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Assessment of Internal Control System in
NGOS: a case study of Future Hopes Integrated
Development Organization (FHIDO)

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Addis Ababa, Ethiopia

St. Mary's University College

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Assessment of Internal Control System in NGOS: a case study of Future Hopes Integrated Development Organization (FHIDO)

**A Thesis submitted to the school of Graduate Studies of St, Mary's University to undertake
a Research in Partial Fulfillment of the Requirements for the Award of the Degree of MBA
Accounting and Finance**

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DECLARATION

I Netsanet Negash hereby declare that this is my original work and has never been presented by any academic award in any university. However, works by other authors which served as sources of information, have been acknowledged by references to the authors thereafter.

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Approval

This is to certify that this Research Report entitled Assessment of Internal Control System on NGO a case study of Future Hopes Integrated Development Organization (FHIDO) has been written under my supervision and is here by approved for submission for a Master of degree (MBA in Accounting and finance) of St. Mary University.

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LIST OF ACRONYMS

ICS: Internal Control Systems

NGO: Non-Governmental Organization

NPO: Non-Profit Organization

HIV/AIDS: Human Immunity Virus/Acquired Immunity Deficiency Syndrome

COSO: Committee of Sponsoring Organizations

FHIDO: Future Hopes Integrated Development Organization

CCF: Christian Children Fund

HRM: HUMAN Resource Management

CSA: Charities and Societies Agencies

ECD: Early Childhood Development

GAAP: General Acceptable Accounting Principle

ABSTRACT

This paper sought to assess the functionality of internal control system of Non-Government Organizations (NGOs) a case study of FHIDO. The main objective of the study is to assess the internal control system of local NGOs in Ethiopia by taking FHIDO as a case.

The researcher used descriptive quantitative design. A simple random sampling technique was used. A case study of 54 employees was the total population then 35 respondents are selected based on the activity near to internal control. Questionnaires were distributed to the respondents out of these 32 returned. The main instrument for collecting primary data was self-administered questionnaire and interview that was subjected to expert evaluation for content validity, while secondary data was collected by reviewing files, documents, published books, articles, journals and organization manuals. Data was analyzed using frequency table, Microsoft excel and word.

The findings of the study were that FHIDO has a strong internal control system overall in terms of the Effective payment, Financial recording and control, Budgetary control and personnel control. FHIDO was operating under well constituted qualified and experienced management. The study recommends keeping the system strong.

CHAPTER ONE

INTRODUCTION

1. 1. Back ground of the study

Like all other organization, internal controls are the area of an integral part of any Non-Governmental organization's rules, regulations, policies, and procedures.

Internal control therefore refer to the whole system of controls established by the management to carry out their tasks in an orderly manner, ensuring adherence to organizations policies, safeguard its assets and secures as far as possible the accuracy and reliability of its records(Gupta, 1989).

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

Petrovitset. al. (2009)establishing internal control systems in organizations is critical to ensure the reliability of accounting records, because internal control systems can constraint management or staff's reported and possible random errors. This ensures the authenticity of the content of financial reporting to provide reasonable assurance to stakeholders and it becomes another important system arrangement to ensure reliable financial reporting. However, due to the inherent limitations of internal controls and pressure, opportunity and excuses by management, the credibility of controls, self-assessment report of internal management systems discouraging is still not high enough within organizations. The purpose of the controls was later expanded to include the concept of getting things done or achieving goals.

Internal control principles suggest that an internal control system is the primary accountability and governance tool an organization (Non-Governmental Organization) can establish and use to provide accountability to its stakeholders and safeguard its assets.

Effective internal control over financial reporting is intended to provide reasonable assurance about the reliability of a company's financial statements and the process of preparation of those statements.

According to Fess Warren in his accounting principles 16th edition control environment is the foundation for all other components of internal control, providing both discipline and structure to the organization. **Ethical business practices, management philosophy and a sense of business integrity** all play key part in the control environment component. Control activities are the policies and procedures that assist in ensuring that management directives are successfully implemented. They provide the means to address the various risks that may hinder the achievement of the organization's objectives.

The study will focus on major areas of control (Budget, Financial and Expenditure controls, operating controls, personnel and procurement controls).

1.2. Back ground of the organization

Future Hopes Integrated Development Organization (FHIDO) formerly known as Christian Children Fund CCF and Arada Child and Charitable Society is an indigenous, non-governmental, non-profit, secular, legally registered Ethiopian resident charity working to building self-reliant and self-sufficient generation in Ethiopia through comprehensive and sustainable development approach. Its vision is to see the wellbeing of deprived, excluded and vulnerable children and youths in its operational areas and ensured the sustainable resilience to take part in the social, economic and political activities of their communities. Since 1986 to 2010 FHIDO has been known as area coordination office of the then Christian Children Fund CCF. After September 2010 FHIDO reregistered as Ethiopian resident charity and operating in ten districts of Arada sub-city and two districts of Burayu town in four core programmatic areas namely, Early Childhood Development (ECD), Basic Education, Youth Development and YekokebBerhan HVC project.

Vision:Aspire to see responsible, self-reliant and empowered citizen in Ethiopia.

Mission:Future Hopes Integrated Development Organization creates an environment of hope and respect for needy children of all culture and beliefs in which they have opportunities to

achieve their full potential and provides practical tools for positive change to children, families and communities.

1.3. Statement of the Problem

When we refer to internal control system, we talk of a system which will enable an organization achieve its objectives, we talk of a system which is very important to the existence of an organization, we talk of a system which will prevent the perpetration of acts that can act as a block in the wheel to the success of an organization. This system is an all round system, that is to say, it encompasses both financial and non-financial control in realizing the goals and objectives of running the organization in an orderly manner, safeguarding the assets of the organization and also ensuring the accuracy and reliability of the organization's records.

We might not really understand the impact of internal control system on an organization's performance until probably, we run an organization invalid of internal control system. Having not internal control system in an organization is detrimental to the continual growth and survival of that organization. Without internal control system in an organization result in improper keeping of records which could lead to the late preparation of accounts, preparation of books of accounts, misappropriation of funds which are meant to be used for planning, decision making etc. illegal transactions being transacted, misuse of fixed assets etc. improper keeping of records can also lead to inability to ascertain the organization's actual assets; goods in stock, which could breed stealing. Lack of proper record keeping, controlling of proceedings or actions in an organization could lead to cover errors and fraud that might happen to bring down an organization which will then bring the organization to an end.

FHIDO has been in existence for over 28 years to serve multiple stakeholders, which are beneficiaries of its operation. The objective and impact of NGOs (Not for profit) like FHIDO is often misunderstood. To dependably measure and balance organizational activities, resource utilization, internal control systems play essential role. Not profit organization, like FHIDO serves multiple stakeholders which are beneficiaries or recipients of its operation and donors and regulatory bodies. To comply and satisfy all these parties, effective internal control systems play significant role. However, internal control systems have stronger tie with the strategic objective that organizations target to achieve and perform priority they give in all their ventures. So that

main reason that drives this study is to see how objectives priority given by the case NGO matches with the internal control system implemented by the management.

According to audit report (2014), it is discovered and give opinion on the internal control system of the organization that some purchase were made without the competition of vendors or the collection of Performa invoices. This was one of the methods under internal control system which the organization can gain price, quality and delivery time advantage.

Other internal control gap reported was about the organization's fixed asset which were not registered and tagged. It was also the other physical inventory control method which can safeguard the organization fixed asset and used as the cross reference and checked with the annual physical count.

With these gaps therefore, the researcher seeks to assess the internal control system at FHIDO and analyzing the existing internal control system of the organization then find out its strength and weakness, and will draw conclusions and recommendations for the organization future improvement.

1.4. Objective of the Study

1.4.1 General objective

The main objective of the study was to assess the internal control system of local NGOs in Ethiopia by taking FHIDO as a case.

1.4.2. Specific objectives

Internal controls in an organization are normally introduced to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of the effectiveness and efficiency of operations and compliance with applicable laws and regulations. These will in due course translate into improved organizational functionality. The researcher will focus in particular on the following specific objectives:-

To examine the practice of effective payments to different department of FHIDO

To assess financial recording and audit practice of FHIDO

To assess the budgetary and expenditure control of FHIDO

To examine Procurement Policies and personal control of FHIDO

To assess compliance issues to the regulatory body (CSA) rules and regulations

1.5. Significance of the study

The study will be of large importance in the assessment of the effectiveness of the internal control function in the operation of FHIDO. The findings and recommendations of the study will help as an input for reinforcing its internal control system to achievement of the entity's objectives.

The finding will help the researcher understanding why organizations perform the way they do, despite internal control put in place.

The research will be valuable reference material for students, organizations and other interested persons who may want to undertake similar study.

The finding will help the policy makers in decision making and enable them put in place policies guiding running of NGO's in the country.

The recommendation and the suggested possible solutions for the identified gaps can be used as an input for capacity building activities by donors and other concerned body. Finally, it will enable to appreciate the effectiveness of internal control on the organization.

1.6. Research Question

The assessment attempts to address the following questions on internal control system practices in FHIDO.

- How has FHIDO ensured effective payment to different departments within the organization?
- How has FHIDO ensured financial records are subject to internal audit?
- How has FHIDO ensured that budgetary control on the expenditure of all departments has been exercised?
- How has FHIDO ensured the effective procurement policies and personnel control practice?
- Does FHIDO comply with regulatory body (CSA) rules and regulations?

1.7 Scope of study

The focus of study was to assess internal controls on Non-governmental organization a case study of FHIDO. The study specifically focuses only on the specific objectives.

1.8 Limitation of the study

The limitations that have been encountered in this assessment were the following: Most of the respondents were too busy with their daily schedule to spare time for the questionnaire. In such circumstances the researcher gives ample time to those respondents to fill the questioners at their own time. This was made possible by serving them the questionnaires in time. Despite this limitation sufficient and reliable data was collected to render the study meaningful in order to arrive at a useful conclusion

1.9 Definitions of Key terms

Non-Governmental organizations (NGO):Freeman (1998) conceptualizes an organization that is not part of the government and it not funded by the state. NGO's are therefore typically independent of government. The term is generally restricted to social, Cultural, legal and environmental advocacy groups having goals that are primary non-commercial or not for profit. NGOs are formal (professionalized) independent societal organizations whose primary aim is to promote common goals at the national or the international level. (Martens, 2002)

Commercial or Business organizations: An organization having goals that re primary for generating profit.

Internal Control: is a set of procedures that a business owner or corporate leader implements to prevent operating losses originating from fraud, theft, error and technological breakdowns. An adequate control defines specific steps to perform tasks, report operating issues and make decisions

Performance: is a measure of the results achieved. Performance efficiency is the ration between effort expended and results actually achieved. The difference between current performance and the theoretical performance limit is the performance improvement zone. Performance assumes an actor of some kind but the actor could be an individual person or a group of people acting in concert.

Performance measurement: is the process whereby an organization establishes the parameters within which programs, reaching the desired results. This process of measuring performance often requires the use of statistical evidence to determine progress toward specific defined organizational objectives.

Efficiency: refers to a functioning or prospering of a company at a given time in a given period basing on the desired goals and objectives of a company

1.10 Organization of the paper

Chapter one includes background of the study, background of the organization, the problem statement, objectives of the research ,the significant of the study, research question, and scope of the study , the limitation of the study and definition of key terms and organization of the paper. Chapter two presents definitions of terms and synthesizes existing literature. Chapter three consist of the research design, population under study, sampling techniques, sources of data, research instruments and method of data analysis. Chapter four focuses on data presentation and data analysis. Chapter five is the summary of findings, conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter the literature review which includes the theoretical review and review of related Literature; internal controls system, internal control objective, types of internal controls, The goals of an effective system of internal control, The control environment, internal control evaluation, effective payment, budgetary control, financial control, personnel control, Procurement Policies and procedures and Requirements for Charities and Societies Agency in Ethiopia.

2.2. Theoretical Review

There are many theories that support the current study however, the current study adopted Kate Lark (1999) Theory of Internal control, that stated that internal control is “a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.” The central theme of this theory is that internal control is a process designed and implemented within organizations to mitigate risks and achieve objectives.

Internal control is a crucial aspect of an organization’s governance system and ability to manage risk, and is fundamental to supporting the achievement of an organization’s objectives and creating, enhancing, and protecting stakeholder value (Swanson, Hunson, and Ross 1998). High-profile organizational failures typically lead to the imposition of additional rules and requirements, as well as to subsequent time-consuming and costly compliance efforts. However, this obscures the fact that the right kind of internal controls, enabling an organization to capitalize on opportunities while offsetting the threats can actually save time and money, and promote the creation and preservation of value. Effective internal control also creates a competitive advantage, as an organization with effective controls can take on additional risk (IFAC, 2011)

However, building a strong system of internal control involves having adequate and effectively operated mix of preventive, detective and corrective control measures. Preventive controls which include: separation of duties, proper authorization, adequate documentation, and physical control over assets are controls designed to deter unintended events (e.g. errors, omissions, irregularities, fraud, ineffective business decision making and noncompliance with laws and regulations) from occurring. Detective controls such as obtaining pre-approval on actions or transactions before they can be processed, use of document control numbers to make sure all transactions are accounted for, matching and comparing documents from different sources to ensure integrity among others help to identify or discover undesirable events that have already occurred (that is, that were not adequately prevented) while corrective controls are measures implemented to address gaps or lapses that resulted in occurrence of unintended events. Although all these types of controls are important, preventive controls are the most effective form of control.

Finally, Kate Lark's theory came to suggest some of the internal controls measures that should be implemented by the organization i.e. documented policies and procedures, adequate segregation of duties and responsibilities, a culture of high ethics and integrity, adequate documentation of transactions and records, proper authorization of transactions and activities, physical and logical controls over records and assets and adequate supervisory checks (Baik, 2013)

The theory was significant to the study in several ways that is, it is the NGO's mandate role to incorporate internal control measures in order to have a great operational efficiency in their day to day operation for effective governance and administration of operations and services. This was endorsing the mandate and the operational efficiency of such organizations that was have them gain reputation as a result. However, some NGO's especially local NGO's are still behindhand to participate in good internal control measures and as a result has impacted negatively to their operations leading to the failure of some NGO's in the country. Others have ineffectively failed to complete their mandate and objectives while others have lost a lot of money as a result of poor internal control measures (Mary and Kate 2002). Therefore the theory is quite relevant as the study seek to assess how NGO's employ internal control measures to enhance their operational efficiency.

2.3 Review of Related Literature

2.3.1 Internal control system: ICS is one of the most impactful aspects for the achievement of the organizational objectives. Management literature is packed full of reasons why internal control is crucial to any business success. Without it, there is little chance of achieving organizations objective. The term internal control encompasses all the methods, procedures and arrangements adopted within an organization to ensure as far as possible the safeguarding of assets, the completeness, accuracy and reliability of the accounting records and promotion of operational efficiency and adherence to management policies (Okai, 1996).

Under the Committee of Sponsoring Organizations of the Treadway Commission (**COSO**)
Definition of internal control: It is a means by which an organization's resources are directed, monitored, and measured.

Besides, Alan G. Hevesi (2005) also defined internal control as the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives and mission.

According to A. H. Millichamp (2002), Internal Control System is defined as the whole system of controls, financial and otherwise, established by the management in order to carry on the business of safeguard the assets and secure as far as possible the completeness and accuracy of the records. He further analyzed the redefinition as follows;

- 1. The whole system:** internal control can be seen as a whole or single system. The whole is more than the sum of parts.
- 2. Financial and otherwise:** the distinction is not important. Perhaps the financial would include the use of control accounts and otherwise may include physical access restrictions to computer terminals.
- 3. Established by Management:** internal controls are established by management, either through consultant (external) or internal through internal audit.

4. Ensure Adherence to Management Policies: management has express policies such as budget and the adherence of budget can be achieved through the procedures such as variance analysis.

5.Safeguard Assets: allowing assets to be stolen or broken is unacceptable and procedures are always put in place to safeguard assets.

6. Secure completeness: to check that transactions are duly recorded, checking that all goods leaving the factory must have a delivery not attached to it

All the above definitions of internal control systems have identified the main objectives of internal controls to be the assurance that organizational resources will be put to economic, efficient and effective use in order to achieve the objectives for which the organization was set up. Internal control objectives are desired or conditions for a specific event cycle which, if achieved, minimize the potential that waste, loss, unauthorized use or misappropriation will occur. They are conditions which we want the system of internal control to satisfy.

Different writers have come with different types of internal control systems. Milichamp (2002) puts the types of internal controls as; Safeguarding assets, Separation of duties, supervision, Verification, Approval and authorization, Documentation, and Reporting.

(Harrison and Horngren) state that internal control is the organizational plan and integrated framework that managers use to keep the entity under control. It is the plan and all the related measures adopted by an entity to 1) Safeguard assets, 2) Encourage adherence to company policies, 3) Promote operational efficiency, and 4) Ensure accurate and reliable accounting records. The goals of an effective system of internal control include:-

➤ **Competent, Reliable, and Ethical Personnel**

Well paid and top quality employees that are properly trained, rotating employees through various jobs to increase reliability and flexibility. If one employee is sick or on vacation, a second employee is trained to step in and do the job

➤ **Assignment of Responsibilities**

All duties are clearly defined and assigned to individuals who bear responsibility for carrying them out.

➤ **Proper Authorization:**

Any deviation from standard policy requires proper authorization. For example, managers or assistant managers at grocery stores must approve customer checks for amounts above the store's average limit.

➤ **Separation of Duties:**

Limits the chances for fraud and promotes the accuracy of accounting records. For example, the person who handles the cash does not have access to the accounting records.

1. Separation of operations from accounting.
2. Separation of the custody of assets from accounting.
3. Separation of the authorization of transactions from the custody of related assets.
4. Separation of duties within the accounting function helps to minimize errors and opportunities for fraud.

The fundamental premise of segregated duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the action.

➤ **Internal and External Audits:**

Auditors evaluate the system of internal controls, spot the weaknesses in the system, and recommend corrections.

Internal auditors audit various segments of the organization throughout the year to ensure that transactions are in line with management policies.

External auditors are entirely independent of the organization and audit the entity as a whole. They examine whether the accounting system produces accurate amounts for revenues, receivables, and other items related to cash receipts.

➤ **Documents and Records:**

Documents should be pre-numbered so that a gap in the numbered sequence calls attention to a missing document.

2.3.2 The control environment

The control environment is the foundation for all other components of internal control, providing both discipline and structure to the organization. **Ethical business practices, management philosophy** and **a sense of business integrity** all play key part in the control environment component. The control environment sets the tone of an organization, influencing the control

consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. The successful operation of the other elements of internal control depends on building a control environment in which top management continually emphasizes the performance of control procedures. Sub elements of the control environment include: Integrity, ethical values and behavior of key executives Management's control consciousness and operating style Management's commitment to competence Board of directors and/or audit committee participation in governance and oversight Organizational structure and assignment of authority and responsibility Human resource policies and practices.

The other issue in control environment is risk assessment. Because the operating conditions in which the organization functions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change. Risk assessment is the identification and analysis of relevant risks that represent a threat to the achievement of the organization's objectives, which then requires consideration of how to address and manage the risk. Risk assessment by top management requires them to: Identify, analyze and assess the risks faced by the organization Determine risk limits and the techniques for control of the risks Develop and implement internal controls for the organization to address these risks. ([Improving internal controls](#)): the EY guide for humanitarian aid organizations. Page, 30.

2.3.3 Effective payment

Gazzada (2009) declared that, a valid authorization of any payment includes a full approval signature, initials or "Ok to pay" payment without approvable signature does not represent a proper authorization. Signatures should be understandable or include the printed name below the signature. Proper approval for any payment request should be provided using a payment. If an alternate form such as a note, letter, or memo is attached to a payment request. It must include; name of person/vendor to be paid account number to be charged, amount of payment being approved, purpose of payment being approved, and signature authorization.

Some departments that process a higher volume of regular vendor invoices make use of an approval stamp instead of attaching a Payment Order Form for each invoice. This is a rubber stamp that is stamped directly onto the invoice and filled in by the payment approver. Use of a

stamp will ensure that all elements of a proper approval are present. A Post-it note stuck onto an invoice with "okay to pay", a signature, account number, and date can inadvertently become attached to the wrong document and does not provide adequate proof for audit purposes that proper authorization for payment was received. This also applies to any note or slip of paper that is clipped or stapled to an invoice that does not contain all the elements of a valid approval of an expense.

From the researchers point of view it is correct to follow the above procedure as mentioned by Gazzard except the biggest challenge that the NGOs and other organizations in general are facing Lack of knowledge and inability to understand the importance of some of these internal control procedures by the people.

Wedhon (2002) argued that in order to ensure strong control over receipts, when cashier received, it should be acknowledge by means of printed receipt which should have a counterfoil or a carbon receipt. The receipt should be consecutively numbered. The unused receipt should be cancelled and must not be detached from the counterfoil. No blank counterfoils should be accepted. As soon as cash is received, it should be entered in a rough cash book or dairy. Internal audit activities help employees abide by corporate policies and regulatory guidelines.

2.3.4 Budgetary Control

A budget tells where and how the organization will spend money and where the money will come from to pay the expense. Budget also set limits. Besides setting limits, budget also enables the assurance that the most important needs of a country are met. First and less important needs are deferred until there are sufficient fund in which to pay the them (Andrews and Hill, 2003)

Budget control is a term that is used to describe the process of managing individual line items within a household or business budget so that expenditures over and above the allocated amounts do not take place. This type of control is necessary in order to make sure that operational expenses do not exceed the projected revenue for the period, creating a net loss. There are several elements that go into the task of budget control, including the preparation of realistic budget, monitoring income levels, and engaging in comparison shopping before actually executing any purchase.

The first step in effective budget control is the creation of a budget that is based on factual information regarding the revenue needed to operate the household or business effectively. This means using information obtained from consumer markets regarding the prices of different goods and services that will be consumed each month. As part of the process, budget control involves making sure that fixed costs are accurately reflected within the budget, and any items that are considered flexible or floating are covered with a budget amount that reflects the standard and usual usage of the operation.

Once the workable budget is in place, the process of budget control focuses on making sure that expenditure for any particular line item remains within the budgetary amount that applies. At times, this may mean reducing consumption in order to prevent going over the budget on a particular line item.

WWW.wisegeek.com

Budgetary control is defined by the Institute of Cost and Management Accountants (CIMA) as:

"The establishment of budgets relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results, either to secure by individual action the objective of that policy, or to provide a basis for its revision".

Advantages of budgeting and budgetary control

There are a number of advantages to budgeting and budgetary control:

- Compels management to think about the future, which is probably the most important feature of a budgetary planning and control system. Forces management to look ahead, to set out detailed plans for achieving the targets for each department, operation and (ideally) each manager, to anticipate and give the organization purpose and direction.
- Promotes coordination and communication.
- Clearly defines areas of responsibility.
- Requires managers of budget centers to be made responsible for the achievement of budget targets for the operations under their personal control.
- Provides a basis for performance appraisal (variance analysis). A budget is basically a yardstick against which actual performance is measured and assessed. Control is

provided by comparisons of actual results against budget plan. Departures from budget can then be investigated and the reasons for the differences can be divided into controllable and non-controllable factors.

- Enables remedial action to be taken as variances emerge.
- Motivates employees by participating in the setting of budgets.
- Improves the allocation of scarce resources.
- Economies management time by using the management by exception principle.

2.3.5 Financial Control

Financial Controls the point at which financial plans are implemented; Controls deals with the feedback and adjustment. Process required ensuring adherence to plans and modification of plans because of unforeseen changes (Besley and Brigham 2005). According to this study financial control constitutes of systems and processes used to ensure that the money is correctly handled.

Financial controls are procedures which are carried out in an accounts office to check the accuracy of the records and the numbers. They include the use of control totals, reconciliations. Usually there are arithmetical and recording functions e.g. checking the trial balance and the bank reconciliation statement. The regular counting assets and comparing quantities with those recorded (Dalian 2008).

Owenrich (2001) emphasize that the scope of Internal Auditing is to determine whether the organization's network of risk management, control and governance processes, as designed and represented by Management, is adequate and functioning in a manner which ensures that risks are appropriately identified and managed; interaction with the various governance groups occurs as needed; significant financial, managerial and operating information is accurate, reliable and timely; employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations; resources are acquired economically, used efficiently and adequately protected; programs, plans and objectives are achieved; quality and continuous improvement are fostered in the organization's control processes; significant legislative or regulatory issues impacting the organization are recognized and addressed properly.

Groonhil (1999) suggest that the Internal Audit activity should assess and make appropriate recommendations for improving the governance process in its accomplishment of the following

objectives: promoting appropriate ethics and values within the organization; ensuring effective organizational performance management and accountability; effectively communicating risk and control information to appropriate areas of the organization; and effectively coordinating the activities of and communicating information among the board, external and Internal Auditors and management. The Internal Audit activity should evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs and activities.

Bushman (2007) and La fond (2009) forward that weak internal controls allow or introduce both intentional and unintentional misstatements into the financial reporting process that lead to lower quality accruals. Due to diffuse shareholders, internal controls are no less important for NGOs than for businesses. Kent (2006) provided evidence that the existence of an internal audit function is related to the level of commitment to risk management. Commitment of risk should be as often as possible to ensure that errors are detected at the earliest possible period. Control activities occur throughout the organization, at all levels and in all functions be it in small or large companies. Implementing preventive controls which are proactive in nature and seek to prevent undesirable events from occurring as well as deter losses and includes; separation of duties, proper authorization, adequate documentation, and physical control over assets'

(Belzer, 2002) articulated that NGOs are partnering and working with the government to design and implement programs, often operating their programs in alignment with their success in priorities outlined by the government. He argued that partnerships, whether with civil society or the government, help spread the planning, managing, and funding burdens of their operations and that they can use this to rate the success of tasks undersigned to perform. But critically, this in most cases is quite a challenge as it is difficult to find these partnerships between most governments and NGOs enduring or even working. Some NGOs have experienced broad obstacles from the government and other civil societies in line with discharging their duties. This therefore cannot be a good measure to rate their success. NGOs therefore have to define other ways in which they can effectively use to rate themselves on their performance, this may include creating policies that can govern and guide them in carrying out their projects as this will ensure that they undertake such operations to completion without hindrances and thus be in a position to rate themselves.

LaFond.R (2009) explained that for effective incorporation of internal control measures and operational efficiency NGOs have to provide and ensure transparency and accountability, that is, the governing body, together with management, should periodically report to stakeholders the organization's risk profile as well as the structure 14 and factual performance of the organization as this will enhance accountability on issues pertaining management and implementation of organization's policies. However, this statement is ideally important and a necessary condition for effective incorporation of both internal control measures and operational efficiency of the organization, but in critical essence of this statement, most NGOs are subject to corruption and poor governance and so to realize transparency and accountability in such organizations is difficult. This then impedes the overall idea of incorporating internal control measures with operational efficiency in NGOs.

Although the above studies have largely focused on the impact of effective internal control measures on overall operational efficiency, there is an emerging literature examining the implications of internal control measures beyond operational efficiency. For example, Feng et al. (2009) examined the relation between internal control quality and management guidance accuracy and found a positive relation, consistent with ineffective internal controls causing errors in internal management operations in general. This however in practical impacts on the relationships between internal control measures and operational efficiency.

2.3.6 Personnel Control

The quality on internal control is directly related to personnel operating system. The organization should have sound personnel policies for hiring, training, evaluating, counseling, promoting, Compensating, and taking remedial action. For example, in hiring a standard should be sought only to hire the most qualified person, with prior working experience and evidence of integrity and ethical behavior. Background checks may vary with the organization employee position. Post employment controls include internal and external audits (Schartmann, B, 2010) also vital in NGOs (Green, 2010).

Human recourses (HR) are valuable assets of an organization. Management of HR, including hiring and firing of staff, allocation of duties and overtime work, performance monitoring and appraisal, determination of salary increment, year-end bonuses and other benefits, etc is

important to NGOs to ensure that all staff recruited are well qualified, suitable deployed and properly remunerated.

➤ **General Personnel Control**

- ✚ Lay down in guidelines and make known to all staff the policies administration, such as remuneration and discipline, etc
- ✚ Set out the duties, core competency, working hours, and other performance indicators for each post, in the line with any government subvention rules were appropriate.
- ✚ Require the HR department or the personnel staff to maintain up-to-date records of individual staff members, with restricted access of authorized persons only.
- ✚ Include in the employment contract a standard clause requiring the staff to comply with the NGO's code to conduct, and issue to each staff member and copy of the code upon appointment.

Organize capacity building sessions for the staff to raise their corruption prevention awareness, with ICAC's assistance if necessary. (www.icac.org.hk) Staff Administration

2.3.7 Procurement Policies and procedures

The term procurement is defined as the acquisition by purchase, franchise, rental, lease, hire purchase, tenancy or any other contractual means of goods, service, works or any combination of the two, which are required by an organization for use in the production, service provision or resale Lysons (2000). Procurement is a very important function within an organization that accounts for the biggest share of the expenditure in any organization. The function should implement under effective procurement policies and procedure.

The purchase of goods and services is necessary for the smooth operation of the organization. The aim of the internal control system for the supplying of goods and services is to ensure orders are handled by individuals having skills in evaluating what purchases are required from suppliers offering the best deals, to ensure purchases made do not exceed the budget provided and to ensure purchased goods and services conform with the quantity and price specified in the order. NGO shall follow certain methods in purchasing goods, equipment and services required for the needs of the organization or its projects. Use of competitive bidding shall be a priority practice. The first criterion in choosing a supplier shall be the lowest bid. However, if a supplier does not

provide the required level of service or an adequate guarantee, then other criteria shall also be considered.

<https://www.fundsformgos.org/author/fundsformgos/>

Procurement policies entail a set of rules and regulations put in place to govern the process of acquiring goods and services needed by an organization to function efficiently (Wisegeek, 2013) The exact process seeks to minimize expenses associated with the purchase of those goods and service by using strategies such as volume purchasing; the establishment of a set roster of vendors, and establishing reorder protocols that helps to keep inventories low without jeopardizing the function of the operation (Muge, 2009).Both small and large companies as well as Non-profit organizations regularly design and apply procurement policies to guide on procurement matters. Procurement policies are designed by organization to govern on application of various procurement procedures (Bartik, 2009)

2.3.8 Requirements for Charities and Societies Agency in Ethiopia

Charities and societies (CSA) are required to maintain day to day records of financial transactions. They are also required to furnish an annual statement of accounts to the charities and societies agency. Despite the requirement to submit to an annual audit of accounts by certifies auditor, an internal auditor or an auditor designated by the charities and societies agency, an organization can be subject at any time to an audit of accounts according to the directives of the Minister of Justice.

Furthermore, the NGOs are required to submit to the Agency an annual activity report outlining their major activities and other relevant information along with a statement of accounts. NGOs also required renewing their license and registration every three years, which is subject to an executive evaluation of the completeness and accuracy of their performance and audit reports.

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 performances. These systems are not only related to accounting and reporting but also relate to the organizations' communication processes, internally and externally, and include procedures for:

- Handling funds received and expended by the organization,
- Preparing appropriate and timely financial reporting to board members and officers,
- Conducting the annual audit of the organization's financial statements,
- Evaluating staff and programs, Maintaining inventory records of real and personal property (www.oag.state.ny.us/charities/charities.html)

2.4 Empirical Review

The quality of internal control is directly related to the quality of the personnel operating the system. The organization should have sound personnel policies for hiring, orienting, training, evaluating, counselling, promoting, compensating and taking remedial action. For example, in hiring a standard should be sought only to hire the most qualified person, with prior working experience and evidence of integrity and ethical behaviour. Background checks may vary with the organization and employee position. Post-employment controls include internal and external audits (Schartmann, B, 2010), also vital in NGOs (Green, 2010).

The day to day work of employees should be properly supervised. Good supervision was to reduce the likelihood of errors or fraud. This aspect is carried out by the management of the organization, as a means to check compliance with laid down procedures. Procedures explain the how, why, what, where and when for any set of actions. They involve the following: Monitoring that the laid down control procedures are operating as they were designed to, and that delegated responsibilities have been properly discharged. 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 (Cheng M. 2013).

Control is an inevitable correlate of organization. But it is more than this. It is concerned with aspects of social life that are of the utmost importance to all persons. It is concerned with the questions of choice and freedom, with individual expression, with problems of the common man and the common will. It is related not only to what goes on within the organization but also with what the organization does in its external relations. It touches on the questions of democracy and autocracy, centralization and decentralization, "flat" "tall" organizational structures, close versus general supervision, workers' councils and joint management (Belzer, 2002).

According to the studies of internal control measures and operational efficiency, (Long, 2007) it is clear that most NGO's have integrated internal control measures in every unit of the organization that enhance efficiency is achieved at every unit. Such units include administration where it involves approval by the supervisor of employee's attendance entries. The purpose of this control mechanism is to ensure adherence to time and attendance procedures. However, this study, will examine whether effective internal control measures has implications beyond that of operational efficiency. In addition, inadequate segregation of duties and inadequate documentation further allow the misappropriation of inputs by employees. Furthermore, ineffective internal control measures may result in erroneous internal management reports, and managers relying on such reports are more likely to make suboptimal operational decisions. Finally, ineffective internal control measures relating to information technology not only further results in erroneous internal reports, but also reduce organizations' effectiveness in monitoring the usage of resources and leads to inefficient use and wastage of resources. This then is the knowledge gap that the study seeks to reveal by carrying out an assessment of the internal control measures employed by NGOs in enhancing operational efficiency.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1. Introduction

This chapter consists present three sections. The first section presents the research design of the study. The second section outlines the Sampling design and the third section presents the data collection methods.

3.2 Research design

The research design that was employed in this study is descriptive design. The qualitative and quantitative approaches were employed based on the FHIDO staff drawn from different departments. The quantitative technique was used to collect and analyze data on the role of internal controls of FHIDO. The qualitative approach was used to examine the part played by internal control system in organization. This design was used because it brought out clearly the effects of internal control system of organization. The study was be specifically non experimental because the researcher intended to describe and make investigation of what the real results were for the purposes of making recommendation based on the facts to improve the situation. The descriptive analysis approach was chosen for the present study, because it seeks to gain insight into a phenomenon as a means of providing basic information in an area of study

3.3. Sample size and sampling techniques

3.3.1 Target Population

According to human resource department record, total number of staffs is summarized as the table below and the FHIDO project head office Addis Ababa, represent the population size. Therefore, the total number of population for the study will be 54 respondents.

Table 1: Showing Target Population Composition of Employees

FHIDO's staff				
#	Personnel	Male	Female	Total
Sponsorship Program				
1	Staff	30	11	41
2	Volunteer	11	29	40
Yekokeb Berhan project				
1	Staff	7	6	13
2	Volunteer	22	308	330
Total				
1	Staff	37	17	54
2	Volunteer	33	337	370

Source: From Human resource of FHIDO

3.3.2. Sample size

Mugenda&Mugenda (2003) observed that the purpose of sampling is to secure a representative group which will enable the researcher to gain information about an entire population when faced with limitations of time, and energy. The sample size refers to the number of observations or replicates to include in a statistical sample. The researcher used purposive techniques for management staff in selecting interviews within option of replacing those who might not wish to respond to the researcher's request because they are the custodians of internal control system of FHIDO in the area from various departments.

Table 2: Sample size of the respondent's employees

Department	Target Population	Sample size
Accounting and Finance	8	8
Internal Auditing	2	2
Human Resource	3	3
Program Staffs	28	9
Procurement and Logistics	6	6
Directors & Manager	7	7
Total	54	35

Source: primary data

3.3.3 Purposive Sampling

Purposive sampling involved selecting a certain number of respondent based on the nature of their work in relation to internal controls at FHIDO organization. This method was appropriate because the sample selected comprised of informed persons who could provide data that was comprehensive enough to gain better insight into the problem.

3.4 Data Collection and instrument

The study adopt both self-administer questionnaires and interview schedules to collect primary data from employees and managers of FHIDO and secondary data was also adopted to collect relevant information.

3.4.1 Questionnaire

The questionnaires were the main primary source of data collection. The identified sample was served with the questionnaire directly by the researcher. To obtain quantitative data, one set of questionnaires was used for the respondents. The questionnaires were administered to the employees by researcher. The questions involved the feelings of respondent regarding the

assessment of internal control system in non-governmental organization. The questionnaire also aimed at getting responses from the respondents about their views on internal control system and how it processed to compile with rules and regulation of organization as well as regulatory body requirements.

The open ended questionnaire enables the respondent to clarify issues further and provide in-depth findings for the study while close ended questions enabled the researcher to obtain background information (Kothari 2004). The advantage of using questionnaires is the most feasible and allows the respondents moments of reflection on the subject. This is cost effective, free from bias and gives the respondent adequate time to respond to the question. The researcher was allowed the respondents to fill any information and recommendation comment on the internal control system of the case study before returning. Likert scale questions were used since they were appropriate; abide by principles of validity and reliability. The source of questionnaire was literature review and was designed with reference to variables. The researcher used employees' questionnaires to draw information on the assessment of internal control system. Santyanarayana (1993) observes that questionnaire is used to obtain objective data hence was found to be relevant for this study.

3.4.2 Interviews

Interviews were the other data collection technique used by the Researcher. They were used as a way of supplementing the questionnaires already filled, but at the same time they would enable the Researcher investigate further into the responses given in the questionnaires especially given the importance of the research and the specialized nature of the topic under study. Qualitative data was basically collected from General Manager of the organization and project coordinator.

Secondary data was collected from both published and unpublished reports of the department, among other studies done on the subject matter. Other information collected from the internet. Secondary data means to second-hand data. This was gathered through review of recorded documents, earlier studies like Audited financial statements, Auditors management letters and other organization's publications, manuals and policies, books and journal, proclamation, various manuals from libraries and internet. The Researcher also used a combination of structured questionnaires and interviews.

3.5 Data analysis

After the collection of data from the questioner, the data was coded for the completeness and accuracy, the response of each item was summarized and presented using appropriate table format with frequencies, percentage for classifications of responses to make easy to understand and for visual impression. According to Mugenda (2003), data analyses were used to process of bringing order, structure and meaning to the mass of information collected.

Qualitative data was analyzed using both descriptive statistical method such as central tendency and narrative methods. Narrative analyses were used to explain the qualitative results of the study. Moreover, percentages were used to assist in comparison and give a clear indication of response frequencies (Mugenda&Mugenda, 2003).

3.6 Measurement of Variables

Five key variables were measured. These included effective payment procedures, budgetary and expenditure control, financial recording and audit practice, Procurement Policies and personal control. A 5-point Likert scale with respondents' answers ranging from "Strongly Agree" to "Strongly Disagree" was used to collect information which was used to measure the variables.

3.7 Ethical Consideration

The researcher got an introductory letter from St, Mary's University to FHIDO local Nongovernmental organization show that she is a student from St. Mary's University MBA (Accounting and Finance).

CHAPTER FOUR

PRESENTATION, DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 INTRODUCTION

In this chapter the presentation, data analysis, table and figures were presented and interpretations made in accordance with the research objective of the study. The chapter is divided into sub-chapters namely: position held by the respondent, effective payment procedures, budgetary and expenditure control, financial recording and audit practice, Procurement Policies and personal control.

4.2 Response Return Rate

Out of 35 questionnaires dispatched, 32 were fully filled and returned. The response rate is shown in the table 3.

Table 3: Shows the Response Return Rate of the Questionnaires

Questionnaires category	No. Of questionnaires
Distributed questionnaires	35
Returned questionnaires	32
Response Rate (%)	91.43

Source: Primary data

The high questionnaire response rate (91.43%) shown in Table 3 resulted from the method of administration of the instrument, which was in this case researcher administered. This was acceptable according to Mugenda and Mugenda (2003). This method also ensured that the respondents' queries concerning clarity were addressed at the point of data collection; however, care was exercised so as not to introduce bias in the process.

4.3 Position held by the respondent

The position held by the respondents in FHIDO organization has considered this is because the researcher focused to select staff that had direct relation with internal control system of the organization. The findings were shown in the table 4 below.

Table 4: Shows responses on the position held by the respondents

Position held	Frequency	Percentage %
Accounting and finance staffs	8	22.86
Internal Auditor	2	5.72
Human Resource	3	8.57
Program Staffs	9	25.71
Procurement and logistics	6	17.14
Directors and Managers	7	20.00
Total	35	100.00

Source: primary data

From the table 4 above 22.86% accounting and finance staff, 5.72% Internal Auditor, 8.57% Human Resource, 25.71% Program staffs, 17.14% procurement and logistics, 20% Director. This indicates the study includes different respondents from all felids. But to make sure the collected information is relevant and real the researcher classified the questions as per the staff's responsibility in the organization.

4.4 Effective payment procedures

In an attempt to ascertain the different payment procedure and the internal control of FHIDO the researcher provided different statements for the respondents and findings were noted.

Table 5- Frequencies of Effective payment procedures responses (%)

Objective 1. Effective payment procedures	NO.	Percentage %				
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Duties are adequately separated; different persons prepare checks, sign checks, reconcile bank accounts, and have access to cash receipts.	32	50.00	37.5		12.5	
All payments are properly supported by evidence of receipt.	32	37.50	43.75	6.25	9.37	3.13
Vouchers and supporting documents appropriately stamped or punch to prevent duplicate payments.	32				6.25	93.75
Proper review over payments are performed	32	40.62	50.00	9.38		
Payments are properly documented	32	50.00	31.25	6.25	12.5	
Internal auditors audit the transaction properly	32	21.88	78.12			

Source: Primary Data

In table 5 details measures of effectiveness of payment procedure under different key statements obtained from the respondents. The statements have been ranked in terms of percentage so as to deduce meaning out of the results. Therefore, the details of the table are discussed under sub headings of the corresponding statements tested.

4.4.1 Duties are adequately separated

Different persons prepare checks, sign checks, reconcile bank accounts, and have access to cash receipts. From the table 5 above 50% strongly agreed duties are adequately separated, 37.5% agreed, 12.5% disagree. In summary the majority of the respondent 50% strongly agreed with the statement that different persons prepare checks, sign checks, reconcile bank accounts, and have access to cash receipts, duties are adequately separated this is in conformity with as there is some components of internal controls were used when the organization effect the payment.

4.4.2 All payments are properly supported by evidence of receipt

The respondents were asked if all payments are properly supported by evidence of receipt. The result for this statement shows, the majority of the respondent 43.75% agree with the statement, 37.5% strongly agree, 6.25% neutral, 9.37 disagree, 3.13% strongly disagree. This shows as

there was some gap between the payment transaction and the proper supporting evidence when performing the payment.

4.4.3 Vouchers and supporting documents appropriately stamped or punch to prevent duplicate payments.

The researcher asked the respondents whether there is appropriate stamped to prevent duplicate payments. The above table shows, 6.23% of the respondents disagree with the given statement, 93.75% respondents strongly disagree with the statement of vouchers and supporting documents appropriately stamped or punch to prevent duplicate payments. This shows that the organization does not have stamp or punch on the payments supporting document.

4.4.4 Payments are properly reviewed and documented

From the above table 5 respondents of 50% strongly agree, 31.25% agree, 9.38% are neutral. As the majority of the respondent 50% were strongly agree as there was proper review over payment and document in FHIDO. This is one of the control components of internal control.

4.4.5 Internal auditors audit the transaction properly

Internal auditors audit various segments of the organization throughout the year to ensure that transactions are in line with management policies.

The researcher asked the respondents whether FHIDO has internal audit functions which perform proper review over payment and the findings noted.

From the above table 5, 78.12% disagree, 21.88% strongly agree with the statement. This shows that, the majority of respondents 78.12% and 21.88% or the total of 100% agreed as there is proper internal control over payment.

4.5 Financial Records and control

The researcher asked the respondents whether there is financial control over financial records in FHIDO which leads to reliable financial reports. Findings of the Financial Records and control has been analyzed and presented as below.

Table 6- Frequencies of Financial records and control responses (%)

Objective 2. Financial records and control	No.	Percentage %				
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Transaction recorded in a daily base	32	32.25	37.50	31.25	25.00	6.25
A cash receipt immediately prepared	32	78.13	15.62	6.25		
Daily fund and cash recorded system	32	15.63	62.50	9.37		12.50
Delegation of check signatory	32	87.50	6.25	6.25		
Monthly Bank reconciliation	32	62.50		37.50		

Source: Primary Data

4.5.1 Transaction recorded in a daily base

The researcher asked the respondents whether the transactions are recorded in a daily base and the findings are in the table below.

From the above table 6 majority of the respondent 37.50% agree as there is a daily financial recorded, following 31.25% of respondents strongly agreed, and 25% of respondents are neutral regarding of this statement, 6.25% of respondents are strongly disagree. This shows FHIDO has a daily transaction record practice.

4.5.2 A cash receipt immediately prepared

The researcher set out to assess the cash control over receipt (another component of the internal control system) as a way of assessing the functionality of the internal control system.

The results of the study as reflected in table above suggest that respondents agreed cash receipt is prepared immediately. This is shown by 78.13% strongly agreed, 15.62% agree meanwhile 6.25% neutral.

4.5.3 Daily fund and cash recorded system

The respondents were asked to indicate their level of agreement with the following statements that relate to the assessment of controlling and recording of fund system of organization. To this they responded as presented in Table 6above. Majority of the respondents or 62.5% were agree and 15.63% strongly agree, 9.37% neutral and 12.5% were strongly disagree with the statement. The study reflected that FHIDO has daily fund and cash recorded system.

4.5.4 Delegation of check signatory

The delegation issue is one of the components of internal control system. The researcher raised this question to assess the delegation of signatory (check signers) are authorized by the board of directors or trustees.

The result from the above table 6 shows that 87.5% of respondents were strongly agree with the statement, 6.25 % of respondents were neutral this shows the majority of the respondents were agree as check signers were delegated by the board of directors or trustees.

4.5.5 Monthly Bank reconciliation

Reconciling the bank is one of the controlling procedures over the organization book and bank balance. The researcher again asked this question to prove whether the FHIDO perform the bank reconciliation to control any cash receipt and payment of cash through bank account.

The results for this question 62.50 % of the respondents were strongly agreed and 37.05% or the respondents were neutral to give their level of agreement. The findings indicate that most of the respondents' agreed FHIDO performs bank reconciliation.

4.6 Budgetary control on the expenditure

Findings on budgetary control over the expenditures were based on the third objectives for the study, relevant questions were asked and responses were noted.

Table 7- Frequencies of Budgetary control on the expenditure responses (%)

Objective 3. Budgetary control on the expenditure	No.	Percentage %				
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
There is a clear set of budget objective	32	65.63	25.00	9.37		
All expenditure are made in line with the budget	32	31.25	53.13	9.37	6.25	
Expenditure of fund in excess of approved budgeted amounts	32	9.37	37.50	6.25	31.25	15.63
Budgetary control on the expenditure has led to proper utilization of Funds	32	28.13	37.50	25.00	6.25	3.12

Source: Primary Data

4.6.1 There is a clear set of budget objective

The researcher asked the respondents whether organizational objective were clear set in the budget, the researcher wants to know if the objective were achieved.

From the table above the majority of the respondent 65.63% strongly agreed, 25% agree, and those neutral were 9.37%. The study revealed that the majority of the respondents were strongly agreed with the statement that FHIDO has a clear set of budget frame work and the budgetary control over expenditures was implemented.

4.6.2 All expenditure are made in line with the budget

The researcher asked the respondents whether expenditures were made in line with the budget. The results obtained in the table 7 above were 31.25% strongly agreed, while 53.13% majority of the respondent Agree, 9.3% of the respondents were neutral and 6.25% were disagreeing with the statement.

4.6.3 Expenditure of fund in excess of approved budgeted amounts

The researcher asked the respondents whether FHIDO has controlling mechanisms to prevent expenditure of funds in excess of approved budget. The results obtained are shown in the table below. Form the table 7 above, 9.37% strongly agreed, while 37.5% majority of the respondent agree, 6.25% of the respondents were neutral, 31.25% were disagree, 15.63% were strongly disagree with the statement.

4.6.4 Budgetary control on the expenditure has led to proper utilization of Funds

This statement was raised and the findings were presents in the table 7 above, 28.13% of the respondents were strongly agree, 37.5% of the respondent were agree with the statement of budgetary control on the expenditure has led to proper utilization of funds, 25% of the respondents were neutral or have no any aids about the budgetary control over expenditure has led to proper utilization of funds, 6.25% of respondents were disagree and 3.12% strongly disagree.

4.7 Procurement policies

Procurement is a very important function within an organization that accounts for the biggest share of the expenditure in any organization. The function should implement under effective procurement policies and procedure.

Findings on procurement policies and procedures were based on the fourth objective, relevant questions were asked and responses were noted.

Table 8- Frequencies of Procurement policies responses (%)

Objective 4. Procurement policies	No.	Percentage %				
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
FHIDO has procurement policy that can be followed	32	25.00	46.88	3.12	9.38	15.62
The procurement process follows FHIDO policies	32	21.87	25.00	12.50	34.38	6.25
As an Employee you are aware of the policies and procedures	32	25.00	18.75	21.87	3.12	31.25
Staff who authorized purchase does not issue payment	32	40.63	28.12	6.25	9.37	15.63

Source: Primary Data

4.7.1 FHIDO has procurement policy that can be followed

The researcher asked the respondents whether FHIDO has procurement policy that can be followed. The findings on the above table 8 shows, 25% strongly agreed, these were followed by 46.88% agreed respondents, 3.12% were neutral, 9.38% of the respondents were disagreed with the statement and 15.62% strongly disagree. With the majority of 46.88% the study revealed that FHIDO has procurement policy that can be followed.

4.7.2 The procurement process follows FHIDO policies.

The researcher's intention was to find out whether their procurement process followed FHIDO policies. Questions were asked and responses were obtained as presented in the table above. 21.87% of respondents strongly agree with the statement, 25% agree, 12.5% neutral, 34.38% disagree and 6.25% strongly disagree. This implies that most of the procurement was not in accordance with the FHIDO Procurement policy.

4.7.3 As an Employee you are aware of the policies and procedures

The researcher asked the question to assess the level of employee awareness about the policies and procedures at FHIDO. The findings were presented in the table above, 25% of the respondents strongly agreed as they were aware about the policies and procedures of FHIDO, 18.75% agree, 21.87% neutral, 3.13% disagree, 31.25% or the majority of the respondents were strongly disagree.

4.7.4 Staff who authorized purchase does not issue payment

The researcher asked the respondents on whether staff who authorized purchase does not issue payment. From the table 8 above, 40.63% of the majority respondent strongly agreed, 28.12% agreed, 6.25% of the respondents were neutral, 9.37% of respondent disagreed and 15.63% strongly agreed. The result shows that staff who authorized purchase does not issue payment.

4.8 Personnel control

Findings on personnel policy and procedures were based on the fourth objective, relevant questions were asked and responses were noted.

Table 9- Frequencies of personnel control responses (%)

Objective 4. personnel control	No.	Percentage %				
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
FHIDO has sound HR policy that can be followed	32	43.75	56.25			
There is a defined duty for key employees of the organization and clear structure of the organization.	32	78.12	21.88			
Staff are properly selected and hired	32	37.50	50.00	3.12	9.38	
There is enough staff to implement internal control	32	21.87	28.12	9.38	31.25	9.38

Source: Primary Data

4.8.1 FHIDO has sound HR policy that can be followed

This section contains the findings in respect to objective Fourth which sought to assess the personnel control systems in the activities of FHIDO. Personnel control systems constitutes a central pillar of any organization systems. The respondents were asked to indicate the extent to which key components of personnel control system practice to enhance the organizational activities and response was as provided in table 9 above.

From the table 9 above, 43.75% of the respondents were strongly agreed with the statement, 56.25% agreed. This shows the total respondents agreed on FHIDO has sound HR policy that can be followed.

4.8.2 There is a defined duty for key employees of the organization and clear structure of the organization.

Having a clear job description or duty for employees and a well organization structure is the main components of internal control system. With this researcher asked the respondents to assess the FHIDO practice in assignment duty for employee and it organizational structure and the findings are shown in the table below.

According to analysis and interpretation of questionnaire responses from the respondents in the area suggested that most of the findings indicated that,78.12% of the respondent were strongly agreed with the statement of FHIDO has a practice of defining duties for key Employees of the organization and has structure in the organization, 21.88% agreed.

4.8.3 Staff are properly selected and hired

The researcher asked question to assess the FHIDO practice of selecting and hiring staff and the Findings shows that 37.50% of the respondents were strongly agreed, 50% agreed, 3.12% neutral and 9.38% were strongly disagreed. From the majority respondents the researcher revealed that FHIDO has a proper selecting and hiring staff practice.

4.8.4 There is enough staff to implement internal control

Further the researcher asked this question to assess whether FHIDO has got enough staff to implement internal control. The findings obtained are shown in the table above.

From the table 9 above, 21.87% of respondents strongly agreed that FHIDO has enough staff to implement internal control followed by 28.12% agreed and 9.38% neutral, 31.25% disagreed and 9.38% strongly disagreed. The majority 31.25% of respondents disagreed this implies that FHIDO has not enough staff to implement internal control.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMENDATIIONS

5.1 Introduction

This chapter presents the summary of the findings, conclusions drawn from them and the recommendations. The implications of the research are discussed and suggestions made on areas of further study. Some useful recommendations for all the stakeholders are proposed by this study at the end of the chapter to enlighten and enable them to craft viable solutions with regard to the problem statement based on the research findings. The overall objective of this study was to examine the practice of internal controls systems for non-governmental organization in the case study FHIDO.

5.2. Summary of findings

The summary of the findings is based on the four study objectives that included: the practice of effective payments to different department of FHIDO assessing financial recording and audit practice of FHIDO, assessing the budgetary and expenditure control of FHIDO examining Procurement Policies and personal control of FHIDO.

5.2.1. Effective paymentsprocedure

The study revealed that the payment procedures were being followed. In summary the majority of the respondents were agreed on the statements such as, Duties are adequately separated; different persons prepare checks, sign checks, reconcile bank accounts, and have access to cash receipts. All payments are properly supported by evidence of receipt, Proper reviews over payments are performed, Payments are properly documented, and internal auditors audit the transaction properly. But they were strongly disagree with the statement of Vouchers and supporting documents appropriately stamped or punch to prevent duplicate payments.

5.2.2 Financial records and control

The finding clearly indicates that FHIDO to some extents has positive financial recording and controls. The respondents were agreed for the statements mentioned under the second objective of the study which were, all financial transactions are recorded in a daily base, a cash receipt immediately prepared, all Collection of funds and all cash received are recorded and deposited daily, Check signers are authorized by the board of directors or trustees and Bank accounts are reconciled monthly.

5.2.3 Budgetary control on the expenditure

The summary review of the finding shows that most of the respondent has a fair response on the budgetary control on the expenditure that FHIDO exercised. Budgetary control implying that again there was use of the budgets. The budgetary control as an internal control method put in place by the organization practiced as expected and therefore this enable the organization to enhance attainment of its objectives. Hence, the study indicated that there was a proper application of the internal control system led to better service delivery.

5.2.4 Procurement policy and Personnel control

The fourth objective was intended to find out how FHIDO has ensured effective procurement policies and procedure implemented. The study was provide points to the respondents in the area of procumbent such as; FHIDO has procurement policy that can be followed, the procurement process follows FHIDO policies, as an Employee you are aware of the policies and procedures, Staff who authorized purchase does not issue payment. The findings clearly indicates that FHIDO had procurement policy but the process was not follows the policy. Employees were not aware of the procurement policy, most of the respondent on this issue were strongly disagree. There was a positive response on the other issues but it has some negative implications.

Personnel control the findings from the responses of personnel control was positive for the statement listed on the questioners which are FHIDO has sound HR policy that can be followed and as there is defined duties for key employees of the organization and clear structure of the organization and all Staff are properly selected and hired. But it has a disagreement response for

the issue of FHIDO has enough staff to implement internal control. With this the study revealed that the personnel control of FHIDO is again strong with slight gap.

The other findings from the interview indicate that operational control such as good planning system ensures that day-to-day actions are consistent with established plans and objectives. It is also noted that the organization uses most of the listed operating control methods as it is a large organization with so many donors to report to and also the huge amounts of funds involved in its projects. And the study indicated that Periodic review involves counting and documenting record at specific period this enable to save time spending analyzing counts such as inventory. And also this helps to generate accurate report and real time cost of operation.

The organization use cash base accounting system. Hence stock and inventory items are recorded as expenses at the time of acquisitions and accepted with GAAP, whereas CSAs manual state; inventory items recognize it as balance sheet items. The audit report also shows that FHIDO recorded the fixed asset as an expense and the fixed asset were not tagged this shows as there was a gap in internal control in handing fixed asset.

FHIDO also follows the CSAs regulation in keeping the cost sharing regulation of the 70-30 recording of expenditure and makes activities report as per the regulation.

5.3. Conclusion

The study assessed the internal control system of NGO in the case of FHIDO. It answered four objectives including the practice of effective payments to different department of FHIDO, assessing financial recording and audit practice of FHIDO, assessing the budgetary and expenditure control of FHIDO, examining Procurement Policies and personal control of FHIDO and interview questioners.

Based on the study findings, it is concluded that the organization has strong Internal control system on the objectives put to assess under this study.

5.4. Recommendation

- To keep in the existence of strong internal control system of FHIDO
- To give awareness for employees about the organization procurement and HR policy by distributing the copy of the policy, and by giving training how to implement it.

- Increasing the number of staffs in the implementation of internal control.
- To use stamp on Vouchers and supporting documents appropriately stamped or punch to prevent duplicate payments.
- Regarding to the organizational control system: FHIDO determined the various roles and responsibilities with respect to internal controls, including the governing body; management at all levels, employees, as well. However there is need for improvement in the organizational control and management should ensure that no delay occurs while the organizational control systems implemented specifically in the financial matters.
- Concerning to stocks and inventory items: The management of FHIDO should harmonize its procedure with CSA's procedure to come up with optimal solution and to create good business relationship.

5.5. Suggestion for further studies

The researcher suggests the following areas for further studies:

1. Challenges faced by non-governmental organization in implementing internal control systems.
2. The role of internal control in profit making organization
3. The level of staff awareness about the components of internal control and its importance.

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APPENDICES

St. Mary's University College

School of Graduate Studies

Appendix I: Questionnaire for Employees

Dear respondent

I am NetsanetNegash a student at St. Merry University, carrying out research study entitled "Assessment of Internal control system for NGO" you are among the respondent selected to answer the questions. The information given will be treated with the most confidence and for academic purpose only. Please tick or mark a brief writing where necessary.

Position held in thecurrentjob _____

Effective payment procedures, financial records and control, budgetary control on expenditure, Procurement policies and personnel control. For each of the following statements below, indicate your level of ranking by ticking one of the given statements using the following 5 points (1-5).

1. *Strongly agreed*
2. *Agreed*
3. **Neutral**
4. **Disagreed**
5. **Strongly Disagree**

Effective payment procedures	1	2	3	4	5
Duties are adequately separated; different persons prepare checks, sign checks, reconcile bank accounts, and have access to cash receipts.					
All payments are properly supported by evidence of receipt.					
Vouchers and supporting documents appropriately stamped or punch to prevent duplicate payments.					
Proper review over payments are performed					
Payments are properly documented					
Internal auditors audit the transaction properly					
Financial records and control	1	2	3	4	5
All financial transactions are recorded in a daily base					
A cash receipt immediately prepared.					
Collection of funds and all cash received are recorded and deposited daily					
Check signers are authorized by the board of directors or trustees.					
Bank accounts are reconciled monthly					
Budgetary control on expenditure	1	2	3	4	5
There is a clear set of budget objective					
All expenditure are made in line with the budget					
There are controls to prevent expenditure of fund excess of approved budgeted amounts					
Budgetary control on the expenditure has led to proper utilization of Funds.					

Procurement policies	1	2	3	4	5
FHIDO has procurement policy that can be followed					
The procurement process follows FHIDO policies					
As an Employee you are aware of the policies and procedures					
Staff who authorized purchase does not issue payment					
Personnel control	1	2	3	4	5
FHIDO has sound HR policy that can be followed					
There is defined duties for key employees of the organization and clear structure of the organization					
Staff are properly selected and hired					
There are enough staff to implement internal control					

Any information and recommendation comment on the internal control system of the FHIDO _____

Thank you for your co-operations

APPENDIX II: INTERVIEW SCHEDULE

1. What are the effects of organizational controls employed by FHIDO?
2. What are the effects of operating controls employed by FHIDO?
3. What are the effects of periodic reviews employed by FHIDO?
4. How the organization recognize program (70%) and administrative (30) expenditures?
5. How the organization can present stocks and inventory in the financial statement of organization in order to comply with regulatory body, donor and organizational rules and regulation?