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St. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

**ASSESSMENT OF INTERNAL CONTROL PRACTICE: IN CASE OF SAVE
THE CHILDREN INTERNATIONAL ETHIOPIA COUNTRY
OFFICE**

BY

GENET HAILE

August 2020

ADDIS ABABA, ETHIOPIA

**ASSESSMENT OF INTERNAL CONTROL PRACTICE: IN CASE OF SAVE
THE CHILDREN INTERNATIONAL ETHIOPIA COUNTRY OFFICE**

**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF
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I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Abraham G/Georgies(Ass. Professor). All source 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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August,2020

Table of Contents

Table of Contents	i
ACKNOWLEDGMENTS	iv
List of Abbreviation's and Acronyms	v
List of Tables	vi
Abstract.....	vii
1 INTRODUCTION.....	1
1.1 Background of the Study	1
1.2 Background of the study setting	3
1.2.1 Internal control System of Save the Children International Ethiopia Country Office (SCI EtCO)	4
1.3 Statement of the problem.....	5
1.4 Research Questions.....	7
1.5 Objective of the Study	7
1.5.1 General Objective of the Study	7
1.5.2 Specific Objective of the Study.....	7
1.6 Significance of the Study	8
1.7 Scope of the Study	8
1.8 Limitation of the Study	8
1.9 Organization of the Study.....	9
2 LITERATURE REVIEW.....	10
Introduction.....	10
2.1 Theoretical Review	10
2.1.1 Definition of Internal control.....	10
2.1.2 Internal Control Objectives	11

2.1.3	Internal Controls in NGO	11
2.1.4	Effective Internal Control System	12
2.1.5	Components of Internal control.....	18
2.1.6	Parties Responsible for and Affected by Internal Controls	24
2.1.7	Internal Control and Internal Auditing	25
2.1.8	Limitation of Internal Controls.....	25
2.2	Empirical Review	26
2.3	Summary of Literatures Knowledge gap	30
3	RESEARCH METHODOLOGY	32
	Introduction.....	32
3.1	Research Design	32
3.1.1	Research Approach.....	32
3.2	Population and Sampling Techniques.....	33
3.3	Types of Data.....	33
3.4	Data Collection Instrument.....	34
3.5	Data analysis	35
3.6	Data validity and reliability of instruments	35
4	RESULTS AND DISCUSSIONS	37
	Introduction.....	37
4.1	Demographic characteristics of Respondents.....	38
4.1.1	Response rate.....	38
4.1.2	Summary of Demographic characteristics.....	38
4.1.3	Age of the respondents	39
4.1.4	Level of Education	39
4.1.5	Work experience of the respondents	40
4.1.6	Position held by the respondents	40
4.2	Results of Internal Control Practice of SCI EtCO	40
4.2.1	Control Environment.....	41

- 4.2.2 Risk Assessment 43
- 4.2.3 Organizational Control 45
- 4.2.4 Personnel Control 46
- 4.2.5 Operational Control 48
- 4.2.6 Physical and IT Control 50
- 4.2.7 Information and Communication Control 51
- 4.2.8 Monitoring and Evaluation Activities 54
- 5 CONCLUSION AND RECOMMENDATION 58
- Introduction 58
- 5.1 Summary of findings 58
- 5.1.1 Control Environment 58
- 5.1.2 Risk Assessment 59
- 5.1.3 Organizational Control 59
- 5.1.4 Personnel Control 59
- 5.1.5 Operational Control 59
- 5.1.6 Physical and IT Control 60
- 5.1.7 Information and Communication Control 60
- 5.1.8 Monitoring and Evaluation Activities 60
- 5.2 Conclusion of the Study 61
- 5.3 Recommendation 62
- 5.4 Suggestions for further research 63
- 6 References 64
- APPENDIX I 69
- APPENDIX II 76

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List of Abbreviation's and Acronyms

AICPA -American Institute of Certified Public Accountants

AMAS - Audit and Management Advisory Services

BvA- Budget versus Actual

CSA - Charity and Society Agency

COSO- Committee of Sponsoring Organizations

EHF -Ethiopia Humanitarian Fund

EBS- Egyptian Banking Sector

EtCO- Ethiopia Country Office

FO- Field Office

FSL - Food Security and Livelihoods

ICS – Internal Control System

NGO - Non-Governmental Organizations

SAP- Standard Auditing Practice

SCI- Save the Children International

SMT- Senior Management Team

List of Tables

Table 4-1 Respond Rate	38
Table 4-2: Respondents Demographic Characteristics.....	38
Table 4-3: Employees Respond on Control Environment.....	41
Table 4-4:Employees Respond on Risk Assessment Practice.....	43
Table 4-5:Employees Respond on Organization Control Practice.....	45
Table 4-6: Employees Respond on Personnel Control Practice	47
Table 4-7: Employees Respond on Operational Control Practice.....	48
Table 4-8: Employees Respond on Physical and IT Control Practice.....	50
Table 4-9: Employees Respond on Information and Communication Control Practice	52
Table 4-10: Employees Respond on Monitoring and Evaluation Activities	54

Abstract

The objective of this study was to assess the internal control practice of Save the Children International Ethiopia Country Office, SCI EtCO as a case study. Internal controls were looked at from the perspective of Control Environment, Risk Assessment Practice, organizational control, operational control, personnel control, IT control, Information and Communication and Monitoring and Evaluation system. The research was conducted using both quantitative and qualitative approaches using Survey. Data were collected using Questionnaires, Interview and reviewing documents. From the total population study of 110 employees, 70 respondents were selected and 65 of them have been returned. Purposive sampling technique was used. The data gathered from questionnaire analyzed by descriptive statistics through statistical tool SPSS version 23. The study found that the organization has an effective internal control policy, procedure and system. However, the organization has weakness in designing the appropriate strategies to identify changes that could affect to achieve its objectives. The personnel control policy and procedure established for hiring and promoting was not exercised as expected. There are a lack of procedures to delegate responsibilities for staffs. Therefore, these findings are important to fill the gap existing on the policy and practice of internal control system of SCI EtCO. The study recommends that Senior Manager Team(SMT) should review SCI's policies, regulation and procedure regularly to ensure it is accessible and functioning as designed by every members of the organizations.

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

CHAPTER ONE

1 INTRODUCTION

This chapter dealt with the background of the study, statement of the problem, the objective of the study, research questions, scope, Significance of the study, limitation and organization of the study about the assessment of internal controls of Save the Children International, Ethiopia Country Office (hereinafter, EtCO).

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, 2015).

~~(Basoln, 2002)~~In (Basoln, 2002) ~~study notes that~~“an internal control is a set of instructions, guidelines and procedures that a company's senior leadership establishes to prevent operating losses resulting from theft, error, technological malfunction and employee neglect or carelessness”. An internal control also helps an organization prevent adverse regulatory initiatives and procedures for fines or litigation.Internal controls ensure accuracy and reliability in accounting and operating data, securing compliance with the policies of the organization and evaluating the level of performance in all units of the organization.It also helps an organization to prepare accurate and complete financial statements monthly, quarterly and yearly. Internal control consists different principles and policies that mainly includes accounting principles, Generally Accepted Accounting Principles and the Institute of Internal Auditors standards.Accounting principles and internal audit rules require organizations or companies to establish adequate and functional internal controls systems to improve corporate governance processes.~~(Juheno & W.F, 1999) further noted that i~~Internal controls play an important role in corporate governance systems(Juheno & W.F, 1999). A firm may also hedge, or protect against operating risks by implementing functional controls.

The quality of an organizations ICS has a significant impact on the accuracy of management guidance (Feng, McVay, & Li, 2009). Firms that disclose ineffective ICSs have larger tendencies of experiencing management errors in their operation than those firms that report effective ICSs(Feng, McVay, & Li, 2009). Furthermore, informed that the enforcement of proper ICSs by institution will always lead to improved financial performance.It is a general belief that properly instituted systems of internal control improve the reporting process and also gives rise to reliable reports which enhances the accountability function of management of an entity(Spira & L.F., 2003).

(Freeman, p. 1999) conceptualizes a Non-Governmental organization (hereinafter, NGO) as an organization that is not part of a government and is not funded by the state. NGO's are therefore typically independent of governments. The term is generally restricted to social, cultural, legal and environmental advocacy groups having goals that are primary non-commercial.In recent years, a great deal of attention has been made to the applicability of business practices to NGOs. The involvement of non-government organizations in fraud and corruption cases have raised awareness of and demand for accountability through the use of a strong accounting internal control system(Alonzo W., 2007)

Internal Control especially in NGO operating in Ethiopia has become an interesting aspect attracting the attention of the government and development partners. This has been due to huge amount of funds that are disbursed to humanitarian and development activities to facilitate various development projects and services. According to CSA/Charity and Society Agency rules and regulation 80% for direct program activity and 20% for indirect support program must be in line with operation of NGO ~~fundutilization~~fund utilization.To achieve this and other objectives of NGO's, strong internal control should be established and maintained. Moreover, the internal audit units as monitoring and evaluation apparatus in NGO become a critical area of concern as they are the overseers.

1.2 Background of the study setting

Donor funding refers to financial plans mainly focus for NGOs from international or multi-lateral aid agencies. In Ethiopia, NGOs play a significant role for the development of social, political and economic activities of the country. NGOs also highly contribute in decrease poverty and crisis through engaged in agriculture, health, education conflict management and displacement, integrated rural development, disable persons, income generation, information services, refugees, street children, women issues, peace, governance, food security, self-help and youth.

In Ethiopia foreign aid has been playing a great role in country's economy. It covered 23.2% of the total revenue of the in 2010/2011 fiscal year (National Bank of Ethiopia Annual Report, 2010/2011 G.C). ~~There~~. There have been several projects funded by donors such as UNICEF, USAID to help in bringing overall development in Ethiopia. Most of these projects have been designed to address various issues and benefits to those in need. However, allocation and utilization of donor funds had been a challenge to both the donor, community as well as the government agencies who are responsible for the donated funds. Fund formulation and implementation is a base for the successful of projects. The motivations for this study is to evaluate the internal control system for the achievement of organization objectives, focusing on the existing gap revealed on internal control practice of Save the children International Ethiopia Country Office.

Save the Children International is one of International Non-Governmental Organization working globally for improvement of a world in which every child attains the right to survival, protection, development and participation. Save the Children first worked in Ethiopia in the 1930s and set up its permanent offices by Save the Children Sweden in the 1960's and Save the Children UK in the 1970's. Save the Children International Ethiopia is working on different social development activities such as, humanitarian, health, education and others in order to attain, develop and improve the living standard of children on this world. This could only be realized when resources are properly planned

and controlled (Mark A., 2015). Therefore, there is a need for effective internal control system as it enhances performance of the organization.

Save the Children is operating in more than 120 countries and the member of International Save the Children Alliance, the world's largest child development consortium. It began working in Ethiopia 1965 and around 62 years ago initially focusing on humanitarian relief. Afterward, Save the Children diversified its support to vulnerable children through long-term development initiatives. Along with this, seven Save the Children members (Canada, Denmark, Finland, Norway, Sweden, UK and US) started operating in Ethiopia, each with their own initiatives, improving the lives of children. In October 2012, the seven members merged into one operational platform and named as Save the Children International. Because of this unification, there are a lot of changes on the organizational structure such centralization and de-centralization of the staffs to different regions that the organization is implementing the activities

1.2.1 Internal control System of Save the Children International Ethiopia Country Office (SCIETCO)

In NGOs, the lives of beneficiaries depend on organization's abilities to secure funding in order to develop projects. According to (~~Premchand, 2000~~) if institutions fail to provide fairly accurate predictions in operations and capital projects, then doubt is created on the performance of that institution (Premchand, 2000). Accordingly, internal Control system is one of the most important issue for Save the Children International Ethiopia to control the available funds and utilize as per the planned activities and achieve the ultimate goal of the organization.

Save the Children International Ethiopia Country office total budget or fund received for 2018 was USD 112 million and in 2019 USD78 million dollar. According to regulation of the Charities and Societies ~~Agency~~ (Agency (hereinafter, CHSA), that established to control the operations of charities and societies, budget utilization of non-profit organization should be 80% of the total budget should go for program activates that directly implemented for the beneficiaries and 20% is for administrative costs.

The organization has internal control system that ensures the safe guard of organizations' assets, utilization of the resource efficiently and to avoid frauds. There is internal audit department that evaluate the internal control of the organization. Annual and interim audit for records, accounts, reports and systems of SCI EtCO are performed by selected professional local and international audit firms. Global Assurance audit unit team review organization's documents, policies, staff profiles, structure and others audit issues in order to strength the organization internal control system and to create confidence for donors to enhance the funding relationship(onenet.savethechildren.net, 2014).

~~According to(Hella D., 2016) i~~Internal audit function has value creation towards organizations through management by evaluating and improving effectiveness of internal control systems created by management(Hella D., 2016). Functions of internal audit can be affected by effectiveness of the internal control system. Even though SCI has adequate policy and procedure for internal control system there are evidences they are not enforced by the organization. This increases pressure from donors, government and other official agencies for SCIEtCO to show accountability, managerial competence and strong internal control system.

The study therefore, targeted this international organization focusing on assessing its internal control practice systems evaluating with established standards and management performance.

1.3 Statement of the problem

NGOs receive huge amounts of donor funds and assets which require a sound internal control system for proper care and management of these resources. In order to properly utilize these huge amount of funds, safeguard NGOs' assets and to ensure reliable recording of the monetarily transactions management of the NGOs has to be establish effective rules and procedures to be followed in their day to day operations. In addition to this strong internal control system reduce fraud and other abusesof resources of NGOs'.~~Strong internal~~Strong internal Control has a great role in hindered the struggle aim

to decrease poverty and crisis by poorest ~~country.~~ country. As per ~~(Mawanda, 2008)~~ Mawanda. (2008) and the Committee of Sponsoring Organizations hereinafter, COSO,(1992), internal control is aimed to safeguard the resource allocated to NGOs, to efficient and effective utilization of the resource and provoke the funds of the donor to be used only for the intended purpose. Therefore, the existence of sound internal control plays vital role to achieve this aim. Established in June 30 2006, the Ethiopia Humanitarian Fund (EHF) reported between 2016 and 2019 mobilized US\$ 541.4 million funds and allocated \$538.8 million to 884 projects through 59 partners, including United Nations (UN) agencies and non-governmental organizations (NGOs). Save the Children EtCO has received a total of USD 75 million amount of funds from different donors during 2019 budget year. If there are lack of accountability and improper utilization of the donated fund, NGOs could not meet their obligation and the donor will be discouraged to release additional fund for proposed projects in the future.

There are some studies conducted on internal control systems of international NGOs. The study conducted by (Aberash D., 2018) on assessment of internal control effectiveness on Care Ethiopia observed the challenges on internal control practice of the organization. Another study assessed the internal control system of PIC (Genet K. , 2015) focused on only few areas of internal control system like organizational control, personnel control and operational control. There is also a study on internal control practice of Save the Children International conducted by (Belayneh, 2016). His study was focused on control activities of logistic, accounting and Finance. The major gaps of this study were that the study was not assessed other elements of internal control such as, risk assessment control, organizational control, operational control, personnel control, information communication system. Moreover, the above studies were not assessed the role of IT on effectiveness of internal control system.

To fill this gap and to assess further elements of internal control this study carried through examining and analyzing the existing internal control practice of Save the Children International Ethiopian Country Office (SCIEtCO) and then find out its strength

and weakness. At the end the researcher did draw conclusions and recommendations for the organization future improvement.

1.4 Research Questions

The study was guided by the following research questions

- ✓ How organizational control environment ~~ensured internal~~ ensured internal control system is practicing in SCI?
- ✓ How risk controlling system is applied in the organization?
- ✓ How established organization control practices being strictly compliant with internal control systems?
- ✓ How the information and communication application is implemented in the organization internal control system?
- ✓ How the monitoring and evaluation of internal control system is practicing in the organization?

1.5 Objective of the Study

1.5.1 General Objective of the Study

The general objective of the study was to assess the internal control practice of Save the children International Ethiopian Country Office, SCI EtCO.

1.5.2 Specific Objective of the Study

The study tried to achieve the following specific objectives:

- ✓ To assess ~~organizational control~~ organizational control environment of internal control system.
- ✓ To examine risk controlling system applied in SCI EtCO.
- ✓ To assess the ongoing control activities of SCI EtCO
- ✓ To examine information and communication application of internal control system.

- ✓ To examine the implementation of monitoring and evaluation ~~of internal of~~ internal control system.

1.6 Significance of the Study

The purpose of this research is to assess internal ~~control practice~~ control practice of NGO, Save The Children International Ethiopia Country Office. The study will be important to senior management team, donors, internal audit teams and members of the organization to create awareness and refresh their knowledge about internal control. It will also benefit to discover the strength, weaknesses, and problems of the system and to take corrective action accordingly. It enables the organization to verify whether the internal control system of the organization is understood by all members and put into effect using corrective measures where deviation is occurring. It will also be an area for further research for anyone who will be interested to conduct a study on the impact of internal control on performance in NGO, especially on Save the Children international Ethiopia Country office.

1.7 ~~Scope of~~ Scope of the Study

This study would have been more productive if it assesses the internal control system of all governmental and nongovernmental organizations in Ethiopia. However, infeasibility from resource and time perspectives, this study has been focused only on the assessment of internal control of non-governmental organizations a case study of Save the Children International Ethiopia Country Office, SCI EtCO. Moreover, its subject is bounded by focusing on the five internal control components.

1.8 Limitation of the Study

In undertaking this research, the researcher faces a problem of collecting primary data from SCI staffs due to the current situation COVID 19 to assess internal control system of the organization. The other limitation faced to the researcher is due to time and

financial constraints the researcher could not include all sub offices (field offices) of the organization in this study.

1.9 Organization of the Study

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

CHAPTER TWO

2 LITERATURE REVIEW

Introduction

This study Collect and document what has been written and recorded in different manuals, literatures, and authors about internal control system. The review particularly focused on Control environment, risk assessment, control activities, information and communication and on monitoring activities. The review examined the common systems of internal controls employed by organizations. The ultimate objective of this review was assessed the theory surrounding systems of internal control and the methods used by previous researchers in dealing with internal control systems.

2.1 Theoretical Review

2.1.1 Definition of Internal control

Internal Control can be defined as a procedure or policy designed, introduced and maintained by the company's management to provide a substantial degree of assurance in achieving business objective.

Internal Control has defined by various authors in different ways. Statement of accounting standard SAS, No. 55 define internal control as a combined plan, method and procedures used to safeguard asset, promote efficiency of operation and adherence to prescribed policies and directives. As per (Basoln, 2002) [\(Basoln, 2002\) definition](#) "internal controls are systems of policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations.

It is therefore important to maintain properly instituted internal control system that will ensure completeness of all transactions undertaken by an entity, the entity's assets are

safeguarded from theft and misuse, transactions in the financial statements are stated at the appropriate amounts, all assets in the company's financial statements do exist, that all the assets presented in the company's financial statements are recoverable and that the entity's transactions are presented in the appropriate manner.

2.1.2 Internal Control Objectives

Internal control system is a fundamental part of good corporate governance, as their objective is to prevent and detect fraud, theft, misuse and human error, as well as keep the organization in compliance with governmental rules and regulation.

2.1.3 Internal Controls in NGO

A Non-Governmental Organization (NGO) is an organization that operates like other business but does not seek financial gain(Gray, 2006). NGOs are heterogeneously ranges in size, nature and scope and it can be argued that they cannot be treated as one group. However, (Stromquist, 1998), states that the three major functions of NGOs are ~~to provide~~ to provide services (welfare), to provide education and to assist in public policy and advocacy (Stromquist, 1998). An NGO may also be referred to as a Charity, a Not-for-Profit organization or just Non-profit. In addition (Leo K. J. & Addison, 1999) named not-for-profit sector as the "Third Sector" to distinguish it from the private and public sectors to acknowledge its uniqueness. NGOs are those organizations that established to solve problem of a public need without making profit. An NGO operates like a business. It has all kinds of assets that received from donors in cash and in kind that need proper safeguarding and utilization. Effective policies and procedure needed for these to custody and utilized for the targeted purpose.

In Ethiopia, NGOS are required to maintain financial records that shows the organization financial transactions by Agency of Charities and Societies. They are also required to submit annual financial reports and audit reports to renew their license annually. Furthermore, the NGOs are required to submit annual budget with breakdown of activities like Program costs with Admin cost ratio (80%:20%) to fulfill the requirement

of the Agency. These is one of the requirement to renew their annual activity license and registration every three years.

Establishing strong internal control systems in organizations is critical ~~activities to~~ activities to ensure the reliability of accounting records and to provide a reasonable assurance to stakeholders. Internal control ~~principles suggest~~ principles suggest that an internal control system is the primary accountability and ~~governance tool~~ governance tool an organization (NGOs) can establish and use to provide accountability to ~~its stakeholders~~ its stakeholders (donors) and safeguard its assets. According to (Benison, 2007) statement the internal control is an ongoing process and can help the entire organization to analyze its goals and objectives. Internal control helps in detecting or preventing the misstatements or errors in the financial records to avoid the discrepancies in the value.

2.1.4 Effective Internal Control System

Effectiveness of internal control system indicated by the achievement of established objectives by organization, preparation of reliable financial statements, maintaining and applied of laws and regulations. Moreover, effective internal control should in priority incorporate the five elements of internal control, these are control environment, risk assessment, control activities, information and communication, and monitoring and evaluation.

Operation is being efficient and effective if an organization uses its resource efficiently and effectively that ~~includes competent~~ includes competent personnel, accurate information for decision making and safeguarding of assets and records (COSO, 2013). 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 by all employees
- (iii) They must be cost effective

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Basel Committee on Banking supervision(~~Supervision, 1999~~) states that an internal control being effective, there should be independent internal audit carried out responsibilities independent, qualified and competent staff(Supervision, 1999). An effective internal control system is important for an organization to:

- Promote orderly, economical, efficient and effective operations and use of the organization's resources.
- Deliver programmes and services consistent with the organization's mission.
- Safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud.
- Promote adherence to statutes, regulations, policies and procedures, and ethical values.
- Identify risks and develop effective strategies and procedures to control or manage them.
- Develop and maintain relevant, credible and reliable financial and non-financial data, and accurately report financial and non-financial information in a timely manner.

Committee of sponsoring Organizations of the TreadWay Commission, (hereinafter, COSO) updated the framework list in 2013 to ~~establish principles~~ establish principles for developing and maintaining effective internal controls system. The five internal control ~~of components of components~~, (Control environment, Risk assessment, Control activities, information and communication, and monitoring elements) were adapted to established 17 principles for the effectiveness of internal control system.

Principle 1 – Commitment to integrity and ethical values

An entity must have the appropriate tone at the top for a commitment to ethics through establishing standards and code of conduct. The existence of these standards of ethical behavior devotion staff to demonstrate their duties with integrity. If employees are deviations from the standards it should be addressed timely.

Principle 2 – Board independence and oversight

An executive board structure exists should demonstrates independence from senior management and exercises oversight for the development and performance of internal control. A board must actively provide oversight on all compliance control activities, risk assessments, compliance control activities, information, compliance communications and compliance monitoring activities.

Principle 3 – Structures, reporting lines, authority and responsibility

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.

Principle 4 – Attracting, developing and retaining competent individuals

This principle requires that a company establish compliance policies and procedures with evaluation its effectiveness. A company must have human component of a compliance program that attract, develop and retain competent employees in the compliance function.

Principle 5 – Individuals held accountable

This is the ‘stick’ Principle. Policies and procedures are in place to hold individuals accountable for their internal control responsibilities, including delegation of authority. An appropriate compliance performance metrics exist, and establish to incentives persons to do business ethically.

Principle 6- Specify objectives with clarity

This principle lays the groundwork that objectives are specified with sufficient clarity to enable the identification and assessment of risks relating to objectives. A company ordinarily needs to describe its operational, reporting and compliance objectives to assess and implement control activities.

Principle 7- Identify and analyze risks across the entity

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.

Principle 8- Consider the potential for fraud in assessing risks to the achievement of objectives

The risks to the achievement of its objectives are assessed, including the potential for fraud or other misconduct or breach of rules. Managements perform the assessment with considers fraudulent reporting, possible loss of assets and corruption resulting from the various ways that fraud and misconduct can occur.

Principle 9- Identify and assess changes that could significantly impact the system of internal control

This principle requires an assessment of change in the organization on an ongoing basis externally and internally that could affect risk. External changes include those in the economic, regulatory and physical environment. Internal changes include those in company's business lines and operations, overseas markets and operations, new technologies, as well as changes in leadership and company philosophy.

Principle 10 - The organization selects and develops general control activities over technology to support the achievement of objectives:

The introduction of technology makes business processes have become computerized and automated. However, even though technology works to a very high level of accuracy, its outputs are based on the inputs fed into it. As a result, there are risks of inaccurate and misstatement in the input. These required to place controls around the electronic business process as there is over the manual/people operated processes. For that reason, duties can

also be segregated amongst different personnel, to input transactions and authorizing the transaction.

Principle 11 - The organization deploys control activities through policies that establish what is expected and procedures that put policies into action:

The prior principles on Risk Assessment component state that the organization should select and develop control activities, including control activities over technology. ~~These contribute~~ These contribute to the mitigation of risks to the achievement of objectives to acceptable levels. This principle however elaborates that even though the previous principles are important, their objectives would not be fulfilled except they are properly documented and implemented as policies. Control activities include the development and use of policies that establish what is expected or required, and procedures that put the policies into action.

Principle 12- The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

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.

Principle 13 - The organization obtains or generates and uses relevant, quality information to support the functioning of internal control:

Relevant and quality information is obtained or generated to support the functioning of internal controls, decision making and oversight. The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control. External parties also communicated any matters that could affect the function of internal control.

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Principle 14 - The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control:

It is not sufficient to obtain the required information on management's objectives and responsibilities on internal control, such information must properly have communicated and cascaded to the appropriate persons. It has to be carried out in the right manner and at the appropriate time.

Principle 15 - The organization communicates with external parties regarding matters affecting the functioning of internal control:

This principle deals with issues that the entity's external parties have to be involved, as matters of internal control over financial reporting have to be communicated to interested parties or those expected to possess them. It also encourages the management of the entity to obtain information on its internal control through external sources including carrying out surveys.

Principle 16 - The organization selects, develops, and performs ongoing and or separate evaluations to ascertain whether the components of internal control are present and functioning:

The management of an entity need to evaluate the internal control of the firm to determine whether the components are not only present but also functioning. It can achieve this end by taking periodic reviewing mix of monitoring activities, establishing a baseline, identifying and using Metrics, using technology to support monitoring activities, conducting separate evaluations and using internal audit to conduct separate evaluations and understanding controls.

Principle 17 - The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate:

Once the evaluation of the entity's internal control has been carried out and it has been determined that some components are either present but not functioning or not present at all, feedback has to be relayed to those concerned. The deficiencies identified should be addressed by taking corrective actions in due time. This objective can be attained by Assessing and Reporting Deficiencies, Monitoring Corrective Action and Developing Guidelines for Reporting Deficiencies.

2.1.5 Components of Internal control

According to (M. Allegrini & Bandettin, 2006) and (Hayes R., 2005), internal control comprises five components; Control environment, Risk assessment, Control activities, Information and communication systems, and control activities and the monitoring of controls. These five elements of internal control ensure the overall business objectives are met by implemented and integrated into business processes.

2.1.5.1 Control Environment

(Kgabo, 2013) As (Kgabo, 2013) defines control environment as "a set of policies and procedures that must be followed in the implementation of internal controls within an institution". Control environment creates a frame of mind that can function at all levels in the institution. Management and other members of the organization have responsibilities to establish and maintain environment that sets a positive and supportive attitude towards internal control. Important areas of the control environment are:

- ✓ The integrity and ethical values of management.
- ✓ The structure of the organization.
- ✓ The participation of the organization's board of directors and the audit committee, ~~if one~~ if one exists.
- ✓ Management's philosophy and operating style.
- ✓ The procedures for delegating responsibility and authority.
- ✓ Management's methods for assessing performance.
- ✓ External influences, such as examinations by regulatory agencies.

- ✓ The organization's policies and practices for managing its human resources.

The control environment represents the control atmosphere for the entity and is the foundation for the other components (Nicolaisen, 2004). Factors relating to the control environment include the integrity of ethical values, competence of employees and management, management's philosophy and operating style, the manner in which authority and responsibility are assigned, development of employees, and the attention and direction of the board of directors towards organizational success. Higher level administrators of an organization are responsible for establishing the appropriate control environment. (Gray, 2006) states that a good control environment should provide guidelines related to: ethic and integrity values that should be owned by the member of entity; commitment 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 (Gray, 2006).

2.1.5.2 Risk Assessment

Risk assessment is a term given to the method of identifying and evaluating potential threat, hazard, or risk factors which have the potential to cause harm the organization. According to (Messier, 1997) risk assessment is the component related to the identification of risk, analysis of risk and management of risk. According to Meisser, Risks are assessed through management's awareness of the environment in which it operates and its direct involvement with the day to day operations of the client community association. It is therefore important for management to determine and assess the risk level to achieve organizational goals and to design adequate internal control. Organization should have control procedures to identify risk of internal and external factors that have a significant on financial statement account or disclosure. Risks associated with the accounting and reporting for infrequent and/or unusual transactions should be managed to achievement financial reporting objectives. Risk assessment process should be considered the potentiality for fraud through evaluation of employees' incentives and pressures, opportunities, attitudes and rationalizations to commit fraud. In

addition, the organization should have a mechanism to identify unauthorized acquisition, use, or disposal of assets, altering the organization's reporting records or committing other inappropriate acts by reconciling physical assets periodically.

2.1.5.3 Control Activities

(Mawanda, 2008) describes control activities as basically policies, procedures and general rules an organization put in place to ensure that all directives set up by management are fully followed. The control procedure involves policies and procedures in place to select, develop, operate and maintain the organization's information technology that is expected to put policies into action.

Organizational Control

Every employee should be fully aware clearly of his or her responsibilities and lines of authority, lines of reporting and levels of responsibility (FIS, 2008). Organization should ensure that the internal control system is not open to abuse of charity administration and that their systems of control are rigorous and constantly maintained. The organizational structure should be clearly defined that include procedural controls with responsible and dedicated employees.

Personnel control

The quality of internal control and the quality of the personnel is directly related to the effectiveness of internal control of an organization. The organization should have sound personnel policies for hiring, orienting, training, evaluating, counseling, promoting, compensating and taking remedial action. Supervision of day to day work of employees by the management of the organization reduce the likelihood of errors or fraud and used as a means to check compliance with laid down procedures. These Procedures explain the how, why, what, where and when for any set of actions. As the NGO sector has expanded in terms of funding and functions, there has been a growing concern with the issues of professionalization and accountability (Chang, Dhaliwal, & Zhang, 2013).

Operational control

Operating control systems are designed to ensure that day-to-day actions are consistent with established plans and objectives. Operating control systems are resulting from the requirements of the management control systems. Corrective action is taken where performance does not meet standards. This action may involve training, motivation, leadership, discipline, or termination. Procedures requires for authorization transactions from the appropriate individual before entered into a system, and there should be an authorization limit to how much spending each responsible person can approve SAS (No 48). Effective internal control measures have a positive effect on an organizational performance.

Physical and IT Controls

Human activities may be purely manual, such as the physical custody of assets, or they may involve the physical use of computers to record transactions or update accounts. Physical control activities include:

Transaction Authorization. This ensures that all material transactions processed by the information system are valid and in accordance with management's objectives.

Segregation of Duties. One of the most important control activities is the segregation of employee duties to minimize incompatible functions. Authorization for a transaction is separate from the processing of the transaction, responsibility for asset custody should be separate from the recordkeeping responsibility. Journals, subsidiary ledgers, and the general ledger are maintained separately.

Supervision. Implementing adequate segregation of duties requires that a firm employed sufficiently large number of employees.

Accounting Records. The accounting records of an organization consist of source documents, journals, and ledgers.

Access Control -The purpose of access controls is to ensure that only authorized personnel have access to the firm's assets. Unauthorized access exposes assets to

misappropriation, damage, and theft. Therefore, access controls play an important role in safeguarding assets.

Independent Verification. Verification procedures are independent checks of the accounting system to identify errors and misrepresentations.

IT Controls

IT internal controls are policies that provide assurance that technical systems operate as planned, provide reliable data, safeguard properties of the firm and comply with regulations. Firms with strong IT internal controls perform better than those without IT internal control. Information technology drives the financial reporting processes of modern organizations. Two broad groupings of IT controls: application controls and general controls.

- **Application control** –policy and procedures to ensure confidentiality, integrity, and availability of application to secure data. Application control includes control practices for completeness, validity, authorization, identification and others.
- **General controls** - include controls over IT governance, IT infrastructure, security and access to operating systems and databases, application acquisition and development, and program change procedures.

To enhance information systems policies, maintain access controls and business continuity procedures can ~~help~~[help an](#) organizations be one step closer to a secure IT environment. Access control is the doorway to all IT systems how the business will monitor its IT resources and how they should be used. Companies should establish user accounts for employees based on their job description and responsibilities to permit employees access to specific network systems and resources. The organization's IT department should establish user account with their username and password.

2.1.5.4 Information and Communications

This aspect of the internal control elements requires that all relevant information must be identified, captured and communicated to carry out internal control and other responsibilities (Mayne, Ruttman, L., & John, 1994). Information is important to achieve organization objectives and for effective and efficient use of resources. For example, program managers require financial and operational data to evaluate their performance whether they achieve organization strategic and plan. The communication channels and medium must be across all level of the organization and ensure it is easily accessible. Information about an organization's plan, control environment, risks, control activities and performance must be communicated. ~~According to~~ In addition (Theofanis K., G., & Giovanis, 2011) information and communication is one of the most influenced components of internal control because of its importance and ability to underpin good working relationships at all levels in the organization (Theofanis K., G., & Giovanis, 2011).

2.1.5.5 Monitoring Activities

~~(Jones, 2008)~~ Jones, (2008) refers monitoring "as the process of assessing the quality of a systems performance over time". Internal control should be designed to assure that ongoing monitoring occurs in the course of normal operation. It is the main and regular activities of management and supervisor to evaluate course of operations and ensure procedures are consistently applied. The scope and frequency of separate evaluations primarily depend on an assessment of risks and the effectiveness of ongoing monitoring procedures. Any discovered findings and recommendations from audit and other reviews should addressed immediately and incorporated to internal control system. Monitoring activities can be performed in ongoing and regular basis. Ongoing monitoring evaluate organization internal control system ensure that the current policies and procedures are relevant and assesse if new requirements and developments needed. Regular monitoring performed by internal auditor with observation and inspection documents to evaluate internal control procedure are put in practice.

2.1.6 Parties Responsible for and Affected by Internal Controls

According to Audit and Management Advisory Services (AMAS, 2009) everyone in an organization has responsibility for internal control. Management, supervisors, staffs, internal auditors and external auditors are the main parties of the internal control system.

Management

The chief executive officer is ultimately responsible and assumed "ownership" of the system. More than any other individual, the chief executive sets the "tone at the top" that affects integrity, ethics and other factors of a positive control environment. In a large company, the chief executive fulfils this duty by providing leadership and direction to senior managers and reviewing the way they're controlling the business. Senior managers, in turn, assign responsibility for establishment of more specific internal control policies and procedures to personnel responsible for the unit's functions. In a smaller entity, the influence of the chief executive, often an owner-manager is usually more direct (Belayneh, 2016).

Board of Directors

Member of board of directors have capable and interfering knowledge about the entity's activities and environment. A strong and active members needed to identify and control the override and dishonest of the management.

Internal Audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improve the effectiveness of the risk management, control, and governance process (IIA, 2004). Internal audit function plays a significant role in ensuring risk management, internal controls efficiency, and monitoring and evaluating the effectiveness of internal control systems. It also improves business process and preventing fraud.

2.1.7 Internal Control and Internal Auditing

Internal control ~~system includes system includes~~ procedures, ~~and~~ acts efficient and reliable communication within an organization. Internal auditing is part of internal control system. ~~(Bologna & Lindquist, 1995)~~ A study on fraud auditing stressed that sufficient internal control is critical for the prevention of economic losses resulting from embezzlement and fraud (Bologna & Lindquist, 1995). Major activities of internal auditing ensure resources are being used in the most effective and efficient manner, reviewing accounting and financial transactions, if laws, regulations, policies and procedures are applied and automated information processing systems,

2.1.8 Limitation of Internal Controls

Internal Control gives reasonable assurance and guarantee for the achievement of organizations objectives. Because its effectiveness determined by competency and dependability of the organization's people. People may wrongly judge, interpret and misunderstanding the concept of internal control. This limitation could be drive from problem while designing internal control structure, deficiencies in the operation of the structure or in other cases. According based on (COSO, 1992, SOX 2002.) the limitations are summarized below:

- 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

General comment

2.2 Empirical Review

Several investigations were made regarding the system/practice of internal control elements in the world including in Ethiopia. (Mohamad, Jamaliah, & Mahmudul, 2015) (Mohamad, Jamaliah, & Mahmudul, 2015) attempted to assess internal control practices of different public sector schemes in Malaysia. The study collected primary data based on a set of questionnaire survey among the head of department of 109 departments and agencies under 24 federal ministries including the Prime Minister Department in Malaysia. Descriptive statistics were used to analyze the collected data on internal control practice in their department. The result of the study indicated 86.2% of the respondents mentioned that they practice internal control system in their department. Overall the internal control system of the financial schemes group is strong, but their emphasis on the documentation is at the average level only. However, the internal control system in some departments were below the overall average internal control score. The study concluded that the public sector in Malaysia needs more effort to strengthen internal control practice and its proper assessment system to become a reliable and efficient sector.

(Mahdi Salehi, Mahmoud, & Ehsanpou, 2013) A study to investigated the effectiveness of internal control system components (control environment, risk assessment, information and communication, control activities and monitoring) in the Iranian banking sector with special reference to Bank Mellat (Mohamad, Jamaliah, & Mahmudul, 2015). The paper evaluated the effect of control environment, control activities, risk assessment, information and communication and continuous monitoring on failure of internal control quantified as reported errors and fraud by postulated hypotheses. The empirical evaluation found out that all internal control elements have significant effect on occurrence of errors and fraud. Accordingly, Weakness of control environment, control activities, risk assessment, information and communication and monitoring as a component of internal control system in an incident of error and fraud is effective. Therefore, the more the increase in the weakness of a control environment, control activities, risk assessment, information and communication and monitoring in

Bank Mellat, the more is the incident of error and fraud. However, statistically control environment is found to have the highest effect for the failure of internal control.

~~(Sartini W, 2012)~~(Sartini W, 2012)evaluate the implementation of internal control system for Islamic micro financing. This paper aimed to evaluating the implementation of internal control system practiced by BaitulMaal wat Tamwil (BMT), a special micro finance organization; in Indonesia system for Islamic. A direct survey using questionnaires were used to collect primary data relate to the implementation of an internal control system for financing activities. After analyzed the data using descriptive statistic and qualitative analysis, it was found that BMTs in Indonesia have implemented an internal control system for their financing activities. The result ranks the internal control components implementation as information and communication; monitoring; control environment; risk assessment; and control activities.

~~(Oseph M, Onumah R, & A, 2012)~~A study were conducted to examined internal control components practice of listed firms in Ghana by studding annual reports of a sample of 33 firms listed on Stock Exchange systems of listed firms in Ghana(Oseph M, Onumah R, & A, 2012). The result of the study revealed that 23 items relating to internal control categorized under control environment, information and communication, risk assessment, control activities and monitoring were operated effectively. Of the five categories assessed under internal control system, control environment showed a higher level of effectiveness.

~~(Petrivits, 2009; Schindler C., 2011)~~(Schindler C. , 2011)~~(Schindler C., 2011)~~studied the Causes and Consequences of Internal Control Problems in Non-profit Organizations using a sample of 6,572 public charities from1999 to 2003. They first document that the likelihood of reporting an internal control problem increases for non-profit organizations which are smaller and in poor financial health. They then present evidence that weak internal controls over financial reporting have a significant negative effect on the amount of subsequent public support received after controlling for the current level of public

support and other factors influencing donations. The results suggest that first, the IRS and other regulators are reformulating laws in an attempt to increase public confidence in the integrity of exempt organizations second, donors want to make more informed charitable decisions third, watchdog groups, such as Wise Giving Alliance, and promulgate standards on charitable accountability including the establishment of appropriate accounting procedures.

A study by (Roth & Espersen, 2002) on the situation of internal control in companies introduced the components of an internal control (control environment, evaluating risks, control activities, information and communication and supervising) as an advocate for a company to achieve its goals as well as its own progressive procedures. The results propose:

- (a) Recognizing an internal control system and the role of corporate relationship;
- (b) Propagating self-control systems,
- (c) Identifying risk factors; and
- (d) Preventing incidents of fraud and financial mistakes.

(Belayneh, 2016) has done a study on internal control of Save the Children the study examine internal control systems and practices focused on logistic, accounting and financial activities. His study viewpoint was from Control Environment, Internal Audit and Control Activities where payment procedures, financial records, procurement policies, budgetary control Accountability and Reporting as the measures of effectiveness of internal control. The Researcher set out to establish the causes of determined poor internal control policy, procedure and practices from the perspective of internal control. In this study one of the limitation and the gap were the study more depend in indicating internal control system of logistic. Rather it was not considered overall internal control emplanes.

A study done by (Genet K., 2015) wanted to assess the functionality of internal control system of Non-Government Organizations (NGOs) a case study of Pathfinder International Ethiopia (PIE). The study was steered by the following

objectives: to assess organizational control of PIE, to assess personnel controls of PIE, to assess operating controls of PIE, to assess periodic review of PIE. Descriptive quantitative design and simple random sampling technique was used by the researcher. The major findings of the study were that PIE has a sound internal control system overall in terms of the control operation, controls procedures and monitoring controls, human resource controls. The gap seen in this study was, the study collected the data using random sampling technique, this sampling technique may include population that are not more concerned on internal control system and/therefore the conclusion may reach on unreliable data.

There was a study by (Aberash D., 2018) ~~(Aberash D., 2018)~~ to assess about five control elements of internal control in the case of CARE Ethiopia. Both the questionnaire and interviews results were used to collect data. As per the finding of the study the control environment of the internal control system is inadequate to be judged as effective, particularly, the organization didn't continuously provide mentoring and training opportunities needed to attract, develop, and retain appropriate and competent personnel. Moreover, the study finds out organization has not sufficiently designed appropriate strategy of identifying risk, no sufficient system designed to respond to risk, lack of monitoring and evaluation system of internal control. The study recommended that monitoring in an effective internal control system is required to continuously evaluate whether the system is performing as per the designed system and the management should establish good internal control environment to control activities on an on-going basis.

The study by (Getu M., 2016) ~~(Getu M., 2016)~~ were done to assessed the internal control effectiveness of 30 NGO'S internal control effectiveness who works health sector. The researcher used multistage sampling methodology through questionnaires and data was collected using questionnaires distributed to those individuals. The findings revealed that there is insignificant internal control effectiveness. The findings of this study revealed that there is negative insignificant relationship between the management support and internal

control, though there is insignificant positive ~~relationshipbetween~~relationship between adequate and competent internal control staff and internal control.

2.3 Summary of Literatures Knowledge gap

The above and other literatures organization should give emphases on the internal control and used to improve the quality of their internal control systems. They should give priorities to allocate resource time, skills to achieve good internal control and good business. Different studies have been done by different researchers in the aspects of internal control of NGOs. This study identified the previous studies gaps and may filled. In (Genet K. , 2015)paper of the assess internal control system of Non-Government Organizations (NGOs) a case study of Pathfinder International observed a gap were the population were included using simple random sampling technique this may include more unconcerned departments. A study was conducted by ~~(Getu M., 2016)~~Getu M.(2016)to assessed the effectiveness of NGO'S internal control system. One of the study gap were it was focused on large size organizations (30 Non – Governmental NGOs) which may lack of deep study. A study by ~~(Belayneh, 2016)~~Belayneh. (2016)studied the internal control practice of Save the Children, but he was more focused on internal control practice of logistic and Finance department. Moreover, this study was not included the effect of ICT on the effectiveness of internal control system. Therefore, there search gaps that were observed in previous studies like focusing only on departments and assessing the impact of IT on internal control system may filled under this study. In addition, assess the missed internal control elements, such as risk assessment, information and communication and other aspects that was not includes in these studies.

CHAPTER THREE

3 RESEARCH METHODOLOGY

Introduction

This chapter presents and describes the methodology used to gather information relevant to the study. It contains the research design, Population and Sampling techniques, types of data, data collection methods, data analysis and data validity.

3.1 Research Design

Descriptive research design was employed in this study to conduct the entire research work. ~~(Mugenda, 2003) defines~~ Descriptive research design as a process of collecting data in order to answer questions concerning the current status of the subjects in the study (Mugenda, 2003). Descriptive research is well preplanned and structured in design so the information collected can be statistically inferred on a population. The main idea behind using this type of research is to define an opinion, attitude, or behavior held by respondents on internal control practice of SCI. Moreover, as the respondents are predefined and choices are established for questions descriptive method is the best to statistically analyze the results.

3.1.1 Research Approach

The study uses qualitative and quantitative research approach, mixed approach, to collect, analyze and interpreted the data. As described by ~~(Creswell, 2009)~~ Creswell, (2009) applying this approach helps to collect both qualitative and quantitative data simultaneously and mix the data in the explanation of the overall results. He also emphasized the advantage of using mixed approach that It was ensured that the biases that might occur using a single method will be neutralized by using other methods. Therefore, the researcher found that mixed approach to appropriate for this case study. Thus, in this study, interviews were conducted and questionnaires were administered at the same time, qualitative data were used to triangulate the quantitative data ~~and quantitative data were used to triangulate qualitative data,~~ hence, the information complemented each other during the data analysis and explanation process.

3.2 Population and Sampling Techniques

The researcher used purposive techniques for management staff in selecting interviews focused on the employee working in the departments related to the internal control and the organization management body. This is based on the current information and experience the researcher has about the respondents' knowledge about the internal control system of SCI.

Random sampling involved to select respondents from the population listing by chance. Employees working at finance, award, operation, audit, human resource and Information Technology department had an equal chance to be selected; The main disadvantage of this method is with the bias which it could diminish the integrity of random selection but this will overcome since the population listing involved only members with relevant information. Stratified random sampling was applied in consideration of the categorization of Finance, Audit, Award, Operation, Human Resource and Information Technology department. This method involved organizing the units in the population into strata using common characteristic of activities performed.

3.3 Types of Data

Both primary and secondary data collection methods were used to collect relevant data for the study. Primary data is used to collect original thought or information which are related to this study. Questionnaires are the main primary source of data source which were administered by researcher. The advantage of ~~using questionnaires~~ using questionnaires is that it is feasible and aimed at getting respondents' feelings about internal control system. Secondary data sources were used to collect relevant data from different sources. It obtained ~~from documents~~ from documents, manuals, procedures and earlier studies on internal controls. The advantage of using secondary data is, it saves both time and money and avoids unnecessary duplication of research effort (Montjoy, Radaelli, Singh, & Pentland, 2015).

3.4 Data Collection Instrument

According to Schindler, (2011) data collection methods refer to the process of gathering data after the researcher has identified the types of information needed. The main data collection instrument for this study is ~~questionnaires, interview~~ questionnaires, interview, and document analysis.

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Questionnaires

As stated by (Vanessa E., 2016) “due to time and cost constraints of developing new questionnaires”, the researcher adapts existing questionnaires from other related study questionnaires to better fit to this study. In this study Self-administered questionnaires are used to reach a large number of potential respondents in different location.

~~Questionnaires have~~ Questionnaires have advantages that it requires less time and skills for gathering and processing (Sekaran, 2003). The respondents have no influence and have enough time to think before answer the questionnaires based on their complete knowledge, feeling, and understanding about the internal control system of SCI. Properly construct and responsibly administer questionnaires are a selective instrument to collect primary data and useful information about a given topic. Likert scale rating system is used to measure respondents’ attitudes, opinions and perceptions on internal control system of SCI. It ranges “strongly agree,” “agree,” “neutral,” “disagree,” and “strongly disagree” and numerically coded as 1 = strongly agree, 2 = agree, and so on.

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Interview

An interview schedule was conducted to collect information from managers of SCI. ~~(Satyanarayana, 1993) Conducting an interviews emphasizes that interviews help interviewers help interviewers~~ to cover all dimensions of the investigation (Satyanarayana, 1993). The researcher did 3 in-depth interviews to collect data from managers of SCI to gain a deeper understanding on the effects of internal control system in enhancing organizational activities. Interviews were hold with Senior manager of General Accounting, Senior Manager of Budget unit and Head of Financial

Reporting unit. The interview was done through telephone due to the current COVID 19 situation. Interview helps to get a chance of clarifications in case of any misunderstanding between the researcher and the respondent through probing. The interview schedule gave the respondents freedom of answering questions.

Document

The researchers collect and analyze the available documents to extract relevant data about the internal control. The analysis incorporates organizations official reports, manuals, procedures, and earlier related ~~studies~~ studies. The documents were analyzing and interpreting for their theoretical factual evidences or documents about the completeness and accuracy of the internal control system of the organization.

3.5 Data analysis

Data obtained from respondents have been summarized, edit and coded and check its completeness and consistency. The data were analyzed by using descriptive statistics with the help of Statistic Package for Social Scientists (SPSS) tool and Microsoft Excel. The descriptive statistical tools such as frequency table, mean, percentage, maximum and minimum value and standard deviation were used to discuss the results. According to ~~(Mugenda, 2003)~~ Mugenda, (2003) descriptive analysis is important for transforming raw data and interpreting that make sense logic of the data. Results of interview are categorized and summarized by qualitative data analysis method. Systematic review/analysis is used to systematically identifies, selects, evaluates, and synthesizes secondary data. This is quicker and cheaper way of data analysis because the data are already collected.

3.6 Data validity and reliability of instruments

Sekaran.(2003) described, reliability analysis is conducted to ensure that the measures of variables have internal consistency across time and across the various items that measure the same concept or variable. The reliability was ensured by testing the instruments for the reliability of values (Alpha values) as recommended by Cronbatch, (1946). Alpha

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values analysis was conducted for each variable under this study. According to (Sekaran, 2003) Alpha values for each variable under study should not be less than 0.6 for the statements in the Instruments to be deemed reliable. Consequently, all the statements under each variable were subjected to this test were above 0.782 which is greater than 0.6. Alpha coefficient higher than 0.60 indicates that the gathered data had relatively high internal consistency and could be generalized to reflect opinions of all respondents in the target population on the assessment of Internal Control Practice of Save the Children International Ethiopia Country Program.

~~The research instrument is going to test for both face and content validity. This was done by involving the subject experts and academic advisor. The participants had been brief early in advance by the researcher on the need and importance of the study and permission sought for their participation in order to have their full support. Guidance on how to answer the questionnaire were available from the researcher. This ensured high completion rate and accuracy of the information provided. The pilot study was conducted in Save the children International staffs and to see whether the intended instruments could work as planned. To check the reliability, the researcher is going to disclose the questionnaire to test and correct the questionnaire according to the feedback going to be gained from pilot study.~~

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CHAPTER FOUR

4 RESULTS AND DISCUSSIONS

Introduction

This core chapter presents results and discussions about the collected data from employees of SCI based on research objectives of the study. The first section describes the demographic characteristics of the empirical survey, in terms of level of age,

education, their work experience and their position within SCI. The second section of the chapter provides results and discussions which were based on the specific objectives of the study. For the purposes of this preliminary analysis, descriptive statistics was frequently used to describe the general characteristics of the data collection.

4.1 Demographic characteristics of Respondents

4.1.1 Response rate

A total of 70 questionnaires were dispatched to employees of Save the Children International, out of which 65 (93%) were completely filled and returned. The remaining 5 questionnaires were not collected due to refusal to give response for the questionnaires.

Table 4-1 Respond Rate

Questionnaires category	No. of questionnaires
Distributed questionnaires	70
Returned questionnaires	65
Response Rate (%)	93%

Source: questionnaire, 2020

5.1.14.1.2 Summary of Demographic characteristics

The respondents' demographic characteristics include age, level of education, Length of service and position which is essential to reliability of data collected. Their profiles are summarized and indicated below in the table.

Table 4-2: Respondents Demographic Characteristics

Item	Category	Frequency	Percentage
Age of the respondent	18-25	5	8%
	26-35	10	15.5%
	36-45	44	68%
	Over 46	6	9%
Educational background	PHD		0%
	Master's Degree	51	78.5%
	Bachelor	12	18.5%
	Diploma	2	3%

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Length of service at SCI	1-5 Years	4	10%
	5-10 Years	42	65%
	11-15 Years	11	17%
	Over 15	5	8%
Current position in SCI	Senior Management Team	2	3%
	Departmental head	3	5%
	Manager	11	17%
	Budget Holder	7	11%
	Coordinator	37	57%
	Officer	5	8%

Source questionnaire, 2020

5.1.24.1.3 Age of the respondents

Age distribution of the respondents is one of the most important characteristics in understanding their views about internal control system of organization. The respondents were asked to state their age and the results were presented in the above table 4-2 and it is clearly evident that the majority of the respondents are in the age bracket of between 36-45, followed by 26-35, over 46 and 18-25 in the orders of 68%, 15%, 9%, and 8% respectively. It indicates that the majority of respondents are in the most productive age brackets of their life and are reasonably experienced as most studies agreed.

5.1.34.1.4 Level of Education

The study sought to establish the background information of the respondents in terms of level of education and their competence that contributes for the effectiveness of internal control system. Obviously the respondents' knowledge has a great impact to understand the concept of internal control. Moreover, the effectiveness of internal control is primarily the responsibility of managements which is believed that they are well educated. According to the findings in Table 4-2, majority of the respondents was held Master degree, Bachelor degree, and Diploma 78.5%, 18.5% and 3% respectively. This indicates that majority of the respondents are academically competent and qualified for

this study and they could properly understand and respond the given questionnaires properly.

5.1.44.1.5 Work experience of the respondents

The researcher asked the respondents background information in terms of work experience in the period they had spent on their job to find out their experience about the internal control and practice of save the children international. Experience and Knowledge is one of the competences to understand internal control in a company. The findings on table 4-2 above indicated that out of the 65 respondents who answered the questionnaires, majority had spent 5-10 years on Save the Children Organization 65%,17% had spent 11-15 years, 10% from 1-5 years and the least number of respondents who had spent above 15 years on their job were only 8%.

5.1.54.1.6 Position held by the respondents

Information obtained about the position held by the respondents in the 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. From table 4-2 above, 57% are coordinators, 17% are managers, 11% are budget holders, 8% are officers, 5% are department head and the rest 3% are from senior management team of the organization. This indicated that the study captured different positions level of respondents that the majority of the information was obtained from coordinator who have a better and clear understanding of internal control system and that gave a researcher an upper hand to obtain the required relevant information for the study.

5.24.2 Results of Internal Control Practice of SCI EtCO

The effective functioning of the five components of internal control provides a reasonable assurance for the achievement of stated objectives of the organization. The specific objectives of this study were to assess the effectiveness of each components of the internal control as a foundation for evaluation of effectiveness of internal control system as a whole. Therefore, the study assesses the overall practice of control

~~environment,risk~~environment, risk assessment practice of the organization, activities of controlling system, effects of information and communication on internal control as well as monitoring and evaluation system.

5.2.14.2.1 Control Environment

Control environment indicates the general atmosphere of internal control which includes organization’s policies and practices about management’s philosophy and operating style, code of conduct and ethics, manuals and structures that enables employees to discharge ~~theirresponsibility~~their responsibility and accountability. Accordingly, the study provided related questions to assess the effectiveness of internal control environment of the organization.

Table 4-3:Employees Respond on Control Environment

	Control Environment	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	N	Mean	Std. Dev.
1	Integrity and ethical values are maintained by all staff of the organization.	1	19	5	34	6	65	3.431	1.060
2	The management of Save the Children communicate ethical behaviors throughout the organization.	2	18	7	29	9	65	3.385	1.128
3	Good control of organization leads to a well-defined chain of command where every employee is able to understand the duties assigned.	0	12	2	19	32	65	4.092	1.128
4	All employees are allowed to make decisions on their level of duty.	6	34	0	25	0	65	2.677	0.834
5	The audit department has adequate authority to discharge its responsibilities.	4	18	2	33	8	65	3.354	1.192

6	Management of SCI make modifications to the organizational structure in light of changed conditions or revised priorities.	6	28	7	22	2	65	2.754	1.717
Overall mean								3.347	1.173

Source questionnaire, 2020

In the table 4-3, the study set out to assess the functionality of the internal control systems in SCI EtCOusing control environment as one of the internal control component. The results were analyzed and drawing conclusions using score value strongly agree, agree, disagree, strongly disagree and neutral.

As indicated in Table 4-3 the highest mean 4.092 and ~~S.D.~~ S.D 1.128 implied that majority of respondents strongly agreed that a good control of organization leads to a well-defined chain of command that enable every employee understand the duties assigned. With this fact the employee can perform the task well. Respondents were assuring their agreement with the mean value of 3.431 and 1.060 that ethical values are maintained by all staff of the organization. They also agreed audit department has adequate authority to discharge its responsibilities and the management of Save the Children International communicate ethical behaviors throughout the organization.

There are two areas where the control environment of the organization is not effective. Respondents responded all employees are not allowed to make decisions on their level of duty and management of SCI don't make modifications to the organizational structure in light of changed conditions or revised priorities. These are revealed by mean value of 2.677 and 2.754 respectively.

Generally, the aggregate mean of the control environment is 3.347 and S.D of 1.173 indicate the existing of good practices of control environment in save the children International. The control environment sets the tone for the organization and influences how employees conduct their activities and carry out their controlling responsibilities.

Therefore, having effective control environment in the organization is considered as a good practice since control environment is the foundation for all other components of internal control and provides structure and discipline. The results in this section are in line with (Panny & Whittington, 2003) discussion of the control environment focused on integrity and ethical values of persons. COSO also states that “the tone at the top refers to a company’s ethical values, management’s philosophy and operating style” which are reflected in the code of conduct or code of ethics.

5.2.24.2.2 Risk Assessment

Risk assessments become an integral part of internal control system. The management is responsible to identify and evaluate potential threat, hazard, or risk factors which will have potential to harm the organization. There should be strategies of identifying and responding risks to reduce the damage. The study assesses some of basic related areas such as, the strategy used by management in risk identification process, whether the organization designed file backup procedures to safeguard from damage, safety and security procedure of the organization and the mechanisms used to identify environmental changes. The assessment result and analysis on this issue therefore, is presented as follows.

Table 4-4: Employees Respond on Risk Assessment Practice

	Risk Assessment	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	N	Mean	Std. Dev.
1	The organization senior management Team have designed an appropriate strategy to identify risks.	2	26	3	32	2	65	3.092	1.071

2	There are file backup procedure to safeguard properties of the organization against any damage (like fire, water).	1	15	0	46	3	65	3.538	0.953
3	The personnel department are aware that confidential information must be adequately secured and should not be disclosed.	1	8	1	20	35	65	4.230	1.072
4	The organization has established procedures to periodically reconcile physical assets.	0	18	3	35	9	65	3.538	1.047
5	The organization have a mechanisms to identify external changes like government regulation and economic changes that affects the organization.	7	30	8	15	5	65	2.661	1.135
Overall mean								3.412	1.174

Source questionnaire, 2020

The results of the study as reflected in table 4-4, the mean value of 4.2308 and S.D 1.0719 ascertained respondents strongly agreed that the personnel department aware that confidential information must be adequately secured. Similarly, majority of the respondents were agreed with mean 3.5385 and S.D 0.9532 there are file backup procedure to safeguard properties of the organization against any damage (like fire, water) and the organization has established procedures to periodically reconcile physical assets, (mean 3.5385 and S.D 1.047). Accordingly, the mean 2.6612 and S.D 1.1357 implying that respondents responded as to the statement regarding the organization have no mechanism to identify external changes like government regulation and economic changes that affects the organization.

The overall mean 3.412 and S.D 1.1742 for risk assessment of SCI implied most employees agreed on majority of the risk controlling assessment questions and this

indicate there are proper strategies to identify risksto safeguard properties and information of the organization from damage and unauthorized access.(Oppong, Owiredu, Abedana, & Asante, 2016)argued that, management should institute a rigorous risk management framework which would be able to detect all risk inherent in the internal control system to improve effectiveness of internal control.However, the standard deviation 0.9532 to assess the organization procedures for file backup procedure to safeguard properties of the organization against any damage suggests that respondents had a significant variation in responses. This implies they might not have clear understanding in this context.

5.2.3.4.2.3 Organizational Control

The respondents were asked to indicate the level of extent to which organizational control activities aspects that affects the effectiveness of the performance of organization. as the result indicated in the table 4-5 shows that the degree of agreement ranged from 1 to 5 by respondents in all criteria of control activities.

Table 4-5: Employees Respond on Organization Control Practice

	Organization Control	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	N	Mean	Std. Dev.
1	The organization employed authorization control system.	0	11	0	17	37	65	4.231	1.101
2	The organization has policies to documented all significant financial statement accounts and disclosures.	0	16	4	42	3	65	2.492	0.921
3	The existing of good organizational control in SCI enable the employee to understand their assigned duties and responsibilities.	2	9	2	38	14	65	3.815	1.029
4	Organizational controls enhance proper coordination among departments	0	11	1	37	16	65	3.831	1.024

Overall mean								3.592	1.209
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Source questionnaire, 2020

The study as reflected in the above table found that respondents strongly agreed with the highest mean 4.231 and S.D 1.101 the organization employed authorization control system. The majority of respondents agreed on the effective organization control that enhance proper coordination among departments (mean 3.831 and S.D 1.024) and enable the employee to understand their assigned duties and responsibilities. The mean value 2.492 assures respondents disagreed with the existing of polices that the organization have to documented all significant financial statement accounts and disclosures.

As can be seen by the overall mean 3.592 and S.D of 1.209 the respondents agreed that there was strong organizational control with strong authorization control that enhance coordination among departments. This is healthy since effective organizational control systems leads to a well-defined chain of command where every employee is able to understand the duties and responsibility assigned. This in agreement with (Ashbaugh-Skaife, Veenma, & Wangerin, 2013) who established that effective internal control enables better monitoring of managers and mitigates agency problems. Thus, one can expect managers' misuse of firm assets to be more controlled among firms with effective internal controls. In addition, he argued that the profitability of insider trading, a proxy for managerial rent extraction, is larger for firms with material weaknesses in internal control system.

5.2.44.2.4 Personnel Control

Personnel control systems constitutes with quality of the personnel which is a central pillar of any organization systems. The respondents were asked to indicate the extent to the key components of personnel control system practice and response was summarized as shown in Table 4-6.

Table 4-6: Employees Respond on Personnel Control Practice

	Personnel control	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	N	Mean	Std. Dev.
1	The organization has standards for hiring new staff.	3	36	1	21	4	65	2.8	1.135
2	The organization has procedures for promote staffs that are applicable to all functional areas.	12	39	0	14	0	65	2.246	1.000
3	Employees made decisions on their level of duty with accountability for the outcome of their decisions.	11	31	2	19	2	65	2.538	1.174
4	There is high supervision of employees to ensure work is completed on time	2	19	4	31	9	65	3.369	1.180
	Overall mean							2.738	1.192

Source questionnaire, 2020

As shown from the above table respondents disagreed on most questions on the personnel control system of their organization, SCI. The mean 2.8 with S.D 1.135 indicate that they disagreed the organization has standards for hiring new staff. Respondents also disagreed that employees made decisions on their level of duty with accountability for the outcome of their decisions. However, they agreed on the existing of high supervision of employees to ensure work is completed on time with mean 3.369 and S.D 1.180. The overall assessment of personnel control system shows mean value of 2.738 and corresponding standard deviation value of 1.192. This indicates that, organization is not applied sound personnel policy for hiring most qualified personnel with prior working experience and there is no proper procedure to select Personnel for advancement. Moreover, employees are not made decisions on their level of duty with accountability for the outcome of their decisions. This indicates that employees are being monitored according to the laid-down control procedures. This finding is in agreement with a study by (Chang, Dhaliwal, &

Zhang, 2013) supposed that as the NGO sector has expanded in terms of funding and functions, there has been a growing concern with the issues of professionalization (Organizational development and capacity building) and accountability (financial probity and transparency).

5.2.5.4.2.5 Operational Control

The respondents were asked to indicate their level of agreement with the following statements that relate to the assessment of operating control system employed by SCI.

The survey result and analysis on this issue is presented as follows:

Table 4-7: Employees Respond on Operational Control Practice

	Operational control	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	N	Mean	Std. Dev.
1	The existing of good planning system ensure the day-to-day activities are consistent with stablished plans and objectives.	0	9	2	17	37	65	4.262	1.050
2	The organizational have tools to ensure proper segregation of duties are applied.	0	13	4	38	10	65	3.692	0.967
3	Transactions are entered into a financial system once they have been authorized by the appropriate individual.	0	6	4	21	34	65	4.277	0.944
4	Unusual transactions that are recording without following the standards are reviewed by finance manager.	4	29	2	26	4	65	2.954	1.165
	Overall mean							3.796	1.162

Source questionnaire, 2020

As indicated in the table 4-7, with the highest mean 4.277 and S.D 0.944 that shows significant variation in response, the majority of the respondents strongly agree

transactions are entered into a financial system once they have been authorized by the appropriate individual. Moreover, they agreed on the existing of good planning system in the organization that ensure the day-to-day activities are in consistent with established plans and objectives. The mean 3.692 and S.D of 0.967 shows that respondents agree that the organizational have tools to ensure proper segregation of duties are applied. This is very essential for employees of the organization to perform their tasks based on written manuals and crucial for managements to enforce accountability of employee's activities. They were also highly agreed that policy and procedure that help the employee to perform their tasks in compliance with laws and regulations.

The study shows minimum mean of 2.954 with S.D 1.165 respondents are ~~disagreeing with~~ disagreeing with the statement that the finance manager reviewed unusual transactions that are recording without following the standards of the control activates. According to the findings, it is clearly evident that respondent was in agreement as to the existence of clear policies and procedures with regard to operation control within the organization as evidenced by the mean score of 3.796 and S.D 1.162.

Most of the respondents upheld good planning system ensure the day-to-day actions are in consistent with established plans and objectives score a mean of 4.262. It can be argued that these respondents had realized the value attached to good planning system and believed that SCI was on the right path in view that all records of the transactions are authorized before entered in to a system. This is in consistence with the findings from (LaFond, 2009) who found that operational control systems are designed to ensure that day-to-day actions are consistent with established plans and objectives. In addition, he specified operational control systems are derived from the requirements of the management control system. The survey result also showed that there is proper segregation of duties in the institution. This is important to prevent a fraud which is occurred by assigning two or more tasks for single employees. This implied that most respondents appreciated the importance of operational control system and there is highly application of internal controls.

5.2.64.2.6 Physical and IT Control

IT internal controls are policies that provide assurance about the technical systems operate as planned, provide reliable data, safeguard properties of the firm in comply with organizations rules and regulations. Firms with strong IT internal controls perform better than those without IT. The respondents were asked to indicate their level of agreement with the following statements that relate to the assessment of physical and IT control of SCI. The results are summarized in below table.

Table 4-8: Employees Respond on Physical and IT Control Practice

	Physical and IT Controls	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	N	Mean	Std. Dev.
1	Automated controls mechanism applied to preventive properties of the organizations.	2	12	4	37	10	65	3.631	1.054
2	Stock items of the projects are located in a good condition.	5	18	2	32	8	65	3.262	1.215
3	The organization has control procedures to ensure all users are required to have passwords.	0	2	6	18	39	65	4.446	0.791
4	Effective policies are in place to prevent the organization programs form destructive with virus.	0	6	7	40	12	65	3.892	0.812
5	Approval from the appropriate manager required to allowing an individual access to specific databases of the organization.	0	9	3	36	17	65	3.846	0.972
	Overall mean							3.815	1.049

Source questionnaire, 2020

From the information revealed by table 4-8, respondents were strongly believed that the organization has control procedures to ensure all users are required to have passwords

that evidenced by a mean value of 4.446 and S.D of 0.791. They also agreed that approval is required from the appropriate manager to access a specific databases of the organization. The mean result 3.892 and S.D 0.812 indicate that employees of the SCI agreed there is effective policies to prevent the organization programs form destroyed with virus. In addition, the result of the survey shows most of the respondents believed that the organization applied automated controls mechanism to prevent and preserve properties of the organizations.

According to the information collected from respondents and mean value of 4.446 and S.D of 0.791, it's clear that SCI applied effective IT polices that includes strong access control. This protect the organization's programs being destruction with different reasons. As agreed with (Lim & Boritz, 2008) unauthorized access to financial systems creates the risk that financial accounts may be altered, create opportunity for Hacker, exposed for virus, exposed for fraud and indicate poorer firm performance. The findings from the respondents assure appropriate approval required to access a specific databases of the organization. This indicates SCI establish user accounts for every employee based on their job description and responsibilities that enable them to access to specific network systems and resources.

The Overall mean value of 3.815 and S.D of 1.049 implied the organization physical and IT control activities in listed area are effective. IT-related internal controls serve important and inescapable functions in organizations. As verified by (Carter, Millington, & Phillips, 2012) IT control weaknesses are associated with lower financial performance and have a more pervasive negative impact on the reliability of internal controls over safeguarding properties of the organization and financial (Lu, Richardson, & Salterio, 2011).

5.2.7.4.2.7 Information and Communication Control

Information and communication is an essential control activity to achieve organizational objectives. It may take in the form like policies, manuals, memos, letters, and oral

communications to provide useful information about ~~organization's objectives~~ organization's objectives and code of conduct. Based on frameworks of an effective information and communication in internal control system, the survey result and interpretation as presented below.

Table 4-9: Employees Respond on Information and Communication Control Practice

	<i>Information & Communication</i>	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	N	Mean	Std. Dev.
1	The organization circulate written policy guidance about the fund received to concerned parties.	2	19	7	29	8	65	3.400	1.101
2	Relevant information is provided to the right person in sufficient detail timely.	8	17	6	28	6	65	3.108	1.252
3	The organization use both internal and external sources of data by identifying its relevance to the operation of internal control.	2	17	9	33	4	65	3.308	1.030
4	There is orientation for new employees about their assigned duties and responsibilities.	9	24	6	22	4	65	2.785	1.205
5	Transactions are recorded timely to provide reliable information for decisions.	2	14	4	37	8	65	3.538	1.062
6	Financial reports communicate to users to understand their role in the organization.	6	30	6	20	3	65	2.754	1.132
7	The rules and regulations of the organization are accessible for all parties.	1	15	5	35	9	65	3.508	1.077
	Overall mean							3.796	1.162

Source questionnaire, 2020

According to table 4-9 the highest mean value 3.538 and S.D 1.062 implied the respondents' agreement on SCI record transactions timely to provide reliable information for decisions and the mean value of 3.538 and S.D 1.062 also implied the rules and regulations of the organization are accessible for all parties. The means 3.400 and 3.308, which are slightly different from 3 scale point indicate numbers of respondents believe that the organization circulate written policy guidance about the fund received to concerned parties and the organization use both internal and external sources of data by identifying its relevance to the operation of internal control. ~~In addition~~ In addition, the mean value 3.108 show that on average, respondents believed relevant information is provided to the right person in sufficient detail and at the right time to enable them to carry out their responsibilities efficiently and effectively.

However, the lowest mean values 2.754 and 2.785 implied the organization has some gaps in providing effective information and communication regarding internal control system. These are assured by respondents' disagreement for both statements that the organization ~~gives orientation~~ gives orientation for new employees about their assigned duties and responsibilities, and for financial reports are communicate to users to understand their role in the organization.

The overall mean and S.D for assessment of information and communication control practice in the SCI is 3.796 and 1.162 respectively. This implies that the organization has effective communication system to achieve its objectives and for efficiently uses the available resources. Having relevant and accurate information timely has a significant role to manage and control an organization effectively. This is in argued with past studies by (Theofanis K., G., & Giovanis, 2011) explained information and communication is one of the most influenced components of internal control because of its importance and to reinforce good working relationships at all levels in the organization.

5.2.84.2.8 Monitoring and Evaluation Activities

Internal control should be designed to assure that ongoing monitoring occurs in the course of normal operation. Monitoring entails the activities and procedures designed to assess the effectiveness of the internal control system to achieve organization objectives. The result of the survey is presented in below table.

Table 4-10: Employees Respond on Monitoring and Evaluation Activities

	Monitoring and Evaluation Activities	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	N	Mean	Std. Dev.
1	Monitoring activates of the organization functioning as planned.	4	18	4	34	5	65	3.323	1.187
2	Monitoring activities of the management includes observations.	7	26	4	22	6	65	2.908	1.247
3	There is a process in place to evaluate problems identified in the process of monitoring activities.	3	22	5	28	7	65	3.215	1.166
4	Management uses performance indicators like budget verses actual reports when monitoring financial activities.	0	10	5	35	15	65	3.846	0.956
5	The management uses the internal audit functions as one part of monitoring program.	1	13	9	36	6	65	3.508	0.970
6	Management of the organization respond appropriately to findings of the independent auditors regarding internal control practices.	4	26	5	21	9	65	3.077	1.241
	Overall mean							3.312	1.167

Source questionnaire, 2020

The mean result 3.846 and S.D 0.956 in Table 4-10 shows that majority of respondents believed management of SCI uses budget verses actual reports as performance indicator when monitoring and evaluating financial activities. Moreover, they agreed the management uses the internal audit functions as one part of monitoring program.

The findings show most of the respondents were in agreement with the fact monitoring activates of the organization functioning as planned and there is a process in place to evaluate problems identified in the process of monitoring activities which revealed by a mean value of 4.5. In addition, the mean 3.077 shows respondents are in doubt about the managements' respond on the findings of the independent auditors properly. The lowest mean values and standard deviation (2.908 and 1.247) indicate the majority of the respondents are disagreed about the existing of observation in the process of monitoring activities. The lack of supervision by management is an indication of weakness in monitoring as supported for by (Hitt, Hoskisson, Johnson, & Moesel, 1996)

The overall mean and standard deviation of monitoring and evaluation activities of SCI is 3.312 and 1.167 respectively which specify there is an average practice of monitoring indicate that there are areas that requires improvements in monitoring and evaluation activities of SCI. 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.

Interview Results

The interview was made with the management of SCI EtCO on the effectiveness of internal control system to identify the areas of deficiencies. The major areas of question were: internal control practice of the organization, the responsibility to design and implement the internal control system, types of internal control system implemented in the organization, control procedure for authorization and segregation of duties, areas of internal control that needs improvement.

All interviewee agreed that the organization has an internal control system which is implemented based policy and procedure set by the organization to achieve its objectives. The responsibility of establishing and implementing the system has been given to senior managements of the organization. The interviewee also agreed they always try to implement preventive type of internal control in order to discourage errors or irregularities of policies and procedures from occurring. But, if it is occurred they try to detect what has happened and take corrective action ~~promptly.Thepromptly.~~ The interviewee strongly believed that the organization implemented authorization control procedures. All interviewee believed the organization maintained control activities for segregation of employee duties to minimize incompatible functions. The interviewee indicated that there are areas that needs improvements, like communication of the organization's policy and procedures to all parties, especially for employees to understand and discharge their duties and responsibilities as required.

Results of the document analysis

After analyzing SCI manuals and procedures of the organization the following internal control activities has observed

- Duties are divided among different employees to reduce the risk of error or inappropriate actions. For example, the finance manual clearly shows that responsibilities for receiving cash or checks, preparing the deposit, and reconciling the deposit are separated.

- The procurement policy of the organization shows that all purchase requisitions and invoice vouchers must be approved by the director. It is important that the person who approves transactions have the authority to do so and the necessary knowledge to make informed decisions
- Reconciliation and reviews are made to ensure that the information reported is accurate

CHAPTER FIVE

6.5 CONCLUSION AND RECOMMENDATION

Introduction

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 of Save the Children International, SCI EtCO. Some useful recommendations for Senior Management Team (SMT) of SCI and stakeholders are suggested by this study at the end of the chapter to fill knowledge gap and give solutions with regard to the problem statement based on the research findings. The overall objective of this study was to assess internal controls practice of SCIEtCO. The specific objectives of the study were to assess the organization's practice of environmental control, risk Assessment applied, Organization Control activities, communication system, and to examine the implementation of monitoring and evaluation system in SCI.

6.45.1 Summary of findings

The summary of the findings is based on the specific objectives of the study. The descriptive statistics indicated the grand mean value of almost all components of internal control greater than 3. These indicate internal control practiced effectively throughout the organization. However, the degree of influence of elements on internal control were varied.

6.145.1.1 Control Environment

The study revealed that organizational controls are in place within SCI EtCO. The organization communicate ethical values to all staffs, and these allows them to understand organizational behaviors to discharge their responsibilities accordingly. However, there are some areas that organizational controls were not fully practiced, for example the organization does not allowed employees to make decisions on their level of duty.

6.1.25.1.2 Risk Assessment

The overall mean value of risk controlling practice of SCI EtCO implied the organization practice effective risk controlling system. The study implied that most employees revealed their agreement on majority of the risk controlling assessment questions and that implied there is appropriate strategies exists to identifying risks. Moreover, there are effective polices to detect and prevent properties of the organization form lost, damage and misuses.

6.1.35.1.3 Organizational Control

Findings revealed that organizational controls are in place in SCI EtCO. The results prove that there is strong authorization control that enhance internal control of the organization. All employees were understanding the concept and importance of internal controls that enable them to understand their assigned duties and responsibilities. In addition, it is clearly shown that the organization control system creates and enhance proper coordination among departments. However, the study also found out that there are challenges in the implementation of organizational controls particularly in documentation policies to accounts and disclosures significant financial statement.

6.1.45.1.4 Personnel Control

The study revealed that there are indicators that the SCI EtCO personnel control systems are not placed and practicing as put down policies to achieve organizational objectives. The findings clearly indicate that this area had a number of problems which have impact on the performance of the organization. Majority of the respondents were not believed on the existing of clear policies for hiring and promoting staffs. Moreover, employees have not given a chance for decisions on their level of duty.

6.1.55.1.5 Operational Control

The overall mean for operational control indicates there are effective planning system ensures that day-today actions are in consistent with established plans and objectives. Summary review indicates that the majority of the respondents have given a high

response with highest mean. This shows they have a positive view about the existing of good planning system that ensure the day-to-day actions are in consistent with stablished plans and objectives. The result also showed that there is proper segregation of duties in the institution. This is important to prevent a fraud which is occurred by assigning two or more tasks for single employees.

6.1.65.1.6 Physical and IT Control

The study indicated that SCI EtCO has effective IT internal control. A summary review indicates that the organization use automated control mechanism to protect its programs, information and properties from damage and destructive. Some of the mechanism used are password control, access control and appropriate approval procedures which required to access a specific data bases of the organization. These strong control systems protect the organization form hacker, virus and fraud.

6.1.75.1.7 Information and Communication Control

The grand mean value 3.796 implied the respondents' agreement on several expected questions on information and communication control that implies there are effective practice in SCI EtCO. From the results it is revealed that rules and regulation of the organization are circulated and are accessible to all staffs. However, there are some areas that needs improvement, like timely communicate financial reports, and orientation should be given for new staffs about their duties and responsibilities.

6.1.85.1.8 Monitoring and Evaluation Activities

The findings indicate that monitoring and evaluation activities are in place. As the results of the majority respondents SCI have a good practice in evaluating and monitoring financial performance, and using the internal audit department as one program of monitoring activities. The study also reveals that even though, the monitoring activities of the organization are initiated by the top level management, there are lack of management oversight to monitor through observation which compromises controls and exposes the organization to risk of increased errors/ loss of funds.

6.25.2 Conclusion of the Study

The purpose of the study was to assess Internal Control Practice of Save the Children International, EtCO. The study focused on the main elements or areas of internal control system. The results of the study were rated on a Likert scale of 1-5 with 5 being the highest score and the mean was used to measure central tendency. The findings of the study concluded as follows.

- ❖ Based on the study findings, it is concluded that the organization is effective in maintaining and circulating ethical value which leads to a well-defined chain of command where every employee is able to understand the duties and responsibility assigned to employees. However, the organization need some improvements in some activities of control environment particularly on the procedure to permit staffs to make decisions on their level of duty.
- ❖ The managements of SCI have risk assessment strategy and policy to identify and control risks as expected. The grand mean value of risk controlling practice of the organization implied the organization highly demanding effective risk controlling practice.
- ❖ Based on the study findings, it is concluded that the organization has strong organizational control with strong authorization control and all employees were understanding the concept and importance of internal controls that enable them to understand their assigned duties that enhance internal control of the organization.
- ❖ According to the study, the personnel control policy and procedure established for hiring and promoting was not exercised and effective as expected. There is weakness in monitoring employees according to the laid-down control and lack of procedures to delegate responsibilities for staffs.
- ❖ Operational control system in SCI has strong planning system that ensures the day-to-day actions are in consistent with established plans and objectives. It is also noted that the organization uses good authorization controlling system for

transactions that are entered into a financial system which enhancing the operation of organization.

- ❖ The findings of this study revealed that SCI has effective It control system that uses automated control mechanism to protect programs, information and properties from damage and destructive. These enhance the organization internal control system and has a great role to achieve its objectives.
- ❖ In regard to information and communication control practice of SCI the organization is strong in circulating the polices, regulations and relevant information for users timely.
- ❖ According to the results of the study SCI is strong in monitoring and evaluation control system. However, improvement is needed by management to address properly findings of independent auditors in the process of evaluation.

Generally based on the findings of the study, it is concluded that the organization has a comprehensive internal control policy, procedure and system. However, there are challenges in the implementation of controls especially in allowing employees in decision making at their level, risk mechanism for changes, having qualified personnel and supervision activities which has effects on the internal control system of the organization.

6.35.3 Recommendation

- It is recommended that Senior Manager Team(SMT) should review SCI's policies, regulation and procedure regularly to ensure it is accessible and functioning as designed by every members of the organizations. Because control environment requires strong commitment of managements from design of internal control to its monitoring should be strong enough to keep the other components of internal control in line. Moreover, the management of SCI should harmonize its policy and procedure with CSA/Charity and Society Agency rules and regulation to come up with optimal solution and to create good business relationship.

- The organization needs to strengthen the internal control system by giving orientation for new employees on the policy and procedure of the organization. The policy and procedure to promote staffs should be understandable and it should be transparent to all staffs.
- The managements of the SCI should revise the segregation of duties periodically and give opportunities for decision and responsibilities at their level.
- It is recommended that finance reports and other relevant information should be submitted to manager of SCI timely for decision making.
- The researcher recommended that refresher training/orientation provide to employees of SCI on polices and procedure to strengthen the internal control system of the organization.

6.45.4 Suggestions for further research

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

- The influence of ICT on the internal control system of international NGOs.
- The effect of donor requirements on financial accountability in NGOs.

76 References

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APPENDEX I
St. MARRY UNIVERSTY
SCHOOL OF GRADATE STUDY
QUESTIONNAIRE ON ASSESMENT OF INTERNAL CONTROL
PRACTICS

Dear respondents,

I'm a postgraduate student at St. Merry University. Currently, I am conducting a research entitled 'Assessment of Internal Control Practice: In Case of Save the Children International EtCO-as ~~apartiala~~ partial fulfillment of the requirements for the award ~~of Masters~~ of Masters of Business Administration in Accounting and Finance.

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

Sincerely yours,

Please Note: 1. No need of writing your name.

2. Indicate your answer by circle on the appropriate block/cell for all questions.

Section A

RESPONDENT'S BACKGROUND

1. Age of the respondent (Year) ←
 - A) 18 – 25 years old
 - B) 26 – 35 years old
 - C) 36 – 45 years old
 - D) Over 46 years old
2. What is your highest level of education?
 - A) Certificate/Diploma
 - B) Bachelor
 - C) Masters
 - D) PhD
 - E) Other (Specify).....
3. Length of service at Save the Children International?
 - A) 1 – 5 years
 - B) 5 - 10 Years
 - C) 11-15 Years
 - D) Above 15 year
4. What position do you currently hold in the Organization that you work for?
 - A) Senior Management Team
 - B) Departmental head

- C) Manager
- D) Budget Holder(BH)
- D) Coordinator
- E) Officer

Section B:

To examine the functionality of Internal Control systems of Save the Children Ethiopia Country Office Please, tick in the appropriate box against the statements as defined below; **1 = strongly Disagree, 2 = Disagree, 3 = Undecided, 4 = Agree and 5 = Strongly Agree.**

	<i>Control Environment</i>	Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly agree (5)
1	Integrity and ethical values are maintained by all staff of the organization.					
2	The management of Save the Children communicate ethical behaviors throughout the organization.					
3	Good control of organization leads to a well-defined chain of command where every employee is able to understand the duties assigned.					
4	All employees are allowed to make decisions on their level of duty					
5	The audit department has adequate authority to discharge its responsibilities.					
6	Management of SCI make modifications to the organizational structure in light of changed conditions or revised priorities.					

	Risk Assessment					
1	The organization senior management Team has designed an appropriate strategy to identify risks.					
2	There are file backup procedure to safeguard properties of the organization against any damage (like fire, water).					
3	The personnel department are aware that confidential information must be adequately secured and should not be disclosed.					
4	The organization has established procedures to periodically reconcile physical assets.					
5	The organization have a mechanisms to identify external changes like government regulation and economic changes that affects the organization.					
	Organization Control					
1	The organization employed authorization control system.					
2	The organization have policies to documented all significant financial statement accounts and disclosures.					
3	The existing of good organizational control in SCI enable the employee to understand their assigned duties and responsibilities.					
4	Organizational controls enhance proper coordination among departments					
	Personnel control					
1	The organization has standards for hiring new staff.					

2	The organization has procedures for promote staffs that are applicable to all functional areas.					
3	Employees made decisions on their level of duty with accountability for the outcome of their decisions.					
4	There is high supervision of employees to ensure work is completed on time					
	Operational control					
1	The existing of good planning system ensure the day-to-day activities are consistent with stablished plans and objectives.					
2	The organizational have tools to ensure proper segregation of duties are applied.					
3	Transactions are entered into a financial system once they have been authorized by the appropriate individual.					
4	Unusual transactions that are recording without following the standards are reviewed by finance manager.					
	Physical and IT Controls					
1	Automated controls mechanism applied to preventive properties of the organizations.					
2	Stock items of the projects are located in a good condition.					
3	The organization has control procedures to ensure all users are required to have passwords.					
4	Effective policies are in place to prevent the organization programs form destructive with virus.					

5	Approval from the appropriate manager required to allowing an individual access to specific databases of the organization.					
	Information & Communication					
1	The organization circulate written policy guidance about the fund received to concerned parties.					
2	Relevant information is provided to the right person in sufficient detail timely.					
3	The organization use both internal and external sources of data by identifying its relevance to the operation of internal control.					
4	There is orientation for new employees about their assigned duties and responsibilities.					
5	Transactions are recorded timely to provide reliable information for decisions.					
6	Financial reports communicate to users to understand their role in the organization.					
7	The rules and regulations of the organization are accessible for all parties.					
	Monitoring and Evaluation Activities					
1	Monitoring activates of the organization functioning as planned.					
2	Monitoring activities of the management includes observations.					
3	There is a process in place to evaluate problems identified in the process of monitoring activities.					
4	Management uses performance indicators like budget verses actual reports when monitoring financial activities.					

5	The management uses the internal audit functions as one part of monitoring program.					
6	Management of the organization respond appropriately to findings of the independent auditors regarding internal control practices.					

- If you have additional comment or suggestion regarding internal control system and practice of Save the Children International, please specify

_____ -
 _____ -

THANK YOU FOR TAKING TIME TO PARTICIPATE IN THIS SURVEY.

Confidentiality: - the views expressed in the completed questionnaires will be treated confidentially. Any information identifying the respondents will not be disclosed.

APPENDIXII

Interview Question

1. Do you think your organization has adequate internal control system and practices to meet its obligations?

2. who has responsibility to establish and implement the internal control system?

3. what types of control activities used in your institution?

4. do you believe your organization has control procedures for authorization and segregation of duties? (explain)

5. What is your idea about the effectiveness of the internal control and where is/are areas of the control you suggest an improvement?

