

**INFLUENCE OF INTERNAL CONTROLS ON OPERATIONAL EFFICIENCY  
IN NON-GOVERNMENTAL ORGANIZATIONS; A CASE OF AMREF HEALTH  
AFRICA IN KENYA**

**BY**

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## DECLARATION

This research project is my original work and has not been submitted for the award of any degree in any other institution of higher learning.

Sign .....

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This project has been submitted for examination with my approval as the University supervisor

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Date.....

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## **DEDICATION**

I dedicate it to my parents Mr. Wambugu Tumuti and Mrs. Njeri Wambugu who during my childhood imparted the passion for education in me.

I also thank the God Almighty for the precious gift of life and health that he awarded me during my study period.

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## **ABBREVIATION AND ACRONYMS**

- CEO:** Chief Executive Officer
- ICS:** Internal Control System
- MDC:** Movement for Democratic Change
- MSE:** Micro and Small Enterprise
- NGO:** Non-Governmental Organization
- PR:** Periodic Reviews
- SPSS:** Statistical Package for Social Science

## ABSTRACT

NGO's operational efficiency involves the capability of an organization to deliver services to its people in the most cost-effective manner possible while still ensuring the high quality of its products, service and support. Operational efficiency is often achieved by streamlining a company's core processes in order to more effectively respond to continually changing market forces in a cost-effective manner. The study was guided by the following objectives; to assess the extent to which organizational controls influence operational efficiency in NGOs, to establish the extent to which operating controls influence operational efficiency in NGOs, to examine the extent to which personnel controls influence operational efficiency in NGOs, and lastly to investigate the extent to which periodic reviews influence operational efficiency in NGOs. The study would be significant to the NGO's as it would give insights to them on the importance of integrating internal control measures in their operations and how it would help them in achieving their mandate as well as improve operational efficiency. The study adopted a descriptive research design. The target population of the study was all the employees and managers at Amref Health Africa in Kenya. In the study the target population was 259. The study employed census sampling technique and purposive sampling technique in selecting the respondents. Data was collected using questionnaires and interview schedules. Data was analyzed using descriptive statistics presented using APA tables. The findings revealed that the organization makes use of the human resource controls, 85% of the total number of respondents identified planning as the most common method of operating control used, 80% of the respondents were of the opinion that work is assigned to personnel having the degree of technical training and proficiency required in the circumstances, 87% of the total number of respondents were of the opinion that periodic reviews in the organization facilitated accurate accounting since the system could generate real-time costs of operation, The study recommends that internal controls should be used to support the organization in achieving its objectives by managing its risks and the organization should determine the various roles and responsibilities with respect to internal controls. The governing body and management should foster an organizational culture that motivates members of the organization to act in line with risk management strategy and policies on internal controls set by the governing body.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of the study**

Internal controls are an integral part of any Non-Governmental Organization's financial and business policies and procedures. Internal controls consist of all the measures taken by the NGO for the purpose of; protecting its resources against waste, fraud and inefficiency. Internal controls ensure accuracy and reliability in accounting and operating data, securing compliance with the policies of the organization and evaluating the level of performance in all units of the organization (DeVries, D., and Lin, J. 2010). Internal controls are simply good business practices. A firm's internal controls should include finance, operations and administration. Quality control is a type of internal control mechanism generally used by manufacturing and engineering firms to assure that products and services meet or exceed customer requirements and expectations. However, quality controls should not be a tool used only by manufacturing or engineering firms but rather a tool used by any firm that provides services to customers or clients (Borg W and Gall, J. 1997).

Operational efficiency involves the capability of the organization to deliver services to its people in the most cost-effective manner possible while still ensuring the high quality of its products, service and support. Operational efficiency is often achieved by streamlining a company's core processes in order to more effectively respond to continually changing market forces in a cost-effective manner (DeVries, D., and Lin, J. 2010). In order to attain operational efficiency a company needs to minimize redundancy and waste while leveraging the resources that contribute most to its success and utilizing the best of its workforce, technology and business processes. The reduced internal costs that result from operational efficiency enable a company to achieve higher profit margins or be more successful in highly competitive markets. It is in the vision of every company to improve its operational effectiveness. Significant expertise in the areas of cost reduction, sourcing and shared services analysis, IT effectiveness, as well as crisis

management help companies achieve best in class performance and operational effectiveness.

In Japan, majority of NGO's have integrated internal control measures such as separation of duties, authority delegations, policies, procedure manuals, work practices, passwords, account reconciliations, arithmetical accuracy checks, restricted physical access, stock counts, asset counts, budgets, plans etc. in every unit of the organization to ensure that operational efficiency is achieved at every unit. Such units include administration where it involves approval by the supervisor of employee's attendance entries. The purpose of this control mechanism is to ensure adherence to time and attendance procedures (De Beer F. and Swanepoel H. 1998). This therefore enhances the operational efficiency of the organization. In finance units internal controls may involve to link to some type of electronic check monitoring system to identify customers who continuously write or have written bad checks. The financial aspect of this control prevents receipt of bad checks, the attendant loss of inventory, and the time it takes to recover money from bad purchases if at all; the detective aspect of the control allows for immediate identification of bad-check writers and prevents sales from occurring whereby payment is via a check. Therefore global NGO's have high operation efficiency due to the incorporation of internal control measures in almost every unit of its organizations (De Beer F. and Swanepoel H. 1998)

The increasing contributions of NGOs in operational activities demands close examination and measurement of their effectiveness and ineffectiveness (Dave, P. 1991) However, measuring organizational effectiveness is a challenging task. In Fraenkel, J. R. and Wallen, N. (2000) review on organizational effectiveness and performance, they argued that "one of the most interesting questions in this area are not technical, they are conceptual: not how to measure effectiveness or productivity, but what to measure". Indeed, there is little agreement on how to conceptualize and measure organizational effectiveness (De Beer F. and Swanepoel H. 1998). For example, effectiveness has been previously defined in terms of task effectiveness or goal attainment, appropriate organizational structure and process and environmental adaptation (Kanter and Brinkerhoff, 1981). Dave, P. (1991) suggested that effectiveness criteria be chosen with

reference to the purpose of the measurement. For instance, are we measuring effectiveness in order to determine the current state of the system evaluate this state, compare organizations for public purposes, or serve the interests of a particular group.

In Somalia, most of the NGO's are still not performing as expected due to the lack of internal control measures. Some have attributed this to the expense of integration of internal control measures to its systems while others have attributed it to the lack of technology to ensure streamlining of internal control measures. However, in other advanced African countries like Nigeria most NGO's have employed internal controls measure in their operations hence are efficient and offer a better service delivery as a result. Those NGO's with inadequate internal controls routinely result in loss of revenue, loss of market share, loss of critical business information and data, inaccurate/untimely reporting, or failure on outside audits or reviews (Fraenkel, J. R. and Wallen, N. 2000). Potentially serious consequences are faced by any organization, or agency that lacks control systems, has weak control systems or has controls that are not followed. A failure in control systems have therefore jeopardized the NGO's ability to provide goods or critical services in a timely, efficient manner and have resulted in such negative consequences (Madibe and Ofego, 2009).

In Kenya, there has been establishment of internal control systems in most organizations (NGO's). This has been critical in ensuring the reliability of accounting records, because internal control systems can constraint management or staff's reported and possible random errors. This ensures the authenticity of the content of financial reporting to provide reasonable assurance to stakeholders and it becomes another important system arrangement to ensure reliable financial reporting. However, due to the inherent limitations of internal controls and pressure, opportunity and excuses by management, the credibility of controls, self-assessment report of internal management systems discouraging is still not high enough within organizations. The purpose of the controls was later expanded to include the concept of getting things done or achieving goals. Internal control principles suggest that an internal control system (ICS) is the primary accountability and governance tool an organization (NGO) can establish and use to provide accountability to its stakeholders (donors) and safeguard its assets. Effective

internal control over financial reporting is intended therefore to provide reasonable assurance about the reliability of an organization's financial statements and the process of preparation of those statements (Garner, C. (1998).

For instance, some renowned global NGO's such as USAID have incorporated internal control measures like separation of duties, authority delegations, policies etc., and have then achieved a high operational efficiency. This has promoted the mandate and the operational efficiency of this organization that has seen them gain popularity as a result. However, some local NGO's are still behind or cannot afford to integrate internal control measures and as a result has impacted negatively on their operations leading to the decline of some NGO's in the country. Others have unsuccessfully failed to complete their mandate and objectives while others have lost a lot of money as a result of poor internal control measures (Garner, C. (1998).

Amref Health Africa in Kenya is an international African organization headquartered in Nairobi, Kenya. Amref Health Africa in Kenya mission is to ensure that every African can enjoy the right to good health by helping to create vibrant networks of informed communities that work with empowered health care providers in strong health systems. Amref Health Africa in Kenya has over 50 years' experience in health development (Garner, C. 1998). In 1957, three surgeons founded the Flying Doctors Service of East Africa, laying the foundation for what is now one of the continent's leading health development and research organizations. Today, Amref Health Africa in Kenya implements its projects through country programmes in Kenya, Ethiopia, Uganda, Tanzania, Southern Sudan and South Africa (Tibajuka, A.K. 2002). Training and consulting support are provided to an additional 30 African countries. Knowledge is a core product of Amref Health Africa in Kenya activities. Amref Health Africa in Kenya implements projects to learn, and shares this evidence-based knowledge with others to advocate for changes in health policy and practice. Based on the belief that health is a basic human right, Amref Health Africa in Kenya seeks to empower communities to take control of their health and to establish a vibrant and participatory health care system made up of communities, health workers and governments.

## **1.2 Statement of the Problem**

Ideally, the use of internal control measures in the NGO's is supposed to help them accomplish specific goals or objectives. NGO's are supposed to therefore integrate internal control systems to ensure its resources are directed, monitored, and measured. This is because NGO's are perceived to be the most influential organizations in the country. For sound internal control, it is important that there be a segregation of duties between individuals involved in a given process. This avoids the risk of someone controlling the process from beginning to end. Small NGOs with limited staff should implement a double-checking procedure. This ensures that each step is properly done and that no errors occur in the process. There are several measures an NGO can take to assure good control over the expenses. Such control measures ensures that an NGO is operating in its mandate and achieves its goals and objectives.

Despite the various measures put in place to enhance proper management of NGOs in Kenya, there are significant policy risks and challenges that NGOs face in Kenya at the moment (NGOs report of 2013). This phenomenon dates as far back as 1999 when the Movement for Democratic Change (MDC) was incepted. The government has since that time insinuated that NGOs in Kenya are a front for the West's regime change agenda. This has hindered most NGO's in their operations. However in spite of the negative political NGOs sector environment in Kenya, NGOs also have their own misdoings. The local media is currently awash with stories on fraud amongst NGOs. This has motivated this study, to assess the extent to which NGOs apply internal controls in their operations. Therefore, the need to keep; implementing, monitoring and reviewing internal controls, should not be left to the public and private sectors, but should also be instituted by NGOs as well. It is against this background therefore that the study sought to investigate on the influence of internal control measures employed by NGO's in enhancing operational efficiency.

## **1.3 Purpose of the Study**

The main purpose of the study was to assess the influence of internal control on operational efficiency in non-governmental organizations; a case of Amref Health Africa in Kenya.

#### **1.4 Research objectives**

The study was guided by the following objectives;

- i. To assess the extent to which organizational controls influence operational efficiency in Amref Health Africa in Kenya
- ii. To establish the extent to which operating controls influence operational efficiency in Amref Health Africa in Kenya
- iii. To examine the extent to which personnel controls influence operational efficiency in Amref Health Africa in Kenya
- iv. To assess the extent to which periodic reviews influence operational efficiency in Amref Health Africa in Kenya

### **1.5 Research Questions**

- i. How do organizational controls influence operational efficiency in Amref Health Africa in Kenya?
- ii. To what extent do the operating controls influence operational efficiency in Amref Health Africa in Kenya?
- iii. In what ways do the personnel controls influence operational efficiency in Amref Health Africa in Kenya?
- iv. To what extent do the periodic reviews influence operational efficiency in Amref Health Africa in Kenya?

### **1.6 Significance of the study**

It is hoped that the study would be significant to the NGO's as it will give insights to them on the importance of integrating internal control measures in their operations and how it will help them in achieving their mandate as well as improve operational efficiency. The study would also be significant in that it would form a useful foundation against which future studies could be undertaken by other researchers in the same field for further studies. The study findings would also provide important literature for other scholars who might wish to explore further on the influence of internal control measures on operational efficiency in NGOs.

### **1.7 Limitations of the study**

The limitation faced during the study, was the unwillingness of the respondents to sacrifice their time to give information. The researcher however reassured them that the research was confidential and for educational purposes only. The anticipated limitations were inadequate time and capital to conduct the research. The researcher nonetheless dedicated much time for the study to be conducted.

Since internal control measures employed by the organization in their operations dealt with sensitive issues of the organization, it was difficult to convince respondents that the information to be gathered was purely for academic purposes for fear of disclosing their strategies being implemented.

## **1.8 Delimitation of the Study**

The study was conducted for three months starting from April 2014-July 2014 on the influence of internal controls on operational efficiency in NGOs. The study was conducted in Amref Health Africa in Kenya headquarters in Nairobi. The main data collection instrument was the questionnaire whilst interview schedules were also employed. The target population for the study was Amref Health Africa in Kenya employees. The study was delimited to internal control measures employed by NGO's in enhancing operational efficiency, a case of Amref Health Africa in Kenya. The study was further delimited itself only to those internal control factors influencing operational efficiency.

## **1.9 Assumptions of the Study**

This study was guided by the following assumptions:

The study assumed that the time frame for conducting the research was sufficient enough to allow the researcher time to collect adequate data. The study further assumed that the respondents who were to participate in the study had basic knowledge on the influence of internal controls on operational efficiency in NGOs. The study also assumed that the respondents were able to fill all the questionnaires honestly to allow the researcher collect all the necessary information that would smooth the progress of research analysis.

## **1.10 Definition of Key Terms**

### **Internal control measures**

All the measures taken by the organization for the purpose of; protecting its resources against waste, fraud, and inefficiency; ensuring accuracy and reliability in accounting and operating data; securing compliance with the policies of the organization and evaluating the level of performance in all units of the organization (Hendrickse, R.F. 2008).

### **Operational efficiency**

Capability of the organization to deliver services to its people in the most cost-effective manner possible while still ensuring the high quality of its products, service and support (Hendrickse, R.F. 2008)

### **Micro and Small Enterprise**

An entity with a legal structure employing between 4-50 workers (Kapoor et al, 1997)

### **Financial access**

Firm's ability to get and use financial services that are affordable, usable and meet its needs (Claessen, 2006)

### **Capital Structure**

Mix of debt and equity that a firm uses to finance its operations (Gitman, 2003)

### **Financing gap**

A condition whereby MSEs experience unwarranted prejudice from capital market, accept punitive interest rates or high levels of security (Beaver, 2002)

## **1.11 Organization of the study**

The study is organized into five chapters. Chapter one encompasses the background of the study, statement of the problem, research objectives, research questions, significance of the study, limitations of the study, delimitations of the study, organization of the study and definitions of key terms. Chapter two on the other hand comprise of: empirical review, theoretical framework, knowledge gap and conceptual framework. Chapter three involves Research Design, Study area, Target population, Sampling procedure and sample size, Data collection instruments, Validity and Reliability of research instruments, Data collection procedures and Data Analysis

Procedure, Chapter four presented data analysis, presentation and discussion while Chapter five presented summary of findings, conclusion, recommendations and suggestions for further research.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The main purpose of this literature review is to identify and examine what has been done by other scholars and researchers in relation to the influence of internal controls on operational efficiency in NGOs. This chapter is broken down into the following sections: Review of past studies, theoretical review, empirical review, and knowledge gap of the study.

#### **2.2 The concept of internal controls in NGOs**

Establishing internal control systems in organizations is critical to ensure the reliability of accounting records, because internal control systems can limit possible random errors. This ensures the authenticity of the content of financial reporting, and it provides a reasonable assurance to stakeholders. It's also an important system tool in ensuring reliable financial reporting. The purpose of the controls was later expanded to include the concept of getting things done or achieving goals. Internal control principles suggest that an internal control system (ICS) is the primary accountability and governance tool an organization (Non-Governmental Organization) can establish and use to provide accountability to its stakeholders (donors) and safeguard its assets. Effective internal control over financial reporting is intended to provide reasonable assurance about the reliability of a company's financial statements and the process of preparation of those statements.

Turner, 2001 argued that most NGOs have limited technical and organizational capacity and that, few of them are able or willing to pay for such capacity building. Weak capacity is at times identified in fundraising, governance, technical areas of development, leadership and management (Bitter, M. E. 2004). In addition, the speed of technology change is also a challenge to NGOs particularly in areas of IT capacity. However, most

NGOs operating in different parts of the continent have in the past two decades incorporated their structures with the advancement in the technology sector. This has enabled majority of them to acquire good capacity building and competent technical organizational capability in their operations. This therefore cannot be a challenge as supposed by Turner, as it is more possible for these NGOs to carry out their organizational obligations irrespective of whether they experienced limited organizational capacity or not. Conversely, most NGOs have however embraced the dynamic change of technology over the recent past and in fact most of them are in the forefront in the utilization of such technology thus contracting the fact that technology change is a challenge to them. NGO's use technology such database management systems to keep records of their operations.

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

LaFond.R (2009) explained that for effective incorporation of internal control measures and operational efficiency NGOs have to provide and ensure transparency and accountability, that is, the governing body, together with management, should periodically report to stakeholders the organization's risk profile as well as the structure

and factual performance of the organization as this will enhance accountability on issues pertaining management and implementation of organization's policies. However, this statement is ideally important and a necessary condition for effective incorporation of both internal control measures and operational efficiency of the organization, but in critical essence of this statement, most NGOs are subject to corruption and poor governance and so to realize transparency and accountability in such organizations is difficult. This then impedes the overall idea of incorporating internal control measures with operational efficiency in NGOs.

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

### **2.3 Organizational Controls and operational efficiency in NGOs**

Every employee should be fully aware of his or her responsibilities and lines of authority, lines of reporting and levels of responsibility should be clear. Errors and fraud are much more likely to occur where it is uncertain who is responsible for what and who should be reporting to whom. For instance, the UK Charity Commission Act, (2001) section three (3) states that "trustees (board members) are accountable for solvency and continuing effectiveness of the charity (NGO) and the preservation of its endowments. They must exercise overall control over its financial affairs. They should ensure that the way in which the charity (NGO) is administered, is not open to abuse by unscrupulous associates, management or employees; and that their systems of control are rigorous and constantly maintained". It includes the procedural controls operating within the NGO and the structures of responsibilities (reporting structures). NGOs tend to be staffed by hardworking and dedicated employees. However, many NGOs fail to capitalize in these qualities because of their inadequate organizational structures. It follows, then that if

structures/roles are not clearly defined, for example between the CEO (Chief Executive Officer) and the Trustee Chairman, this may cause misunderstanding administratively. Organizational control is the process of assigning, evaluating, and regulating resources on an ongoing basis to accomplish an organization's goals. To successfully control an organization, managers need to not only know what the performance standards are, but also figure out how to share that information with employees.

For segregation of duties to be effective, it should take into account; authorization, execution and recording. If these aspects are performed by one individual, it is possible for that person to misappropriate assets and manipulate the accounting records by passing false entries to conceal shortages. Good control requires, therefore, that the three aspects underlying any transaction should be performed by different individuals or departments. There should also be adequate separation of duties within the accounting function. An effective system of internal control should not allow an employee to process a transaction from its original to its ultimate posting and preparation of the financial statements. This would allow for no detection of intentional or unintentional errors and sloppy performance of duties.

The system in operation should make provisions for proper authorization or approval of all transactions by appropriate individuals whose authorization limits is clearly outlined. Authorization can either be general or specific. General authorization means that the management establishes policies for the organization to follow. Subordinates are instructed to implement these general authorizations by approving all transactions within the limits set by the policy (Keitany, 2000). Specific authorization has to do with individual transactions. Management is often unwilling to establish a general policy of authorization for some transactions. Instead it prefers to make authorizations on a case by case basis.

The concept of organizational controls is implicit in the bureaucratic theory of Max Weber. Associated with this theory are such concepts as "span of control", "closeness of supervision", and "hierarchical authority". Weber's view tends to include all levels or types of organizational control as being the same. More recently, writers have

tended to differentiate the control process between that which emphasizes the nature of the organizational or systems design and that which deals with daily operations. To illustrate the difference, we "evaluate" the performance of a system to see how effective and efficient the design proved to be or to discover why it failed. In contrast, we operate and "control" the system with respect to the daily inputs of material, information, and energy. In both instances, the elements of feedback are present, but organizational control tends to review and evaluate the nature and arrangement of components in the system, whereas operational control tends to adjust the daily inputs (Ashbaugh, 2009).

The direction for organizational control comes from the goals and strategic plans of the organization. General plans are translated into specific performance measures such as share of the market, earnings, return on investment, and budgets. The process of organizational control is to review and evaluate the performance of the system against these established norms. Rewards for meeting or exceeding standards may range from special recognition to salary increases or promotions. On the other hand, a failure to meet expectations may signal the need to reorganize or redesign (Collins, 2009).

In organizational controls, the approach used in the program of review and evaluation depends on the reason for the evaluation — that is, is it because the system is not effective (accomplishing its objectives)? Is the system failing to achieve an expected standard of efficiency? Is the evaluation being conducted because of a breakdown or failure in operations? Is it merely a periodic audit-and-review process? When a system has failed or is in great difficulty, special diagnostic techniques may be required to isolate the trouble areas and to identify the causes of the difficulty. It is appropriate to investigate areas that have been troublesome before or areas where some measure of performance can be quickly identified. For example, if an organization's output backlog builds rapidly, it is logical to check first to see if the problem is due to such readily obtainable measures as increased demand or to a drop in available man hours. When a more detailed analysis is necessary, a systematic procedure should be followed.

In contrast to organizational controls, operational controls serves to regulate the day-to-day output relative to schedules, specifications, and costs. Is the output of product

or service the proper quality and is it available as scheduled? Are inventories of raw materials, goods-in-process, and finished products being purchased and produced in the desired quantities? Are the costs associated with the transformation process in line with cost estimates? Is the information needed in the transformation process available in the right form and at the right time? Is the energy resource being utilized efficiently? The most difficult task of management concerns monitoring the behavior of individuals, comparing performance to some standard and providing rewards or punishment as indicated. Sometimes this control over people relates entirely to their output. For example, a manager might not be concerned with the behavior of a salesman as long as sales were as high as expected. In other instances, close supervision of the salesman might be appropriate if achieving customer satisfaction were one of the sales organization's main objectives (LaFond, 2009).

The larger the unit, the more likely that the control characteristic was related to some output goal. It also follows that if it is difficult or impossible to identify the actual output of individuals, it is better to measure the performance of the entire group. This means that individuals' levels of motivation and the measurement of their performance become subjective judgments made by the supervisor. Controlling output also suggests the difficulty of controlling individuals' performance and relating this to the total system's objectives (LaFond, 2009).

According to Mawanda (2008) organizational controls are processes designed and affected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity's objectives. As such internal control plays a direct role in influencing management performance as they are charged to provide a reasonable assurance of the reliability of financial reporting, the compliance with laws and regulations and to uphold good corporate governance. However, the quality of the design of internal controls is very critical to the success of an organization.

Yang (2009) confirms that to ensure the efficiency of organizational controls, managers have to pay attention to the design of the controls. It is important to ensure that organizational controls are used to support NGOs in achieving their objectives by

managing risks, while complying with rules, regulations, and organizational policies. NGOs should therefore make internal controls part of risk management and integrate in its overall governance system .It is also imperative to note that the governing body and management need to foster an organizational culture that motivates members of the organization to act in line with risk management strategy and policies on internal control set by the governing body to achieve the organization's objectives.

## **2.4 Operating Controls and operational efficiency in NGOs**

With deep budget cuts and increasing regulatory pressure, NGOs are now required to improve efficiency at all levels with the most urgent need focused on operational functions. The quality of internal control is directly related to the quality of the personnel operating the system. The entity should have sound personnel policies for hiring, orienting, training, evaluating, counseling, promoting, compensating and taking remedial action. For example, in hiring, a standard should be sought only to hire the most qualified person, with prior working experience and evidence of integrity and ethical behavior. Background checks may vary with the organization and employee position. Post-employment controls include internal and external audits, also vital in NGOs. The Institute of Internal Auditors defines control as “any action taken by management, board and other parties to enhance risk management and increase the likelihood that established objectives are achieved”. Research in causes of errors in accounting systems has shown personnel related issues to be major causes of error (LaFond, 2009).

Operating control systems are designed to ensure that day-to-day actions are consistent with established plans and objectives. It focuses on events in a recent period. Operating control systems are derived from the requirements of the management control system. Corrective action is taken where performance does not meet standards. This action may involve training, motivation, leadership, discipline, or termination. The obligation to safeguard the assets of an organization requires that transactions are entered into only once they have been authorized by the appropriate individual, and that each transaction conforms to the terms of its authority. It ensures that approval of transactions is undertaken by responsible officials within regulatory limits, that all financial transactions should require the authorization or approval of an appropriate responsible person, and there should be an authorization limit to how much spending each responsible person can approve. For example, management can be allowed to release cheques valued up to \$2,000 without seeking permission from the board and any amount over that figure a board member has to counter-sign the cheque(s).

In relation to both contexts, effective internal control measures have a positive effect on a firm's operational efficiency for the following reasons. First, studies have shown that firms with effective internal controls have better operational effectiveness (Doyle et al. 2007, Ashbaugh-Skaife et al. 2008). To the extent that reliable internal control measures reduce information asymmetry between insiders and outsiders (Lambert et al. 2007)

Further, effective internal controls enable better monitoring of managers and mitigate agency problems. As such, one can expect managers' misappropriation of firm assets to be more constrained among firms with effective internal controls. (Ashbaugh-Skaife et al., 2013) argued that the profitability of insider trading, a proxy for managerial rent extraction, is larger for firms with material weaknesses in internal control system. Given that operational efficiency is based on the relation between inputs and outputs, ineffective internal control measures can increase the likelihood that inputs available for production are diverted for managers' personal consumption, reducing the outputs generated for a given initial amount of inputs. Furthermore, material weaknesses in the form of inadequate physical security allow the misappropriation of inputs by employees, and inadequate segregation of duties or inadequate documentation, policies or other means of justifying account balances allow for the alteration of recorded amounts by employees, all of which have a detrimental effect on the input-output relationship.

The lack of proper control over the physical security of inputs can lead to wastage and pilferage, hence resulting in higher input costs. In addition, material weaknesses relating to the controls over the purchase and maintenance of materials and supplies can result in inputs not being procured at the lowest possible costs (hence increasing input costs) or inputs being procured at a more inferior quality hence leading to lower sales, both of which result in lower operational efficiency for the firm ( Kinney, 2008).

## **2.5 Personnel Controls and operational efficiency in NGOs**

Internal controls are simply processes, policies and procedures, effected by people that ensure our internal processes, designed to modify risk, work the way we want them

to so that we achieve what we want. An organization will have hundreds if not thousands of internal controls in place. Examples of internal controls include separation of duties, authority delegations, policies, procedure manuals, work practices, passwords, account reconciliations, arithmetical accuracy checks, restricted physical access, stock counts, asset counts, budgets, plans etc.

The day-to-day work of employees should be properly supervised. Good supervision was to reduce the likelihood of errors or fraud. This aspect is carried out by the management of the organization, as a means to check compliance with laid down procedures. Procedures explain the how, why, what, where and when for any set of actions. They involve the following: Monitoring that the laid-down control procedures are operating as they were designed to, and that delegated responsibilities have been properly discharged. Analyzing errors detected by the ICS and taking remedial action to further similar errors from occurring, considering changes to the ICS in situations where weaknesses are have become apparent as a result of errors and conducting surprise counts of assets and compare with the corresponding records. As the NGO sector has expanded in terms of funding and functions, there has been a growing concern with the issues of professionalization (Organizational development and capacity building) and accountability (financial probity and transparency) (Cheng M, 2013).

Further, The NGOs should ensure there is sufficient competency within the sector that is, the governing body, management, and other participants in the organization's governance system should be sufficiently competent to fulfill the internal control responsibilities associated with their roles. This was to promote good incorporation of internal control measures and operational efficiency of the organization. In addition, NGOs should respond to risk for efficiency of operations, i.e. controls and operations should always be designed, implemented, and applied as a response to specific risks and their causes and consequences (Cheng M, 2013)

Another practice the organizational management should implement in good operational efficiency and internal control measures is by ensuring that regular communication regarding internal control measures and operational activities, as well as

the outcomes, takes place at all levels within the organization, and ensures that the internal control principles are fully understood and correctly applied by all, for effective efficiency of operations.

Monitoring and evaluation of organization's structure is essential for good incorporation of internal control measures with operational efficiency, this is ensured by having both individual controls as well as the internal control measures and operations as a whole should be regularly monitored and evaluated. Identification of unacceptably high levels of risk, control failures, or events that are outside the limits of risk taking could be a sign that an individual control or the internal control measures is ineffective and needs to be improved (LaFond, R. 2009), providing for transparency and accountability.

The governing body, together with management should periodically report to stakeholders on the organization's risk profile as well as the structure and factual performance of the organization's internal controls and operations (LaFond, 2009).

Organizations are of vital interest to the sociologist and the psychologist because one finds within them an important juncture between the individual and the collectivity. Out of this juncture comes much in our pattern of living that has been the subject of both eulogy and derogation. "That man derives a great deal from organizational membership leaves little to be argued; that he often pays heavily for the benefits of organizational membership seems an argument equally compelling. At the heart of this exchange lies the process of control" (Belzer, 2002).

Characterizing an organization in terms of its patterns of control is to describe an essential and universal aspect of organization, a feature of organizational environment which every member must face and to which he must adjust. Organization implies control. A social organization is an ordered arrangement of individual human interactions.

Control processes help define distinctive behaviors and keep them conformant with the rational plan of the organization. Organizations require a certain amount of conventionality as well as the integration of diverse activities. It is the function of control to bring about conformance to organizational requirements and achievement of the ultimate goals of the organization. The co-ordination and order created out of the diverse

interests and potentially diffuse behaviors of members is largely a function of control. It is at this point that many of the problems of organizational functioning and of individual adjustment arise (Belzer, 2002).

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

## **2.6 Periodic Review and operational efficiency in NGOs**

The Periodic Reviews (PR) is a process of assessment, monitoring and reporting on the needs of the employees and management affected. The goal of these reviews is to provide objective and credible data that can be used to target assistance and inform future assessments. It seeks to inform humanitarian assistance strategies and programme change to benefit the people. These were in essence a “snap shot” to measure progress or change in the cyclone affected population. Also, by providing relevant data in the situation and needs of the affected people, coordination may be strengthened across sectors and between international and domestic actors thereby help alleviate suffering and accelerate the process of recovery (Sunder, 2002).

Control activities were conceived to have significant effects on operational efficiency by means of cost reduction. These incorporates diverse range of policies and procedures that help to ensure management directives are carried out and also ensure that any actions that may be needed to address risks are taken to achieve company objectives. Ray and Pany (2004) point control activities as a component of internal controls and consider control activities as policies and procedures that help ensure that management directives are carried out. Control activities in an organization basically comprise;

performance reviews, information processing, physical controls, and segregation of duties. (Ray and Kurt; 2001) Positions that control activities need to be funded by the control environment and there should be continuous monitoring and evaluations as well as reviews by way of audit to enforce compliance.

According to Hayes et al., 2005 control activities is one of the components of internal control whose likelihood of achievement is affected by limitations inherent in all systems of internal control. Control activities are the basis of assurance and are only possible with the establishment of effective internal control system (Bushman, 2007). Ashbaugh –Skaife, Collins, Keeney and La fond (2009) suggest that weak internal controls allow or introduce both intentional and unintentional statements into the financial reporting process that lead to lower quality accruals. Due to diffuse shareholders, internal controls are no less important for NGOs than for businesses (Sunder 2002).

More recently, Goodwin-Stewart and Kent (2006) provided evidence that the existence of an internal audit function is related to the level of commitment to risk management. Control activities occur throughout the organization, at all levels and in all functions – be it in small or large companies. Preventive controls are proactive in nature and seek to prevent undesirable events from occurring as well as deter losses and includes; separation of duties, proper authorization, adequate documentation, and physical control over assets.

Detective controls, on the other hand, attempt to identify undesirable acts hence make it evident that a certain loss has occurred but they do not prevent a loss from occurring and includes; reviews, analyses, variance analyses, reconciliations, physical inventories, and audit Committee of sponsoring Organizations (COSO) 1992. A custodian of an asset should not perform an accounting function relating to that asset to protect the entity against malpractices. When one performs both functions, there is an excessive risk of that person disposing off the asset for personal gains and adjusting the records to relieve oneself of responsibility. Where possible it is desirable to prevent persons who authorize transactions from having control over the related assets and being in possession of ownership documents of such assets. The authorization of a transaction

and the handling of the related assets and ownership documents by the same person increase the possibility of malpractices within the organization. If each department or division in an organization was responsible for preparing its own records and reports, there would be a tendency to bias the results to improve its reported performance. In order to ensure unbiased information, record keeping is typically included in a separate department under the chief accountant (Keitany, 2000).

While most companies focus efforts on improving operational efficiency by looking at the NGOs process itself, a few realize that other departments can have an impact on efficiency and speed. If there is a way to help the quality department get its job done faster, then, by definition, the operations process can move along faster, thus reducing time in the NGOs. Documents and records are the physical objects upon which transactions are entered and summarized (Wanyama, F. O. 2005). They include such diverse items as sales invoice, purchase orders, sales journals and employee time sheets. Both documents of original entry and records upon which transactions are entered are important but the inadequacy of documents normally causes greater control problems. Documents perform the functions of transmitting information throughout the organization and between different organizations and hence must be adequate to provide reasonable assurance that all assets are properly controlled and records well maintained. Certain relevant principles dictate the proper design and use of documents and records (Wanyama, F. O. 2005). Documents and records should be, pre-numbered serially so as to facilitate control over missing documents as well as easy retrieval when needed, prepared as soon as transactions take place, sufficiently simple to ensure that they are clearly understood, designed for multiple uses whenever possible and constructed in a manner that encourages correct preparation (Sunder, 2002).

## **2.7 Theoretical Framework**

There are many theories that support the current study however, the current study adopted Kate Lark (1999) Theory of Internal control, that stated that internal control is “a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial

reporting and compliance with applicable laws and regulations.” The central theme of this theory is that internal control is a process designed and implemented within organizations to mitigate risks and achieve objectives.

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

In addition, according to Kate Lark (1999), there is a convenient and common misconception that internal control is for individuals with accounting or control responsibilities. Contrary to this opinion, best practices have shown that an effective system of internal control is comprehensive and involve everyone throughout an entity. Controls are everyone’s business and should be viewed as not a negative or policing process, but rather as an inseparable companion to achievement of objectives.

Although the primary responsibility for implementing an effective control system within departments lies with the department management (directors, managers etc.), it is essential from a team perspective that every member of the department become a partner in the process. The concept of internal control can be further explained from an analogy of a group of people about to travel in a car. The ability of this team to safely get to their destination (which is their objective) is dependent on part the effective functioning of all control systems in the car (for example, the steering system for direction control). Internal controls in business environment work in the same way as they help organizations and its departments get to where they want to go while minimizing pitfalls and surprises (Baik, 2013).

However, building a strong system of internal control involves having adequate and effectively operated mix of preventive, detective and corrective control measures. Preventive controls which include: separation of duties, proper authorization, adequate documentation, and physical control over assets are controls designed to deter unintended events (e.g. errors, omissions, irregularities, fraud, ineffective business decision making and noncompliance with laws and regulations) from occurring. Detective controls such as obtaining pre-approval on actions or transactions before they can be processed, use of document control numbers to make sure all transactions are accounted for, matching and comparing documents from different sources to ensure integrity among others help to identify or discover undesirable events that have already occurred (that is, that were not adequately prevented) while corrective controls are measures implemented to address gaps or lapses that resulted in occurrence of unintended events. Although all these types of controls are important, preventive controls are the most effective form of control. Finally, Kate Lark's theory came to suggest some of the internal controls measures that should be implemented by the organization i.e. documented policies and procedures, adequate segregation of duties and responsibilities, a culture of high ethics and integrity, adequate documentation of transactions and records, proper authorization of transactions and activities, physical and logical controls over records and assets and adequate supervisory checks (Baik, 2013)

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

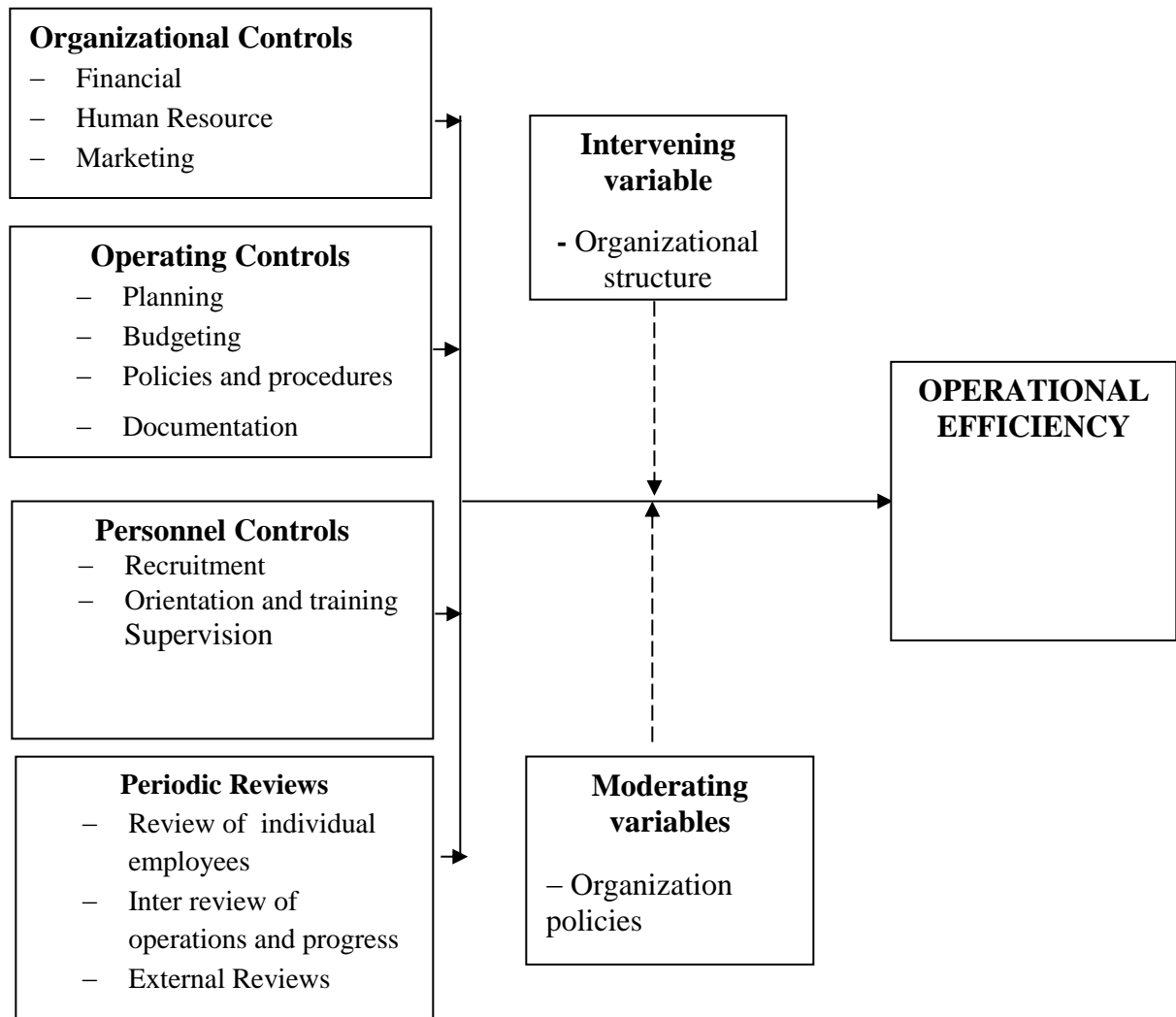
to assess how NGO's employ internal control measures to enhance their operational efficiency.

## **2.8 Conceptual framework**

The current study was guided by the following conceptual framework, which was used to explain the interrelationship between the variables. A conceptual framework is a scheme of variables a researcher operationalizes in order to achieve the set objectives (Oso & Onen 2002).

## Independent variable

## Dependent variable



**Figure 2.1 Conceptual Framework**

Source: Research Data, (2014)

The conceptual framework shows the correlation between internal control measures and operational efficiency of an organization (NGO's). Internal controls are simply processes, policies and procedures, effected by people that ensure our internal processes, designed to modify risk, work the way we want them to so that we achieve what we want. An organization will have hundreds if not thousands of internal controls in place.

The operational efficiency of an organization is dependent on internal control measures employed by an organization. Internal controls of the organization are dependent on industry analysis, organizational management and firm effects in the form of resources and the strategies developed. From an environmental management perspective, internal control measures are important predictors to the organization's operational efficiency.

The quality of internal control is directly related to the quality of the personnel operating the system that affects the operational efficiency of an organization. The entity should have sound personnel policies for hiring, orienting, training, evaluating, counseling, promoting, compensating and taking remedial action. For example, in hiring a standard should be sought only to hire the most qualified person, with prior working experience and evidence of integrity and ethical behavior.

## **2.9 Gap in Literature**

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

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

The chapter describes the research design as well as the methods that were used to sample the population and the target population bringing out the sample size. The chapter further looked at methods of data collection, research instruments, their validity and reliability, operational definition of variables and methods of data analysis.

#### 3.2 Research Design

Research design refers to the way a study is planned and conducted. It entails choosing the subjects who participate in the study. The techniques and approaches for collecting data for the subject and the procedures (Kumssa, 2011). The main objective of a research design is to enhance the validity (degree to which the results obtained from the analysis of the data actually represent the phenomenon under study) Mugenda and Mugenda (2003).

While carrying out the study, the researcher adopted a descriptive research design. This design investigates the current status and nature of the phenomena. Orodho (2003) defines descriptive as a method of collecting information by interviewing or administering a questionnaire to a sample of individuals. Descriptive research, describes data and characteristics about the population or phenomenon being studied. According to Coopers and Schindler (2004) descriptive studies are more formalized and typically structured with clearly stated hypotheses or investigative questions. The descriptive analysis approach was chosen for the present study, because it seeks to gain insight into a phenomenon as a means of providing basic information in an area of study (Koul, 1993). The descriptive research design was adopted in the study based on the conceptual relationship between the independent variable and the dependent variable.

### 3.3 Target Population

The target population refers to the group of people or study subjects who are similar in one or more ways and which forms the subject of the study in a particular survey Orodho (2003). The target population of the study was the employees and managers at Amref Health Africa in Kenya. In the study the target population consisted of 231 employees and 28 managers who form the population of the study.

**Table 3.1 Target population**

<b>Category</b>	<b>Target population</b>
Employees	231
Managers	28
<b>Total</b>	<b>259</b>

**Source: Amref Health Africa in Kenya human Resource Department (2014)**

### 3.4 Sample Size and Sampling Techniques

Sample size refers to the number of observations or replicates to include in a statistical sample Orodho (2003). The sample size is an important feature of any empirical study in which the goal is to make inferences about a population from a sample. Sampling technique refers to a procedure of selecting a part of population on which research can be conducted, which ensures that conclusions from the study can be generalized to the entire population. The study employed census sampling technique and purposive sampling technique in selecting the respondents. Cochran (1977) stated that census sampling involves the selection of entire target population due to its size.

**Table 3.2 Sample Size**

<b>Category</b>	<b>Target population</b>	<b>Sample size</b>	<b>Percentage</b>
Managers	28	<b>28</b>	10.8
Employees	231	<b>231</b>	89.2
<b>Total</b>	<b>259</b>	<b>259</b>	<b>100.0</b>

**Source: Amref Health Africa in Kenya Human Resource Department (2014)**

### **3.5 Data Collection Instruments**

The research adopted the use of both questionnaires and interview schedules to collect data.

#### **3.5.1 Questionnaire**

The questionnaires were administered to the employees by research assistants. The open ended questionnaires enabled the respondent to clarify issues further and provide in-depth findings for the study while close ended questions enabled the researcher to obtain background information (Kotharim 2004). The advantage of using questionnaires was that it is the most feasible and allows the respondents moments of reflection on the subject. This is cost effective, free from bias and gives the respondent adequate time to respond to the questions (Kothari, 2004). The research assistants allowed the respondents sometime to fill in the questionnaire before returning.

#### **3.5.2 Interview Schedules**

The researcher used the interview schedules to collect data from managers of Amref Health Africa in Kenya to gain a deeper understanding on the influence of internal control audit in enhancing operational effectiveness. An interview is a conversation between the interviewer and the interviewee where questions are asked by the interviewer to obtain information from the interviewee (Neuman, 2006). This involved face to face interviews between the researcher and the respondents. Interviews eliminated many sources of bias that could be associated with the other methods of data collection like in questionnaires, e.g. there was a chance of clarifications in case of any misunderstanding between the researcher and the respondent through probing. The interview schedule gave the respondents freedom of answering questions.

## **3.6 Validity and Reliability of the Research Instruments**

### **3.6.1 Validity of the Research Instruments**

Validity submits to the degree which a test measures what we actually wish to measure. Yin's (1994) solution for assuring construct validity that is: the use of multiple sources of information, a chain of evidence, and key informants review the report that was to be applied to the study. For the validity of this instrument the researcher consulted experts and specialists supervisor. The study employed the use of pilot study to test the validity of the research instruments.

### **3.6.2 Reliability of the Research Instruments**

In various areas of study, the accurate dimension of hypothesized variables posed a test by itself. Therefore, reliability and item analysis were used to construct reliable measurement scales, to improve existing scales, and to assess the reliability of scales already in use. Specifically, reliability aids in the design and evaluation of sum scales, that is, scales that are made up of multiple individual measurements. The measurement of scale reliability was based on the correlations between the individual items or measurements that make up the scale, relative to the variances of the items (Kombo, 2006).

The questionnaires were tested for reliability by using Cronbach coefficient alpha to determine the internal consistency of the items. This is a method of estimating reliability of test scores by the use of a single administration of a test. Consequently, it provides good measures of reliability because holding other factors constant, the more similar the test content and conditions of administration are, the greater the internal consistency reliability (Mugenda and Mugenda, 1999). In this study, the items were considered reliable if they yielded a reliability coefficient of 0.50 and above. This figure is usually considered respectable and desirable for consistency levels (Koul, 1993).

However, the Cronbach's coefficient alpha that is less than 0.50 implied that the research instruments are not reliable and the researcher would make necessary corrections before using the instruments to collect data. In the study, the reliability was established through the pilot-test whereby some items were either added or dropped to

enable modification of the instrument. After the modification, the instruments were again pilot-tested before it was considered for the study. The purpose of piloting the instruments was to establish the clarity of meaning and comprehensibility of each item in the research instruments, and also to determine the time needed to complete and get the necessary information from them. The reliability results are shown.

**Table 3.3 Reliability Statistics**

Cronbach's Alpha	No of Items
.667	41

### **3.7 Data Collection Procedures**

This refers to the series of events that were followed during the data collecting process. In this research study, the researcher first collected an introductory letter from the University and booked appointments with the management of Amref Health Africa in Kenya organization before making a formal visit on the respective day of the appointment. The researcher requested to be allowed to conduct the study in the organization. The researcher provided an introductory letter to the management to be granted permission. Upon visiting the research site on the day of study, the researcher picked samples of respondents and issued them with the questionnaires after which the questionnaires were collected. Any problems resulting from filling the questionnaires; the researcher assisted them before taking away the collected data. The researcher then conducted interviews on the managers of the organization to provide the needed information. The researcher assembled all the information collected for analysis.

### **3.8 Data Analysis Techniques**

The data from the questionnaires was adopted and coded for completeness and accuracy and the response on each item put into specific main themes. Both quantitative and qualitative techniques were used to analyze the data. The data obtained from the

research instruments was analyzed using Statistical Package for Social Science (SPSS). Quantitative analysis involves the use of means, relative frequencies, mode, median and standard deviation Kothari (2009). The data was first analyzed quantitatively using frequencies, percentages and means. The data was later analyzed qualitatively to form discussions from the interview schedules issued.

### **3.9 Operational Definition of Variables**

To achieve the objectives of the study the researcher investigated the influence of internal control measures employed by NGO'S in enhancing operational efficiency; the objectives of the study included to assess the extent to which organizational controls influence operational efficiency in NGOs, to establish the extent to which operating controls influence operational efficiency in NGOs, to examine the extent to which personnel controls influence operational efficiency in NGOs, to assess the extent to which periodic reviews influence operational efficiency in NGOs. To achieve these objectives questionnaires were used each with specific questions for each objective.

**Table 3.4 Operational Definition of Variable**

<b>Objective</b>	<b>Variables</b>	<b>Indicators</b>	<b>Measurement scale</b>	<b>Tools of analysis</b>	<b>Types of tools</b>
To assess the extent to which organizational controls influence operational efficiency in NGOs	<b>Dependent</b> Operational efficiency in NGOs  <b>Independent</b> Organizational controls	Financial Human Resource Marketing	Nominal   Ordinal	Descriptive statistics. tables and pictures	Frequency distribution tables
To establish the extent to which operating controls influence operational efficiency in NGOs	<b>Dependent</b> Operational efficiency in NGOs <b>Independent</b> Operating controls	Planning Budgeting Policies and procedures Documentation	Nominal   Ordinal	Descriptive statistics Tables and pictures	Frequency distribution tables
To examine the extent to which personnel controls influence operational efficiency in NGOs	<b>Dependent</b> Operational efficiency in NGOs <b>Independent</b> Personnel controls	Recruitment Orientation and training Supervision	Nominal   Ordinal	Descriptive statistics. tables and pictures	Frequency distribution tables
To assess the extent to which periodic reviews influence operational efficiency in NGOs	<b>Dependent</b> Operational efficiency in NGOs <b>Independent</b> Periodic reviews	Review of individual employees Inter review of operations and progress External reviews	Nominal   Ordinal	Descriptive statistics. tables and pictures	Frequency distribution tables

### **3.10 Ethical considerations.**

Researchers whose subjects are people or animals must consider the conduct of their research, and give attention to the ethical issues associated with carrying out their research. This study dealt with people as respondents hence the researcher assured the respondents of confidentiality. The researcher considered the fact that participation in research is voluntary. This is why the researcher took time to explain to the respondents the importance of the study and therefore request the respondents to participate in the study by giving information relevant for the study. To establish good working relationship with the participants, the researcher endeavoured to develop a rapport with them (Kombo and Tromp, 2006).

**CHAPTER FOUR**  
**DATA ANALYSIS PRESENTATION, INTERPRETATION AND**  
**DISCUSSION**

**4.1 Introduction**

This chapter presents the results and discussions of quantitative data analysis of the study. It is divided into two major sections. The first section describes the demographic characteristics of the empirical survey, in terms of their age, gender, level of education, marital status and their work experience with Amref Health Africa in Kenya. The second section of the chapter provides results and discussions which were based on the four major research questions of the study. For the purposes of this preliminary analysis, descriptive statistics was frequently used to describe the general characteristics of the data collection.

**4.2 Response Return Rate**

Out of 259 questionnaires dispatched, 259 were dully filled and returned. The response rate is shown in the table 4.1

**Table 4.1 Response Return Rate**

<b>Dispatched</b>	<b>Returned</b>	<b>Percentage</b>
259	259	100
<b>Total</b>	<b>259</b>	<b>100</b>

From the table 4.1, percentage return rate was 259 (100%). According to Nachimias and Nachimais (1958) 80% to 90% return rate is enough for a descriptive survey study.

### **4.3 Background Information of the Respondents**

The study sought to assess the background information of the respondents in terms of their age, gender, level of education, marital status and their work experience in Amref Health Africa in Kenya.

### 4.3.1 Ages of the respondents

The study did find it necessary to understand the age distribution of the employees. This was important as it gave the data for analysis of age schemes and to find out if age influenced employees opinion on influence of internal controls on operational efficiency. The respondents were asked to state their age bracket and the results were presented in

**Table 4.2: Ages of the respondents**

<b>Ages of the respondents</b>	<b>Frequency</b>	<b>Percentage</b>
18-30	74	28
31-35	100	39
36-40	50	19
41-45	20	8
Over 46 years	15	6
<b>Total</b>	<b>259</b>	<b>100.0</b>

From Table 4.2 It can be deduced that majority respondents were aged between 31-35 years as indicated by 39% responses. The study found it necessary to investigate age had any influence on the type of internal controls the employees thought were most vital in enhancing operational efficiency of the organization. The employees were asked to state the internal controls they considered most important. The responses were as table 4.3.

**Table 4.3 Ages distribution of the respondents and internal controls**

<b>Age bracket (In years)</b>	<b>Organizational Controls</b>	<b>Operating Controls</b>	<b>Personnel Controls</b>	<b>Periodic Reviews</b>	<b>TOTAL</b>
18-30	20	31	17	6	74
31-35	45	16	12	27	100
36-40	19	11	8	12	50
41-45	7	5	3	5	20
Over 46	4	4	3	4	15
<b>Total</b>	<b>95</b>	<b>67</b>	<b>43</b>	<b>54</b>	<b>259</b>
<b>Percentage</b>	<b>37</b>	<b>26</b>	<b>16</b>	<b>21</b>	<b>100</b>

From table 4.3 the study found out age bracket 18-30 who constituting 28% of the population considered operating controls as the most vital internal measures in the organization. This could be because operating controls serve in regulating the day to day activities of an organization. Age brackets 31-35 constituting 39% of the population and 36-40 constituting 19% of the population considered organizational controls as the most important internal control measures used by the organization. 95% of the population considered organizational controls as the most important internal controls. The reason for this might be because organizational controls are used to support NGOs in achieving their objectives by managing risks, while complying with rules, regulations, and organizational policies.

### 4.3.2 Gender of the respondents

The study also sought to determine the respondents' background information in terms of gender. This was necessary to determine the number of men and women employees in the organization and establish any gender disparities in the organization's workforce. Table 4.4 shows the study findings.

**Table 4.4: Gender of Respondents**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Male	112	43.0
Female	147	57.0
<b>Total</b>	<b>259</b>	<b>100.0</b>

From Table 4.4, out of the 259 respondents who responded to the questionnaires, majority of them (57%) were female. The purpose of collecting data from both male and female genders was to avoid gender bias and also to obtain a relatively accurate data. This was a fair representation of both genders in the organization.

### 4.3.3 Level of education

The study sought to establish the background information of the respondents in terms of level of education. This was necessary to establish the educational qualifications of Amref Health Africa in Kenya employees. Table 4.5 shows the study findings.

**Table 4.5: Level of education**

<b>Level of education</b>	<b>Frequency</b>	<b>Percentage</b>
Certificate	21	9
Diploma	81	31
Degree	113	44
Masters	44	16
<b>Total</b>	<b>259</b>	<b>100</b>

From Table 4.5, it can be deduced that majority of the respondents were degree holders as indicated by 44%. This shows that most of the employees of Amref Health Africa in Kenya have the right qualifications for employment with degrees and masters qualifications.

#### **4.3.4 Marital status of the respondents**

The study sought to find out the respondents' background information in terms of their marital status. The respondents were asked to indicate whether they were single, married, divorced or widowed and the findings are shown in Table 4.6.

**Table 4.6: Marital status of the respondents**

<b>Marital status</b>	<b>Frequency</b>	<b>Percentage</b>
Single	61	23
Married	181	70
Divorced	17	7
<b>Total</b>	<b>259</b>	<b>100</b>

From Table 4.6, the study findings indicated that, out of the 259 respondents, 70% were married. This shows that most employees are married.

#### 4.3.5 Work experience of the respondents

The study sought to examine the respondents' background information in terms of work experience in the period of time they have worked with Amref Health Africa in Kenya. It was divided into four categories. Table 4.7 shows the study findings.

**Table 4.7: Work experience of the respondents**

<b>Work experience in years</b>	<b>Frequency</b>	<b>Percentage</b>
1-3 years	37	14
4-6 years	113	44
7-10 years	61	24
Over 10 years	48	18
<b>Total</b>	<b>259</b>	<b>100</b>

From Table 4.7, the findings showed that majority of the respondents had worked between 4-6 years as indicated by 44% responses.

#### 4. 4 Organizational controls and operational efficiency in Amref Health Africa

The study sought to establish the organizational controls commonly used in the organization to enhance operational efficiency. To answer objective one, the respondents were to give their opinions based on a set of statements listed on the questionnaires. Table 4.8 shows the study findings.

**Table 4.8: Organizational controls commonly used in the organization**

<b>Statements</b>		<b>F</b>	<b>%</b>
<b>Financial controls</b>	Yes	151	58
	No	108	42
<b>Human resource controls</b>	Yes	187	72
	No	72	28
<b>Marketing controls</b>	Yes	137	53
	No	122	47

From Table 4.8, 187 (72%) of the respondents noted that the organization makes use of the human resource controls, 151(58%) noted that the organization often uses financial controls, 137 (53%) agreed that the organization often uses marketing controls. These methods of control are deemed to reduce lead time for processing information and reduce cases of fraud in the organization. However some respondents felt that the bureaucracies brought forth by these control systems creates unnecessary delays particularly in financial matters which affects performance.

The study also sought to establish the influence of organizational controls on operational efficiency in Amref health Africa and the findings showed that 94% of the respondents were of the opinion that good control of organization leads to a well-defined chain of command where every employee is able to understand the duties assigned, 77% of them agreed that all employees are allowed to make decisions on their level of duty and are responsible for the outcome of their decisions while 88% of them agreed with the fact that the organization is able to provide a well-defined job description to the employees whereas 91% agree that organizational controls allow for proper coordination among departments. Table 4.9 shows the study findings.

**Table 4.9: Influence of organizational controls on operational efficiency in Amref health Africa**

Statements		SA	A	UD	D	SD	T
<b>Good control of organization leads to a well-defined chain of command where every employee is able to understand the duties assigned</b>	F	159	82	9	9	0	259
	%	62	32	3	3	0	100
<b>All employees are allowed to make decisions on their level of duty and are responsible for the outcome of their decisions</b>	F	64	135	28	32	0	259
	%	25	52	11	12	0	100
<b>The organization is able to provide a well-defined job description to the employees</b>	F	83	146	17	9	4	259
	%	32	56	7	3	2	100
<b>Organizational controls allow for proper coordination among departments</b>	F	111	124	15	9	0	259
	%	43	48	6	3	0	100

From Table 4.8, it can be deduced that majority of respondents as indicated by 94% were of the opinion that good control of organization leads to a well-defined chain of command where every employee is able to understand the duties assigned. It is also noted that while these organizational control systems enhance efficiency, in some instances the bureaucracy it creates causes unnecessary delays particularly in financial matters which in turn affects performance. The study establishes that good control of organization leads to a well-defined chain of command where every employee is able to understand the duties assigned. With this the employee can perform the task well.

This concurs with the findings of Ashbaugh (2013) who established that effective internal control enables better monitoring of managers and mitigates agency problems. As such, one can expect managers' misappropriation of firm assets to be more constrained among firms with effective internal controls. He further argued that the profitability of insider trading, a proxy for managerial rent extraction, is larger for firms with material weaknesses in internal control system. Given that operational efficiency is based on the relation between inputs and outputs, ineffective internal control measures can increase the likelihood that inputs available for production are diverted for managers' personal consumption, reducing the outputs generated for a given initial amount of inputs.

Furthermore, material weaknesses in the form of inadequate physical security allow the misappropriation of inputs by employees, and inadequate segregation of duties or inadequate documentation, policies or other means of justifying account balances allow for the alteration of recorded amounts by employees, all of which have a detrimental effect on the input-output relationship.

#### **4.5 Operating controls and operational efficiency in Amref Health Africa**

The study sought to establish the influence of operating controls employed by Amref Health Africa and how it has enhanced operational efficiency under the following themes.

Concerning the operating controls commonly used in the organization to enhance operational efficiency, the findings revealed that, 220 (85%) of the total number of respondents identified planning as the most common method of operating control used, 218(84%) of the respondents were of the opinion that budgeting is the commonly used method of operating controls whereas policies and procedures and record keeping of important documents were identified as other common methods used in the organization for operating control. Further the study finds that the organization uses most of these control methods as it has so many donors that need to report to and manage the large funds received. Table 4.10 shows the study findings

**Table 4.10: Operating controls commonly used in Amref Health Africa**

<b>Statements</b>		<b>F</b>	<b>%</b>
<b>Planning</b>	Yes	220	85
	No	39	15
<b>Budgeting</b>	Yes	218	84
	No	41	16
<b>Policies and procedures</b>	Yes	199	77
	No	60	23
<b>Record keeping of important documents</b>	Yes	199	77
	No	60	23

According to the table 4.10, 85% of the total number of respondents identified planning as the most common method of operating control used. Further the study finds that the organization uses most of these control methods as it has so many donors that need to report to and manage the large funds received.

The study also sought to establish the operating controls commonly used in the organization to enhance operational efficiency. The findings of the study indicated that 98% of the respondents were of the opinion that operational controls such as good planning systems ensure that day-to-day actions are consistent with established plans and objectives, 91% of them were of the opinion that there are clearly laid down policies and procedures with regard to operations to be followed within the organization while 84% of them agreed with the fact that all records of the organization are effectively documented for efficiency of controls and 92% agreed that budgeting is done to ensure that all expenses are catered for.

**Table 4.11: Influence of operating controls on operational efficiency in Amref Health Africa**

Statements		SA	A	UD	D	SD	T
Operational control such as good planning system ensure that day-to-day actions are consistent with established plans and objectives	F	135	120	0	0	4	259
	%	52	46	0	0	2	100
Budgeting is done to ensure that all expenses are catered for	F	118	118	19	4	0	259
	%	46	46	7	1	0	100
There are clearly laid down policies and procedures with regard to operations to be followed within the organization	F	129	109	13	4	4	259
	%	49	42	5	2	2	100
All records of the organization are effectively documented for efficiency of controls.	F	80	138	26	11	4	259
	%	31	53	10	4	2	100

From Table 4.11, it can be deduced that majority of the respondents as indicated were of the opinion that operational control such as good planning system ensure that day-to-day actions are consistent with established plans and objectives. It is also noted that the organization uses most of the listed operating control methods as it is a large organization with so many donors to report to and also the huge amounts of funds involved in its projects.

This is in consistence with the findings from LaFond (2009) who found that operational control systems are designed to ensure that day-to-day actions are consistent with established plans and objectives. It focuses on events in a recent period. He stated

further that operational control systems are derived from the requirements of the management control system. Also, past studies by Doyle (2007) and Ashbaugh-Skaife (2008) have shown that firms with effective internal control have better operational effectiveness. To the extent that reliable internal control measures reduces information asymmetry between insiders and outsiders. Lambert (2007) further stated that effective internal control enables better monitoring of managers and mitigates agency problems. As such, one can expect managers' misappropriation of firm assets to be more constrained among firms with effective internal controls.

Corrective action is taken where performance does not meet standards. This action may involve training, motivation, leadership, discipline, or termination. The obligation to safeguard the assets of an organization requires that transactions are entered into only once they have been authorized by the appropriate individual, and that each transaction conforms to the terms of its authority.

#### **4.6 Personnel controls and operational efficiency in Amref Health Africa**

The study sought to establish the influence of personnel controls employed in the organization to enhance operational efficiency. The findings revealed that 80% of the respondents were of the opinion that work is assigned to personnel having the degree of technical training and proficiency required in the circumstances, 71% of the respondents were of the opinion that personnel selected for advancement have the qualifications necessary for fulfilling of the responsibilities they will be called on to assume, there is the ability of a well-organized orientation, training and development and that employees are all recruited and selected through the right procedures. Only 70% of the respondents were of the opinion that there is high supervision of employees to ensure work is completed on time. This means that the employees are being monitored according to the laid-down control procedures that are designed to and that delegated responsibilities have been properly discharged. Table 4.12 shows the study findings.

**Table 4.12: Influence of personnel controls on operational efficiency in Amref Health Africa**

<b>Statements</b>		<b>SA</b>	<b>A</b>	<b>UD</b>	<b>D</b>	<b>SD</b>	<b>T</b>
Employees are all recruited and selected through the right procedures	F	64	116	49	26	4	259
	%	25	45	19	10	1	100
There is the ability of a well-organized orientation, training and development	F	58	122	51	19	9	259
	%	22	47	20	8	3	100
There is high supervision of employees to ensure work is completed on time	F	41	139	28	34	17	259
	%	16	54	11	13	6	100
Work is assigned to personnel having the degree of technical training and proficiency required in the circumstances	F	65	142	26	21	5	259
	%	25	55	10	8	2	100
Personnel selected for advancement have the qualifications necessary for fulfilling of the responsibilities they will be called on to assume	F	73	111	40	22	13	259
	%	28	43	16	8	5	100

According Table 4.12, 80% of the respondents were of the opinion that work is assigned to personnel having the degree of technical training and proficiency required in the circumstances, this means that the employees are being monitored according to the laid-down control procedures that are designed to and that delegated responsibilities have been properly discharged.

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

and transparency). It is thus the reason of the close monitoring of the employees. LaFond (2009) established that for transparency and accountability, the governing body, together with management, should periodically report to stakeholders the organization's risk profile as well as the structure and factual performance of the organization's internal controls and operations. He further said that organizations are of vital interest to the sociologist and the psychologist because one finds within them an important juncture between the individual and the collectivity. Out of this juncture comes much in our pattern of living that has been the subject of both eulogy and derogation. That man derives a great deal from organizational membership leaves little to be argued; that he often pays heavily for the benefits of organizational membership seems an argument equally compelling. At the heart of this exchange lies the process of control (Belzer, 2002)

#### **4.7 Periodic reviews and operational efficiency in Amref Health Africa**

The study also sought to analyze the influence of periodic review employed by Amref Health Kenya in enhancing operational efficiency. And the findings revealed that 87% of the total number of respondents were of the opinion that periodic reviews in the organization facilitated accurate accounting since the system can generate real-time costs of operation, 82% of the respondents were of the opinion that periodic review reduces the time the organization spends analyzing counts such as inventory and 70% of them said that the organization carries out a periodic review which involves counting and documenting records at specified times to know the current level of efficiency in operation. Table 4.13 shows the study findings.

**Table 4.13: Influence of periodic reviews on operational efficiency in Amref Health Africa**

Statements		SA	A	UD	D	SD	T
The organization carries out a periodic review which involves counting and documenting records at specified times to know the current level of efficiency in operation	F	34	148	60	13	4	259
	%	13	57	23	5	2	100
Periodic review reduces the time the organization spends analyzing counts such as inventory. This allows more time for other aspects of running the business.	F	60	154	37	4	4	259
	%	23	59	14	2	2	100
Periodic reviews in the organization facilitates accurate accounting, since the system can generate real-time costs of operation	F	88	137	17	13	4	259
	%	34	53	6	5	2	100

According to Table 4.13, 87% of the total number of respondents were of the opinion that periodic reviews in the organization facilitated accurate accounting since the system can generate real-time costs of operation, the findings concurs by earlier findings by Hayes (2005) who asserted that periodic control activities is one of the components of internal control whose likelihood of achievement is affected by limitations inherent in all systems of internal control. Control activities are the basis of assurance and are only possible with the establishment of effective internal control system.

Bushman (2007) and la fond (2009) posit that weak internal controls allow or introduce both intentional and unintentional misstatements into the financial reporting process that lead to lower quality accruals. Due to diffuse shareholders, internal controls are no less important for NGOs than for businesses. Kent (2006) provided evidence that the existence of an internal audit function is related to the level of commitment to risk

management. Commitment of risk should be as often as possible to ensure that errors are detected at the earliest possible period. Control activities occur throughout the organization, at all levels and in all functions be it in small or large companies. Implementing preventive controls which are proactive in nature and seek to prevent undesirable events from occurring as well as deter losses and includes; separation of duties, proper authorization, adequate documentation, and physical control over assets

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, DISCUSSION, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter provides a summary of major findings as deduced by the study, it also presents Conclusions, Discussion, Recommendations and areas of further research.

#### **5.2 Summary of findings**

The study sought to investigate the influence of internal controls on operational efficiency in NGOs; a case of Amref Health Africa in Kenya and the following were the study findings.

Concerning organizational controls and operational efficiency, the findings indicated that 72% of the total number of respondents identified that the organization makes use of the human resource controls, whereas 58% identified financial controls as common methods and only 53% noted that the organization uses marketing controls. The study further established that majority of the respondents as indicated by 94% were of the opinion that good control of organization leads to a well-defined chain of command where every employee is able to understand the duties assigned 77% of them were of the opinion that all employees are allowed to make decisions on their level of duty and are responsible for the outcome of their decisions while 88% of them agreed with the fact that the organization is able to provide a well-defined job description to the employees whereas 91% agree that organizational controls allow for proper coordination among departments, reduces lead time and minimizes cases of fraud or financial misappropriation.

On operating controls and operational efficiency, the findings indicated that, 85% of the total number of respondents identified planning as the most common method of operating control used, 84% of the respondents are of the opinion that budgeting is commonly used method of operating controls whereas policies and procedures and record keeping of important documents were identified by 77% as other common methods used in the organization for operational control. The study further revealed that 98% of the

total number of respondents were of the opinion that operational controls such as good planning system ensures that day-to-day actions are consistent with established plans and objectives, 91% were of the opinion that there are clearly laid down policies and procedures with regard to operations to be followed within the organization while 84% of them agreed with the fact that all records of the organization are effectively documented for efficiency of controls whereas 92% agree that budgeting is done to ensure that all expenses are catered for.

Concerning personnel controls and operational efficiency, the findings indicated that 80% of the respondents were of the opinion that work is assigned to personnel having the degree of technical training and proficiency required in the circumstances, 71% of the respondents were of the opinion that personnel selected for advancement have the qualifications necessary for fulfilling of the responsibilities they will be called on to assume, there is the ability of a well-organized orientation, training and development and that employees are all recruited and selected through the right procedures. Only 70% of the respondents were of the opinion that there is high supervision of employees to ensure work is completed on time.

On periodic review, the study found out that 87% of the total number of respondents agree that periodic reviews in the organization facilitates accurate accounting since the system can generate real-time costs of operation, 82% of the respondents agree that periodic review reduces the time the organization spends analyzing counts such as inventory and 70% of them said that the organization carries out a periodic review which involves counting and documenting records at specified times to know the current level of efficiency in operation.

### **5.3 Discussion of the study findings**

The study sought to investigate the influence of internal control measures employed by non-governmental organizations in enhancing operational efficiency; a case of Amref Health Africa in Kenya.

On organizational control it can be deduced that majority of respondents as indicated were of the opinion that good control of organization leads to a well-defined chain of command where every employee is able to understand the duties assigned. It is also noted that while these organizational control systems enhance efficiency, in some instances the bureaucracy it creates causes unnecessary delays particularly in financial matters which in turn affects performance. The study establishes that good control of organization leads to a well-defined chain of command where every employee is able to understand the duties assigned. With this the employee can perform the task well.

This concurs with the findings of Ashbaugh (2013) who established that effective internal control enables better monitoring of managers and mitigates agency problems. As such, one can expect managers' misappropriation of firm assets to be more constrained among firms with effective internal controls. He further argued that the profitability of insider trading, a proxy for managerial rent extraction, is larger for firms with material weaknesses in internal control system. Given that operational efficiency is based on the relation between inputs and outputs, ineffective internal control measures can increase the likelihood that inputs available for production are diverted for managers' personal consumption, reducing the outputs generated for a given initial amount of inputs.

Furthermore, material weaknesses in the form of inadequate physical security allow the misappropriation of inputs by employees, and inadequate segregation of duties or inadequate documentation, policies or other means of justifying account balances allow for the alteration of recorded amounts by employees, all of which have a detrimental effect on the input-output relationship.

On operating controls it can be deduced that majority of the respondents as indicated by 90% were of the opinion that operational control such as good planning system ensure that day-to-day actions are consistent with established plans and objectives. It is also noted that the organization uses most of the listed operating control methods as it is a large organization with so many donors to report to and also the huge amounts of funds involved in its projects.

This is in consistence with the findings from LaFond (2009) who found that operational control systems are designed to ensure that day-to-day actions are consistent with established plans and objectives. It focuses on events in a recent period. He stated further that operational control systems are derived from the requirements of the management control system. Also, past studies by Doyle (2007) and Ashbaugh - Skaife (2008) have shown that firms with effective internal control have better operational effectiveness. To the extent that reliable internal control measures reduces information asymmetry between insiders and outsiders. Lambert (2007) further stated that effective internal control enables better monitoring of managers and mitigates agency problems. As such, one can expect managers' misappropriation of firm assets to be more constrained among firms with effective internal controls.

Corrective action is taken where performance does not meet standards. This action may involve training, motivation, leadership, discipline, or termination. The obligation to safeguard the assets of an organization requires that transactions are entered into only once they have been authorization by the appropriate individual, and that each transaction conforms to the terms of its authority.

On personnel controls, respondents were of the opinion that work is assigned to personnel having the degree of technical training and proficiency required in the circumstances, this means that the employees are being monitored according to the laid-down control procedures that are designed to and that delegated responsibilities have been properly discharged. Cheng M (2013) said that as the NGO sector has expanded in terms of funding and functions, there has been a growing concern with the issues of professionalization (Organizational development and capacity building) and accountability (financial probity and transparency). It is thus the reason of the close monitoring of the employees. LaFond (2009) established that for transparency and accountability, the governing body, together with management, should periodically report to stakeholders the organization's risk profile as well as the structure and factual performance of the organization's internal controls and operations. He further said that organizations are of vital interest to the sociologist and the psychologist because one finds within them an important juncture between the individual and the collectivity. Out

of this juncture comes much in our pattern of living that has been the subject of both eulogy and derogation. That man derives a great deal from organizational membership leaves little to be argued; that he often pays heavily for the benefits of organizational membership seems an argument equally compelling. At the heart of this exchange lies the process of control (Belzer, 2002)

Concerning period reviews respondents were of the opinion that periodic reviews in the organization facilitated accurate accounting since the system can generate real-time costs of operation, the findings concurs by earlier findings by Hayes (2005) who asserted that periodic control activities is one of the components of internal control whose likelihood of achievement is affected by limitations inherent in all systems of internal control. Control activities are the basis of assurance and are only possible with the establishment of effective internal control system.

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

#### **5.4 Conclusions**

Organizational control systems are a crucial aspect of an organization's governance system and ability to manage risk, and are fundamental in supporting the achievement of an organization's objectives and creating, enhancing, and protecting stakeholder value. They are critical systems to ensure the reliability of accounting

records, because internal control systems can constraint management or staff's reported and possible random errors.

Operating control systems are designed to ensure that day-to-day actions are consistent with established plans and objectives. Effective internal control measures have a positive effect on firm's operational efficiency as they focus on events in a recent period. Operational control systems are derived from the requirements of the management control system.

Personnel control systems ensure good supervision of employees that will reduce the likelihood of errors or fraud. This is a management function in the organization, as a means to check compliance with laid down procedures. Procedures explain the how, why, what, where and when for any set of actions. The organization management should ensure to implement good operational efficiency and internal personnel control measures for clarity in employee management.

The goal of these periodic reviews in the organization is to provide objective and credible data that can be used to target assistance and inform future assessments. Periodic review activities were conceived to have significant effects on operational efficiency by means of organizational control and ensure cost reduction.

## **5.5 Contribution to the body of knowledge**

One of the factors that influence the growth, survival and performance of MSEs is access to debt financing. Firms that have access to debt financing are expected to perform better than those without access (Machirori, 2012). The study therefore was to determine the extent to which financial access by firms could enhance their growth and survival so that they can continue to effectively contribute to the development challenges facing Kenya, like unemployment, poverty, reduced economic growth and widespread income inequality as documented in Vision 2030.

It is also hoped that the findings will yield empirical results that can be useful to the financial analysts, Consultants and Accountants who utilize these firms' financial statistics to evaluate their performance.

Government officers, law makers and other small business policy makers will also find the results useful in understanding the problems facing MSEs in raising finance and how to overcome them. Further, the study findings may provide a framework on which future research on capital structure and profitability of MSE's in Kenya can be based as most of the studies have been linked on large liability companies quoted in the stock exchange in the developed countries.

## **5.6 Recommendation**

The researcher recommends that:

1. Internal controls should be used to support the organization in achieving its objectives by managing its risks, while complying with rules, regulations, and organizational policies. The organization should therefore make internal controls part of risk management and integrate both in its overall governance system.
2. The organization should determine the various roles and responsibilities with respect to internal controls, including the governing body, management at all levels, employees, and internal and external assurance providers, as well as coordinate the collaboration among participants.
3. The governing body and management should foster an organizational culture that motivates members of the organization to act in line with risk management strategy and policies on internal control set by the governing body to achieve the organization's objectives. The tone and action at the top are critical in this respect.
4. The governing body and management should link achievement of the organization's internal control objectives to individual performance objectives. Each person within the organization should be held accountable for the achievement of assigned internal control objectives. Controls should always be designed, implemented, and applied as a response to specific risks and their causes and consequences.

## **5.6 Suggestion for further studies**

The researcher suggests the following areas for further studies;

- i. The effectiveness of internal control systems in financial management of sugar industries.
- ii. Challenges faced by non-governmental organizations in implementing internal control systems
- iii. Internal factors that influence organizational efficiency in manufacturing firms
- iv. Factors that influence the adoption of internal control systems in an business organization

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## **APPENDICES**

### **APPENDIX I: LETTER OF INTRODUCTION**

**ELIZABETH MUTHONI WAMBUGU**

**NAIROBI**

Dear Respondent,

#### **REF: PERMISSION TO COLLECT DATA FROM YOUR ORGANIZATION.**

I am a student at University of Nairobi currently pursuing a degree of Masters of Arts, Project Planning and Management. I'm carrying out a study on the influence of internal controls on operational efficiency in NGOs.

Yours Faithfully,

**ELIZABETH MUTHONI WAMBUGU**

## **APPENDIX I1: QUESTIONNAIRE FOR EMPLOYEES**

I am currently conducting a research on **“Influence of Internal Controls on Operational Efficiency in Non-Governmental Organizations”**

I kindly request you to participate in my study and your responses to the items in the questionnaire will be treated with utmost confidentiality, and will not be used for any other purposes except this study.

Please answer each question by writing on the spaces provided or tick (√) against the boxes provided. The information provided will be used for the purpose of this research only; therefore do not write your name on the answer sheet. Please note that there are no correct or wrong answers.

### **SECTION A: BACKGROUND INFORMATION**

1. Age of the respondent

- 18- 30 years            [   ]
- 31- 35years            [   ]
- 36-40 years            [   ]
- 41-45 years            [   ]
- Over 46 years           [   ]

2. Sex of the respondent

- Male            [   ]
- Female           [   ]

3. Education level

- Certificate    [   ]
- Diploma        [   ]
- Degree         [   ]
- Masters        [   ]
- Other (specify).....

4. Marital Status

Single [ ]

Married [ ]

Divorced [ ]

Widowed [ ]

5. For how long have you been working in the organization?

1-3 years [ ]

4 – 6 years [ ]

7 – 10 years [ ]

Over 10 years [ ]

**SECTION B: SPECIFIC INFORMATION**

6a. Identify the organizational controls that are commonly used in the organization to enhance operational efficiency

i. Marketing controls [ ]

ii. Human resource controls [ ]

iii. Computers and information controls [ ]

iv. Financial controls [ ]

b. What are the effects of organizational controls you have identified above in enhancing operational efficiency?

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6c). Kindly rate the extent to which you agree or disagree on how organizational controls employed by NGO'S enhance operational efficiency?

Key SA – Strongly Agree, A – Agree, UD – Undecided, D – Disagree, SD – Strongly Disagree

Statements	SA	A	UD	D	SD
Good control of organization leads to a well-defined chain of command where every employee is able to understand the duties assigned					
All employees are allowed to make decisions on their level of duty and are responsible for the outcome of their decisions					
The organization is able to provide a well-defined job description to the employees					
Organizational controls allow for proper coordination among departments					

7a) Identify the operating controls that are commonly used in the organization to enhance operational efficiency

- i. Planning [ ]
- ii. Budgeting [ ]
- iii. Policies and procedures [ ]
- iv. Record keeping of important documents [ ]

7b). from the above, why do you think the method chosen is commonly used?

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7c) Kindly rate the extent to which you agree or disagree on how operating controls employed by NGO'S enhance operational efficiency?

<b>Statements</b>	<b>SA</b>	<b>A</b>	<b>UD</b>	<b>D</b>	<b>SD</b>
Operational control such as good planning system ensure that day-to-day actions are consistent with established plans and objectives					
Budgeting is done to ensure that all expenses are catered for					
There are clearly laid down policies and procedures with regard to operations to be followed within the organization					
All records of the organization are effectively documented for efficiency of controls.					

8) Kindly rate the extent to which you agree or disagree on how personnel controls employed by NGO's enhance operational efficiency?

<b>Statements</b>	<b>SA</b>	<b>A</b>	<b>UD</b>	<b>D</b>	<b>SD</b>
Employees are all recruited and selected through the right procedures					
There is the ability of a well-organized orientation, training and development					
There is high supervision of employees to ensure work is completed on time					
Work is assigned to personnel having the degree of technical training and proficiency required in the circumstances.					
Personnel selected for advancement have the qualifications necessary for fulfillment of the responsibilities they will be called on to assume					

9a). How often does the organization review its internal control systems?

- i. Very often [ ]
- ii. Often [ ]
- iii. Rarely [ ]
- iv. Not at all [ ]

9b) why do you think the organization reviews its internal control systems in the duration of period named above?

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9c). To what extent do you agree/disagree with the following statements on periodic review employed by NGO'S in enhancing operational efficiency?

Statements	SA	A	UD	D	SD
The organization carries out a periodic review which involves counting and documenting records at specified times to know the current level of efficiency in operation					
Periodic review reduces the time the organization spends analyzing counts such as inventory. This allows more time for other aspects of running the business.					
Periodic reviews in the organization facilitates accurate accounting, since the system can generate real-time costs of operation					

10a).From the below operational efficiency indicators, which ones are commonly used to rate the organization?

- i. Goal Achievement[ ]
- ii. Organizational Image[ ]
- iii. Level of Service Delivery[ ]
- iv. Feedback[ ]

10b) Give reason why the organization has preferred the indicator you have identified above?

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10c.)To what extent do you agree/disagree with the following statements on operational efficiency?

<b>Statements</b>	<b>SA</b>	<b>A</b>	<b>UD</b>	<b>D</b>	<b>SD</b>
There is efficiency in the organization to deliver services to its people in the most cost-effective manner					
Operational efficiency leads to reduced costs thus enabling the company to achieve higher profit margins					
Customer service is well defined to ensure a high level of service delivery in the organization is high to enhance operational efficiency					
The organization ensures customer satisfaction through an effective feedback system to their queries					

11. Choose ONE of the internal controls that you consider the most vital in achieving operational efficiency in your organization

a) Organizational Controls

b) Operating Controls

c) Personnel Controls

d) Periodic Reviews

**APPENDIX II: INTERVIEW SCHEDULE**

- i. What are the effects of organizational controls employed by NGO’S in enhancing operational efficiency?

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- ii. What are the effects of operating controls employed by NGO’S in enhancing operational efficiency?

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- iii. What are the effects of personnel controls employed by NGO’S in enhancing operational efficiency?

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- iv. What are the effects of periodic reviews employed by NGO’S in enhancing operational efficiency?

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v. What are the effects of facility and equipment controls employed by NGO'S in enhancing operational efficiency?

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vi. In your opinion do you think organizations with effective internal controls have better operational effectiveness?

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vii. What has been done in your organization to enhance operational efficiency of the organization?

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viii. Do effective internal controls enable better monitoring of employees and mitigate agency problems in Amref Health Africa in Kenya?

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