571
Monitoring conducted based on accurate and complete project data	32	2.00	5.00	3.4062	.91084
The management and Senior fiancé officers periodically visits the field office to determine whether guidelines and processes are being followed as required.	32	2.00	5.00	2.9375	.91361
Monitoring covers the evaluation of the effectiveness of internal control in achieving set of objectives	32	2.00	5.00	3.0000	.95038
The organization periodically properly evaluate budget administration	32	2.00	5.00	3.8125	.85901
The organization used an effective tools of controlling mechanism regarding resource allocation for the beneficiaries	32	2.00	5.00	3.0000	.87988
Grand Mean	32			3.04911	0.977157

Sources Questioner (2018)

Accordingly, the maximum mean value 3.8125 implied the organization periodically properly evaluate budget administration. However, the rest highest mean value of 3.4062

implied neutrality of respondents that, they doubted, whether monitoring conducted based on accurate and complete project data or not. On the other hand, majority of respondents implied their disagreement on many of expected assessment question regarding monitoring and evaluation system of internal control. The respondents that lowest mean value of 2.9375 implied that the management and Senior fiancé officers didn't periodically visits the field office to determine whether guidelines and processes are being followed as required and also respondents implied at a mean value of 2.2188 the organization has not effectively monitoring procurement, contracting and out sourcing activities on a regular basis. Similarly, respondents at a mean value of 2.9688 implied their doubt whether the results of the monitoring recorded, reported and any gaps are addressed. The standard deviation of 1.57571 indicated that that the variation of understand of this activities. In addition, respondents implied inmean of3.000 whether monitoring covers the evaluation of the effectiveness of internal control in achieving set objectives, or not and respondents also assure their disagreement at mean value of 2.60867 that the organization didn't used an effective tools of controlling mechanism regarding the resource allocation for the beneficiaries.

As the result of monitoring and evaluation component of the internal control of the organization shown in table 4.6 revealed that an estimated overall mean 3.04911 of monitoring and evaluation components indicate that there are areas of improvements in themonitoring and evaluation activities of the studied organization.

4.4 Interview Results

The interviews were conducted with the respondents purposely identified those vital to the provision of explanations to the topic under study. The questions for the interview are both closed and open-ended. Close questions asked for specific answers, while the open-ended questions gave chance to more discussions. The interview method assisted to collect further clarifications from respondents on the theme of the study. The interview is conducted with Finance Director, Programs Support and Administration Director, Internal Auditors and other senior management team members. The respondents are interviewed at their offices and the questions are complete on the spot. This method allowed for further investigation and clarification of questions that tended to be difficult

and not clear to the respondents. Also, questions which were viewed as complex were prepared for responses. During the interview the following questions were asked:- Do you think all areas of internal control elements (the control environment, control activities, risk assessment, information and communication and monitoring and evaluation) well designed and operating in the organization?; Do you believe the internal control met the required goal of the organization?; what is your idea about the effectiveness of the internal control and where is/are areas of the control you suggest an improvement?; Do auditors assess project implementation of the organization?; Does management work on staff development?

The study found that all most all interviewees believed that the organization have wide-ranging internal control policy and procedures. Also the Senior management team decisions making process are free from any bias. However, the management admitted the following gaps.

- ❖ The management did not adequately established attitude of significances of internal control at the top.
- ❖ Harmonization and of Code of Ethics and Organizational regulations have not been assessed regularly as required.
- ❖ Because of the rules and the regulation are not harmonized according to the organization existing trend, programs staffs have not given attention for the compliance of rules and regulation during programs execution.
- ❖ Internal auditors focus only in financial audit but not on programs audit.
- ❖ The organization has not given much attention to its man power who are valuable assets of the organization. No mentoring and training opportunities consistently given to the employees to attract and develop them.

Finally, the researcher discussed with the management and they promised to address all the gaps which are not revealed by this study. Additionally, the management promised to review guidelines and processes periodically to determine their constant applicability and refreshes them as needed, harmonize Code of Ethics and Organizational Regulations to the staff and to establish attitude of internal control significances at the top.

CHAPTER FIVE

5 SUMMARY, CONCLUSIN AND RECOMMENDATION

5.1 Summary of Findings

The purpose of this chapter is to pinpoint the major findings of the study and indicate recommendations that can help in improvement of internal controlsystem in the in international NGOs, specifically, the studied NGO of Care Ethiopia.

Both the surveys result and interviews were used to answer the research questions. The data gathered through questionnaire were analyzed using descriptive statistics. The descriptive statistics indicated a grand mean value of each components of internal control less than 4 and that were indicate in all elements of internal control there were a gaps that affect the effectiveness of the organization internal control system. However, the degree of influence of elements on internal contro were varied. Accordingly, the major finding implied;

- The overall mean of the control environment has been approximated to 3.0045 which indicated that respondents both agreement and disagreement on assessed several question. The control environment of the internal control system is inadequate to be judged as effective, particularly, the organization didn't continuously provide mentoring and training opportunities needed to attract, develop, and retain appropriate and competent personnel. Lack clear code of conduct and ethics policy that has been communicated to all staff and external parties. In addition, the managements adequately didn't establish the attitude at the top regarding the significance of internal control
- Regarding the risk assessment, the study implied that there were few employees revealed their agreement on some of the risk controlling assessment questions and that implied there were no appropriate strategies exists to identifying risks. The organization has no sufficient system designed to respond to risk. Generally, grand mean value of risk controlling practice of the organization implied the organization highly demanding effective risk controlling practice.

- Regarding the organization activities in controlling activities, the lowest mean 2.6250 implied respondents' disagreement of that management didn't accomplish periodic review of guidelines and processes to determine their constant applicability and refreshes them as needed. Another lowest means such as, 2.8125 and 2.9375 respectively implied that, there were no privileges and access controls ongoing activities and the management didn't strictly follow up procurement assets procedure under the organization programs. The overall the grand mean value of 3.2656 with the standard deviation 1.11984 implied the organization control activities in some area are effective while ineffective in some activities.
- Regarding the effect of information and communication system of the organization internal controlling system, the grand mean value 3.4822 implied the respondents' agreement on several expected questions. Therefore, the organization in general is good in using information and communication system.
- The other challenges of the studied organization was lack of monitoring and evaluation system of internal control. The monitoring was also not effective because it lacked covering evaluation of the effectiveness of internal control and didn't considered Program audit. In addition, monitoring in the organization is not well implemented on an ongoing basis.

5.2 Conclusion of the Study

The purpose of the study was to assess the extent to which the international NGOs specifically the studied NGO of Care Ethiopia apply or implement internal controls in its operations specifically in the following areas; control environment, control activities, risk assessment, information and communication and monitoring and evaluation activities so as to ensure that to attain the set of goals and objectives. The elements of the study were rated on a Likert scale of 1-5 with 5 being the highest score and the mean was used to measure central tendency. The findings of this study revealed that Care Ethiopia apply internal control elements in its operations, notwithstanding the variation of degrees

attributed to each aspect of internal control elements that is, regarding the information and communication element of the organization internal controlling system, the grand mean value 3.4822 implied that the organization in general is good in using information and communication system

However, the organization needs some improvements in risk assessment & some activities of control environment. In addition, monitoring in an effective internal control system is required to continuously evaluate whether the system is performing as per the designed system. The internal auditors also focused on financial audit rather than on programs audit to improve quality of internal control and reduce control risks.

5.3 Recommendation

The findings revealed that Care Ethiopia apply or implement internal control elements in its operations but is not good enough to achieve the organization programs at high standard. As stated by Spencer (2003) a control environment which is an entire commitment of management from design of internal control to its monitoring should be strong enough to keep the other components of internal control in line. The study therefore recommends the need to strengthen the internal control effectiveness by implementing internal control elements effectively specially control environment. Additionally, the following are specific areas that need due emphasis to improve the internal control effectiveness of the organization based on the finding.

The management should establish effective internal control environment to control activities on an on-going basis. The human power of the organization as a major component of control environment of the system has to adequately understand the policies, directives and procedure of its respective task. Monitoring in an effective internal control system is required to continuously evaluate whether the system is performing as per the designed system. The internal auditors should focus not only in financial audit but also on programs audit to improve quality of internal control and reduce control risks. Thus, the control system effectiveness should be evaluated against clearly established criteria and should be monitored continuously.

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APPENDIX I

St. MARRY UNIVERSTY

SCHOOL OF GRADATE STUDY

QUESTIONNAIRE ON ASSESMENT OF INTERNAL CONTROLL PRACTICS

Dear respondents,

I'm a postgraduate student at St. Merry University. Currently, I am conducting a research entitled '**Assessment of Internal Control effectiveness: In Case of CARE Ethiopia**' as a partial fulfillment of the requirements for the award of Masters of Business Administration in Accounting and Finance.

The purpose of this questionnaire is to gather data for the proposed study, and hence you are kindly requested to assist the successful completion of the study by providing the necessary information. Your participation is entirely voluntary and the questionnaire is completely anonymous. I confirm you that the information you share will stay confidential and only used for the aforementioned academic purpose. So, your genuine, frank and timely response is vital for the success of the study. I want to thank you in advance for your kind cooperation and dedication of your time to fill this questionnaire.

Sincerely yours,

Please Note:

1. No need of writing your name.
2. Indicate your answer with a check mark (√) on the appropriate block/cell for all questions.

Section I: General Information

This part of the questionnaire, tries to gather some general information about the background of the respondent and the organization.

1.1 Sex

1) Female

2) Male

1.2 Age

1) Under 20 Years Old 3) 31-40 Years Old

2) 20-30 Years Old 4) Over 40 Years Old

1.3 Educational Qualification:

1) College Diploma/Certificate

2) First Degree (BSc, BA)

3) Second Degree (MSc, MA)

4) PHD and above

5) Other (Specify).....

1.4 Years stayed at the organization:

1) Under 2 Years

3) 6-10 Years

2) 2-5 Years

4) Over 10 Years

1.5 Your department/work unit:

1) Procurement 2) Finance

3) Programs Support and Administration

4) Food Aid Program

1.6 How long have you been working in humanitarian sector/relief chain operation?

1) Under 2 Years

3) 6-10 Years

2) 2-5 Years

4) Over 10 Years

II. The following are prepared on Likert-scale form with five (5) points of scales.

Please, tick in the appropriate box against the statements as defined below; 1 = strongly Disagree, 2 = Disagree, 3 = Undecided, 4 = Agree and 5 = Strongly Agree.

S.N.	Statement	Score Values				
		Strongly Disagree(1)	Disagree(2)	Neutral(3)	Agree(4)	Strongly Agree (5)
	Control Environment	1	2	3	4	5
1	The Management establish attitude of internal control significances at the top.					
2	There is code of conduct and ethical policy.					
3	The organization have proper financial and administrative manuals.					
4	The compliance/harmonizationof Code of Ethics and Organizational regulations have assessed regularly					
5	There is procedure for reporting the violation of rules on the ethics and thus,undertaking measures as a result of this.					
6	There is established structures, reporting lines, authorities and responsibilities in the career of objectives.					
7	Mentoring and training opportunities are provided to attract and develop competent personnel continuously.					
	Risk Assessment					
1	Risk identification considers both internal and external factors.					
2	Risks to the organization effectively managed and has designed internal controls that mitigate the identified risks.					
3	Physical assets are reconciled with the accounting records periodically					
4	There is mechanisms in place to detect and respond to risks presented by changes in government regulation and economic operation.					
5	The Internal Audit staff involved during implementation of programs activities					

Control Activities						
1	The organization functions are clearly segregated.					
2	Guidelines and processes are periodically reviewed to determine their constant applicability and refreshes them as needed.					
3	System privileges and access controls are regularly reviewed for their applicability.					
4	Management selects and expands control activities over the procurement, development, and repairs of technology and its structure.					
5	The management supports guidelines and processes to simplify the processing of accounting transactions in compliance with requirements of grant agreements.					
6	Invoices or requests for disbursements are backed by appropriate supporting documents.					
Information and Communication						
1	Management has a communication process emphasizing to all employees their parts in ensuring that internal control responsibilities.					
2	Transactions are promptly recorded and classified to provide reliable and up-to-date information					
3	Regular backups performed for organization data to protect from unexpected loss.					
4	There are techniques which identifies and assign the accountability for gathering and reporting necessary information.					
5	There is channel of communication the outcomes of reports provided by: Independent, Internal and Donor Auditors to the Board of Directors					
6	The rules and regulations of the organization are accessible for employee and external parties					
7	The organization has written policy guidance which is provided to staff and/or concerned parties the proper use of funds approved and received.					
Monitoring and evaluation						
1	The organization has the procedure to monitor procurement, contracting and out sourcing activities on a regular basis.					
2	The results of the monitoring recorded, reported and any gaps are addressed					
3	Monitoring conducted based on accurate and complete project data					

4	The management and Senor fiancé officers periodically visits the field office to determine whether guidelines and processes are being followed as required.					
5	Monitoring covers the evaluation of the effectiveness of internal control in achieving set objectives					
6	The organization periodically properly evaluate budget administration					
7	The organization used an effective tools of controlling mechanism regarding resource allocation for the beneficiaries					

If you have additional comment or suggestion regarding your organization internal control system and practices, please specify:

Thank You

APENDEX II

Interview Guided Questions for Auditors and management

1. What are the criteria's of evaluating internal control of the Organization?
2. Do you think all areas of internal control elements (the control environment, control activities, risk assessment, information and communication and monitoring and evaluation) well designed and operating in the organization? (explain)
3. Do you believe the internal control met the required goal of the organization? (explain how)
4. What is your idea about the effectiveness of the internal control and where is/are areas of the control you suggest an improvement?
5. Do internal auditors assess project implementation of the organization?