



**AN ASSESSMENT OF INTERNAL CONTROL ON
THE ETHIOPIA RESIDENT CHARITY ORGANIZATION IN ADDIS ABABA**

BY: KALKIDAN MINYASHAL

**A THESIS SUBMITTED TO THE DEPEREMENT OF MBA-FINANCE AND
ACCOUNTING**

**ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE
STUDIES
ADDIS ABABA, ETHIOPIA**

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Acronyms/Abbreviation

AICPA: - American Institute of Certified Public Accountants

APB: - Auditing Practices Board

BOD: - Board of Director

CEO: - Chief executive officer

CFO: - Chief finance officer

COSO: - Committee of Sponsoring Organizations

CAI:-Community Associations Institute

CRDA: - Christian relief fund organization

ERC: - Ethiopian Resident Charity

GAO:-General Accounting Office

IFAC: - International Federation of Accountants

INTOSAI:-International Organization of Supreme Audit Institutions

OFM: - Office of financial management

MOFED:-Ministry Of Finance and Economic Development

NGO: - Nongovernmental organization

SAS: - Statement of Accounting Standard

SOX: - Sarbanes Oxley

UKAPC:-United Kingdom Auditing practice Committee List of tables

Abstract

Non-governmental Organizations (NGOs) perform an important role in the economic development of developing countries by providing services to society through welfare works for community development, assistance in national disasters and sustainable system development. Resident charity organizations are types of Non-governmental organizations which geared toward the provision of some sort of benefits to the society and are citizen-based associations. These organizations are mobilizing financial resources from various national and international voluntary agencies to work in a coordinated manner consistent with the requirements of the society. This research focused on the Effect of internal control over organizational performance of the resident charity organization in Addis Ababa. Descriptive survey method of assessment has been conducted. Both primary and secondary data were collected using questioner, interview and document analysis. The key informants were used; hence, all the Finance managers, heads of finance and senior accountants of 22 organizations selected to take part in the study. Sample was selected from the total population by applying simple random sampling and purposive sampling technique. Primary data were collected from 54 Department heads, managers, and senior accountants of the sample ERC organizations in Addis Ababa using questionnaires plus an interview with 10 individual with work experience of more than 20 years. Secondary data was extracted from audit report, financial statements, internet and different books. The data collection instruments of the study have been properly administered by the researcher. The data has been analyzed by utilizing statistical package for social scientists (SPSS) version 20 using simple descriptive methods such as percentages and frequencies. The result of data analysis indicates that internal control is not effective and is affecting the performance of the organizations. Particularly the risk assessment component of internal control is not practiced properly. Though monitoring is better, there is still inadequacy in control environment, control activities and inadequate flow of information and communication in those organizations. Hence, it needs commitment from both the management and responsible government authorities to improve those specific areas of deficiencies' to get better performance on the organization.

Keywords:- Internal control, Nongovernmental organization, Organizational performance and Resident Charity organization

Chapter One

1. Introduction

1.1 Back ground of the study

Many different terms and definitions have been used to describe organizations operating in neither private sector nor public sector, sometimes referred to as the nonprofit sector or the third sector. Some of the most frequently used terms are; voluntary organizations, nongovernmental organizations (NGOs), civil society organizations, charitable organizations and nonprofit organizations.

A nongovernmental organization is an organization that is neither a part of a government or a convention for profit business. It is usually set up by ordinary citizens, may be funded by governments, foundation, business or private persons to serve vulnerable part of a society.

Freeman (1998) cited in Abrham Ayom Ayom(2013) conceptualizes Non- Governmental organizations (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.

These organizations have to be independent from government control, not seeking to challenge governments either as a political party or by a narrow focus on human rights, non-profit-making and non-criminal.

The history of charities/NGOs in Ethiopia is related to the early 1970s devastating famine in Wollo and Tigray which pressed the imperial regime to open its door to international and local NGOs to undertake relief and rehabilitation activities(Dessalegn, Akalewold, & Endeshaw, 2008). In 1973 the Christian relief fund latter called CRDA was formed as an umbrella of organizations and drew about dozen organizations where the majority organizations were faith based. The mid 1980s tragic famine drew more NGOs to be established in the country to be engaged in relief effort, (Dessalegn, Akalewold, & Endeshaw, 2008). In 2009 a proclamation which governs charities/NGOs in Ethiopia has been enacted.

Accordingly, Charities in the charities and societies proclamation No.681/2009 of Ethiopia is defined as an institution which is established exclusively for charitable purposes and gives benefit to the public.

The charities and societies proclamation number 621/2009 states, charities are categorized in to foreign charity, Ethiopian resident charity and Ethiopian charity.

The proclamation defines the above stated categories as follow:-

1. Ethiopian charities are charities that are formed under the laws of Ethiopia, all of whose members are Ethiopians, generate income from Ethiopia and wholly controlled by Ethiopians. However, they are allowed to generate income from foreign sources which is not more than 10% of their funds.
2. Ethiopian resident's charities mean those charities that are formed under the laws of Ethiopia and which consist of members who reside in Ethiopia and who receive more than 10% of their funds from foreign sources.
3. Foreign charities mean charities that are formed under the laws of foreign countries or which consist of members who are foreign nationals or are controlled by foreign nationals or receive funds from foreign sources.

All organization needs funds. Financial management is more than just keeping accurate accounting records. It also involves planning, controlling and monitoring financial resources to achieve organizational objectives. At a minimum, a financial management system should ensure that costs are properly categorized, tracked and charged to the appropriate accounts, and that managers are able to report financial information accurately to the Board and to donors. A good financial management system makes it easier to be accountable to donors and project beneficiaries, thereby enhancing their respect and confidence in the organization. This in turn, helps an organization be more competitive and can increase its chances of maintaining long-term financial health. A good financial management involves good internal control system which leads to favorable organizational performance.

This thesis tries to assess the effect of internal control over organizational performance of resident charity organization of Addis Ababa and suggest possible recommendation against shortcomings that were identified.

1.2.Statement of the problem

The role of local Non-Governmental Organizations is to supplement the government agencies in providing services to vulnerable people of the society. NGOs are formed as a result of certain needs identified by individuals or groups of individuals. Charity organizations are expected to be active partners with the government in the poverty reduction and development strategy of the country. Their role is vital in supporting the government's sustainable development and poverty reduction plans and contributes towards the socio economic development.

Financing of NGOs is largely by donors while management is by individuals who oversee the programs of the organization. The donors rely on the managers of these programs for the full management of their finance and implementation of the programs.

In the application and sources of fund, the NGOs as project implementing partners are required to have well organized internal control system and timely submission of financial and activities reports to the donors. The NGOs are required to comply with donors and government rules and regulations in the financial management activities and project implementation.

The researcher was initiated to assess overall controlling system and challenges of internal control in achieving organization objectives.

In addressing this research, it has been gone through various readings of empirical evidences in different organizations specifically in charities /NGOs. The empirical evidences available like Chukwu Priselca Amaka(2012), Kamau caroline Njelic(2013), Abrham Ayom Ayom(2013), Ndifon Ejoh, patrick Ejom(2014), Tsedal Lemi(2015) and Muraleetharn P. (2015) only to find out each focuses on profit making organization or not in Addis Ababa. Research on NGO / charities internal control over organizational performance is hardly available.

To the best of the researcher's knowledge, a recorded study in the Addis Ababa environment in relation to this topic is not found. Hence, this research is done to fill this gap at least in the Addis Ababa Ethiopia resident charity organization.

1.3 Basic research questions

The basic research questions raised by the researcher are as follows.

1. Does internal control system have effect on organizational performance of Ethiopia resident charity organization of Addis Ababa?
2. What is the status /condition of internal control system Ethiopia resident charity of Addis Ababa?

1.4 Objective of the study

1.4.1 General objective of the study

The general objective of the study is to examine the different dimension of internal control system on organizational performance of ERC of Addis Ababa.

1.4.2 Specific objective of the study

- A. To Examine internal control using risk assessment
- B. To Examine internal control using control environment
- C. To Examine internal control using environmental control
- D. To Examine internal control using information and communication
- E. To Examine internal control using monitoring and evaluation

1.5 Significance of the study

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

At large, the study may be employed by the ERC in Ethiopia addressing some of the stated problems related to internal control system.

The study may contribute to create awareness among the BOD & donors to the success of the vision.

The study might construct a way to the appropriate distribution of fund to the venerable society.

In addition, This thesis paper could be used as an initiation for those who are interested to conduct a detailed and comprehensive study on such similar topics.

1.6 Scope of study

All non government organizations (NGOs) need effective internal control system. However, for the sake of effectiveness and efficiency, and to manage the planning, controlling and organizing of this thesis paper properly, this study focuses only on ERC of Addis Ababa.

1.7 Limitation of the study

The limitations that have been encountered in this thesis were the following:

1. Some respondents were not willing to give necessary information and answer for the questions hence took time than expected to organize the paper.
2. Some of the ERC organizations of Addis Ababa don't have a segregation of duties which in turns makes it difficult to spot out the desired respondents. In this regard interview of key informants reduced the gap.

Chapter Two

2. Literature review

2.1 Theoretical review

2.1.1 Definition of Internal Control

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. The wider definition of internal control by United Kingdom Auditing practice Committee (UKAPC,1979) defined internal control as the whole system of control, financial and operational in order to carry on business of any enterprise to safe guard asset, ensure the completeness, accuracy of records , detect errors and fraud and ensure timely report of financial information. Robertson and Davis (1988) defined internal control from accounting perspective, accordingly internal control is a set of client procedure both computerized and manual imposed on accounting system for purpose of detecting errors and irregularities that may enter the system and affect the financial statements.

Large number of studies made on internal control however used an internal control definition made by Committee of Sponsoring Organizations (COSO, 1992) and Auditing Practices Board (APB, 1999). The two sources define internal control as a process, effected by an entity's board of directors (Council), management and other personnel, designed to provide reasonable assurance regarding the achievement of organizations objectives in the effectiveness and efficiency of operations, reliability of financial and management reporting, compliance with applicable laws and regulations and protect the organization's reputation . Regardless of the sources, all have the point of coincidence related to the definition of internal control. These points are referred to as the purpose or functions of internal control. Accordingly, internal control is designed and operated to; safe guard asset, adherence to policies and directive, and promoting organizational efficiency to attain the desired objectives.

In regard to purpose of internal control Walter and William (1982) conclude the role of internal control is; financial control perspective and administrative control. Financial control referred to as control to protect asset against improper disbursement and ensure the accuracy and reliability of financial records. Administrative control is used to ensure attainment of organizational objectives, ensuring efficiency and effectiveness of operation procedures. This classification of role of internal control is in line with Statement of Accounting Standard

(SAS) which classified internal control as accounting role and administrative role. Accounting role is a plan and coordination to safeguard asset and ensure reliability of financial records, while administrative control is a plan and coordination used to provide assurance of an adherence to management policies and directives.

In conjunction to afro mentioned definitions and purpose of internal control it is worthy to know who is responsible of internal control. Miesser (2003) note that internal control is affected by board of directors and management, indicate that they are responsible about the internal control established in organization. An Act of Sarbanes Oxley (2002) and statement of Audit Standard make the management accountable for internal control established in the organization. Among its provisions, SOX Section 302 required the corporate CEO and CFO in public filings to acknowledge their responsibility for establishing and maintaining internal controls and to report on the current operational effectiveness of the corporation's internal control system. The definition of internal control by Ethiopian Ministry Of Finance and Economic Development (MOFED, 1997) indicate that internal control is adopted by the Head of the public body to assist in achieving its objective. The mandate of managers on the established internal controls makes the management to provide reasonable assurance on the effectiveness of the controls. Reasonable assurance of internal controls is defined by Bradford (1997) as assurance equates to a satisfactory level of confidence on the controls under given considerations of costs, benefits, and risks, though how much assurance is reasonable is a matter of judgment. Bradford explained the reasonable assurance is the result for deficiencies of internal control. These deficiencies are referred to as limitations of internal control which will be discussed later in this section. The next sections of the theoretical review will therefore discuss types of internal control (section 2.1.2), elements of internal control (section 2.1.3), effective internal control (section 2.1.4), limitation of internal control (section 2.1.5).

2.1.2. Types of Internal Control

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

United Kingdom Auditing practice Committee (UKAPC, 1979) recognizes two types of internal controls; Accounting control and operational control. Accounting control is concerned with the plan of the organization and all the co-ordinated methods and procedures which are implemented with a view of safeguarding assets and enhancing reliability of financial records. An operational control comprises of the plan of the organization and all co-ordinates methods and procedures that are concerned with operatically efficiency an adherence to management policies and directives In line with UKAPC, internal accounting control is defined in SAS No. 1 (paragraph 320. 28) as: a plan of organization and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records and consequently are designed to provide reasonable assurance about the transactions and related resources. According to SAS (No 48) operational control is Administrative control which is the plan of organization and the procedures and records that are concerned with the decision processes leading to management's authorization of transactions. Such authorization is the management function directly associated with the responsibility for achieving the objectives of the organization and is the starting point for establishing accounting control of transactions. The guideline of internal control, International Federation of Accountants (IFAC, 2012) put forward eight (8) types of internal control system that should be obtainable in an organization in an organization and they are follows:

Organizational Control and Segregation of Duties

An organization should have a plan of its activities which should define and allocate responsibilities that is every function should be monitored by a specific person who may be called “responsible officer.”This reduces the risk of internal manipulation, accidental error and increases the element of checking. Functions which should be separated in an organization financial management include: initiation (officer or person who decides to give out the loan), Execution (the person who keeps the money to be loan out) and recording (the

person who records the whole process in the book).system development and daily operations have to be considered in molding the internal control system to be full proof against fraud.

Physical Control, Arithmetical and Accounting Control

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

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

Personnel Control and Supervision Control

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

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

These are the controls exercised by management outside the day-to-day routing of the system they include the overall supervisory controls exercised by management, the review of management accounts and comparison thereof with budget internal audit function and

other special review procedures. It is also the duty of the management to review the internal control from time to time in order to accommodate changes in the financial management operations. All transactions should require authorization by an appropriate responsible person. This is very important in the financial system of an organization where large amount of money is handled so therefore it is appropriate for these money which are used for are used for various transactions to be authorized.

An auditing hand book by Spencer (2003) classified principal internal control as; administrative control, informational control, managerial control, procedural control and physical control. In addition the hand book also classified internal control as; directive control, preventive control, detective control, and corrective control.

Directive control; is used to ensure a clear direction and derive to achieve desired objectives. It is related with motivating the people and gives them a clear sense. It may include staff training and awareness.

Preventive control; is to ensure that system works in the first place. This may include employing competent staff, high moral standard, segregation of duties, generally establishing good control environment. Detective control; is used to pick up transactions errors that have not been prevented. They cover controls like supervisory review, internal checks, spot checks and reconciliations.

Corrective control; is final category of the controls used to ensure where the problem is identified and they are properly dealt with. These include management action, corrections and follow up.

2.1.3. Elements of Internal Control

The components of internal control are no different in many sources. Some sources refer them the elements or frameworks while some other refer it standards of internal control. The Committee of Sponsoring Organizations (COSO,1994), Act of Sarbanes Oxley, American Institute of Certified Public Accountants (AICPA) and General Accounting Office (GAO) claim effective internal control should primarily have five elements namely; control environment, control activities, risk assessment, information and communication, and monitoring. Each of the elements will be discussed as follows.

2.1.3.1. Control Environment.

The control environment is considered as the tone at the top of an organization, influencing the control consciousness of its employees. Beneish et al (2008), defines the control environment as the tone of an organization and the way it operates.

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

The control environment represents the control atmosphere for the entity and is the foundation for the other components (Nicolaisen, 2004). Bates (2001) as cited in Oguda Ndege Joseph , Odhiambo Albert, Prof John Byaruhanga(2015) considers the factors relating to the control environment to include the integrity, ethical values, and competence of employees and management, management's philosophy and operating style, the manner in which authority and responsibility are assigned, the organization and development of employees, and the attention and direction of the board of directors towards organizational success. Lou (2008) concurs that higher level administrators of an organization are responsible for establishing the appropriate control environment. Guy et al (1999) states that good control environment should provide guidelines related to: ethic and integrity values that should be owned by the member of entity; commitment to competence; participation or the board of director and audit committee; philosophy and management style; job description of each personnel; and lastly policy and procedure of human resources.

2.1.3.2. Risk assessment

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

2.1.3.3. Control activity.

Under Act of Sarbanes Oxley act (SOX, 2002) Control activities are the policies and procedures that assist in ensuring that management directives are successfully implemented. They provide the means to address the various risks that may hinder the achievement of the organizations objectives. In essence, control activities are established in response to perceived risks. Junner, (1993) in Tsedal Lemi(2015)described Control activities as policies and procedures that help ensure that management directives are carried out. They help ensure that necessary activities are taken to address risks to achievements of the entity's objectives. Control activities occur throughout the organization at all levels and all functions. Control activities include range of activities; authorization, verifications, reconciliations, reviews of operating performance security of assets and segregation of duties (Ernst and Yong, 1995). The American Institute of Certified Public Accountants, in Statement on Auditing Standards number 55 (SAS 55), also defined control activity as policy and procedure to ensure that every activity taken based on the consideration to minimize the risk faced by the entity. Accordingly the statement described the elements of control activities as Proper authorization of transactions Design and use of adequate documents and records to help ensure the proper recording of transactions and events Purchase orders to ensure that you received what you ordered and you only pay for what you received. Independent checks on performance and proper valuation of

recorded amounts A good entity should separate transaction authorization function, accounting record function, and asset store function (Guy et al., 1999; Meisser, 2003). Accordingly it is necessary to prevent the occurrence of cheating. The independency of each function can also be used to minimize the cheating behavior of the person in charge.

2.1.3.4. Information and communication;

In a good organization, information system is essential to guide its operation process.

Information systems produce reports, containing operational financial and compliance – related information that makes it possible to run and control an organization (COSO, 1992). It should consist of accounting information system to ensure that the accounting process is valid and reliable.

The Standards for Internal Control (GAO, 1999) requires that Information should be recorded and communicated to management and others within the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities. Effective communications should occur in a broad sense with information flowing down, across, and up the organization. Information flow is essential to effecting control, information about an organization’s plan, control environment, risks, control activities and performance must be communicated up, and access an organization (Ruttrman Working Group, 1994). Reliable and relevant information flow both internal and external sources must be identified, captured, processed and communicated to the people who need it in a form and time frame that is useful (Chambers 1995). Management should ensure there are adequate means of communicating with, and obtaining information from, external stakeholders that may have a significant impact on the agency achieving its goals (Guy et al., 1999). According to (Guy et al., 1999), effective information technology management is critical to achieving useful, reliable, and continuous recording and communication of information. Moreover, the system should be communicated to everyone in the organization.

2.1.3.5. Monitoring;

Spencer (2003) used quote “hundreds killed by doctors relying on outdated manuals” from New Times (1997) to elaborate how necessary to update an internal control is within organizations. According to Spencer (2003) to ensure the reasonable assurance regarding achievement of

the organizations objectives, the monitoring process should be performed to evaluate and assess the systems of internal control to ensure that the procedures are consistently applied over an extended period of time. Spencer believes internal audit is part of monitoring internal control system. Managers should promptly evaluate findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors and others who evaluate agencies' operations, to determine proper actions in response to findings and recommendations from audits and reviews. Jones (2008) refers monitoring as the process of assessing the quality of a system's performance over time. On an on-going basis, staff should evaluate the various systems of internal control and updates/modifies/enhances where needed. Any discovered deficiencies are addressed immediately and added to the overall systems of internal control. Monitoring of internal control should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved. According to Coffin (2003) monitoring entails the activities and procedures designed to assess the effectiveness of the internal control system in achieving the entity's financial reporting objectives. Monitoring activities may be ongoing or may be separate evaluations and it is important given the complex and dynamic environments faced by most organizations (Henle 2005). It seeks to ensure that systems are performing as intended. However, this is accomplished through ongoing monitoring activities, periodic evaluations or a combination of the two (COSO, 2004). Henle (2005) further contends that these activities permeate the entire organization, at all levels and in all functions.

2.1.4. Effective Internal Control System

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

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

and effectiveness of operations have been taken to mean efficiencies and effective use of its resources including personnel, accurate information for decision making and safeguarding of assets and records (Aren and Lwebbecke, 1994 cited in Abrham Ayom Ayom). As stated in internal control frame work of COSO (1994) an effective internal control should in priority encompass the five elements the control. In addition effective, internal controls must satisfy three basic criteria:-

- They must be appropriate (that is, the right control in the right place and commensurate to the risk involved).
- They must function consistently as planned throughout the period (that is, be complied with carefully by all employees involved and not bypassed when key personnel are away or the workload is heavy).
- They must be cost effective (that is, the cost of implementing the control should not exceed the benefit) Basel Committee on Banking supervision (1998) states that in order an internal control effective there should be an effective and comprehensive internal audit carried out operationally independent ,appropriately trained and competent staff. It is part of monitoring of internal control system. In addition Basel Committee on banking supervision (1998) also suggested the following principles as a judgment to effective internal control.

Principle 1-3; States that in effective internal control; the board of directors and senior management of the companies should have a responsibility to develop policies, strategies, and understanding possible risks. They are also responsible for promoting high ethical standards, integrity standards and establishing the culture within the organizations.

Principle 4; An effective internal control requires that the material risks that affect adversely achievement of organizational goal continuously recognized and assessed.

Principle 5; Control activities should be integral part daily activities of an entity. An effective internal control requires appropriate control structure set up at every organizational level.

Principle 6; Effective internal control requires segregation of duties that personnel's are not assigned to conflicting responsibilities. Areas of potential conflicts should be identified and minimized.

Principle 7; Effective internal control requires adequate and comprehensive financial, operational and compliance data and external information used for decision making. The information should be reliable, timely and accessible.

Principle 10; Overall effectiveness of internal control should be monitored ongoing basis. There should be continuous evaluation of internal control.

Other studies also discovered; what are the judgments for effective internal control. Wells (2001) recognizes that internal controls can enhance the productivity and competitiveness of organizations. Effective internal control can help companies achieve established financial goals, prevent loss of resources, keep accurate recording of transactions, and prepare reliable financial statements (Ernst & Young 2002). Apart from different measurements of internal control some argue internal control effectiveness is more dependent on one or more of the elements.

For example Spencer (2003) argue that to judge internal control effective depends on the criteria's established by management to evaluate the effectiveness. However internal control effectiveness is much dependent on control environment. Spencer (2003) confirms that if an organization gets the control environment right the rest will tend to follow. In evaluating the effectiveness of the internal control environments, Coopers and Lybraud (2006) argued that there is a need to consider whether control objectives are met; management conveys the message that integrity and ethical cannot be compromised, the organization structure provides a moral framework for planning, directing, and controlling operations, management ensures that appropriate responsibility and delegation of authority is assigned to deal with goals and objectives and the Board of Directors and audit committee are sufficiently independent from management to construct a challenge to management decision and take an active role in ensuring that an appropriate "tone at the top exists". Turnbull report (2004) in indicates risk assessment is an integral part of effective internal control. In order to fulfill organizational objective effective internal control should assess and minimize risks.

2.1.5. Limitations of Internal Control Systems

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

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

A number of deficiencies indicate poor or inadequate internal control procedures or policies.

According to Bradford (1997) the deficiencies can be categorized into three groups: deficiencies in the design of the internal control structure, deficiencies in the operation of the structure, and all other deficiencies. Because any internal control structure depends on the human factor, it is subject to flaws in design, errors of judgment or interpretation, misunderstanding, carelessness, fatigue, or distraction. While the competence and integrity of the personnel designing and operating the system may be controlled by selection and training, these qualities may alter due to pressures from within and outside the public body. Furthermore, no matter how competent the staff, the control they operate may become ineffective if they do not correctly understand their function in the control process or choose to ignore it.

2.1.6 Definition of performance

Performance refers to the ability to operate efficiently, profitably, survive grow and react to the environmental opportunities and threats. Performance comprise the actual output or result of an organization measured against its intended outputs (goals or objectives).

In the context of organizational financial performance, performance is a measure of the change of the financial state of an organization, or the financial outcomes that results from management decisions and the execution of those decisions by members of the organization.

Although the concept of organizational performance is very common in the academic literature, its definition is difficult because of its many meanings. For this reason, there isn't a universally accepted definition of this concept.

In the '50s organizational performance was defined as the extent to which organizations, viewed as a social system fulfilled their objectives (Georgopoulos & Tannenbaum, 1957: p. 535 cited in Corina Gavera,Liviu Ielis, Kliuj, Roxana Setrijean 2011). Performance evaluation during this time was focused on work, people and organizational structure.

Later in the 60s and 70s, organizations have begun to explore new ways to evaluate their performance so performance was defined as an organization's ability to exploit its environment for accessing and using the limited resources (Yuchtman & Seashore, 1967: p. 379 in Tsedal Lemi 2015). The years 80s and 90s were marked by the realization that the identification of organizational objectives is more complex than initially considered. Managers began to understand that an organization is successful if it accomplishes its goals (effectiveness) using a minimum of resources (efficiency). Thus, organizational theories that followed supported the idea of an organization that achieves its performance objectives based on the constraints imposed by the limited resources (Lusthaus & Adrien, 1998 after Campbell, 1970). In this context, profit became one of the many indicators of performance.

The authors Lebars & Euske (2006: p. 71) provide a set of definitions to illustrate the concept of organizational performance: Performance is a set of financial and nonfinancial indicators which offer information on the degree of achievement of objectives and results (Lebars & Euske 2006 after Kaplan & Norton, 1992).

Performance is dynamic, requiring judgment and interpretation. Performance may be illustrated by using a causal model that describes how current actions may affect future results.

Performance may be understood differently depending on the person involved in the assessment of the organizational performance (e.g. performance can be understood differently from a person within the organization compared to one from outside).

2.1.7 What are characteristics of good performance measures?

Good performance measures are:

- Relevant
- Understandable
- Timely
- Comparable
- Reliable
- Cost effective

Although performance measures may have other characteristics, these have been established by the Governmental Accounting Standards Board.

OFM (office of financial management of state of Washington) uses these as criteria in Performance Assessments and they are used in almost every kind of performance audit.

- Relevant measures matter to the intended audience, and clearly relate to the activity being measured. Logic models are a way of establishing relevant measures.
- Understandable measures are clear, concise, and easy for a non-specialist to comprehend. This applies to language used in the title and description, and to technical aspects of the measure such as the scale used in charts or selection of performance targets.
- Timely measures have information available frequently enough to have value in making decisions.

- Comparable measures have enough data to tell if performance is getting better, worse or staying about the same. They also provide the reader with a frame of reference or context to tell if current performance meets or exceeds expectations.
- Reliable measures have data that is verifiable, free from bias, and an accurate representation of what it is intended to be.
- Cost Effective measures justify the time and effort to collect, record, display, and analyze the data given the measure's value. Another aspect of cost-effectiveness is feasibility. For instance, an ideal metric may require data collection, the scope and scale of which is far beyond its potential usefulness.

Performance measures may have other desirable characteristics, too:

- Useful measures help people doing the work understand what is happening with their organization process, and how to get better results for beneficiaries.
- Influence relates to the ability of an agency to influence a measure, to “move the needle on the dial when they push on the pedal.” Some measures are important enough to society that we want to track them, even though a single agency's influence on them may be difficult to discern. These are often called indicators.
- Feasible: data is on hand or the agency can reasonably expect to collect it.

2.1.8 Why do we need performance measures?

There are several reasons to measure, monitor and report performance of our work. It's the right thing to do. For the purpose of assessing activity performance, each organization shall establish quality and productivity objectives for each major activity in its budget. The objectives must be consistent with the missions and goals developed under this section. The objectives must be expressed to the extent practicable in outcome-based, objective, and measurable form. Objectives must specifically address the statutory purpose or intent of the program or activity and focus on data that measure whether the agency is achieving or making progress toward the purpose of the activity and toward statewide priorities.

1. **Budget Decisions:** it requires agency budget requests to be linked to performance measures so budget analysts can understand what results or improvements to expect from an investment of resources. This is to carry out the legislature's policy that each agency's budget recommendations must be directly linked to the agency's stated mission, goals and objectives, and that agency budget proposals must integrate performance measures, "that allow objective determination of an activity's success in achieving its goals." In addition, the Priorities of Government process uses performance data as criteria for assessing which activities are most effective, and thus should be the highest priority for investment. It has been built a data systems to help agencies meet these requirements. Agencies use the Activity system to describe their work activities and expected results, then create performance measures to tell a story about this work. Budget requests must identify incremental changes in performance that can be expected from the investment.

2. **Better Management:** Performance measures tell managers something important about the agency's products, services, and the processes. Measures are a tool to help understand, manage, and improve. Effective performance measures can let us:
 - Monitor performance to judge how well we are doing,
 - Know if we are meeting our goals and if our customers are satisfied,
 - Take action to affect performance or improve efficiency if improvements are necessary.

In short, performance measures provide data and information necessary to make informed decisions. Performance measures provide a snapshot of current performance capabilities and track whether actual performance is getting better, staying the same, or getting worse over time.

The best performance measures start conversations about organizational priorities, the allocation of resources, ways to improve performance, and offer an honest assessment of effectiveness.

3. **Accountability:** Organizations needs to be accountable to its "shareholders" and "board of directors" about what has been done from the investment, and its effectiveness at accomplishing the mission. Spending reports tell about the investment of funds; we communicate the return on that investment through performance measures. The

organization Management Accountability and Performance process relies on performance measures of key agencies to determine effectiveness at achieving results.

2.1.9 Performance in private organization and NGOs

Private/business/ organizations are established for profit. Financial performance of private organizations is measured to enhance profitability. While NGOs are organization that operates like a business but does not seek any financial gain.

In any kind of organization once internal control have been instituted, management has to ensure that these controls are complied with. This in turns will ensure positive organizational performance

Positive financial performance in business organizations can be achieved by eradicating waste in benefits services processes and systems. The critical success factor for a firm is the degree to which it fulfills its set objectives and mission in terms of being efficient, effective and economical.

The information obtained from a sound internal control system as reflected from financial statements will provide a report on a firms financial performance and position that is useful to a wide range of users for assessing the stewardship and making economic decisions. Performance in nongovernmental organization is measured by how well it contributes to other people's efforts to improve their lives and societies.

2.1.10 How to measure performance

Appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. Performance is measured by either subjective or objective criteria. Performance measurement system can also be of both financial as well as non-financial indicators.

Performance is measured by how efficient the enterprise uses its available resources to achieve organizational objectives. It is the measure of attainment achieved by an individual, team, organization and process.

Organizational performance is measurement of the results of a firm's policies and operation in different terms. These results are reflected in the firm's returns and value-added. This is a

subjective measure of how well a firm can use assets from its primary mode of business. This term is also used as a general measure of a firm's overall financial health over a given period of time.

NGOs can make a big contribution to people's own efforts. But each NGO normally only has a small influence on long term social change. Other factors are normally more important, like government, politics, economic opportunities, friends and family, culture or even the weather. Ultimately, people make their own choices about their lives. NGOs aim to nurture and respect that autonomy, in what they do and how they do it.

NGOs can achieve most by managing and measuring their own performance, rather than poor people's long term social change.

The approach focuses on factors that are within NGOs' control and reinforces respect for other people's autonomy. It is about helping people help themselves.

Even though nonprofits lack pressure from shareholders to show the value created by the organization there is a pressure to show how well they perform that derives from wide range of stakeholders. (www.ngoperformance.org)

1. Setting strategy

NGOs' strategies should set out what they will do to make the biggest contribution to other people's efforts to improve their lives and societies.

2. Planning activities

NGOs should develop activity plans in discussion with local people and other collaborators, identifying who would have to do what to achieve specific goals.

Measuring performance

3. Feedback & scope

NGOs should measure how well they are contributing to other people's efforts using a combination of feedback and scope indicators.

4. Managing relationships

NGOs should systematically build and monitor relationships with local people and other collaborators, and ensure they meet appropriate standards.

5. Technical quality

NGOs should systematically monitor the technical quality of their work and ensure it meets appropriate standards. Managing performance

6. Frontline staff.

NGOs' first priority should be to support and encourage frontline staff to contribute effectively to other people's efforts.

7. Continual improvement.

NGOs should create organizational cultures of continual improvement

Communicating performance

8. Transparency

NGOs should operate open information policies, based on the presumption of disclosure, and make information easily accessible to relevant collaborators.

9. Ethical fundraising

NGOs should systematically check that fundraising claims are ambitious but realistic, within the limits of what they can achieve.

10. Sector learning

NGOs should collaborate in a collective effort to continually improve performance and use resources as effectively as possible across the sector.

2.2 .Empirical review

According to (Hofer, 1983 cited in Robert B. Cartoon (2014)) Performance is a contextual concept associated with the phenomenon being studied.

Goodwin (2003) has stated that performance comprises of the actual output or results of an organization as measured against its intended outputs or objectives.

Juheno (1999) further notes that internal controls play an important role in corporate governance systems. Controls help an organization prepare accurate and complete financial statements at the end of each month and quarter. A firm may also hedge, or protect against, operating risks by implementing functional controls. These risks may relate to manufacturing activities and technological processes. Corporate governance consists of all mechanisms, technological processes and physical systems that department heads and segment chiefs put

into place to make sure a company operates effectively. Governance tools include human resources policies and guidelines, as well as departmental work specifications. These tools may also include external elements, such as laws and regulations.

Basoln (2002) 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/company prevent adverse regulatory initiatives, such as fines or litigation. Accounting principles and internal audit rules require that organizations or companies establish adequate and functional internal controls to improve corporate governance processes. These principles include generally accepted accounting principles and the Institute of Internal Auditors standards.

Reinford (2004) as cited in in Abrham Ayom Ayom(2013), states that, one of the main characters of the Internal Control System is Internal Auditing activity.

As per Krishnan (2005) Proper application of internal control procedures and policies improves on the performance of an organization.

Stevenson (2004) notes Performance is the outcome of an individual or group contribution of development in any activity leading to results (positive / negative).The financial statements users, regulators, directors and managers view internal control function as a key component of an organization's corporate governance.

Accordingly Ronald (2011) evaluated internal Control Weaknesses in Local Government. Towns and villages account for more than 1,400 municipal government entities in New York State constituted in the study. The study focused on the internal control issues identified in an extensive, ongoing series of audits of towns and villages undertaken by the New York State Comptroller's Office. All towns and villages audit reports issued by the office were examined. These general internal control audits were used to identify towns and villages with internal control weaknesses. The budgets of the towns reviewed were limited to an examination of the annual budget for the following year, reviewing the

reasonableness of projected revenues and expenditures, the proper use of accumulated fund balance, and general financial condition. Inconsistent results have been found in relation to internal controls existence and the likelihood of performance (Beasley, 1996; McMullen, 1960; Dechow et al., 1996)

2.3 Research gap

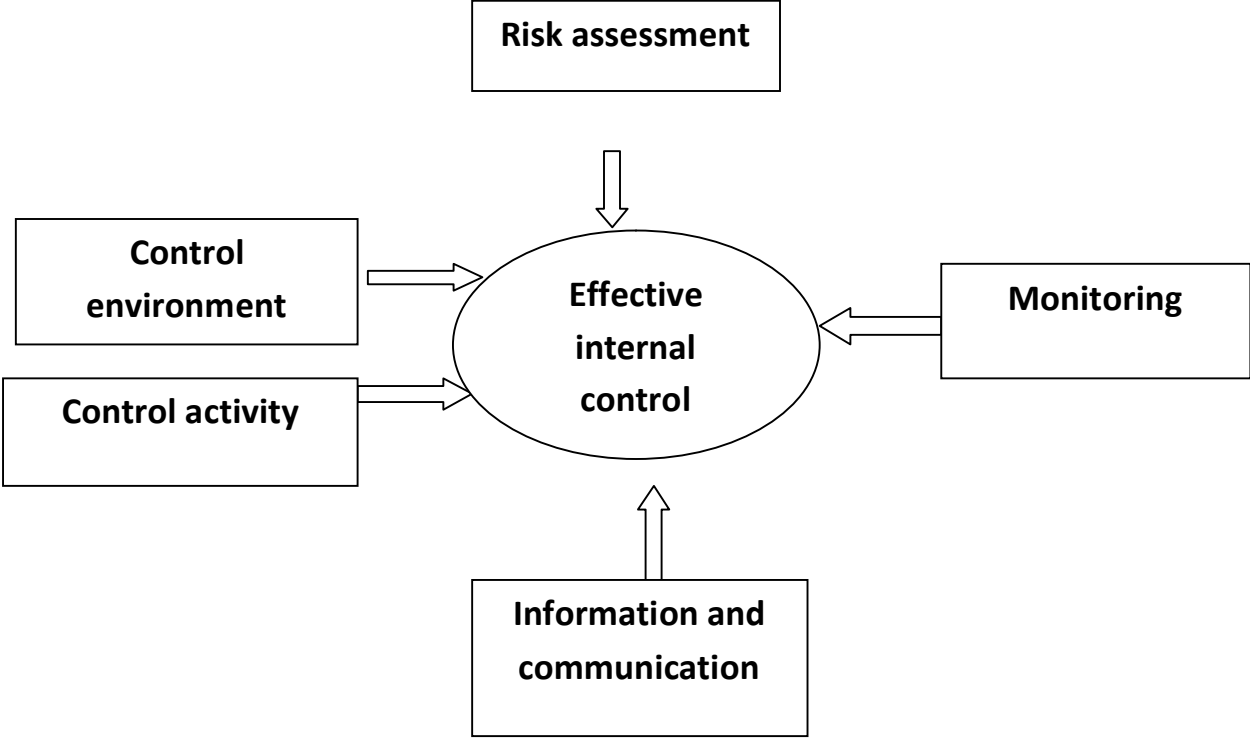
In general the literature indicates that organizations should invest heavily on the internal control and used to improve the quality of their internal control systems. The devotion of resources, knowledge, time and human power is needed for a number of reasons, notably: good internal control is good business by itself. It helps organizations ensure that operating, financial and compliance objectives are met. Literatures indicate that there are different types of internal control. While most of the classifications are based on purposes of the controls, some other classifies them based on the control methods applied in the system. However, the objectives of every internal control system were to achieve organizational efficiency and effectiveness, meet corporate objective and ensure adherence to rules and regulations.

Considering the importance of the topic to be studied, there are no many researches and consistent results regarding the title of the study especially in Addis Ababa ERC organization. After reviewing literatures on Effect of internal control on organizational performance, insufficient and inconsistent conclusion has been identified.

2.4 Internal control Frame work

Source; developed from INTOSAI (2004)

Figure 1



Chapter Three

Research Design and Methodology

A mixed research approach was employed based on the justification which is clearly stated in Creswell (2003) “since all methods have limitations researchers should know that bias is natural in any single methods..”

3.1 Research Method

To study the problem guided by the basic research question, descriptive survey method was employed. As stated in Abiy et al. (2009), descriptive survey has the intention of describing the nature of existing condition, or identifying standard against which existing conditions can be compared. Furthermore, Creswell (2003) state that this method is more appropriate to gather variety of data related to the study and to analyze the data in mixed type of quantitative and qualitative approach.

3.2 Source of Data

The study applied both primary and secondary data. The primary data has been collected from enterprise key management, senior accountants and finance heads, through questionnaires and interview to investigate the Effect of internal control.

The secondary data was collected from books, research journals and articles were conducted on internal control system. In addition other related titles has been gathered from Audit reports of the organization.

3.3 The population of the study

The target population of this study was on the managements, senior accountants and finance head of the ERC in Addis Ababa.

3.4 Sampling

3.4.1 Sampling technique

According to Gay and Airasia, (2000) it is common to take 10% to 20% sample in a descriptive research method. Accordingly sample shouldn't be too large to be economical and shouldn't be too small to keep validity of findings. This study used two sampling stages.

Addis Ababa is divided into ten sub cities. After considering the time given, the resources available and homogenous nature of the organizations the researcher decides to take 20% of the sub cities using simple random sampling (i.e. two sub cities). A total of 22 ERC organizations were represented from each sample sub city (i.e.9 out of 45 organizations from lideta sub city and 13 out of 65 organizations from Addis Ketama) using simple random sampling (lottery method). Then a purposive sampling was employed on managers, senior accountants and finance head with a firm belief that they have adequate information and knowledge on internal control as they are running the organizations.

3.4.2 Research Instrument

The researcher collected both qualitative and quantitative data by using different data collection instruments. Questioners and semi structured interviews were prepared based on literature review and employed to collect primary data. Moreover, secondary data were analyzed from books, internet (i.e., e-journals, web articles), manuals, audit reports different proclamations and regulations.

Close ended forms of questioner were prepared in line with the objective of the research and employed to collect data from senior accountants, managers and / department heads. The coverage of the questioner explains the objective and the study assure the respondents of ambiguity, and give them the option of not participating if they do not wish to.

Interview helps us to minimize misunderstanding of questions as the researcher has a chance to explain the point vividly. Kumar (2005) states that “interview is not only appropriate, but also it is useful for collecting in-depth information.” Accordingly, semi structured interview was employed for the target respondents.

3.5 Data Collection Procedure

The list of the key respondent name, mobile number and address with respect to their company was gathered physically from the two sub cities (i.e. Addis ketema and Lideta) finance and economic development offices. Based on this list, the researcher visited the selected participants, then asks questions, distribute and collect questionnaire. While distributing the questionnaire the

researcher interviewed some of the key respondent of the research who is directly responsible for their company management. Finally the questionnaires had been self-administered, mostly by visiting the offices of the selected ERC organizations.

3.6 Method of Data Analysis

The quantitative data that was obtained from questioner was first edited, categorized and finally described by using statistical techniques (Frequency & Percentage) and also Statistical Package for Social Sciences (SPSS) version 20 was utilized to analyze the data collected.

The qualitative data was first organized into meaningful information and the data were described both as expressed by interviewees and as understood by the researcher.

Chapter Four

4. Presentation and Analysis of Data

This chapter deals with presentation and analysis of data collected from 26 (48.1%) department head, 12 (22.2%) managers or supervisors and 16 (29.6%) senior accountants selected and 10 individuals who have experience of 20 and above were purposively sampled from the two Sub-City (Lideta and Addis Ketema) of Addis Ababa City Administration. Data obtained from document analysis and interviews are also incorporated in this chapter.

As to the response rate, 65 questionnaires were distributed to department head, manager or supervisor and senior accountant working in ERC organizations. Of these, 89.2 % (58 questionnaires) were filled in by the respondents and collected by the researcher. Again, of the collected questionnaire, 4 (6.8 %) questionnaire were rejected before the analysis due to incompleteness and inappropriate ways filling the questions. Consequently, the research analysis was done based on the data obtained from the remaining 54 (83%) respondents. Besides, data obtained through document analysis (reports) and data gathered through interview from ERC organizations (individuals with 20 or more years of experience) were analyzed along with quantitative data.

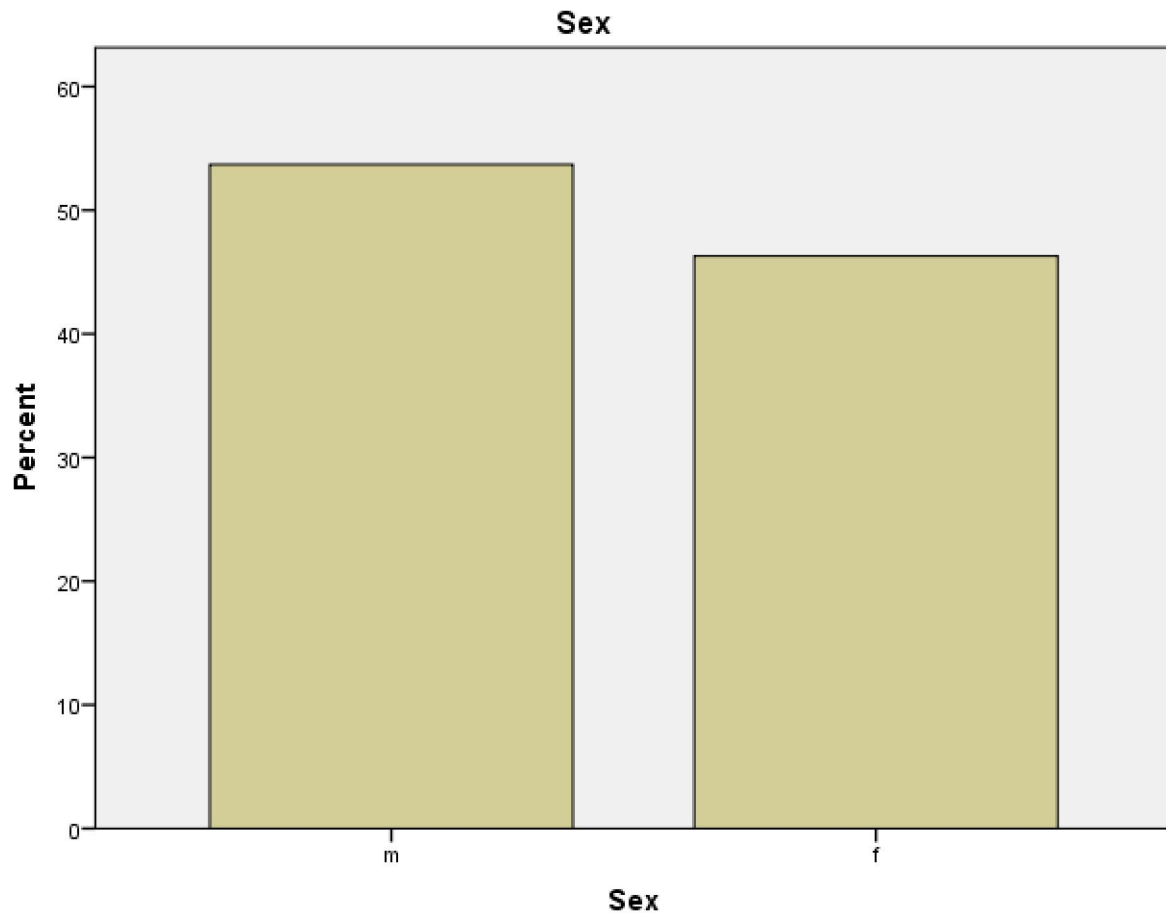
To ease the analysis, the data collected through questionnaires were tallied and tabulated. Along with the absolute number (frequencies), percentages were also calculated to indicate the characteristics of the study population. Percentage is also used to indicate the magnitude each score posses.

The first part of the chapter deals with the demographic characteristics of respondents while the second part is concerned with the analysis of data related to impacts of internal control over organizational performances in ERC organization located in Addis Ababa.

4.1. Demographic Characteristics of the Respondents

4.1.1. Sex

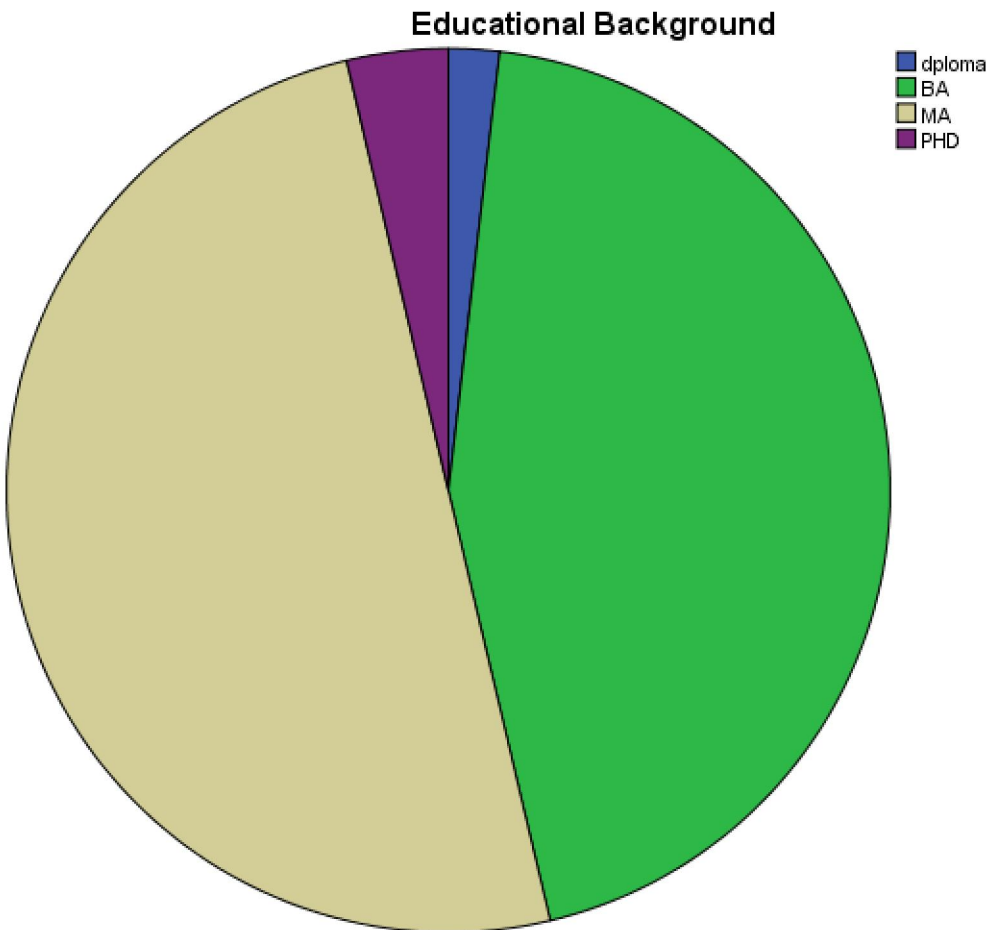
Figure 2



The above graph depicts respondents' characteristics in terms of sex. Regarding respondents, the male group constituted 53.7 % (29) while the females make up 46.3 % (25).

4.1.2. Educational Background

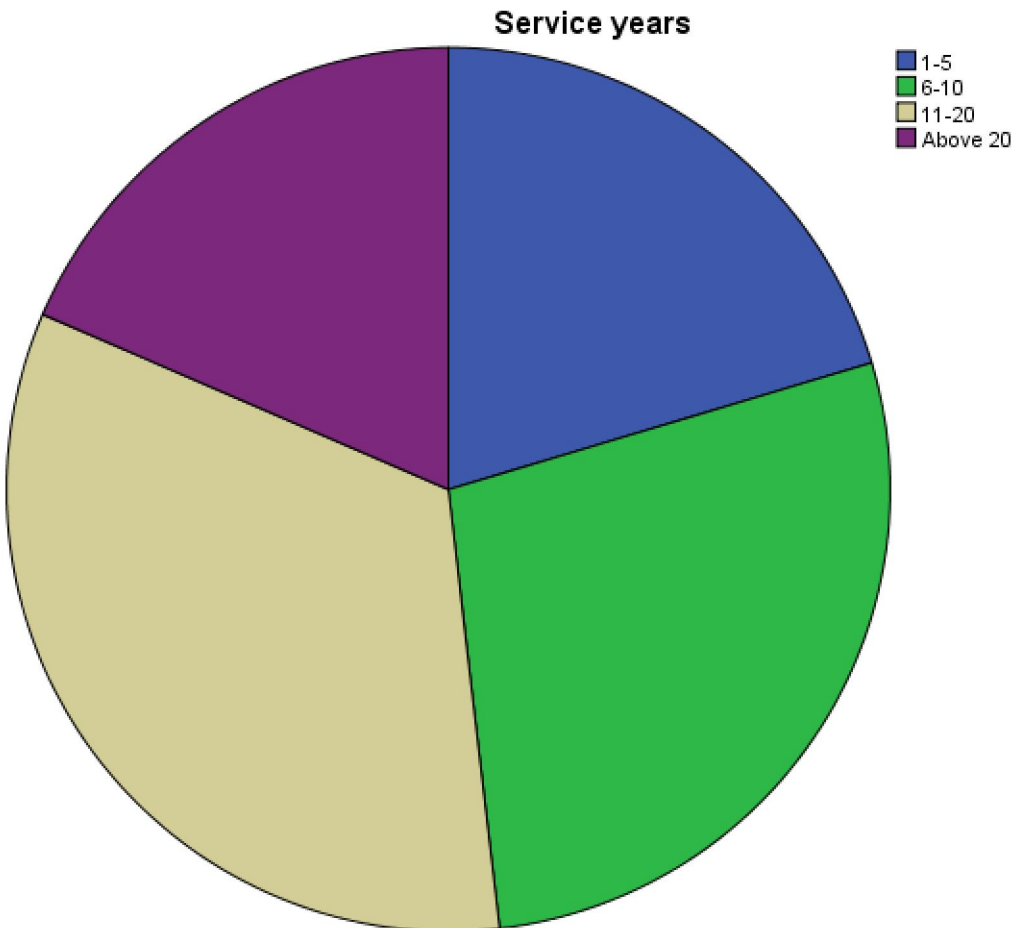
Figure 3



Respondents' academic qualification illustrated in the above graph shows that 1.9 % (1) are diploma holders, 44.4 % (24) are first degree holders, 50 % (27) Master holders and 3.7 % (2) PhD holders. Based on their qualification, the researcher believes that these respondents could be the source of reliable and useful information for the study.

4.1.3. Service years

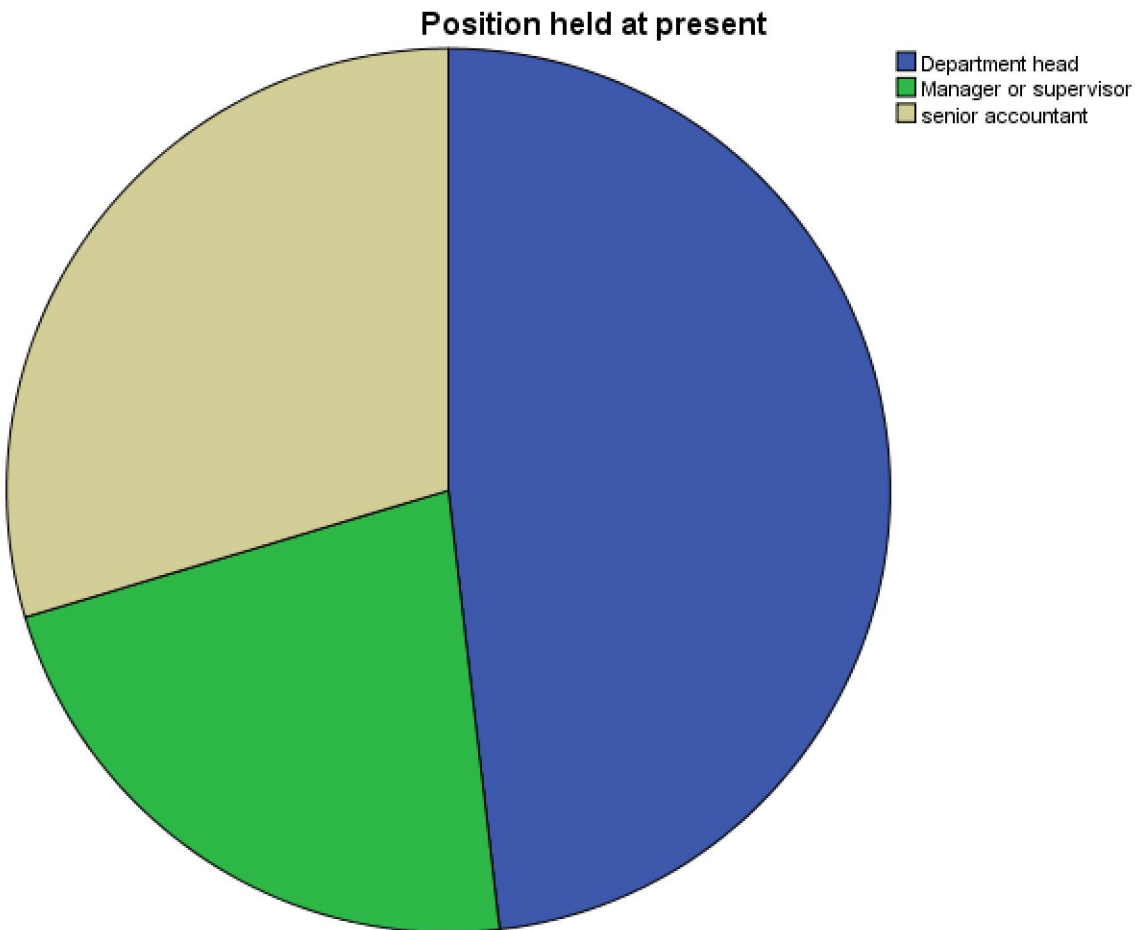
Figure 4



Regarding work service of the respondents, 20.4 % (11) served for 1 -5 years, 27.8 % (15) served for 6-10 years, 33.3 % (18) served for 11 to 20 years and the remaining 18.5 % (10) have experience more than 20 years. A bit more than half of the respondents have more than ten years of work experience. This shows that the represented ERC workers have long years of experience. It is crucial to point out here that the availability of experienced and qualified staff will have positive impact for the effectiveness of the organizations. It is also true that the more one gets exposure for the organization the more he/she can provide reliable information. As can be witnessed from graph above significant number of the respondent have ample exposure, which makes them reliable sources of data.

4.1.4. Position held at present

Figure 5



Position held at present is another general characteristic of the respondents considered. Accordingly, as depicted in the above graph, 48.1 % (26) department heads, 22.2 % (12) managers or supervisors and 29.6 % (16) accountants were represented. The diversity of the respondents may help to find ideas from different perspectives.

4.2. Analysis and Interpretation of Data

4.2.1. Control Environment

Table1: Analysis Control environment-1

The organization has a proper code of conduct and/or ethics policy that has been communicated to all staff, board members, and external partners

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	6	11.1	11.1	11.1
2.00 disagree	11	20.4	20.4	31.5
3.00 neutral	5	9.3	9.3	40.7
4.00 agree	23	42.6	42.6	83.3
5.00 strongly agree	9	16.7	16.7	100.0
Total	54	100.0	100.0	

The respondents were asked to rate if the organization they work on has a proper code of conduct and/or ethics policy that all staff, board members, and external partners know about. As shown from table 1 of the total respondents 42.6 %(23) agreed and 16.7 %(9) strongly agreed, this indicate that out of 54 total respondent 32 respondent's organization has an ethics policy or guidelines. On the other hand results show, 11.1 %(6) strongly disagree and 20.4 %(11) disagree plus 9.3 %(5) has answered neutral. Therefore it is possible to interpret the results as a total of 22 respondents out of 54 are not aware, does not practice or have any ethical policy/guideline on organization they work on. This implies a significant number of organizations might lack discipline, transparency and integrity.

Table 2: Analysis Control environment-2

The organization has an appropriate financial and administration manual that has been communicated to all staff, board members, and external partners.

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	5	9.3	9.3	9.3
2.00 disagree	7	13.0	13.0	22.2
3.00 neutral	6	11.1	11.1	33.3
4.00 agree	23	42.6	42.6	75.9
5.00 strongly agree	13	24.1	24.1	100.0
Total	54	100.0	100.0	

As it is shown on table 2, 42.6% agree and 24.1% strongly agree that respondent has a positive view on financial and administration manual. Out of 54 respondents 36 of them agreed that the organization they work on has obvious manuals available for all concerned bodies. This results shows adherence to guidelines might exist. But this same table illustrates 18 respondents out of 54 with 5%, 7% and 6% strongly disagree, disagree and neutral respectively. This shortly means that the management, department head and senior accountants are not giving attention to the matter. This in short indicates incompetence on management style of the respondent's organization consequentially affecting the performance of the organization.

Table 3: Analysis Control environment-3

Management establishes with board oversight structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	5	9.3	9.3	9.3
2.00 disagree	8	14.8	14.8	24.1
3.00 neutral	10	18.5	18.5	42.6
4.00 agree	19	35.2	35.2	77.8
5.00 strongly agree	12	22.2	22.2	100.0
Total	54	100.0	100.0	

The table above depicts 19 agree and 12 strongly agreed the management of the organization established an appropriate structure, reporting lines, responsibilities in the pursuit of objective. This organization has a dependable and responsible management that stands for the organization goal. On other hand 5, 8 and 10 respondents strongly disagree, disagree and neutral. This might point out, an important part of the respondents which are part of the management team of the organization differ on determining the structures, reporting lines and appropriate authorities in the searching on organizational goal. This indicates a gap might exist that reduces the effectiveness of the internal control.

Table 4: Analysis Control environment-4

The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	4	7.4	7.4	7.4
2.00 disagree	11	20.4	20.4	27.8
3.00 neutral	16	29.6	29.6	57.4
4.00 agree	14	25.9	25.9	83.3
5.00 strongly agree	9	16.7	16.7	100.0
Total	54	100.0	100.0	

Table 4 deals with organization reveal competent individual handling in alignment with objective. Respondent reply 29.6%(16) neutral , 25.9(14) agree,20.4%(11) disagree, 16.7%(9) and strongly disagree 7.4%(4). Respectively the percent (frequency) analysis can be interpreted as the organizations fail to attract, retain and develop competent individuals to a cumulative of 15 respondents out of 54 strongly disagree and disagree. A cumulative of 23 out of the total 54 frequency shows agree and strongly agree respectively indicating the organization has a way to access and sustain knowledgeable individuals. This benefits the organization on performance. A neutral replay to the above matter indicates the respondents don't give consideration to the matter. This will affect organizational performance in the long run since the selected respondents are part of the management.

Table 5: Analysis Control environment-5

The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

	Frequenc y	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	4	7.4	7.4	7.4
2.00 disagree	5	9.3	9.3	16.7
3.00 neutral	17	31.5	31.5	48.1
4.00 agree	18	33.3	33.3	81.5
5.00 strongly agree	10	18.5	18.5	100.0
Total	54	100.0	100.0	

As it is shown on the above table 5, 33.3% agree and 18.5% strongly agree i.e. Out of 54 respondents 28 of them agreed and strongly agreed that the organization they work on holds individuals accountable for their internal control responsibilities. This result shows the control system of the management is reliable and internal control system is strong on those respondents organization. But this same table illustrates 26 respondents out of 54 with 7.4%, 9.3% and 31.5%

strongly disagree, disagree and neutral respectively. This shortly reverses the above indication as unreliable management and weak internal control.

4.2.2. Risk Assessment

Table 6: Analysis Risk Assessment-1

The organization specifies with sufficient clarity to enable the identification and assessment of risks relating to objectives.

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	1	1.9	1.9	1.9
2.00 disagree	19	35.2	35.2	37.0
3.00 neutral	12	22.2	22.2	59.3
4.00 agree	20	37.0	37.0	96.3
5.00 strongly agree	2	3.7	3.7	100.0
Total	54	100.0	100.0	

The table above depicts 20 agree and 2 strongly agreed on the organization specifies with sufficient clarity to enable the identification and assessment of risk relating objective. These organizations are advantageous in eliminating risks at grassroots level. On other hand 1, 19 and 12 respondents reply strongly disagree, disagree and neutral respectively. This might point out; a considerable part of the respondents which are part of the management team of the organization has low recognition and evaluation of risk on goal.

Table 7: Analysis Risk Assessment-2

The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	2	3.7	3.7	3.7
2.00 disagree	16	29.6	29.6	33.3
Valid 3.00 neutral	16	29.6	29.6	63.0
4.00 agree	16	29.6	29.6	92.6
5.00 strongly agree	4	7.4	7.4	100.0
Total	54	100.0	100.0	

The respondents were asked to rate if the organization they work on identifies risks to the achievement of its objective across the entity and use risk as base of determining how risk should be managed. As shown from table 7 of the total respondents 29.6 %(16) disagreed, neutral and disagree respectively , this can be easily interpreted as out of 54 total respondent 16 respondent's agree and 4 strongly agree to the matter. While 34 out of 54 organizations has no consent that their organization identifies risk and use its analysis as basis of how the risk should be managed. This simply implies a significant number of organizations lack risk evaluation or poor risk supervision skill.

Table 8: Analysis Risk Assesment-3

The organization considers the potential for fraud in assessing risks to the achievement of objectives

	Freque ncy	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	6	11.1	11.1	11.1
2.00 disagree	15	27.8	27.8	38.9
3.00 neutral	8	14.8	14.8	53.7
4.00 aree	18	33.3	33.3	87.0
5.00 strongly agree	7	13.0	13.0	100.0
Total	54	100.0	100.0	

Concerning potential fraud in assessing risk to the achievement of objective the highest percent 33.3% agreed and 13% strongly agreed to the possibility for fraud is considered as risk assessment by the organization. The lowest percentage 11.1% is of strongly disagree indicate any potential fraud does not consider in assessing risks. 27.8% disagree on the statement showing fraud might be overlooked which risks the achievement of organization objective. While the 14.8% neutral from the respondents considered as lack of knowledge on the matter considering the position held by the respondent this have a negative impact on achieving the objective.

Table 9: Analysis Risk Assessment-4

The organization identifies and assesses changes that could significantly impact the system of internal control

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	3	5.6	5.6	5.6
2.00 disagree	9	16.7	16.7	22.2
3.00 neutral	16	29.6	29.6	51.9
4.00 agree	20	37.0	37.0	88.9
5.00 strongly agree	6	11.1	11.1	100.0
Total	54	100.0	100.0	

Changes can affect internal control negatively or positively so identifying and assessing changes is advisable. Table 9 depicts 5.6% of the respondent strongly disagree and 16.7% disagree on the statement. 37% agree and 11.1% strongly agree changes that have Effect on internal control are assessed and identified properly. A neutral reply of 29.6% was indicated showing information gap in the matter.

Table 10: Analysis Risk Assessment-5

The organization follows established policies, procedures, and processes to periodically reconcile physical assets (e.g. cash, accounts receivable, prepaid program items, inventories, fixed assets) with the accounting records.

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	3	5.6	5.6	5.6
2.00 disagree	6	11.1	11.1	16.7
3.00 neutral	8	14.8	14.8	31.5
4.00 agree	20	37.0	37.0	68.5
5.00 strongly agree	17	31.5	31.5	100.0
Total	54	100.0	100.0	

If there are no policies, producer and process on reconciling physical assets of a firm will be misused. This will lead to failure to manage the finance. The highest percent i.e. 37% of the respondent agreed on the issue while 31% of them strongly agreed. But considerable respondents respond neutral, disagree and strongly disagree. This shows some organization still have a low perception risking organization resources.

4.2.3. Control Activity

Table 11: Analysis control activity-1

The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	4	7.4	7.4	7.4
2.00 disagree	8	14.8	14.8	22.2
3.00 neutral	14	25.9	25.9	48.1
4.00 agree	21	38.9	38.9	87.0
5.00 strongly agree	7	13.0	13.0	100.0
Total	54	100.0	100.0	

Table 11 shows out of 54 respondents 26 of them answered neutral (14), strongly disagree (4) and disagrees (8). These respondents are suggesting to a differing rate there is no control activity to the mitigation of risk. On the other hand the majority respondents has agreed (38.9%) and strongly agreed (13%) indicating a strong control activity in alleviation of risk.

Table 12: Analysis control activity-2

The organization selects and develops general control activities over technology to support the achievement of objectives.

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	3	5.6	5.6	5.6
2.00 disagree	12	22.2	22.2	27.8
3.00 neutral	13	24.1	24.1	51.9
4.00 agree	21	38.9	38.9	90.7
5.00 strongly agree	5	9.3	9.3	100.0
Total	54	100.0	100.0	

Table 12 depicts how many respondents uses updated technology to select and develop general control activity to support the achievement of objective. The analyses of the table above clearly show out of 54 respondents 21 of them agreed, 5 of them strongly agreed holding 48.2 % cumulative. In addition it explain a cumulative percent of 51.9 i.e. neutral 24.1 %(13), disagree 22.2 %(12) and 5.6 %(3). Significant number of the organization unfortunately doesn't apply advanced technology to control activity.

Table 13: Analysis control activity-3

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

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	4	7.4	7.4	7.4
2.00 disagree	8	14.8	14.8	22.2
3.00 neutral	9	16.7	16.7	38.9
4.00 agree	27	50.0	50.0	88.9
5.00 strongly agree	6	11.1	11.1	100.0
Total	54	100.0	100.0	

As per table 13 analysis 50% agreed, 16.7%neutral, 14.8% disagreed, 11.1% strongly agree and 7.4% strongly disagree. This means out of 54 total respondent 27 agreed, 9 neutral, 8 disagreed, 6 strongly agree and 4 strongly disagree to the statement. The interpretation for this is half of the respondent replied there are policies arranged to control activities through policies that establish what is expected and a procedures that put policies into action. Plus on the other hand a significant portion of the respondents answered disagree and strongly disagree to the matter that implies insufficient arrangement of policies to control activity affecting organizational performance directly.

Table 14: Analysis control activity-4

The organization obtains or generates and uses relevant, quality information to support the functioning of other components of internal control.

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	5	9.3	9.3	9.3
2.00 disagree	10	18.5	18.5	27.8
3.00 neutral	16	29.6	29.6	57.4
4.00 agree	18	33.3	33.3	90.7
5.00 strongly agree	5	9.3	9.3	100.0
Total	54	100.0	100.0	

The quality of information the organization generate and use affect the internal control system. In this regards as shown on the above table 33.3% and 9.3% of the respondents agreed and strongly agreed. A strongly disagree (9.3%), disagree (18.5%), and neutral (29.6 %) are analyzed from the result too. The result could be interpreted as, important part of the respondents has a doubt on reliability of the information the organization communicate As a result this point toward a gap in communication and shortage of valuable information.

Table 15: Analysis control activity-5

The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of other components of internal control.

	Frequency	Percent	Valid Percent	Cumulative Percent
2.00 disagree	12	22.2	22.2	27.8
3.00 neutral	12	22.2	22.2	50.0
4.00 agree	23	42.6	42.6	92.6
5.00 strongly agree	4	7.4	7.4	100.0
Total	54	100.0	100.0	

As shown on table, 15, an equal amount of respondent replied disagree and neutral (22.2% each) plus strongly disagree (5.6%) meaning there is a deficiency in internal flow of information to communicate objective and responsibility for internal control. This makes it hard to administer resources in a proper way. The remaining respondents replied agree (42.6%) and strongly agree (7.4%) indicating flow of information exist which make management well organized.

Table 16: Analysis control activity-6

The organization communicates with external parties regarding matters affecting the functioning of other components of internal control.

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	5	9.3	9.3	9.3
2.00 disagree	11	20.4	20.4	29.6
3.00 neutral	18	33.3	33.3	63.0
4.00 agree	13	24.1	24.1	87.0
5.00 strongly agree	7	13.0	13.0	100.0
Total	54	100.0	100.0	

Table 16 depicts, out of 54 total respondents 5 answered strongly disagree, 11 disagree, 18 neutral, 13 agree and 7 strongly agree. External parties like vendor, sub recipient, donor, government agency etc...must be properly communicated about matters affecting the functioning of components of internal control which concerns them. If not a gap will be there on the communication which makes it hard to get the appropriate response from outside parties. Then performance of the organization will be affected. Most of the respondent replay neutral, disagree and strongly disagree which indicates there is no know how on the statement. Since the respondents are a combination of senior and management level individuals, this will formulate an interpretation of communication with external parties in the organization is very low and unnoticed matter. As a result space will appear consequently.

4.2.4. Information and communication

Table 17: Analysis information and communication-1

The organization has monitoring procedures that will link financial information to performance information and to program success.

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	4	7.4	7.4	7.4
2.00 disagree	3	5.6	5.6	13.0
3.00 neutral	16	29.6	29.6	42.6
4.00 agree	23	42.6	42.6	85.2
5.00 strongly agree	8	14.8	14.8	100.0
Total	54	100.0	100.0	

As indicated on table 17 highest percentage of respondent agree (42.6) and strongly agree (14.8). This shows financial and performance information are linked as needed for program success. Because of these organizations of the above respondents has a great advantage on succeeding. On the other hand out of 54 respondents, 16 replied neutral, 3 disagree and 4 strongly disagree. This could not be ignored as the response is from management and senior level individuals. This

show produced financial statements and related other information produced by the organization might not be reliable.

Table18: Analysis information and communication-2

The organization has processes in place to communicate relevant and timely information to external parties.

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	3	5.6	5.6	5.6
2.00 disagree	6	11.1	11.1	16.7
3.00 neutral	12	22.2	22.2	38.9
4.00 agree	24	44.4	44.4	83.3
5.00 strongly agree	9	16.7	16.7	100.0
Total	54	100.0	100.0	

As per table 18, 44.4 %(24) agreed, 16.7%(9) strongly agree that is 61.1% of the respondents agreed to different rate that information flow is there with external parties. 22.2 %(12) neutral response indicates undecided or not aware of the type of information exchanged. In addition, 5.6 %(3) and 11.1%(6) responded disapproved the matter. This result will delay organizational performance since the quality of information communicated with external parties determines the objectives.

Table 19: Analysis information and communication-3

The organization has updated written policy guidance which is provided to entity staff, external parties and sub recipients on the proper use of funds.

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	3	5.6	5.6	5.6
2.00 disagree	9	16.7	16.7	22.2
3.00 neutral	5	9.3	9.3	31.5
4.00 agree	24	44.4	44.4	75.9
5.00 strongly agree	13	24.1	24.1	100.0
Total	54	100.0	100.0	

If there are no policies, producer and process on reconciling physical assets of a firm will be misused. This will lead to failure to manage the finance. The highest percent i.e. 37% of the respondent agreed on the issue while 31% of them strongly agreed. But considerable respondents respond neutral, disagree and strongly disagree. This shows some organization still have a low perception risking organization resources.

Table 20: Analysis information and communication-4

Written policy guidance was provided to entity staff and external partners on the proper use of organization project funds.

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	3	5.6	5.6	5.6
2.00 disagree	10	18.5	18.5	24.1
3.00 neutral	9	16.7	16.7	40.7
4.00 agree	24	44.4	44.4	85.2
5.00 strongly agree	8	14.8	14.8	100.0
Total	54	100.0	100.0	

As per table 20 44.4% (24) agree, 14.8 % (8) strongly agreed, 16.7(9) neutral,18.5%(10) disagree and 5.6(3) strongly disagree to the statement. Even though this analysis shows major part of the respondents responded written policy guidance was provided to entity staff and external partners on the proper use of organization project funds. The interviewees said communication in this regard is rare. Only management has the detail.

Table 21: Analysis information and communication-5

There is a procedure which identifies and assigns the responsibility for gathering and reporting necessary information.

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	3	5.6	5.6	5.6
2.00 disagree	8	14.8	14.8	20.4
3.00 neutral	10	18.5	18.5	38.9

4.00 agree	23	42.6	42.6	81.5
5.00 strongly agree	10	18.5	18.5	100.0
Total	54	100.0	100.0	

Table 21 shows out of 54 respondents of them 23 of them agreed 10 of strongly agree 10 neutral 8 disagree and 3 strongly disagree to the issue raised. This analysis indicate those who replied agreed and strongly agreed there is a procedure and assigned responsibility for gathering and reporting necessary information. This shows a favorable internal control system. The analysis strongly disagree, disagree and neutral are interpreted easily as a big space occur on procedure on organizing information.

4.2.5. Monitoring Activities

Table 22: Analysis Monitoring Activities-1

The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	4	7.4	7.4	7.4
2.00 disagree	15	27.8	27.8	35.2
Valid 3.00 neutral	12	22.2	22.2	57.4
4.00 agree	18	33.3	33.3	90.7
5.00 strongly agree	5	9.3	9.3	100.0
Total	54	100.0	100.0	

A specific monitoring of components of internal control directs action to accuracy, accountability, transparency on the overall activity within the organization. In regards of this aspect respondents response 33.3 %(18) agreed, 9.3 %(5) strongly agreed, 22.2 %(12) neutral, 27.8 %(15) disagree and 7.4 %(4) strongly disagree. Specify that there are still gap on the issue.

Table 23: Analysis Monitoring Activities-2

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.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1.00 strongly disagree	2	3.7	3.7	3.7
2.00 disagree	11	20.4	20.4	24.1
3.00 neutral	17	31.5	31.5	55.6
4.00 agree	16	29.6	29.6	85.2
5.00 strongly agree	8	14.8	14.8	100.0
Total	54	100.0	100.0	

If there are no timely evaluation and communication of internal control deficiency failure to manage will occur. As per the above table highest percent i.e. 31.5% of the respondents reply neutral on the issue while 29.6% of them agreed and 14.8% strongly agreed. In addition the table shows strongly disagreed (3.7%) and disagree (20.4%). These analysis shows management of the organizations are not tracking abuse of organization resources properly.

Table 24: Analysis Monitoring Activities-3

The organization's has plan (procedures used, personnel responsible, etc.) to monitor internal control processes that are critical to successful management of project funds

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	4	7.4	7.4	7.4
2.00 disagree	11	20.4	20.4	27.8
3.00 neutral	11	20.4	20.4	48.1
4.00 agree	19	35.2	35.2	83.3
5.00 strongly agree	9	16.7	16.7	100.0
Total	54	100.0	100.0	

Table 24 shows out of 54 respondents 26 of them neutral (11), strongly disagree (4) and disagrees (11). These respondents are suggesting there is no plan to monitor internal control to monitor successful management of project funds. On the other hand respondents have agreed (19) and strongly agreed (9) out of 54 indicating a organization has plan to monitor internal control and this is essential for management.

Table 25: Analysis Monitoring Activities-4

There are plans and mechanisms in place to monitor accountability and performance of sub recipients of project funds.

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	4	7.4	7.4	7.4
2.00 disagree	10	18.5	18.5	25.9
3.00 neutral	12	22.2	22.2	48.1
4.00 agree	22	40.7	40.7	88.9
5.00 strongly agree	6	11.1	11.1	100.0
Total	54	100.0	100.0	

Table 25 shows 51.8 %(28):- strongly agree11.1 %(6) and agree40.7 %(22) that mechanisms are in a place to monitor accountability and performance of sub recipients of project fund. 48.2 %(26):- strongly disagree7.4 %(4), disagree18.5 %(10), neutral 22.2 %(12) indicating no monitoring method is adopted to know the accountability and performance of sub recipients of project fund. This affects the performance of the organization as a whole.

Table 26: Analysis Monitoring Activities-5

The organization has mechanisms to monitor sub recipients to ensure that project funds provided are expended only for allowable activities, goods, and services and communicates the monitoring results to its board of Directors.

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00 strongly disagree	3	5.6	5.6	5.6
2.00 disagree	8	14.8	14.8	20.4
3.00 neutral	9	16.7	16.7	37.0
4.00 agree	28	51.9	51.9	88.9
5.00 strongly agree	6	11.1	11.1	100.0
Total	54	100.0	100.0	

Mechanism to monitor to ensure project funds are expended only for allowable activities is the major evaluation point for the whole organization activity. Regarding the interview incorporated on monitoring and evaluation issues most of the key informants has replied that need assessment, monitoring and evaluation activities and vulnerable group incorporation are part of the project schedule. In this regards as shown on the above table 51.9% and 11.1% more than half of the respondents agreed and strongly agreed. A strongly disagree (5.6%), disagree (14.8%), and neutral (16.7) % are analyzed from the result too. This will affect the trustworthiness of the information communicated of the organization.

Chapter Five

5. Summary of findings, Conclusion and Recommendation

This part of the study deals with the summary of the major findings of the study, conclusion drawn on the bases of the findings and recommendations that are assumed to be useful in the Effect of internal control over organizational performance in ERC organizations. The main objective of this study was to examine the Effect of internal control system on organizational performance of ERC of Addis Ababa. In doing so, the study had the following purposes; to identify Effects of internal control system on organizational performance, to assess the strength of the internal control systems and to review factors affecting and areas to be improved in the internal control systems of ERC of Addis Ababa.

Descriptive survey method was employed due to the fact that it is more appropriate to assess Effect of internal control system on organizational performance of ERC. The study included data collected from 26 (48.1%) department head, 12 (22.2%) managers or supervisors and 16 (29.6%) senior accountants. Furthermore, 10 individuals who have experience of 20 and above were also included in the study. Questionnaire, interview and inspection of documents were used to gather the relevant data from the respondents. Percentages and a series of tables were also used to analyze, summarize and clarify the research data. After the data analysis and interpretation, the following findings were identified.

5.1 Summary of Findings

The main purpose of this study was to assess the Effect of internal control over organizational performance in ERC organization of Addis Ababa. To realize this objective, the following research questions were formulated.

A. How does internal control system Effects organizational performance of ERC of Addis Ababa?

B. Is the internal control systems of ERC of Addis Ababa strong?

C. What are the factors affecting and areas to be improved in the internal control systems of ERC of Addis Ababa?

To address these questions 26 questions were asked through 65 questioners (only 58 were returned and 54 were analyzed.) In addition 5 related semi structured question were asked to ten individuals. The interpretation of both the interview and questioner is summarized as follow:-

1. The involvement of female respondents is proportional to men. Almost 94.4% of the respondents are degree and master holders. Majority of the respondent served more than ten years.
2. A significant number of the analyzed respondents respond that their company has no code of conduct properly communicated to the staff.
3. Though majority of the respondents agreed on having manuals (financial and administration) a considerable percent of the remaining answered they don't have any manual.
4. Some interviewees point out that no manual is communicated to staff as needed.
5. The organization doesn't focus on in attracting, developing and retaining individuals who will work on or are working on alignment with objective.
6. Line of reporting and authorization seems to have a considerable gap in because of the noticeable space on segregation duty.
7. Identification and assessment of risk, holding individual accountable for internal control responsibilities and identifying means of fraud are some of the questions that majority of the respondent answer neutral.
8. In identification of changes that affect internal control 51.9% of the respondent answered strongly disagree, disagree and neutral.
9. According to the respondents reconciliation of physical asset exists. But not all agreed up on this there are some responses that indicate no procedure and polices are there regarding asset.
10. Advanced technology and organizational procedure in accordance to alleviation of risks has not been utilized appropriately.

5.2 Conclusion

Based on the finding of the study it is possible to arrive at the following conclusion.

1. The potential of employees practicing internal control in ERC organization from experiences and academic competence perspective can be concluded adequate.
2. The control environment of the internal control system is inadequate to be judged as effective, particularly; all employees in charge of the ERC organization are not that much aware of the necessary guidelines, manual and procedures.
3. In addition the control environment of the sampled organization has no clear line of responsibility and predetermined structure of reporting.
4. The control activities has also number of deficiencies in some of the organization like lack of updated asset register and documentation on inventory, uncertainty on the separation of duties, and lack of effective procurement and disposal of assets in the organization.
5. The risk assessment is the weakest of the internal control system practice. Risk assessment is considered to be new for the ERC organization; the managements did not adequately identify risk and developed clear procedures to control risks.
6. Information necessary are not adequately communicated to all BOD, management and staff.
7. Monitoring is believed to help in achievement of objectives; though this organization doesn't have a consistent plan and procedure for monitoring and evaluation.
8. The monitoring was also not that much effective because it lacked covering evaluation of the effectiveness of internal control.

5.3. Recommendations

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

effective. Both the respondents to questionnaire and an interview claim that the system is not good enough to achieve high standard. As stated by Spencer (2003) a control environment which is an entire 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. However, Based on the finding the following are specific areas that need due emphasis to improve the internal control system that influences the performance of ERC organization.

1. The human power of the ERC organizations as a major component of control environment of the system has to understand the policies, directives and project of its respective.
2. Internal control is a responsibility of management, employees, BOD and other stakeholders. Hence there should be a clear line of responsibility and structure of reporting to discharge any risk of collusion and fraud.
3. Separation of accounting duty from authorization and custody of an asset is a key in detecting control risk. Thus due emphasis should be given to maintain segregation of duties.
4. An updated asset register book and adequate documentation of inventories should be maintained to achieve effective control of activities.
5. An integrated system of procurement of asset, inventory counts and asset disposal must also be maintained.
6. There should be a frameworks how to identify possible risks and strategies to control the risks
7. Good information flow and line of communication must there to avoid information gaps. Thus necessary information should be communicated to all management, employees BOD and stakeholders. Transactions should be recorded promptly.
8. Finally, the control system effectiveness should be evaluated against clearly established criteria's and should be monitored continuously. This is the responsibility of management and internal auditors.

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Appendix A

St. Mary's University

School Of Graduate Studies

An Interview Prepared for Senior and Management level employees of local NGO's in Addis Ababa to assess the Effect of internal control over organizational performance.

(If necessary it might be asked by translating it in to Amharic)

1. Does internal control system have significant Effect on the financial management of your organization? If yes explain in brief.
2. Is there an adequate segregation of duties exist within your organization between staff members responsible for receiving, depositing and reconciling cash and checks?
3. Is there adequate physical security where cash handling activities occur?
4. Does the organization apply procurement process by using the appropriate personnel who are responsible for?
5. Are important documents stored in a secure area with adequate protection from fire and/or any damage? And is a physical inventory conducted at least annually?
6. Does management clearly communicate and demonstrate integrity and other ethical values?
7. Does your organization conduct a need assessment/Baseline survey before implementing program/project planning?
8. Are the views and needs of relevant beneficiaries and vulnerable groups incorporated into this assessment?
9. Are Monitoring and Evaluation activities part of the project schedule?
10. Are M&E indicators linked to inputs, outputs, outcomes and Effect of the program/project? If yes explain briefly.

Appendix B

This is a Questionnaire to be filled by the Senior and Management level employees of residential charity organization in Addis Ababa.

Dear Sir/Madam:

My name is Kalkidan Minyashal I am a postgraduate student of Master of Business Administration in Accounting at St. Mary's University School Of Graduate Studies,.

This questionnaire is designed to assess the **“Effect of Internal Control over Organizational Performance in Local NGO’s of Addis Ababa.”** Therefore, I kindly request you to spare some time and to honestly respond to all the questions.

I assure you that all your responses will be kept confidential and your identity shall not be exposed. Your response will only be used for this academic study.

❖ Please sign in the below blank space as a sign of agreement

I have willingly agreed to fill this questioner. _____

I thank you in advance for your cooperation.

For any clarification and additional information use:

E-mail: kiyu2009@yahoo.com Cell phone # +251 920 68 06 89

Instruction 1:

1. You do not need to write your name
2. Please use an “x” Mark to select the option that best represent your response for part one and circle the number representing your response for part two.

Part I Background Information:

Sex

Male

Female

Part II Educational Background

Diploma

BA

MA

PHD

Part III Service years

1-5

6-10

11-20

Above 20

Part IV Position held at present

Department head

Manager/Supervisor

Senior Accountant