



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

**ASSESSMENT OF INTERNAL CONTROL EFFECTIVENESS IN
SELECTED INTERNATIONAL NGO'S OPERATING IN ADDIS ABABA**

BY

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**MAY 2018
ADDIS ABABA, ETHIOPIA**

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**A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY COLLEGE,
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SCHOOL OF GRADUATE STUDIES
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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of **my Advisor**. 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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May, 2018

**ST. MARY'S UNIVERSITY COLLEGE
SCHOOL OF GRADUATE STUDIES
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This thesis has been submitted to St. Mary's University College, School of Graduate Studies for examination with my approval as a university advisor.

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May, 2018

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ABSTRACT

Effective internal control system plays a vital role in every organization to achieve their objectives and it is the priority to operations and adherence to rules and regulation. The purpose of this research is to assess the effectiveness of internal control practice of international NGOs operating in Addis Ababa. The study used quantitative and qualitative research approach and cross sectional survey using questionnaires to a sample of 50 employees from ten international NGOs and interview with 9 government desk officials. These included project managers, project coordinators, project finance and admin officers, compliance officer /internal auditors, procurement officers, NGO support officers, and section heads. The quantitative result indicates that internal control in the selected NGO's is not effective (i.e. mean of 3.59) on five point Likert-scale and similarly, the qualitative result informed that internal control system in the NGOs is not well designed and practiced. Mainly the risk assessment (with mean of 3.17) and monitoring (with mean of 3.46) component of internal control are not practiced very well in the NGOs. Whereas control environment (with mean of 4.0), control activities (with mean 3.79), and information and communication (with mean 3.54) relatively seem to be better practiced in those international NGOs. Hence, it needs commitment from NGO's senior management, the responsible government authorities and the Donors to improve those specific areas of weakness in internal control.

Keywords: *Internal control, Effective internal control, Government supervision, International NGOs.*

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List of Abbreviations/Acronyms

NGOs	Non-Governmental Organizations
BOFED	Bureau of Finance and Economic Development
AACAFED	Addis Ababa City Administration Office of Finance & Economic Development
AACA	Addis Ababa City Administration
SPSS	Statistical Package for Social Science
AICAP	American Institute of Certified Public Accountants
GAO	General Accounting Office
COSO	Committee of Sponsoring Organizations of the Tread way Commission
SOX	Sarbanes Oxley
ICS	Internal Control System
UKAPC	United Kingdom Auditing Practices Committee
SAS	Statement on Auditing Standards
IFAC	International Federation of Accountant
AMF	Financial Markets ² Authority

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Internal controls are systems of policies and procedures that protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations (Attorney General, Guidance Document 2015-3 V 1.0)

According to Committee of Sponsoring Organizations of the Tread way Commission (COSO, 1992) internal control is a major part of managing an organization. It comprises the plans, methods and procedures used to meet missions, goals, and objectives, in doing so, supports performance-based management. Though the functions of internal control makes it wider American Institute of Certified Public Accountants(AICPA), General Accounting Office(GAO) and other sources, broadly define internal accounting control as a series of procedures and practices designed to promote and protect sound management practices, both general and financial. Thus an effective internal control procedures will significantly increase the likelihood that: financial information is reliable, so that managers and the board can depend on accurate information, assets and records of the organization are not stolen, misused, the organizations policies and government regulations are met, overall organization objective is achieve. Internal control serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Sufficient internal control is critical for the prevention of economic losses resulting from embezzlement and fraud.

According to Mawanda (2008), internal controls are processes designed and affected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of entity's objectives.

Establishing internal control systems in organizations is critical to ensure the reliability of accounting records, because internal control systems can constraint management or staff's

reported and possible random errors. This ensures the validity of the content of financial reporting to provide logical assurance to stakeholders and it becomes another important system arrangement to ensure reliable financial reporting. Internal control principles suggest that an internal control system (ICS) is the primary accountability and governance tool an organization (Non-Governmental Organization) can establish and use to provide accountability to its stakeholders (donors) and safeguard its assets Ngwenya Bongani (2013)

The AMF Working Group (2007) looked at the components of internal controls as being the control environment, control activities, risk assessment, information and communication, and monitoring and evaluation. Whereas internal controls are thought to be the domain of accountants and auditors, it is actually management that has the primary responsibility for proper controls.

During Jul 2013– Jun 2014, the numbers of NGOs that are operating in the Addis Ababa are 214. The total amount of budget agreed between NGOs and the government at all administrative levels as of 2012 – 2017 is birr 10,273,522,570 and the total number of direct beneficiaries is about 39,568,931. From this number 15 international NGOs were operating fully in Addis Ababa City with a total project cost of birr 311,325,432 for around 701,925 direct project beneficiaries found in Addis Ababa City (Bureau of Finance and Economic Development (BOFED, 2014/15) Therefore it is necessary to review internal control of international NGOs and the paper tried to evaluate effectiveness of internal control. In the meantime, the study tries to find out the role and related supervision of government on the effectiveness of internal control system.

1.2 Statement of the Problem

Internal controls are systems of policies and procedures that protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations. These systems are not only related to accounting and reporting but also relate to the organization's communication processes, internally and externally, and include procedures for handling funds received and expended by the organization, preparing appropriate and timely financial reporting to donors and government , conducting the annual audit of the organization's financial statements, evaluating staff and programs, maintaining

inventory records of real and personal property and their whereabouts and implementing personnel and conflicts of interest policies (Attorney General, Guidance Document 2015-3 V 1.0). Charitable organizations contribute substantially to our society. They educate our children, care for the sick, credit and saving service, child welfare, and house for the homeless, protect the environment and much more. The boards and officers of those charitable organizations are responsible for managing and preserving the charitable assets that benefit all of us. The current BOFED (2013/14) data shows that, the total amount of budget agreed between NGOs and the government at all administrative levels (Regions, City Administration, Sub-City, Woreda) as of 2010 –2017 is birr 35,761,427,762 out of which Birr 3,436,868,441 is fully implemented in Addis Ababa and the total number of direct beneficiaries is about 5,988,004. The withdrawal of the flow of resources by donors would always render the NGO sector non-functional. Projects donors are the dominant force, without whom the whole NGO sector might crumble. Without the supply of the needed resources to NGOs, there will be no provision of goods and services to beneficiaries. This suggests that without the resource support from donors, NGOs might not even exist to operate to provide the much-needed support for beneficiaries. In effect, donors are the most forceful group of stakeholders within the NGO sector. In fact, most NGOs depend heavily on donors for their operations. Thus the activities and operations of NGOs are generally determined and highly influenced by the providers of funds. (Banks and Hulme, 2012; Baur and Schmitz, 2012; Edwards and Gaventa, 2014; Goddard and Suárez, 2013; Rugendyke, 2007; United Nations, 2008)

The NGOs are required to comply with donors and government rules and regulations in the internal control system and project implementation. As discussed above the role of NGOs in filling the gap of socio economic development is very **curtail**. It is therefore necessary to strengthen their operation through designing and implementation of effective internal control system. Hence, this research is supposed to provide an input in creating strong internal control system by analyzing the effectiveness of existing control of the organization. Besides there have been no recent studies conducted on the area in stated city administration.

Therefore the study was supposed to achieve the following research objective and answer the research questions.

1.3 Research Questions

The general research question of this study is to answer, how much effective is the internal control system of the selected international NGOs in Addis Ababa?

Specific research questions

- (i) How does the control environment of international NGOs in Addis Ababa look like?
- (ii) How effective is Internal Control Activities of the selected international NGOs in Addis Ababa?
- (iii) What are the challenges of internal control of the selected international NGOs in Addis Ababa?
- (iv) How does the internal control practice of the selected international NGOs in Addis Ababa look like?
- (v) What is the role of the government in the internal control system of international NGOs in Addis Ababa?

1.4 Objective of the Study

The general objective of this study is to assess the present status of the effectiveness of internal control practice of international NGOs operating in Addis Ababa.

The specific objectives of this study are:-

- (i) To assess the level of effectiveness of control environment of the selected international NGOs.
- (ii) To explore the risk assessment practice of selected international NGOs.
- (iii) To check the effectiveness of control activities in the selected international NGOs.
- (iv) To identify the adequacy of information system in the selected international NGOs.
- (v) To assess the effectiveness of monitoring system in the selected international NGOs.
- (vi) To scan the role of the government on internal control system of selected international NGOs.

1.5 Significance of the Study

Almost all projects aim to address respective beneficiaries through the grant they secure from donors with stated internal control policies; procedures and principles. The study is important to the international NGOs, Donors, managers, Finance officers and Program officers of such organizations to see their deficiency in the internal control and create opportunity to improve their internal control system in order to achieve their objective. Likewise the paper adds a little proficiency to me as researcher in understanding how practically those institutions design and operate their internal control

Lastly, this study may perhaps draw attention for policy direction. The study shall also be a useful input for further research on the area of effective foreign NGOs Internal control

1.6 Scope of the Study

This study was restricted to Addis Ababa only. Other international NGOs and all Local NGOs outside of Addis was not covered; hence, the outcome may not give a conclusive picture of all the international NGOs and all Local NGOs internal control system operating in the country. Due to constraints of time and financial resources the researcher also could not incorporate all international NGO's and all Local NGO's operating in Addis.

The researcher had as well emphasized on the practices and procedures of internal control system of the sampled international NGOs with regard to all relevant components of internal control system. This study has no aim of reporting any theft or defalcation of assets made by individual employees or groups in the international NGOs

1.7 Limitation of the Study

Some respondents were reluctant to reveal information on issues deemed controversial such as competence of staff in terms of educational qualifications. However, the challenge was overcome by convincing them that the study was purely for academic purposes and the promise of the confidentiality of the information given.

1.8 Organization of the Paper

The study is organized into five chapters. Chapter one dealt with the introduction, background of the study, the problem statement, research questions, research objectives, significance and scope of the study. The second chapter presents the literature review regarding the research area of factors influencing of Internal control and therefore set out the theoretical foundations for the research, The third chapter considered the methodology used. Chapter four is about data presentation findings and analysis while chapter five provides the summary of findings, conclusions and recommendations

CHAPTER TWO

LITRETURE REVIEW

2.1 Introduction

This chapter consists of two sub-sections; the theoretical literature review, and conceptual framework of the study. The chapter has reviewed the works and findings of other researcher and practitioners'. The major concepts of this study i.e. Effectiveness of internal control system in international NGOs have been conceptualized and practiced.

Theoretical literature review has defined and assigned indicator variables of the key concepts while empirical review has reviewed other researcher's work relating to Effectiveness of internal control system of NGOs.

2.2 Theoretical Literature Review

2.2.1 Internal control

According to statement of Auditing standards (SAS,300); Internal Control is defined as all the policies and procedures adopted by the directors and management of an entity to assist in achieving their objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to internal policies, the safeguarding of assets, the prevention and detection of frauds and errors, the accuracy and completeness of accounting records, and the timely preparation of reliable financial information.

The wider definition of internal control by United Kingdom Auditing practice Committee (UKAPC,1979) defined internal control as the whole system of control, financial and operational in order to carry on business of any enterprise to safe guard asset, ensure the completeness, accuracy of records , detect errors and fraud and ensure timely report of financial information.

Kenneman (2004) describes internal control as those mechanisms that are in place to either prevent errors from entering the process or detecting errors once they have. He explains, in

simple terms that, internal control can be defined as those processes that management relies on to make sure things don't get goofed up.

The Committee of Sponsoring Organization (COSO) 1992, also known as Tread way Commission defined Internal Control as a process affected by an entity's board of directors, management and other personnel designed to provide reasonable assurance regarding the achievement of objectives in three categories.

- i. Effectiveness and efficiency of operations
- ii. Reliability of financial reporting
- iii. Compliance with applicable laws and regulation.

Internal control is defined by Kell (1985) "as the policies and procedures established to provide reasonable assurance that specifies entity objectives will be achieved, objective may involve both financial and non-financial.

According to Mahushi (1985) Internal control is comprised of the plan of the organization and related methods and procedures adopted by an entity for the purpose of safeguarding its assets, contributing to efficient operations, facilitating generations of accurate accounting data and encouraging adherence to laid down managerial policies. Internal control will include procedures and techniques as work study, quality control, statistical analysis, variance analysis and the like. Principles of Internal control remain valid to all types of institution, however, details of the procedures will vary from one entity to another, depending upon its size, nature of business, quality of personnel and related factors.

According to Frank (1989), there are three types of controls that the entity's internal audit function should recognize: preventive, authorization and detective controls. Preventative controls prevent risks from occurring for example; segregation of duties, recruiting and training the right staff. Authorization controls prevent fraudulent or erroneous transactions from taking place. Detective controls which detect errors or fraud that has not been prevented.

Ishmgisa (2001) considered internal controls as a process comprising five components; control environment, risk assessment, control activities, information and communication, and monitoring. The author noted that each component influences all aspects of an organizations activities whether administrative, financial or accounting operations. In this respect, the author stated the need for effective functioning of each of the components for the organization to attain the purpose for which it was established.

All the above definitions of internal control systems have identified the main objectives of internal controls to be the assurance that organizational resources will be put to economic, efficient and effective use in order to achieve the goals for which the organization was set up.

The next sections of the theoretical review will therefore discuss types of internal control (section 2.2.2), elements of internal control (section 2.2.3), effective internal control (section 2.2.4), and limitation of internal control (section 2.2.5).

2.2.2 Types of internal control

Different sources classify internal control based on areas of operating the internal control.

United Kingdom Auditing practice Committee (UKAPC, 1979) recognizes two types of internal controls; Accounting control and operational control.

Accounting control is concerned with the plan of the organization and all the co- coordinated methods and procedures which are implemented with a view of safeguarding assets and enhancing reliability of financial records. An operational control comprises of the plan of the organization and all co-ordinates methods and procedures that are concerned with operatically efficiency an adherence to management policies and directives.

In line with UKAPC, internal accounting control is defined in SAS No. 1 (paragraph 320. 28) as: a plan of organization and the procedures and records that are concerned with the safeguarding

of assets and the reliability of financial records and consequently are designed to provide reasonable assurance about the transactions and related resources.

According to SAS (No 48) operational control is Administrative control which is the plan of organization and the procedures and records that are concerned with the decision processes leading to management's authorization of transactions. Such authorization is the management function directly associated with the responsibility for achieving the objectives of the organization and is the starting point for establishing accounting control of transactions.

The guideline of internal control, International Federation of Accountants (IFAC, 2012) put forward eight (8) types of internal control system that should be obtainable in an organization in an organization and they are follows:-

Organizational Control

An organization should have a plan of its activities which should define and allocate responsibilities that is every function should be monitored by a specific person who may be called “responsible officer.” Adequate lines reporting for all aspect the organization operations, including controls should be clearly stated and the delegation of authority and responsibility should be clearly specified.

Segregation of duties

One of the prime means of control is the separation of duties. This reduces the risk of internal manipulation, accidental error and increases the element of checking.

Functions which should be separated in an organization financial management include: initiation (officer or person who decides to give out the loan), Execution (the person who keeps the money to be loan out) and recording (the person who records the whole process in the book).system development and daily operations have to be considered in molding the internal control system to be full proof against fraud.

Physical Control

This concerns the physical custody of assets and involves procedures and security measures designed to limit access to authorized personnel only. These include both direct and indirect access via documentations. These controls assume importance in the case of valuable, portable, exchangeable or desirable assets.” Physical control can also be achieved by electronic means in a computerized environment for example through the use of electronic I.D cards, password etc. to restrict access to particular file.

Arithmetical and Accounting Control

These are the controls within the recording function which h checks that the transactions to be recorded and processed have been authorized and that they are correctly and accurately processed. Such controls include checking the arithmetical accuracy of the records, maintenance and checking of totals, reconciliation, control accounts and trial balances and accounting for document.

Personnel Control

There should be procedure to ensure that personnel have capabilities commensurate with their responsibility. Inevitably, the proper functioning of any stem depends on the competence and integrity of those operating it. The qualifications, selection and training as well as the personal characteristics of the personnel involved are important features to be considered in setting up any control system especially in financial management.

Supervision Control

Any system of internal control should include the supervision by responsible officials of day-to – day transactions and the recording thereof. Al activities performed in the financial management by all the level of staff should be clearly laid down and communicated to the person supervising

Management

These are the controls exercised by management outside the day-to-day routing of the system they include the overall supervisory controls exercised by management, the review of management accounts and comparison thereof with budget internal audit function and other special review procedures. It is also the duty of the management to review the internal control from time to time in order to accommodate changes in the financial management operations.

Authorization and Approval

All transactions should require authorization by an appropriate responsible person. This is very important in the financial system of an organization where large amount of money is handled so therefore it is appropriate for these money which are used for are used for various transactions to be authorized by a trusted and responsible person

2.2.3 Components of Internal Control

Internal controls systems comprise of five interrelated components. These components are used to develop an internal control system and are also the means for evaluating it. These components work together to form a strong set of methods and procedures that organizations follow in its operations. COSO; Internal Control Integrated Framework, (1992).

The components could be viewed as both the fundamental principles and aid planning evaluating and updating controls in any organization.

2.2.3.1 Control Environment

The control environment is the overall control consciousness of an organization effected by management through policies, procedures, ethical standards, and monitoring processes. This reflects the board of directors and management' firm decision to internal control. The control environment includes management philosophy seen in its vision and mission for the organization. The elements of the control environment also encompass the organizational structures which specify responsibility in the performance of financial and non-financial duties, management operating style, attitude, ethical values, the integrity, skill and competence of personnel.

The control environment includes awareness values, decisions, attitude and actions regarding control. Hevesi (2005), considered the control environment to be the attitude toward internal control and control consciousness established and maintained by the management and employee of an organization. Lou (2008) concurs that higher level administrators of an organization are responsible for establishing the appropriate control environment.

The control environment is the component of internal controls. It includes factors such as integrity, ethical values, competence of the workers and the management's philosophy in the organization. It is the component that provides the foundation needed for the other components to build on in internal financial controls systems, COSO Internal Control - Integrated Framework, (1992).

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.

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.

2.2.3.2 Risk Assessment

It involves a process for the identification and analysis of relevant risks to the achievement of objectives, with consideration of established risk tolerances. Risk assessment forms the basis for determining how risks will be managed (COSO, May, 2013). Risk assessment system is divided into three steps: risk identification, risk analysis and evaluation, risk control and report.

- (i) Risk identification. It asks the enterprise to judge and analyze risks, including its nature, types, and reasons of the occurrence, etc.
- (ii) Risk analysis and evaluation. Risk analysis and evaluation needs quantitative analysis of digital information collected by mathematical method in order to make the risk management based on scientific basis. The result of risk analysis and risk evaluation is the probability of occurrence and size of the risk so as to provide a dependable basis for decision-making.
- (iii) Risk control and report. As to risk analysis and assessment, management should consider how to control risk. The methods of controlling risk usually are to transfer, adverse and disperse risk. Risk assessment is that component which is used for identifying risks in the system. For risk assessment to be effective, preventative measures are put into place by establishing clear objectives. This component identifies and analyzes possible risks internally and externally. This component manages risk by developing precise procedures to achieve consistent objectives within the organization. Risk assessment always takes change into consideration within the objectives set forth by Enterprise Risk Management – Integrated Framework (2004).

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 Tsedal, (2014) risk assessment is the component related to the identification of risk, analysis of risk and management of risk. According to Tsedal 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).

2.2.3.3 Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure the necessary actions are taken to address risk to the achievement of the entity's objective .control activities occur throughout the organization ,at all level and in

all function as approval, authorization , verification , reconciliation, reviews of operating ,performance , securities of assets and segregation of duties (COSO 1994:49)

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

- (i) Proper authorization of transactions
- (ii) Design and use of adequate documents and records to help ensure the proper recording of transactions and events
- (iii)Purchase orders to ensure that you received what you ordered and you only pay for what you received.
- (iv)Independent checks on performance and proper valuation of recorded amounts

A good entity should separate transaction authorization function, accounting record function, and asset store function (Tsedal, 2014).

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.

William (2011) the control activities are the instructions, rules, methods and decisions established over various activities by management to prevent or reduce risks that affect the organization in achieving its objectives. According to Walker (1999) control activities occur at all levels and functions of the entity. They include a wide range of activities such as approvals, authorizations, verifications, reconciliation, performing reviews, maintenance of security and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation.

Organizations develop control activities to assist in monitoring. Control activities include policies, procedures and practices developed to increase risk management strategies. Specific

control activities include separation of duties, verifications, reconciliations and physical security of assets. These policies are designed to ensure that management directives are fulfilled. COSO Internal Control - Integrated Framework, (1992)

2.2.3.4 Information and Communication

This is one of the internal control systems that involve the procedure of identifying, capturing and exchanging information on a timely basis to enable the organization to accomplish its stated objectives. The information system, including the accounting enables the organization to make appropriate decisions in managing and controlling the activities. Effective communication must occur in a broader sense, flowing down, across and up the organization.

Information flow is essential to effecting control, information about an organization's plan, control environment, risks, control activities and performance must be communicated up, and access an organization (Ruttman Working Group, 1994). Reliable and relevant information flow both internal and external sources must be identified, captured, processed and communicated to the people who need it in a form and time frame that is useful. Ruttman .L and John Mayene(1994)

Management should ensure there are adequate means of communicating with, and obtaining information from, external stakeholders that may have a significant impact on the agency achieving its goals (Guy et al., 1999). According to (Guy et al., 1999), effective information technology management is critical to achieving useful, reliable, and continuous recording and communication of information. Moreover, the system should be communicated to everyone in the organization [Tedale 2014].

Information must be identified, captured and communicated timely and effectively and is achieved through this internal control component. This component is designed to allow employees the ability to carry out their responsibilities in the best manner possible. Information must be communicated externally as well to all parties involved in the company. Information that

is communicated in this fashion allows control activities and employee responsibilities to be more effectively. COSO Internal Control - Integrated Framework, (1992)

William (2011) for the control system to be effective and efficient, there should be relevant and reliable information which should be recorded and communicated to management and other personnel within the organization. To carry out the internal control and operational duties and responsibilities, the information should be timely and should go to those who need it and in the right form. All personnel do understand their roles in the control system, how their roles relate to others and their accountability through the information and communication systems.

The Standards for Internal Control (GAO, 1999) requires that Information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.

2.2.3.5 Monitoring

It involves assessing whether each of the five components of internal control is present and functioning. This is accomplished through on-going monitoring activities, separate reviews or a combination of the two.

The Institute of Internal Auditors (1995) considers monitoring to encompass activities such as periodical evaluations, internal audits and management self-assessments. COSO (1998), Dublin (1990), Magala (2001) and Lary (2009) view monitoring as needed to ensure that planned administrative, operational and financial tasks and activities are carried out in a timely and proper manner such that set internal control objectives and organizational performance are achieved. Monitoring aims at determining whether organizational members are carrying out or have carried out their tasks efficiently and effectively as required by the organization's policies (Spillane, & Reimer, 2000).

Jones (2008) refers monitoring as the process of assessing the quality of a system's 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. Jones, M.J (2008)

Monitoring includes assessing the performance of internal control components, ensuring they are operating effectively. This component includes allowing managers clear responsibility guidelines so that they are able to effectively do their jobs. It also includes performing evaluations through audits and other independent parties, ensuring that the company is handling the operations of the business correctly by COSO Internal Control - Integrated Framework (1992).

Simmons M (1995) Monitoring can be done through ongoing activities or separate evaluations. Ongoing monitoring procedures are built into normal recurring activities of an organization. The monitoring is intended to ensure that the internal control design is adequate, effective and appropriately executed.

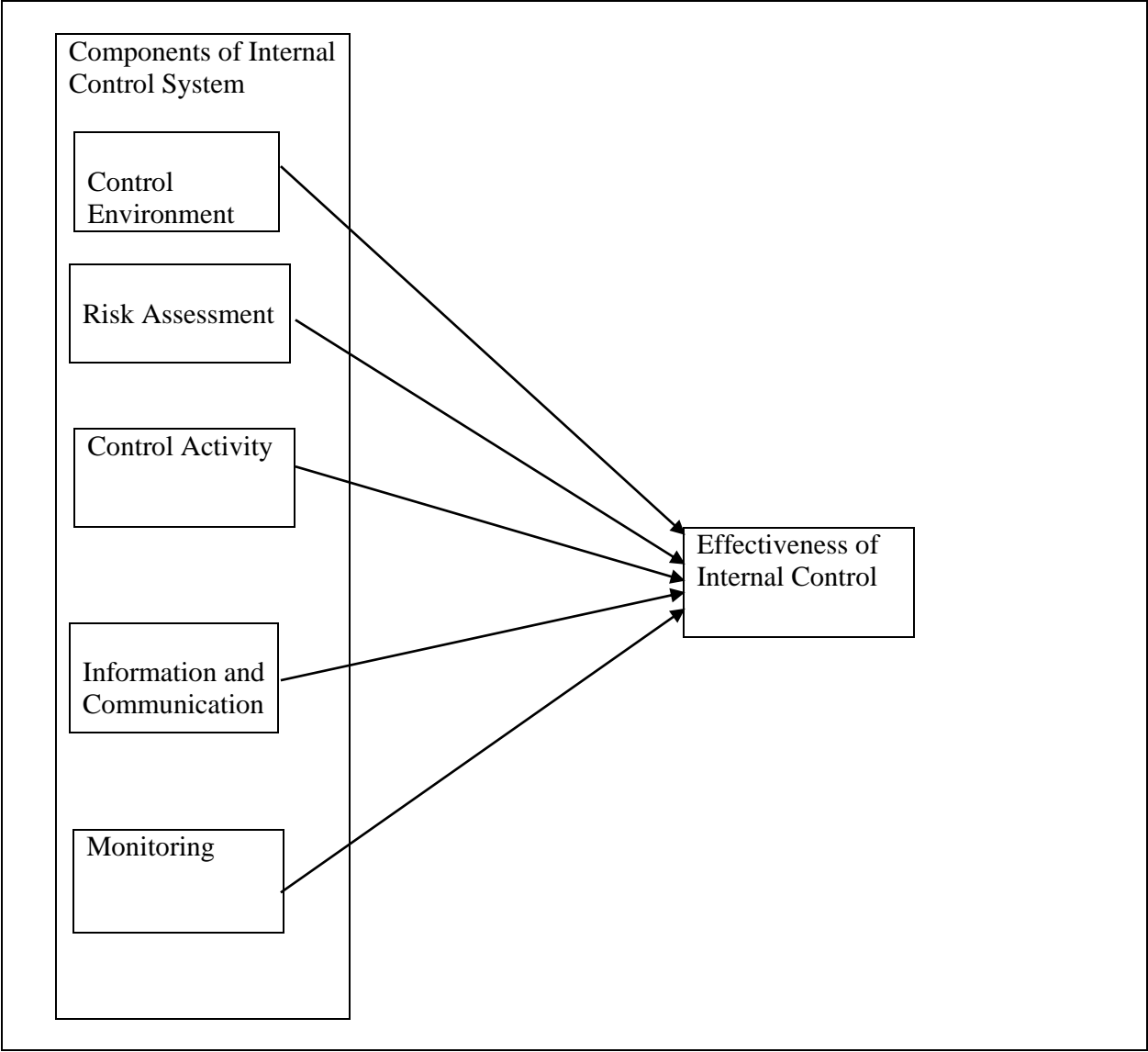


Figure 2.1: Theoretical Framework of the study

2.2.4 Importance of Internal Control

Under the current operations of business in general, the importance of the internal control can be divided into the following (Lin 2005, Rittenberg et al, 2005).

1. Detecting error and fraudulence. Through the enhanced structure of internal control, which includes the establishment and improvement of control environment, according system and control program, the possibility of error and fraudulence can be diminished to the minimal level.

2. Decreasing illegal conduct. The regulations a business entity needs to comply with can be subtle and complicated. If a reckless conduct leads to results of law breaking, it might not only damage the public image of the entity (reputation risk) but also carries the risk of difficulties of operation due to time consuming law suits and indemnities. The establishment and enhancement of internal control helps in decreasing illegal conducts.

3. Improving the competitiveness of the business entity. A well-built-in and efficient internal control system contributes to the success of a business entity. In the highly competitive market, a well-managed internal control system guards the business entity from failure. The small scale of internal control inside the business entity improves employee's understanding of company goals and objectives and builds up the concepts of internal control; employees tend to carry out more exactly on the company policies and programs thus the operating efficiency can be improved as a whole. Good control means that risks are identified and dealt with effectively.

4. Improving the quality of data. Strong internal control processes should lead to more efficient operation and improve the quality of data management, directors and shareholders can rely on to make decisions.

5. Helping to create the business infrastructure. Many new businesses fail because they do not build a control infrastructure to match the business visions of their founders.

6. Decreasing auditors' fees. Effective internal control system allows auditors to rely on it and by reducing the auditing time and effort, the fee can be decreased.

2.2.5 Effective Internal Control System

COSO (1992) provided criteria's against which effectiveness of internal controls can be assessed. Internal control can be judged effective if the entity's operations objectives are being achieved; published financial statements are being prepared, reliable and applicable laws and regulations are being complied with.

Efficiency and effectiveness of operations have been taken to mean efficiencies and effective use of its resources including personnel, accurate information for decision making and safeguarding of assets and records (Aren and Lwebbecke, 1994).

As stated in internal control frame work of COSO (1994) an effective internal control should in priority encompass the five elements the control. In addition effective, internal controls must satisfy three basic criteria:-

- (i) They must be appropriate (that is, the right control in the right place and commensurate to the risk involved).
- (ii) They must function consistently as planned throughout the period (that is, be complied with carefully by all employees involved and not bypassed when key personnel are away or the workload is heavy).
- (iii) They must be cost effective (that is, the cost of implementing the control should not exceed the benefit)

Basel Committee on Banking supervision (1998) states that in order an internal control effective there should be an effective and comprehensive internal audit carried out operationally independent ,appropriately trained and competent staff.

An effective internal control system helps an organization to:

- (i) Promote orderly, economical, efficient and effective operations and use of the Organization's resources.
- (ii) Deliver programmers and services consistent with the Organization's mission.
- (iii) Safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud.
- (iv) Promote adherence to statutes, regulations, policies and procedures, and ethical values.
- (v) Identify risks and develop effective strategies and procedures to control or manage them.

(vi) Develop and maintain relevant, credible and reliable financial and non-financial data, and accurately report financial and non-financial information in a timely manner.

Basel Committee on Banking supervision (1998) states that in order an internal control effective there should be an effective and comprehensive internal audit carried out operationally independent, appropriately trained and competent staff. It is part of monitoring of internal control system. In addition Basel Committee on banking supervision (1998) also suggested the following principles as a judgment to effective internal control.

Principle1; Board Oversight: An executive board structure exists that demonstrates independence from management and exercises oversight for the development and performance of internal control.

Principle2; Integrity and Ethical Values: Standards of ethical behavior exist and processes are in place to encourage staff to fulfill their duties with integrity.

Principle3; Structure, Authorities and Responsibilities: An organizational structure, including reporting relationships and assignment of responsibility and delegation of authorities, is defined and clearly communicated and the related policies are established in support of the Organization's objectives.

Principle4; Human Resources Policies and Practices: Policies and procedures are in place to attract, develop and retain talents in support of the Organization's objectives including policies and practices for managing performance.

Principle5; Accountability: Policies and procedures are in place to hold individuals accountable for their internal control responsibilities, including delegation of authority.

Principle6; Strategic Direction: The strategic direction and priorities of the Organization are established and form the basis for the development of assessing risks and operational effectiveness.

Principle7; Specifying Objectives: Objectives are specified with sufficient clarity to enable the identification and assessment of risks relating to objectives.

Principle8; Risk Identification: Risks to the achievement of objectives across the Organization are identified and analyzed as a basis for determining how they should be managed, whether to accept, avoid, reduce, or share the risk.

Principle9; Risk Assessment: The risks to the achievement of its objectives are assessed, including the potential for fraud or other misconduct or breach of rules.

Principle10; Risk Response: Once the potential significance of the risk has been assessed management considers how the risk should be managed

Principle11; Selection and Development of Control Activities – Control activities that contribute to the management of risks to acceptable levels are selected and developed taking into consideration the operational environment.

Principle12;General Control Activities Over Technology – General control activities using information technology are selected, developed or assessed to support the achievement of the Organization’s objectives.

Principle13; Policies and Procedures – Control activities include the development and use of policies that establish what is expected or required, and procedures that put the policies into action. They are built into business processes and day-to-day activities. Compliance and the consequences of non-compliance are also contained within each policies and/or procedure.

Principle14; Information and Reporting: Relevant and quality information is obtained or generated to support the functioning of internal controls, decision making and oversight.

Principle15; Internal Communication: An efficient and effective system of internal communication exists to ensure that individual staff members have the information they require to carry out their duties, and to support the functioning of internal control.

Principle16; External Communication: An efficient and effective system of external communication exists to ensure 1) necessary externally-sourced information is received; and 2) that external stakeholders, such as contributors, NGOs, Member States, governing bodies, donors and technical partners are provided with necessary relevant and quality information in response to requirements and expectations.

Principle17; On-going or Separate Monitoring: On-going and/or separate reviews are selected, developed and performed to ascertain that each of the components of internal control that are built into the business process are functioning effectively.

Principle18; Reporting Internal Control Deficiencies: Deficiencies in the operation of internal control are systematically evaluated and reported to those parties responsible for taking corrective action. Appropriate corrective action is taken in a timely manner to address the reported deficiencies.

2.2.6 Limitation of internal control system

Internal control systems cannot guarantee that an organization will meet its objectives. Instead, internal control can only be expected to provide reasonable assurance that a company's objectives will be met. (Hughes G, 2007).

Internal Control is a system that provides reasonable assurance on the attainment of objectives. No matter how well designed and operated, internal control cannot provide absolute assurance that all objectives will be met. This is because factors exist outside the control or influence of management that can affect the entity's ability to achieve all of its goals. For example, human mistakes, judgment errors, undetected acts of collusion to circumvent control, and events beyond them control can affect meeting the Organization's objectives. However, it is important for management to be aware of this when selecting, developing and implementing internal controls that minimize, to the extent possible, these types of limitations (COSO, May, 2013).

Deficiency of internal control is not arguable because if people are involved in every part of internal control. However well designed, internal control systems are still vulnerable. Thus the presence of internal controls is no guarantee that their objectives will be fulfilled. The following are the summarized areas of internal control limitations based on (COSO, 1992, SOX 2002.)

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

A number of deficiencies indicate poor or inadequate internal control procedures or policies. According to Bradford (1997) the deficiencies can be categorized into three groups: deficiencies in the design of the internal control structure, deficiencies in the operation of the structure, and all other deficiencies. Because any internal control structure depends on the human factor, it is subject to flaws in design, errors of judgment or interpretation, misunderstanding, carelessness, fatigue, or distraction. While the competence and integrity of the personnel designing and

operating the system may be controlled by selection and training, these qualities may alter due to pressures from within and outside the public body. Furthermore, no matter how competent the staff, the control they operate may become ineffective if they do not correctly understand their function in the control process.

Source: COSO Internal control framework

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with methods of assessing internal control system of selected international NGOs operating in Addis Ababa. It describes and justifies the methods and processes that were implemented in order to collect data and to achieve research objectives as well as to answer the research questions. Thus, the chapter is greatly concerned with description of area, methods adopted; study population, sample size, sampling techniques, types of data, sources of data, and data collection methods.

3.2 Research Design

Research design is the framework or blueprint for conducting a meaningful research. It set the outline for collection, measurement and analysis of data. In other words, the research design articulates what data are required, what methods are going to be used to collect and analyze this data, and how all of this is going to answer the research question. Different research designs may use different approaches, different types of data and data sources based of the study they have.

3.2.1 Quantitative research approach

A quantitative approach is one in which the investigator primarily uses postpositive claims for developing knowledge from cause and effect thinking, reduction to specific variables and hypotheses and questions, use of measurement and observation, and the test of theories, employees strategies of inquiry such as experiments and surveys (Creswell,2009). Quantitative research approach uses two strategy of inquiry known as survey and experimental design.

Survey research provides a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population. Quantitative approach uses surveys of cross-sectional or longitudinal using self-administered semi structured questionnaires or structured interviews for data collection, with the intent of generalizing from a sample to a

population (Babbie, 1990). The data are collected on an instrument that measures attitudes, and the information collected is analyzed using statistical procedures and hypothesis testing.

Experimental research seeks to determine if a specific treatment influences an outcome by providing a specific treatment to one group and withholding it from another and determining how both groups scored on an outcome (Creswell, 2009).

3.2.2 Qualitative research approach

An alternate qualitative approach is one in which the inquirer often makes knowledge claims based primarily on constructivist perspectives (i.e., the multiple meanings of individual experiences meanings socially and historically constructed, with an intent of developing a theory or pattern) or advocacy/participatory perspectives (Creswell, 2003).

A qualitative research approach uses strategies of inquiry including narratives, ethnographies, case studies, observations, interviews, and the results are communicated subjectively through descriptions using words rather than numbers (Creswell, 2003, p.186-187). Besides Qualitative researchers tend to use open-ended questions so that participants can express their views. Under this method contact with the field of research may be based on interviews, observations, or analysis of documents and other artifacts. In addition, literature studies are performed to the extent required to develop sensitivity in observation and interpretation (Atkinson and Hamersley, 1994).

3.2.3 Mixed method approach

Mixed methods is one in which the researcher tends to base knowledge claims on pragmatic grounds (e.g., consequence-oriented, problem-centered, and pluralistic). It employs strategies of inquiry that involve collecting data either simultaneously or sequentially to best understand research problem (Creswell, 2009).

The data collection also involves gathering both numeric information (e.g., on instruments) as well as text information (e.g., on interviews) so that the final database represents both

quantitative and qualitative information. The advantage of a quantitative research approach may be limitations for a qualitative approach and vice versa.

Mixed research approach, is supposed to tap the limitations of quantitative and qualitative approaches, bases on pragmatic knowledge claims (Sale et al, 2002). The goal for researchers using the mixed methods approach is to draw from the strengths and minimize the weaknesses of the quantitative and qualitative research approaches by combining them (Carrie, 2007).

Accordingly, the researcher used a type of descriptive cross sectional survey study with mixed approach having data from both primary and secondary sources.

3.3 Population, Sample Size and sampling technique

3.3.1 Study population

This research targeted on a total population of fifteen international NGO's that are operating in Addis Ababa City. The target study units are listed in the table below.

Table3.1: Research Population Description

No.	List of the 15 international NGOs	Positions& number of individuals available in Each of 15 international NGOs		Position in Governmental Organizations		
		Positions	Number	Positions	Number in	HCAoFD
1	Plan International				BoFED	
2	Care Ethiopia					
3	Save the Children	Project Manager	15	NGOs support expert	5	2
4	Pact Ethiopia					
5	Pathfinder International					
6	Abt. Associate	Project coordinator	15	Section heads	1	1

7	Engender Health Ethiopia					
8	JSI Ethiopia	Finance&Admin. Officer	15			
9	L10K Ethiopia					
10	Marie stops International	Compliance Officer	15			
11	Malaria Consortium	Procurement Officer	15			
12	World Vision					
13	People in Need					
14	Goal Ethiopia	Total from each	75	Total from each	6	3
15	Action Faim					
		Grand Total Population				84

The reason why the researcher focused on this target population is that, as per the objectives of study, it is believed that the most viable and reliable data was collected from these sources rather than others. Similarly, individuals from AACAFD and BOFED were directly involved based on their assignment on their organization to supervise these international NGOs that are under our study.

3.3.2 Sample Size

According to research scholars, sample shouldn't be too large to be economical and shouldn't be too small to keep validity of findings. Accordingly, the researcher used two stage sampling. In the first sample out the international NGOs and in the second stage sample the number of respondents within international NGOs. This research targeted on a total population of 84 individuals from fifteen international NGOs operating in Addis Ababa; AACAFD and BOFED.

The researcher conducted the research on ten international NGOs among the fifteen international NGOs that are found in Addis Ababa. Similarly, the researcher used a sample size of 59 individuals that are selected from the ten international NGOs, AACAFD and BOFED.

Regarding the determination of sample size, from the 10 international NGOs only 59 respondents were selected judgmentally which is $(59/84)=0.7023(70.23\%)$ of the total population and which is adequately more than the minimum sample size required in any scientific study. As it is mentioned by other researchers who conducted similar surveys (AdmasuMera 2011 used 0.67228 and (Kuln, 2004 =0.022, Diaz and Delgado, 1995 = 0.026, Pope, 1995 = 0.008, cited in (Mera, 2011).

Table3.2. Research Sampling Distribution

No.	Sampling unit	No. respondents	Total
1	Ten international NGOs	5 from each	50
2	BOFED	6	6
3	AACAFD	3	3
Total			59

3.3.3 Sampling Technique

The researcher used a type of non-probability sampling technique, which is purposive and convenience type of judgmental sampling technique in order to select the ten international NGOs from the fifteen international NGOs.

Based on the current information and experience we have about these international NGOs that are found in Addis Ababa city the researcher has a concert reason to select the ten international NGOs out of the fifteen.

Although all of the fifteen international NGOs have head office at Addis Ababa, five of the them are highly decentralized with regard to the information we need to accomplish our study. Moreover, the numbers of respondents that we need to accomplish our study are not found in some of the international NGOs. That is, in some of the organizations there are no staffs in Addis Ababa that represent project coordinator and /or compliance officer and/or procurement officer

positions. It is difficult also to access this information from their head office Addis Ababa because of cost and time constraints. Because of these reasons the researcher used the remaining ten international NGOs with required number of staffs that are more related to our studies.

Similarly, to select each of the respondents from the sampled ten international NGOs, BOFED, and AACAFD, the researcher used a type of non-probability sampling, which is judgment sampling technique. This is one of the sampling methods whereby the researcher used his or her own judgment about which respondents to be chosen and picks only those which best meet the purpose of the study.

3.4 Data Type and Source

The types of data used in this study are both primary and secondary data. Primary data are those which are collected afresh and for the first time and thus are fresh in character, so that is why the researcher obtained the information from the respondents of international NGOs operating in Addis Ababa city, BOFED, and AACAFED. Secondary data are those which have already been collected by someone else and which have already collected through questionnaire, interview and observation. The secondary data also was collected from the institution files, report and books from different author

In order to fulfill the objectives of the study, data was collected mainly from primary sources. The respondents of this study were NGOs management team and employees such as project manager, finance and admin officer, compliance officer/internal auditor /, project officer, procurement officer. In addition, government officials from the BOFED and HCAFD who are directly involved in NGOs follow up and coordination have been considered.

The researcher used questionnaires and structured interviews as a method of collecting data that are developed using English language since all of the respondents are educated people. The questionnaires are developed based on the literature review and have two sections. The first one is on the general aspect of the respondent and the second one is developed based on standard of internal control. In addition to the above quantitative data, in the current study qualitative data is needed to support and strengthen the result of the quantitative approach; thus the replay from the

respondent had been described and analyzed along with the quantitative approach. This can be accomplished by structured interviews to BOEFD and AACAFD staffs.

The questions were developed based on the Likert-scale method so that the responses can be analyzed statistically. In developing the questions respondents were expected to answer the questions based on their knowledge as strongly agree (SA), Agree (A), Neutral (N), and Disagree (DA) and strongly disagree (SDA). A response of strongly agree takes 5 points, Agree takes 4 points, Neutral takes 3 points, disagree takes 2 points and strongly disagree takes 1 point.

3.5 Data Analysis

The researcher assessed the effectiveness of internal control system of the sampled international NGOs by using the quantitative as well as the qualitative data. As indicated in the literature section an effective internal control should in priority comprises those five components considered as frameworks ((Heald (2003), Fryer, Jiju, & Ogden, (2009), Kerr (2005)).

For all questions a positive mean response more than 3 statistically suggests agreement with the statement/question, a positive mean response less than 3 implies disagreement and a mean response close to 3 indicates indifferent or offsetting differences. All of the questions are coded in such a way that a positive mean response of 4 and greater display that this component of internal control system adequately contributed to the effectiveness of internal control in the international NGOs, while a positive mean response less than 4 reveals that this component of Internal Control System not adequately contributed to effectiveness of the internal control (Joseph, 2007). Even though the mean response between 3 and 4 indicates the agreement with the statement, the interpretation implies, these areas are the room for improvement of the internal control system. The analysis involves instruments like descriptive statistics (means, Standard deviation, frequencies, and percentages) and graphs.

The researcher has used SPSS version 20 in combination with Microsoft excel application program in order to analyze the data collected using questionnaires. Finally, the qualitative data gathered through interview have been presented and analyzed separately from the quantitative approach and to be combined to conclude the result.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

This chapter presents the data collected and its analysis and key findings of this study according to the six research questions shown in Chapter One. It includes analysis, the findings and interpretation of data collected via questionnaire and semi structured interview. Quantitative data were analyzed using SPSS and Microsoft Excel Spread Sheet. In most cases descriptive statistics have been shown in frequencies and percentages. The chapter is organized into four broad sections. Section 4.1 presents Survey result, section 4.2 presents Interview result, and section 3.4 summery of analysis and discussion.

4.1 Survey Result

This section presents the result and analyzes of the data collected using self-administered questionnaire from sample of 50 employees of selected international NGOs operating in Addis Ababa namely Plan International , Care Ethiopia, Save the children, Pact Ethiopia ,Pathfinder International ,Abt Associate ,Engender Health Ethiopia, JSI Ethiopia ,L10k Ethiopia and Mariestopes International . The section is categorized as 4.2.1 Response Rate 4.2.2 Respondents Background information; 4.2.3 Survey result on internal control system.

4.1.1 Response Rate

Forty one questionnaires were sent to ten selected international NGOs whose addresses were obtained from the BoFED 2014/2015. Additionally, five semi structured interview questionnaires were sent to two governmental organizations (BoFED and HCAoFD). In order to get the respondents willingness, phone calls and visits were made to the organizations in order to persuade them to participate in the survey. This was necessary in order to increase the response rate to an acceptable level.

Different authors define and prescribe acceptable response rates. According to Baruch (2004), from 175 analyzed researches reported in academic journals it was found an average response

rate of 36.1%. Similarly, of the 50 selected international NGOs staff respondents, 41 respondents completed and returned the questionnaires. In addition, of the 9 targeted government staff interview question respondents, 9 respondents completed the semi structured interview questions. Hence from the total 59 respondents, 50 respondents were fully participated and returned, i.e., 85% response rate.

4.1.2 Respondents Background information

With a questionnaire as the main research tool to gather data from the respondents, this section of the chapter was intended to gather data on the background information of the respondents. Accordingly the respondents were asked to respond to their Age group, level of education, year of experience, current position and year of experience with current position.

Age of the respondents is one of the most important characteristics in understanding their views about the particular problems; by and large age indicates level of maturity of individuals in that sense age becomes more important to examine the response. The majority of the respondents were of age between 36-45 years (48.8%), those of age 26-35 years were (39%) , over 46 years were (12.2%) of all respondents. To be more specific large number of respondents fall in the age group which range from 36- 45 years of age and age group over 46 years had the lowest staff.

4.1.2.2 Respondents Level of Education

Information obtained for the level of education of respondents' are also important to know the overall competency and its relation with expectation and perception of internal control.

Table 4.1:level of education

Level of Education	Frequency	Percent
First Degree	14	34.15
Master's degree and above	27	65.85
Total	41	100.0

Source: Survey result of respondents and SPSS output 2018

Regarding the level of Education of the respondents, out of forty one participants from 10 selected international NGOs operating in Addis Ababa, thirteen indicated that they have first

degree which is (34.15%) and 28 (65.85%) of the respondents had indicated that they obtained 2nd degree and above (Table 4.2). This implies that respondents have significantly high level of education.

4.1.2.3 Respondents Experience with Current Organization

Information obtained about the respondents experience with their current organizations is also important to know the overall competency and its relation with expectation and perception of internal control and. increases the reliability of the data collected

Table 4.2: Experience in current organization

Experience in current Organization	Frequency	Percent
0- 2 years	6	14.6
2-4 years	7	17.1
4-6 years	8	19.5
over 6 years	20	48.8
Total	41	100.0

Source: Survey result of respondents and SPSS output 2018

Table 4.2 also makes it clear that out of forty one respondents, twenty (48.8%) have over 6 years, eight (19.5%) have 4-6 years, seven (17.1%) have 2-4 years and six (14.6%) have 0-2 years of experience. Accordingly, large numbers of respondents have enough experience and this helps them to respond with adequate knowledge and information and consequently increase the reliability of the data collected.

4.1.2.4 Respondents Current Position in the Organization

Table-:4.3 Current position of the respondents

Respondents Job position	Frequency	Percent
project manager	10	24.4
project coordinator	10	24.4
project finance and admin officer	10	24.4
compliance or internal auditor	4	9.8
procurement officer	7	17.1
Total	41	100.0

Source: Survey result of respondents and SPSS output 2018

According to Table 4.3, 10 (24.4%) respondents are Project managers, 10 (24.4%) respondents are project coordinators, 10 (24.4%) respondents are project finance and Admin officers, 4 (9.8%) respondents are compliance or internal auditors and 7 (17.1%) respondents are procurement officers.

4.1.2.5 Respondents Experience with Current Position

The data gathered about the respondents experience with their current Position is also important because the researcher believes that having adequate experience in their organization enables them to provide the most complete and reliable information with regard to this research.

Table 4.4: Experience with current position

Experience with current position	Frequency	Percent
0-2 years	12	29.3
2-5 years	20	48.8
5-8 years	6	14.6
over 8 years	3	7.3
Total	41	100.0

Source: Survey result of respondents and SPSS output 2018

Table 4.4 also depicts that, out of forty one respondents, twenty (48.8%) have 2-5 years, twelve (29.3%) have 0-2years, six (14.6%) have 5-8 years and three (7.3%) have over8 years of experience in current position. Accordingly, large numbers of respondents have adequate experience in their current organization and this helps them respond with competent knowledge and information.

In general, the demographic result of the respondents shows that 48.8% of them are with age range of 36-45, 65.85% of them have Master's Degree, and 48.8% of them have more than 6 years of experience in their current organization. Thus, the researcher believed that having the most qualified in their educational level and good experience in their organization enables them to provide the most complete and reliable information with regard to this research

4.1.3 Examining Effectiveness of Internal Control Elements

Recalling statement of COSO (1994); an effective internal control has five components; control environment, control activities, risk assessment, information and communication and monitoring. The effective functioning of components of internal control provides a reasonable assurance regarding achievement of stated objectives to ensure high levels of organizational performance. The design and implementation of each element of internal control affect the overall effectiveness of internal control. As indicated in the literature section of this study effective internal control achieve its objectives which are; ensuring achievement of organizational objective, safeguarding asset and ensuring compliance to rules and regulations.

The specific objectives of this study were to evaluate the effectiveness of each components of the internal control as a foundation for evaluation of effectiveness of internal control system as a whole. Based on the survey instrument through questionnaire the respondents were asked to scale their degree of agreement whether each items under elements of internal control practiced in selected international NGO's operating in Addis Ababa.

The researcher used Likert-scale method to analyze the data and response of strongly agree takes 5 points, Agree takes 4 points, Average takes 3 points, disagree takes 2 points and strongly disagree takes 1 point. Accordingly, the following results were obtained for each of the internal control component sections

4.1.3.1 Effectiveness of Control Environment

According to statement of COSO (1994); Control environment is considered as a “tone on the top” in internal control system. It indicates the general atmosphere of internal control which includes the policies and procedures of internal control, management structure, reporting structure, competence of employees and discharging responsibility and others. Accordingly, the researcher assessed the control environment of the selected organizations and summarized the following results.

Table 4.5: Responses for control environment

Items under control environment	1	2	3	4	5	Mean
1. There is clearly defined organizational chart that shows lines of authority and responsibility.	0	0	0	9	32	4.78
2. Management decisions are made collectively and not controlled by one dominant individual.	0	13	18	4	6	3.07
3. Codes of conduct or ethics policies exist in the organization.	0	0	2	6	33	4.76
4. The policies, procedures and guidelines in the organization are documented	0	0	5	4	32	4.66
5. Policies regarding the importance of internal controls and appropriate conduct are communicated to all staffs.	0	0	8	9	24	4.37
6. Management takes appropriate disciplinary action in response to departures from approved policies and procedures or violations of the code of conduct.	0	1	10	15	15	4.07
7. Audit or other control systems exist to periodically test for compliance with codes of conduct or policies.	0	9	18	10	4	3.22
8. The audit committee takes action (e.g., issue directives to management) as a result of its findings.	0	1	15	11	14	3.93
9. There are policies and procedures for authorization and approval of transactions in your organization.	0	0	5	5	31	4.63
10. Management periodically reviews policies and procedures to ensure that proper controls are in place.	0	9	20	5	7	3.24
11. Adequate staffing levels are maintained to effectively perform required tasks (e.g., segregation of duties).	1	9	14	10	7	3.32
Aggregate mean	4.00					

Source: Survey result of respondents and SPSS output 2018

As indicated on Table 4.5, the largest mean of respondents is 4.78 which are near to the Likert-scale 5 point which represents respondents strongly agreed that there is a clear organizational chart that shows lines of authority and responsibility in their respective organizations. In addition

to these respondents strongly agreed that there is ethics policies, documentation of polices and procedure and existence of policies and procedures for authorization and approval in their respective organizations, which is indicated by the mean value of 4.76, 4.66 and 4.63 respectively.

Generally, the aggregate mean of the control environment is 4.00 which indicate an agreement in practices of control environment in the selected international NGOs operating in Addis Ababa. It means therefore that the **control environment is effective**. However, in terms of Management decisions (with mean of 3.07), test for compliance with codes of conduct or policies (with mean of 3.22), management periodically reviews policies (with mean of 3.24) and maintain adequate staffing levels (with mean of 3.32) was found that the control environment was weak and it needs improvement. The control environment sets the tone for the organization and influences how employees conduct their activities and carry out their control responsibilities. Therefore, having effective control environment in the international NGOs is considered as a good practice since control environment is the foundation for all other components of internal control and provides structure and discipline. Developing a strong culture of control consciousness within the organization is one of the most cost-effective and efficient ways that internal control can be implemented. Its effect can permeate throughout the organization, directly impacting each of the other components of internal control.

4.1.3.2 Effectiveness of Risk Assessment

Risk Assessment is the process of setting objectives; prioritizing and linking those objectives; and identifying, analyzing, and managing risks relevant to achieving those objectives. 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 survey result and analysis on this issue therefore; is presented as follows.

Table 4.6: Responses for Risk Assessment

Items Under Risk Assessment	1	2	3	4	5	Mean
1. The organization senior management committee has designed an appropriate strategy of identifying risks.	0	7	20	9	5	3.29
2. Management appropriately evaluates risk when planning for new activity.	0	9	23	6	3	3.07
3. The Committee designed a system to offer appropriate response to risks.	0	6	23	8	4	3.24
4. There are sufficient staff members who are competent and knowledgeable to manage organizational activities and these have been provided with adequate resources.	1	9	16	10	5	3.22
5. Significant internal and external operational, financial, compliance and other risks are identified and assessed on an ongoing basis.	0	9	17	12	3	3.22
6. The internal auditor considers the identified risk by management and properly follows-up them.	1	11	18	9	2	3.00
Aggregate mean	3.17					

Source: Survey result of respondents and SPSS output 2018

Regarding risk assessment shown in the Table 4.6 participants ‘highest response mean is 3.29 and the lowest is 3.00, which is almost equal to the point scale of 3. This indicates that most of the respondents have answered the questionnaires presented to them that they have on average on risk assessment in their respective organization. The overall mean of the risk assessment is 3.17 which indicate that risk assessment practice not adequately contributed for the effectiveness of internal control and it needs further improvement. Therefore, the statements under risk assessment are areas for improvement since all have mean between of 3 and 4

All selected international NGOs seem to be aware of the risks, but risks are not appropriately evaluated and also there is lack of follow-up on identified risks by the internal auditors and managers. Therefore, managers should be well aware of general threats, risks concerning

finances and assets of the organization. In risk analysis component, the COSO framework does not state specific approaches, but rather principles should be followed in risk assessment.

Risk assessment is one of management's responsibilities and enables management to act proactively in reducing unwanted surprises. Therefore failure to consciously manage these risks in international NGOs can result in a lack of confidence that operational, financial and on over all goals of the organizations and expose for wastage of resource

4.1.3.3 Effectiveness of Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out .Control activities occur throughout the organization ,at all level and in all function as approval, authorization , verification , reconciliation, reviews of operating ,performance , securities of assets and segregation of duties (COSO 1994:49)

Table 4.7: Response for Control Activities

Items under Control Activities	1	2	3	4	5	Mean
1. The organization expenditures are dually approved in advance by appropriately authorized persons.	1	0	7	9	24	4.34
2. Duties are adequately separated; different persons prepare checks, sign checks, reconcile bank accounts, and have access to cash receipt.	2	11	15	7	6	3.10
3. Petty cash vouchers are required for each fund disbursement and kept on an imprest basis.	0	1	7	12	21	4.29
4. The accounting system provides for accumulating and recording expenditures by grant and cost category shown in the approved budget.	0	0	8	14	19	4.27
5. The organization uses an operating budget to control funds by activity.	0	9	15	12	5	3.32
6. There are controls to prevent expenditure of funds in excess of approved, budgeted amounts.	0	1	8	11	21	4.27
7. The organization uses a Pre-numbered purchase orders and	1	1	13	5	21	4.07

there is procedures to ensure procurement at competitive prices.						
8. Supplies and equipment are inspected and counted before acceptance for use.	0	8	17	8	8	3.39
9. Receiving reports matched to the vendor invoices and purchase orders, and are all of these documents kept in accessible files.	0	2	16	15	8	3.71
10. There is an up-to-date asset register.	0	9	16	11	5	3.29
11. The procurement and disposal of assets procedure is strictly followed under the organization program.	0	9	18	9	5	3.24
12. The organization has written personnel policies covering job description, hiring procedure, promotion, and dismissal	0	1	8	5	27	4.41
13. Adequate timekeeping procedures, including the use of time sheet or attendance sheets and supervisory review and approval, are used for controlling paid time.	0	0	13	6	22	4.22
14. Property and equipment is stored in a secure place.	0	11	17	6	7	3.22
Aggregate mean	3.8					

Source: Survey result of respondents and SPSS output 2018

Under control activities, fourteen relevant questions regarding to the control activities were presented to the participants that include segregations of duties; authorization and approval of expenditures, accounting system for budget and expenditure, purchase procedures , update documentation, up-to-date asset register and disposal procedures ,personnel policies and others.

Accordingly, the maximum mean of the respondents as shown under Table 4.7 is 4.41 that pulls towards 4 point scale which is agree; that means there is very good personnel policies covering job description, hiring procedure, promotion, and dismissal in the selected international NGOs operating in Addis Ababa. The minimum mean is 3.10 gravitate towards 3 point scale which is on average means there is lack of segregations of duties in their respective organizations .Since Segregation of duties is one of the most important features of an internal control plan, its fundamental premise is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same action.

Taken as a whole, the mean of the control activities for the fourteen questions is approximated to be 3.8, which indicated that control activities not adequately contributed for the effectiveness of internal control. In addition in the areas of segregations of duties, asset register, on property and equipment safeguarding and disposal of assets are weak in the selected international NGOs and it needs more improvement. Control activities are usually supported by a policy that established what should be done, and the procedure that implements the policy. Control activities are the mechanism for managing risks; therefore, organization should integrate Control Activities with the Risk Assessment Process. Therefore having poor control activities in the international NGOs will expose the organization for misuse use of resource both by employee of organization and stakeholders. Moreover, senior management may face a challenge to monitor unit and employee performance.

4.1.3.4 Effectiveness of information and communication

Communication relates to providing clearly understandable financial reports and safeguarding controls, how they work, and the responsibilities of individuals within the organization related to those controls. Effective communication also includes communication of organization standards of conduct to third parties with whom the organization conducts business. Communication may take the form of policy manuals, memos, letters, and oral communications. Therefore information and communication component is designed to allow employees the ability to carry out their responsibilities in the best manner possible. COSO Internal Control - Integrated Framework, (1992)

Table4.8: Response for information and communication

Items under Information and Communication	1	2	3	4	5	Mean
1. Transactions are promptly recorded and classified to provide reliable information.	0	0	9	7	25	4.39
2. Relevant information is provided to the right people in sufficient detail and on time to enable them to carry out their responsibilities efficiently and effectively.	0	10	20	8	3	3.10
3. Information is communicated to all stakeholders.	0	4	19	13	5	3.46

4. There are established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties.	0	10	15	8	8	3.34
5. Management take timely and appropriate follow-up action on communications received from customers, vendors, regulators, or other external parties.	0	4	22	9	6	3.41
Aggregate mean						3.54

Source: Survey result of respondents and SPSS output 2018

According to Table 4.8 above, the respondents agreed that the transactions are promptly recorded and classified to provide reliable information in their respective organizations (mean of 4.39). The minimum mean is 3.10 descends towards 3 point scale on average, means respondents believed that relevant information is not provided to the right people in sufficient detail and at the right time to enable them to carry out their responsibilities efficiently and effectively.

The means 3.34, 3.41 and 3.46 are also slightly different from 3 which imply that numbers of respondents believe that there are established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties, management take timely and appropriate follow-up action on communications received from customers, vendors, regulators, or other external parties and information communicated to all stakeholders in their organizations. The overall mean in information and communication in the selected international NGOs is 3.54. Hence, a practice of information and communication was not adequately contributed to effectiveness of internal control. Besides, relevant information to the right people in sufficient detail and at the right time is weak in the information and communication.

Lastly, all organizations needs information to operate a business, communication is a crucial aspect of information systems. Its expectations, responsibilities, and other matters is necessary for the business to operate effectively. Thus having not effective information and communication system in the NGOs challenges to achieve their activities effectively and efficiently and it could be challenging to have charming relationship with stakeholders, Donors and beneficiaries.

4.1.3.5 Effectiveness of Monitoring

An ongoing monitoring of internal control is vital to ensure whether internal control is achieving desired objectives. 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 component includes allowing managers clear responsibility guidelines to effectively do their jobs by COSO Internal Control - Integrated Framework (1992). The result and interpretation of the survey is presented next

Table 4.9 response for Monitoring

Items under monitoring	1	2	3	4	5	Mean
1. Senior management monitor to ensure that policies, procedures and regulations are adequately followed relating to internal control and risk management.	0	6	19	11	5	3.37
2. Monitoring covers the evaluation of the effectiveness of internal control in achieving set objective.	4	8	16	6	7	3.10
3. Monitoring is built into the normal operating activities and on continuous basis.	0	13	15	9	4	3.10
4. Management review key performance indicators (e.g., budget) when monitoring financial reporting activities and periodically review major transaction cycles (e.g., payroll, cash receipts, etc.) and transaction data.	0	0	16	16	9	3.83
5. Management review internal and external audit report and take corrective action on recommendation /deficiencies.	0	0	14	17	10	3.90
Aggregate mean	3.46					

Source: Survey result of respondents and SPSS output 2018

Table 4.9 shows that majority of respondents don't believe that monitoring in the selected international NGOs operating in Addis Ababa is on the continuous basis (mean 3.10) and on the

same hand the international NGOs senior managers fall to consider evaluation of the effectiveness of internal control with the set objective (mean 3.10).

Besides, respondents believe that management review internal and external audit reports and take corrective actions on findings and recommendations of the Audit, and also management review key performance indicators when monitoring financial reporting activities and periodically review major transaction cycle (mean 3.83 and 3.90) respectively.

The overall mean of monitoring in the selected international NGOs is 3.46 which specify there is an average practice of monitoring; it means monitoring system in the selected international NGOs is in general not effective so that the monitoring system needs enhancement.

Largely, a good monitoring process helps ensure that control activities and other planned actions to affect internal controls are carried out properly and in a timely manner sufficient to ensure that the end result is effective internal controls. Ongoing monitoring activities should include various management and supervisory activities which evaluate and improve the design, execution, and effectiveness of internal controls. Therefore, having poor monitoring system on ongoing basis may expose the organization for unwanted resource wastage and it could become constrain for achieving its objective. This is because controls that were previously effective may no longer be performed, or just may not be effective unless they are monitored regularly.

In addition, interview was made with government NGOs desk officials on the effectiveness of internal control in the international NGOs operating in Addis Ababa. The interview was conducted in two government institutions namely BOFED and ACAFED and the researcher interviewed six staffs from BOFED and three staff from ACAFED. The major areas of the interview question include the role and responsibility of government in enhancing the internal control of NGOs, whether there are support and follow up schedules to NGOs by responsible government bodies, whether the NGOs have well designed internal control system or not, whether the NGOs have effective internal control system or not and the gap of NGOs in this regard, and whether there are cancelled organizations due to weak enactment of internal control system. The discussion from the interview is presented below separately.

As it has been said in the above paragraph the researcher interviewed six NGOs support experts and section heads. Initially the interviewees were asked about their role and responsibility in enhancing the effectiveness of the internal control system in the selected NGO's operating in Addis Ababa.

Accordingly, the interviewees responded that:-

Their role is to see proposals that came from the NGO sector and evaluate in detail whether it benefits the society as a whole before signing the agreement. The respondents further indicated that their responsibility is to make follow up whether activities are run according to the agreement or not, and if there exists irregularities in implementation which can be identified during follow-up time and reported to their office by their teammates, then the higher officials issue serve a letter for that NGO to correct the anomalies.

Moreover, the other respondents were asked the same question about their role and responsibility and provided the same information to that of the previous one.

The next question that had been asked, do you have a support and follow-up schedule to NGOs that are operating in Addis Ababa to check the effectiveness of their internal control system?

Accordingly, the interviewees responded that:-

They have a support and follow –up schedule twice a year by their team by developing check list and they evaluate whether internal control system of the organization is effective or not. In addition they check whether activities are implemented as per the rule and regulation of both government and donors. Moreover, they submit financial report on monthly basis and at that time when they see something wrong on financial report they check and request confirmation.

Similarly, the other respondents were asked the same question regarding the existence of support and follow-up schedule and provided the same information to that of the previous one.

The other question that was raised to the interviewees was; Do you think all areas of internal control system (the control environment, control activities, risk assessment, information and communication, and monitoring) well designed and operating in the NGOs sector operating in Addis Ababa?

Based on the question the interviewees responded that:-

It is difficult to say all area of internal control system is well designed and operating in the NGOs sector. It can be said that some of the problems with this regard like: problem in the area of documentation, use one account for different projects as well as funded with different donors, documents are not specified with project base and because of this it is difficult to identify the expense for each project, documents are sent to central office due to this it is difficult for auditing and evaluation when it is needed , in finance section there is lack of segregation of duties, they submit mixed audit report and highly centralized and due to this it is difficult to accomplish activities with the time frame ,in some organizations even the cheque signatures are at central level and this makes delay in implementation in the organization and also shows lack of transparence at regional level. Even though, there are all this problems, it can be said relatively there are some organizations which perform better than the others.

For the same question the other interviewees responded that:-

They don't think that all area of internal control system are well designed and operating in the NGOs sector, since the inspection team faced many problems at the time of supervisions like lack of Information among stakeholders, in order to meet thirty-seventy (30/70) police they shift or recorded administrative expense as program expense, over utilization of budget without amendment and there is no clear organizational structure in some organizations.

Again the other interviewees responded on the same question that:-

They hesitate to say all area of internal control system is well designed and operating in the NGOs office. Frankly speaking, NGOs have clear and smart human resource, procurement, and financial manuals; however, there is an implementation problem in the area of hiring of staffs, purchase of goods and services, on asset register and also disposal of assets. In addition, there is no adequate level of staff in the international NGOs. So, it can be said that segregation of duties in the international NGOs operating in Addis Ababa city is poor

Moreover, the other respondents were asked the same question and provided the same information to that of the previous one.

This is the fourth question that was raised to the interviewees, what is your idea about the effectiveness of the internal control; and where is/are area of the control you suggest an improvement in the NGOs operating in Addis Ababa?

Accordingly, the interviewees responded that:-

Effective internal control system helps to achieve the objective of the organization without wastage of resource and avoid misuse of the organization resource. They suggestion for improvement will be to open bank account for each project, separately documenting financial report and other documents at regional level, maintain adequate staff, provide up to date information to stakeholders and clear hiring and dismissal system

Other interviewees responded that:-

Effective internal control system is important for both the organization as well as the staff. If there is effective internal control system, the organization achieve the objective with minimal effort and helps staff to have enough knowledge about their organization police and procedures in detail and this will lead them to protect from wrong action. It had been observed that there were some critical problems like; high centralization, posting administrative cost as program cost, over utilization of budget and other. So, it can be suggested that decentralization of structure, abide for thirty -seventy polices and before over utilization of budget request preapproval for amendment

Other interviewees responded that:-

Effective internal control system is essential for given organization, because effective internal control procedures will significantly increase financial information to be reliable so that managers and the board can depend on accurate information for decision , assets and records of the organization are not misused, the organizations policies and government regulations are met, and to achieve the overall organization objective. For area of improvement it is better to improve like each project to be audited separately rather than consolidated auditing and this will help evaluation and identifying for which project the finding occurred and to follow up for correction, hiring compliance or internal auditor in their organizations and this is because most

NGOs have no compliance /internal auditor and to establish strong communication with stakeholders.

Likewise, the other respondents were asked the same question regarding what is their idea about the effectiveness of internal control and where is/are area of the control you suggest an improvement in the NGOs operating in Addis Ababa and provided the same information with the earlier one.

This is the last question that had been forwarded to the interviewees, were there any NGOs that has been canceled its certificate or took warning letter from their organization because of internal control weakens.

Accordingly, the interviewees responded that:-

There is an NGO that took warning letter from their organization frequently; however, there is no NGO that cancelled because of weak internal control system. Some of the reasons for providing warning letter were over utilization of budget without agreement ,some organization submit financial report for activities that are not conducted in order to make more their burn rate and for NGOs that are highly centralized to open bank account, cheque signatories and approvals at regional level.

Moreover, the other respondents were asked the same question regarding whether there are NGOs that canceled the certificate or take warring letter from their organization because of internal control weakens and provided the same information to that of the previous one.

Furthermore, with similar questions the researcher has interviewed three NGOs support experts from ACAFED. The questions have been forwarded in the same order of previous interviewees; therefore the interviewees were asked their role and responsibility in improving the effectiveness of internal control system in NGOs that are operating in Addis Ababa.

Accordingly, the interviewees responded that:-

Their role concerning internal control system is to check and evaluate the overall polices like, human resource polices, procurement polices and financial polices whether these polices are drafted by incorporating the law and regulation of the government or not. Concerning their responsibility, they responded that they are responsible to follow up whether activities run

according to the agreement and if there is a need for corrections in the above mention polices, they further said that they inform the NGOs to correct before implementation starts. Otherwise, they delay the agreement until correction is submitted to their office.

Similarly, the other respondents were asked the same question regarding their role and responsibility and provided the same information to that of the previous one.

Following the above question that the researcher forwarded to the interviewees is, do you have a support and follow-up schedule to NGOs that are operating in Addis Ababa to check the effectiveness of their internal control system?

Accordingly, the interviewees responded that:-

They have a support and follow-up schedule twice a year by their team and they have check list to evaluate whether internal control system of the organization is effective or not. Similarly, whenever there is a request for support from NGOs, stakeholders and other target groups, they provide our close support and follow-up for that specific organization.

Moreover, the other respondents were asked the same question regarding the existence of support and follow-up schedule and provided the same information to that of the previous one.

The other question that was raised to the interviewees was; Do you think all areas of internal control system (the control environment, control activities, risk assessment, information and communication, and monitoring) well designed and operating in the NGOs sector operating in Addis Ababa?

Accordingly, the interviewee responded that:-

It can not be said that all area of internal control system are well designed and operating in the NGOs sector, since the inspection team observed some gaps at the time of supervisions like no compliance or internal auditor in their respective office, highly centralized, over utilization of budget without amendment, in order to meet thirty-seventy (30/70) police they recorded administrative expense as program expense, lack of segregations of duties and there is no clear organizational structure in some organizations.

Accordingly, the other interviewee on the same question responded that:-

It is impossible to say all area of internal control system is well designed and operating in the NGOs sector. It can be said that some of the problems with this regard like: problem in the area of communication and information with stakeholders, on asset keeping and register, on medical equipment storing and disposal of system, in some organizations even the cheque signatures are at central level and this makes delay in implementation in the organization and also shows lack of transparency at regional level. Even though, there are all this problems, it can be said relatively there are some organizations which perform better than the others.

Moreover, the other respondents were asked the same question and provided the same information to that of the previous one.

Following the above question the researcher forwarded to the interviewees, what is your idea about the effectiveness of the internal control and where is/are area of the control you suggest an improvement in the NGOs operating in Addis Ababa?

Accordingly, the interviewees responded that:-Effective internal control is backbone for one organization, since it helps the organization to use the resource without abuse; this abuse can be like, misuse of the organization asset for private purpose, producing fraudulent financial report and other. *It can be suggested that establishing strong communication and information system with stakeholders, clear organizational chart that shows line of responsibility, segregation of duties ,pre-approval request for amendment of budget, up to date asset register and smart expired asset avoiding mechanism ,proper handling of medical equipment and drugs ,decentralization and respect for seventy /thirty police.*

Similarly, the other respondents were asked the same question and provided the same information to that the previous one.

This is the final question that had been forwarded to the interviewees, were there any NGOs that has been canceled its certificate or took warning letter from their organization because of internal control weaken.

Accordingly, the interviewees responded that:-

There is an NGO that took warning letter from their organization. However, there is no NGO that cancelled because of weak internal control system. Some of the reasons for providing warning letter were over utilization of budget without agreement, some organization submit

financial and physical report for activities that are not included in the agreement and on their poor performance. Moreover, the other respondents were asked the same question regarding whether there are or no NGOs that canceled the certificate or take warning letter from their organization because of internal control weakens and provided the same information to that of the previous one.

4.2 Summery of finding

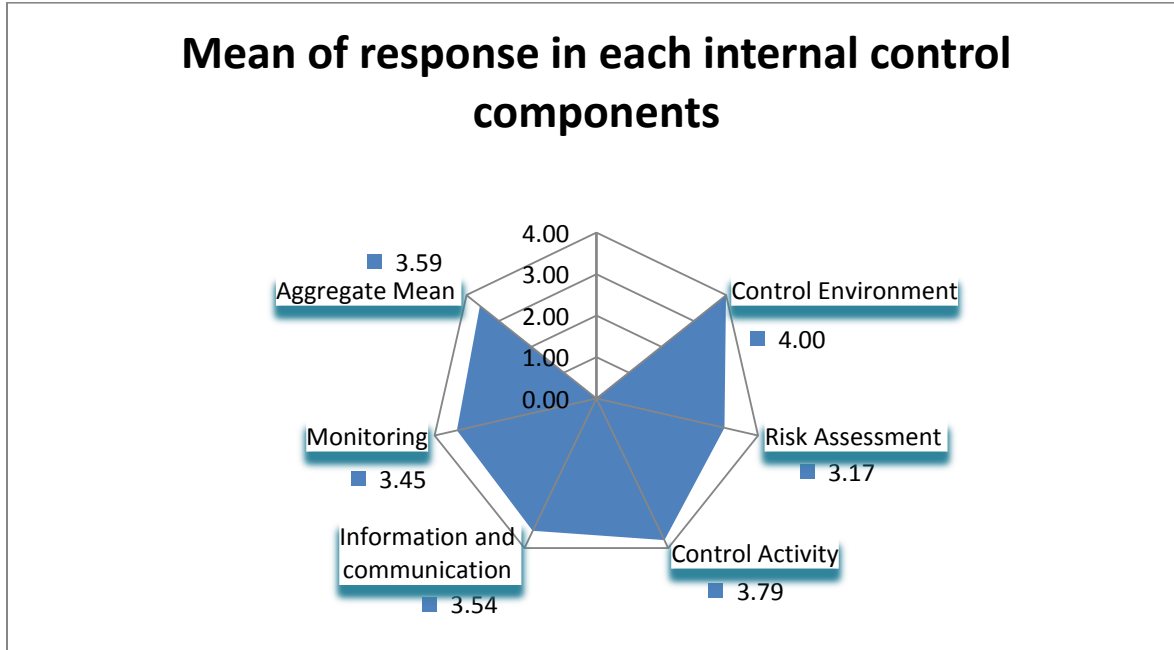
Table 4.10 response in each internal control components

Internal Control Elements and Tools	Strongly disagree		Disagree		Average		Agree		Strongly Agree		Total		Mean
	FQ	%	FQ	%	FQ	%	FQ	%	FQ	%	FQ	%	
Control Environment	1	0%	42	9%	115	25%	88	20%	205	45%	451	100%	4.00
Risk Assessment	2	1%	51	21%	117	48%	54	22%	22	9%	246	100%	3.17
Control Activity	4	1%	63	11%	178	31%	130	23%	199	35%	574	100%	3.79
Information and communication	0	0%	28	14%	85	41%	45	22%	47	23%	205	100%	3.54
Monitoring	4	2%	27	13%	80	39%	59	29%	35	17%	205	100%	3.45
Aggregate Mean													3.59

Source: Survey result of respondents and SPSS output 2018

The responses in each internal control components is also depicted below for the sole reason of easily understanding

Figure 4.2 responses in each internal control components



Source: Survey result of respondents and SPSS output 2018

Internal controls systems comprise of five interrelated components, namely:-Control Environment, Risk Assessment, Control Activity, Information and Communication, and Monitoring. They are used to develop an internal control system, as well as the means for evaluating it. These components work together to form a strong set of methods and procedures that organizations follow in its operations. COSO; Internal Control Integrated Framework, (1992).

Internal control is defined by Kell (1985) “as the policies and procedures established to provide reasonable assurance that specifies entity objectives will be achieved, objective may involve both financial and non-financial

The components could be viewed as the fundamental both principles and aid planning evaluating and updating controls in any organization

To recall again, the objective of this study is examining effectiveness of the internal control system in the selected international NGOs operating in Addis Ababa and to scan the role of the government on internal control system of NGOs. This broad objective is broken down to specific research questions presented in the previous chapters. To answer these research questions the

survey method and the interviews were used. This section summarized the result by combining the two methods to answer the research question as follows.

Table 4.11 implies that, the practice of control environment and control activities are generally seem to be better relative to the others with the aggregate mean of 4.00 and 3.79 respectively .However, there is a need for further improvement in both control environment and control activities ,as it is indicated in Table 4.6, in terms of Management decisions (with mean of 3.07), test for compliance with codes of conduct or policies (with mean of 3.22), management periodically reviews policies (with mean of 3.24) and maintain adequate staffing levels (with mean of 3.32) was found that the control environment was weak .And also as indicated in Table-4.8 the control activities needs improvement in the areas like segregations of duties, asset register, property and equipment safeguarding and disposal of assets in the selected international NGOs.

The aggregate Result of information and communication indicated in Table 4.11 is 3.54, which is slightly different from 3. Therefore, even if it is slightly different from average it is better in practice. However, Table 4.9 shows that means of 3.34, 3.41 and 3.46 which are near to 3 that implies a number of respondents on the average believe that there are established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties, management take timely and appropriate follow-up action on communications received from customers, vendors, regulators, or other external parties and information communicated to all stakeholders in their organizations.

The survey result indicated in Table 4.11 implies that Risk Assessment and Monitoring are generally not practiced very well having an aggregate mean of 3.17 and 3.45 respectively and it needs more improvement in general. Even if monitoring is better in Management review internal and external audit report and take corrective action on recommendation /deficiencies (with mean 3.90), Management review of key performance indicators (with mean of 3.83) and Senior management monitor to ensure that policies, procedures and regulations are adequately followed relating to internal control and risk management (with mean of 3.37), as shown in Table4.10.

The interviewees result also shows that there is number of deficiencies in internal control system of NGOs that operating in Addis Ababa city that needs improvement. Almost all the above

weaknesses prescribed in each element of internal control were also suggested by interviewees for improvement like lack of segregation of duties, violation for thirty seventy police, over utilization of budget without approval, lack of adequate staffing level, weak communication and information with stakeholders, high centralization, poor asset keeping and register, weak medical equipment storing and disposal of system, no clear organizational structure in some organizations, no compliance or internal auditor in their respective office ,use one account for different projects as well as funded with different donors, documents are not specified with project base and so many other, as it is stated and well addressed in the interview section of both organizations.

We can clearly observe that the quantitative result is more similar and highly supported by the qualitative interview results. From the quantitative result we have an aggregate mean for the overall internal control components as indicated in Table 4.11 is 3.59, which is not very far from average and briefly indicates that the overall practice of internal control needs further improvements in all aspects. Similarly, from the qualitative aspect we have obtained a similar result that supports the result of quantitative result using the question Do you think all areas of internal control system (the control environment, control activities, risk assessment, information and communication, and monitoring) well designed and operating in the NGOs sector operating in Addis Ababa ? .The interview results informed that, all respondents agree that all areas of internal control system are not well designed and practiced well and because of this they suggested a number of points that need improvement in international NGOs operating in Addis

The last objective of this study was to scan the role of the government on internal control system of international NGOs and the interviewees result shows that government has a number of roles and responsibilities towards internal control system of in international NGOs. Their role on internal control system is to check and evaluate the overall polices like, human resource polices, procurement policies and financial polices whether these policies drafted with incorporation of the law and regulation of the government or not and to see proposals that come from NGO sector and evaluate in detail whether it benefit society and as a whole the government before signing the agreement. When we come to responsibility part, the government is responsible to follow up whether activities run according to the agreement signed and if there are irregularities in

implementation the government responsible to write warning letter and if not corrected have the power up to cancellation of certificate.

Generally, the role of the government is to make sure that NGOs' project objectives and goals match the problems or needs that are related to public and to assess whether the program objectives are being achieved or not.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

The purpose of this chapter is to pinpoint the major findings of the study and to make recommendations that can help in improvement of internal control system in the international NGOs operating in Addis Ababa city. Thus the chapter is organized as section 5.1. Conclusion which presents major findings of the study, and section 5.2 which presents recommendations based on the findings.

5.1 Conclusion

To my knowledge international NGOs internal control effectiveness and its practice operating in Addis Ababa is not addressed in the existing literature. Therefore, this research was filling the knowledge gap to some extent. This research set out to describe the existing practices on the internal control effectiveness in international NGOS using mixed methods approach.

Internal Control is a policy, methods and practices employed for attainment of organizational objectives. These objectives are ensuring operational efficiency, safeguarding assets and adherence to rules and regulations. As indicated in literature, customarily the management of organizations performs this task through monitoring the effectiveness of internal control they designed. Though managements may use different criteria's to evaluate effectiveness of an internal control, COSO (1992) revealed that; internal control effectiveness is resulted from an effective function of the control environment, control activities, the risk assessment, information and communication and monitoring of the system itself.

The study aimed to assess whether there is an effective internal control, to scan the role of government on internal control system at NGOs, and there to indicate areas of emphasis to improve the internal control. To achieve these objectives a survey method is employed in quantitative approach. The survey method used questionnaires. Therefore, relevant questionnaires were developed based on the literature and distributed to selected ten international NGOs that

operating in Addis Ababa city. Accordingly, 41 questionnaires were filled and received from the selected sample international NGOs which are more than expected and analyzed through descriptive statistical analysis. A qualitative research approach used in the study used semi structured interviews with government NGOs desk officials. Both questionnaires and interview were aimed to examine whether components of internal controls were adequately practiced in the NGOs. In addition the interview was used to scan the role of the government on internal control system of international NGOs and to examine their idea about the effectiveness of the internal control and to reflect areas of improvement in the NGOs operating in Addis Ababa. Using both approaches of research the internal controls effectiveness in the selected international NGOs was on average.

The key conclusions of the research are

- The control environment of the internal control system look practiced good in the international NGOs relatively than the other internal control components and can be concluded as effective
- The control environment in the selected international NGO's is weak in terms of Management decisions, test for compliance with codes of conduct or policies and on reviews of policies periodically.
- The risk assessment is the weakest of the internal control system practice in the selected international NGOs.
- The control activity of international NGOs is better practiced next to control environment having with limitation in the area of segregations of duties, on budget control by fund activities, on up-to-date asset register, on property and equipment storing and lack of effective disposal of assets.
- Information in international NGOs is not adequately communicated to all stakeholders, relevant information is not provided to the right people in sufficient detail and on time and there is weak channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties.
- The monitoring was also not practiced well because it is not on the continuous basis and similarly the international NGOs senior manager's fails to consider evaluation of the effectiveness of internal control with the set objective.

- Below half of the sampled international NGOs have no compliance or internal auditors in their respective Offices (with mean of 3.22).
- Intentional NGOs recorded administrative expense as program expense in order to meet thirty/seventy (30/70) police.
- Most of international NGOs that operating in Addis Ababa city are established based on centralized structured
- Government is giving a little attention on improving an internal control of the NGOs operating in Addis Ababa and I observed that there is knowledge gap on government NGOs desk official about internal control effectiveness.

5.3 Recommendations

There is no absolute guarantee from internal control that organizations objectives will be achieved. This implies the inherent limitations of internal control; that internal control is designed, operated and monitored by human beings. However, it is possible to improve internal control effectiveness through continuous monitoring, related risk assessment, designing sound control methods and with adequate communication in the organization.

It is very important that findings of the study are briefly reiterated before recommendations are made. International NGOs were heavily reliant on donors in terms of financing for the projects they implemented in Addis Ababa. From the result of this study it is impossible to conclude that internal control systems in the international NGOs are efficient and effective. Both the respondents to questionnaire and an interview claim that the system is not good enough in comparison with the recommended best practices. Most of the best practices were inconsistently done on the foreign NGOs such as none of the foreign NGOs hired grant manager/officer position in their project.

The researcher makes the following recommendations to address some of the crucial findings of the study.

- Foreign NGOs should train, coach, and monitor their employees on applications of effective Internal control principles, tools and approaches

- Senior management should established audit or other control systems periodically to test for compliance with codes of conduct or policies and management should also periodically reviews policies and procedures to ensure that proper controls are in place
- International NGOs should maintain and assign adequate staffing level to effectively perform the required tasks.
- Both Internal and external of operational, financial, compliance and other risks should be identified and assessed on an ongoing basis at international NGOs.
- Segregation of duties is one of the most important features of an internal control plan. Hence international NGOs should be assign different persons to prepare checks, sign checks, reconcile bank accounts, and have access to cash receipt and it is key in detecting control risk. Thus due emphasis should be given to maintain segregation of duties.
- International NGOs should control budget verses fund activities.
- International NGOs should design system to avoid information gap and information should be communicated on time and in detail to all stakeholders and employees of the organization.
- The control system effectiveness should be evaluated against clearly established criteria's and should be monitored continuously. This is the responsibility of management and internal auditors so they have to establish an ongoing basis of monitoring.
- Donors should apply an ongoing monitoring and follow up on their grantee's organizational capacity such as decentralized organizational structure before getting in to agreement.
- Government should keep an eye and support NGOs to enhance their internal system effectiveness through capacitating, training its employees on effectiveness of internal control.

Finally, this research was limited to assessing foreign NGOs Internal control practices with the best practices in order to determine how effectively these projects were implemented. It also assessed the key role of government for effective International NGOs internal control system operating in Addis Ababa

Further researches have to try investigating the foreign NGOs project financial performance as compared with their anticipated purpose.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

ST. MARY'S UNIVERSITY COLLEGE SCHOOL OF GRADUATE STUDIES

Questionnaire to be filled by sample respondents

Dear Respondent:

This study is being conducted by *Shewangizaw Bekele*, a candidate for the Degree of Masters in Business Administration (General), St, Mary's University College, School of Graduate studies; on research title of "*Assessment of internal control effectiveness in selected international NGOs operating in Addis Ababa.*"

The aim of this research is to evaluate effectiveness of internal control practice in a selected international NGOs operating in Addis Ababa. Would you please take few minutes to answer the following questions listed below and your names are not required. The information you will provide will be used for the research purpose only and will be kept confidential. If you have any questions regarding your rights as a research subject and other issues, please contact me using the following address.

I hope that you will be able to participate in this study and I would like to say thank you in advance for your valuable time and contribution to this study.

Respectfully yours,

Shewangizaw Bekele

Contact Address: Cell Phone: +251 911446221

Email: shewangizawkaleb@gmail.com

General instruction:

Please answer the following question by putting a tick mark [✓] in the boxes given.

Section 1: Respondents Profile

1. What is your age group?

- 1) 18 – 25 years old
- 2) 26 – 35 years old
- 3) 36 – 45 years old
- 4) Over 46 years old

2. What is the educational level that you have attained?

- 1) Non-degree Diploma
- 2) First degree
- 3) Master degree and above
- 4) Professional Qualification (like ACCA, CPA, and others)
- 5) Other, please specify_____

3. How many years of experience do you have in your current organization?

- 1) 0 – 2 years
- 2) 2 – 4 years
- 3) 4 – 6 years
- 4) Over 6 years

4. Which of the following categories describes your current position?

- 1) Project Manager
- 2) Project coordinator
- 3) Project Finance and Admin officer
- 4) Compliance officer/internal auditor
- 5) procurement officer
- 6) NGOs support expert
- 7) Section Head

5. How long have you been with your current position?

- 1) 0 – 2 years
- 2) 2 – 5 years
- 3) 5 – 8 years
- 4) Over 8 years

Section 2: International NGOs internal control system Practices

This questionnaire is prepared based on the elements of internal control and its components.

Please, tick [] in the appropriate box against the statements as defined below;

Level of Rating	Strongly Disagree	Disagree	Average	Agree	Strongly Agree
Control Environment					
1. There is clearly defined organizational chart that shows lines of authority and responsibility.					
2. Management decisions are made collectively and not controlled by one dominant individual.					
3. Codes of conduct or ethics policies exist in the organization.					
4. The policies, procedures and guidelines in the organization are documented.					
5. Policies regarding the importance of internal controls and appropriate conduct are communicated to all staffs.					
6. Management takes appropriate disciplinary action in response to departures from approved policies and procedures or violations of the code of conduct.					
7. Audit or other control systems exist to periodically test for compliance with codes of conduct or policies.					
8. The audit committee takes action (e.g., issue directives to management) as a result of its findings.					
9. There are policies and procedures for authorization and approval of transactions in your organization.					
10. Management periodically reviews policies and procedures to ensure that proper controls are in place.					
11. Adequate staffing levels are maintained to effectively perform required tasks (e.g., segregation of duties).					

Note: Risk Assessment: hint (risk of fraudulent financial reporting & misappropriation of asset).

12. The organization senior management committee has designed an appropriate strategy of identifying risks.

13. Management appropriately evaluates risk when planning for new activity.

14. The Committee designed a system to offer appropriate response to risks.

15. There are sufficient staff members who are competent and knowledgeable to manage organizational activities and these have been provided with adequate resources.

16. Significant internal and external operational, financial, compliance and other risks are identified and assessed on an ongoing basis.

17. The internal auditor considers the identified risk by management and properly follows-up them.

Control Activity

18. The organization expenditures are dually approved in advance by appropriately authorized persons.

19. Duties are adequately separated; different persons prepare checks, sign checks, reconcile bank accounts, and have access to cash receipt.

20. Petty cash vouchers are required for each fund disbursement and kept on an imprest basis.

21. The accounting system provides for accumulating and recording expenditures by grant and cost category shown in the approved budget.

22. The organization uses an operating budget to control funds by activity.

23. There are controls to prevent expenditure of funds in excess of approved, budgeted amounts.

24. The organization uses a Pre-numbered purchase orders and there is procedures to ensure procurement at competitive prices.					
25. Supplies and equipment inspected and counted before acceptance for use.					
26. Receiving reports matched to the vendor invoices and purchase orders, and are all of these documents kept in accessible files.					
27. There is an up-to-date asset register.					
28. The procurement and disposal of assets procedure is strictly followed under the organization program.					
29. The organization has written personnel policies covering job description, hiring procedure, promotion, & dismissal.					
30. Adequate timekeeping procedures, including the use of time sheet or attendance sheets and supervisory review and approval, are used for controlling paid time.					
31. Property and equipment is stored in a secure place.					
Information and Communication					
32. Transactions are promptly recorded and classified to provide reliable information.					
33. Relevant information is provided to the right people in sufficient detail and on time to enable them to carry out their responsibilities efficiently and effectively.					
34. Information should be communicated to all stakeholders.					
35. There are established channels of communication for individuals to report suspected breaches of laws or regulation or other improprieties.					
36. Management take timely and appropriate follow-up					

action on communications received from customers, vendors, regulators, or other external parties.					
Monitoring					
37. Senior management monitor to ensure that policies, procedures and regulations are adequately followed relating to internal control and risk management.					
38. Monitoring covers the evaluation of the effectiveness of internal control in achieving set objective.					
39. Monitoring is built into the normal operating activities and on continuous basis.					
40. Management review key performance indicators (e.g., budget) when monitoring financial reporting activities and periodically review major transaction cycles (e.g., payroll, cash receipts, etc.) and transaction data.					
41 Management review internal and external audit report and take corrective action on recommendation /deficiencies.					

APPENDIX II: NTERVIEW QUESTIONS

Section 3: Interview Questions to government NGOs Desk officials.

1. What is your (BoFED and ACA-FED) role and responsibility in improving an internal control of the NGOs operating in Addis Ababa?
2. Do you have a support and follow-up schedule to NGOs that are operating in Addis Ababa to check the effectiveness of their internal control system?
3. Do you think all areas of internal control system (the control environment, control activities, risk assessment, information and communication, and monitoring) well designed and operating in the NGOs sector operating in Addis Ababa?
4. What is your idea about the effectiveness of the internal control and where is/are areas of the control you suggest an improvement in the NGOs operating in Addis Ababa?
5. Are there NGOs that canceled the certificate or take warring latter from your organization because of internal control weakens, if yes explain the case?