

**INTERNAL CONTROLS AND FINANCIAL ACCOUNTABILITY OF  
SELECTED HUMANITARIAN ORGANIZATIONS IN NAIROBI CITY  
COUNTY, KENYA.**

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## DECLARATION

### Declaration by the Student.


This proposal is my original work and has not been submitted for an award of degree in any other University for examination purposes.

Signature.  ..... | Date.....

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I confirm that this proposal was done by the candidate under my supervision.

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## **DEDICATION**

I dedicate every piece of this work to my loving family for your unconditional love and sacrifice in the entire journey. You have been the greatest source of strength and encouragement even when it got tough. May the blessing of God rest upon you forever.

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## OPERATIONAL DEFINITION OF TERMS

<b>Bank Reconciliation</b>	A process of comparing and matching NGO internal book balances to the bank statement as at a certain period.
<b>Budgetary Allocation</b>	Process of ensuring that the firm is spending within the budget.
<b>Cheque co-signer:</b>	Cheque co-signer is a person mandated to sign online payments or cheque for the company.
<b>Corrective control</b>	Controls put in place to remedy an occurrence of a risk or a loss, which has been discovered by the detective internal control.
<b>Detective control</b>	Controls designed to identify the already existing problems in an organization.
<b>External Audit:</b>	This is an independent examination of the financial statements prepared by the organization.
<b>Financial Accountability</b>	This is the organizations responsibility for use and management of funds and comprises of budgetary allocation and financial reporting.
<b>Financial Reporting</b>	This is the communication of the financial results of an organization to the donors and other users.
<b>Humanitarian Organizations:</b>	A generic term used to refer to organizations established for charitable activities and other non-profit purposes. While they may receive government funding, they do not operate as an instrument of government policy
<b>Internal Audit:</b>	Is an independent service that provides to an organization an objective assurance that risk management, governance and internal control processes are operational and effective.

**Internal control:** This is a procedure, or a policy put in place by the management of an, organization to safeguard assets, to promote accountability, to increase efficiency, and to stop fraudulent behavior.

**Policies:** Policies are a set of principles, rules, and guidelines formulated or adopted by an NGO to reach its long-term goals.

**Preventive control** A control that helps an organization to mitigate against risk or loss or damage before it occurs.

## **LIST OF ACRONYMS AND BBREVIATIONS**

<b>COSO:</b>	Community of sponsoring organization
<b>MDC:</b>	Movement for Democratic Change
<b>MSH:</b>	Management Sciences for Health
<b>NACOSTI:</b>	National Commission for Science, Technology, and Innovation
<b>NGO:</b>	Non-Governmental Organization
<b>SEC:</b>	The Securities and Exchange Commission
<b>SOX:</b>	Sarbanes-Oxley Act
<b>SPSS:</b>	Statistical Package for Social Science
<b>USAID:</b>	The United States Agency for International Development

## ABSTRACT

Humanitarian organizations are mandated to ensure efficient financial accountability so as to enable efficiency in their operations, hence, maximum utilization of resources to the intended purpose, which is not always the case. Furthermore, it is their work to ensure internal control systems are well integrated into their operations so that the organizational resources are utilized as intended and efficiently. Most of the humanitarian organizations have largely developed inculcated internal controls, however it is largely unclear to what extent the operationalization of internal controls has taken place since we continuously witness some organizations still struggling to fulfil their mandate due on their financial accountability in regard to budgetary allocation and financial reporting. The study's main objective was to determine how internal controls affects financial accountability of selected humanitarian organizations based in Kenya, specifically in Nairobi City County. The specific objectives include establishing preventive, detective, and corrective controls effects on financial accountability in the selected humanitarian organizations in Nairobi City County, Kenya. Three theories namely, Positive Accounting Theory, Stewardship Theory and the Agency theory guided the study. Additionally, the researcher adopted a descriptive research design, whereby 70 employees from three different Humanitarian organization in Kenya namely, World Vision, Compassion International Inc and Give Directly Kenya formed the target population. The three organizations have their offices based in Nairobi County. The study employed a census survey method to interview the entire population, since the targeted population in the study is of a small size and manageable. Semi structured self-administered questionnaire was used and filled by all respondents in the targeted study population to collected information. Piloting was conducted with a sample size of 7 individuals who were selected by the researcher to pretest and validate the questionnaire. The instrument's reliability was tested by checking the internal consistency of the items of the questionnaires from a pilot study. The four independent variables all had alpha coefficient values higher than 0.7 ( $\alpha > 0.7$ ). This confirmed the research instrument's reliability. Moreover, expert opinion in the field of finance was sought in addition to comprehensive literature review to ascertain content validity. The data from the main research was entered into a statistical package for social sciences (SPSS) for analysis within the framework of multiple linear regression model and relative frequencies. To enhance ease in results readability and understanding by a wider range of users of the statistical information, the researcher presented them in bar charts and in tables. From the findings, internal controls positively and significantly affect financial accountability of the humanitarian organizations in Nairobi City County. The recommendation is that to improve their financial accountability, there is need for organisations to put in place preventive controls such as having a cheque co-signing policy, segregation of duty, having a chart where the lines of authority and responsibility are clearly defined and an organization structures to point out all responsibilities of each section. There is also need to have a clear understanding of importance of internal controls and division of responsibility among all the employees to mitigate possibility of fraud and also create common awareness of the expectation in adhering to set standards.

# **CHAPTER ONE**

## **INTRODUCTION**

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

Humanitarian organizations are organizations that work hand in hand with the community to ensure a swift, efficient humanitarian assistance is availed during wars, long-term conflicts or when sudden natural disasters strike (Jonathan & Kellerman, 1996). According to Tian-chun, (2013) these organizations are actively involved in emergency rescue throughout the world and have the required expertise to deliver humanitarian services on specific areas. They engage in research and hence have detailed knowledge on specific areas that enable them effectively offer the required humanitarian help to the vulnerable groups with the aim of saving lives, maintaining the sacred human dignity and alleviating suffering among the disadvantaged groups in the society (Brown, 2016). This is usually in the event of an occurrence whether caused by natural causes or manmade.

Financial accountability has continued to form the basis of conversation in most of the organizations' boardrooms world over. Financial Accountability entails the ability of an organization to implement its tactical plans without violating the strategies put in place to ensure a balance between productivity and cost (Beal, 2019). For humanitarian organizations, financial accountability has largely been pegged on internal controls because of the financial and business policy measures and procedures that exist within the organizations. Wakiriba, Ngahu and Wagoki (2014) confirm that people always apply internal controls to ensure the accurateness and reliability of data in accounting operations.

Some well-known global Non-Governmental Organizations (NGOs) such as World Vision have integrated internal control measures like delegation of authorities,

policies separation of duties, among other measures and this has helped them achieve Financial Accountability and in turn operational efficiency (NGOs East Africa, 2019). In addition, these controls help in securing compliance with the organization's policies by evaluating and organizing the performance level of all units within the organization (Behn, DeVries & Lin, 2010).

In some highly developed African countries such as Nigeria, a majority of the NGOs have incorporated internal control measures in all their daily operations and that is why they have Financial Accountability, efficient systems and also offer better service delivery (Chenhall, 2010). Some NGOs with insufficient controls usually end up losing their market shares, very vital information on the business, data, revenue, premature and inexact data, inaccurate reporting time, a breakdown on outside audits among other factors (Fraenkel & Wallen, 2000). Consequently, organizations with a lack of proper internal control systems, or have weak control systems or lack control systems, face serious consequences.

In Kenya, a number of humanitarian organizations have inculcated internal control systems in their operations (Annual NGO Sector Report 2018/19). Despite having inculcated internal controls in their operations, organizations like Chemonics International, could not account for 9.5 billion dollars global health supply chain contract, which caused USAID to rethink of their funding trends thus withdrawing their funds. (Saldinger, 2019). Other local NGOs still suffer poor financial management due to lack of financial accountability leading to poor budgetary allocation and financial reporting and most of them are at the verge of withdrawing their aid. Other NGOs have fruitlessly failed to provide a full mandate as well as objectives whereas other NGOs are losing donor funding's due to their meager internal control measures (Rondinelli, 2013).



### **1.1.1 Internal Controls**

According to Soudani (2013) internal controls are plans that are organizations incorporate in their operations to ensure that the methods and procedures adopted by the management run well. In Kenya, the deregistration of 2,468 NGOs and complete dissolution of 14 others due to lack of financial accountability, gives a clear picture of the importance of internal controls (Annual NGO Sector Report, 2018/19). Mawanda (2008) argued that internal controls largely influence the performance of the management by ensuring they provide financial reports that are reliable and also comply with the laws and regulations put in place to advocate for good cooperate governance. Internal controls are classified into three categories; Preventive, Detective and Corrective.

A firm introduces preventive controls in order to deter errors and irregularities from occurrence. According to Warren (2003), some of the preventive controls are payment processes and employment of qualified finance staff. Payment processes may involve; Cheque co-signer and segregation of duties. Cheque co-signer is the cheque signing process that mandates more than one person to sign the cheque; this control incorporates several review layers, which helps to prevent significant errors from occurrence. Segregation of duty requires more than one person getting involved in reviewing a transaction; an organization can have a segregation policy where different people will interact with a transaction process at different levels or departments and with different thresholds (Wakiriba, Ngahu & Wagoki, 2014). Qualified finance staff involves hiring staff with skill and experiences in finance to enhance compliance to finance policies. The study used payment process and qualified finance staff as a preventive control variable to determine how internal controls affect the financial accountability in the humanitarian organizations in Nairobi city County, Kenya.

Detective controls are implemented by organizations in order to reveal errors and irregularities, as they occur, they include Audit and Bank reconciliation. Audit is further categorized into External and Internal audit (El-Nafabi, 2009). External audit would involve an independent review of the organization records, processes to inform the external parties, in most cases, this has a legal requirement, and ensures the organization is in compliance to the requirements of the law. Internal audit aims at reviewing the extent to which the internal controls are implemented and the resulting effect to the financial accountability within an organization. According to Donald and Delno (2009) internal audit reports is for the internal management utilization for internal decision-making. Bank reconciliation are statements that matches company's cash balances to the corresponding amount as captured on the bank statement, which is conducted at regular intervals to ensure correctness of company's or organization's cash records. Additionally, a bank reconciliation statement is necessary in directing required accounting changes. A bank reconciliation statement help detect fraud and any cash manipulations (CFI Education Inc., 2015 to 2020). The study used internal audit and bank reconciliation as a detective control variable to investigate the extent to which financial accountability of humanitarian organizations in Nairobi City County, Kenya is influenced by internal controls.

According to COSO (1992), corrective controls are controls designed to take a corrective action to remove errors and irregularities after they are detected, they include procurement and finance policies. In an organization, both procurement and finance policies are regularly reviewed to respond to a certain detected irregular. Policies like graduated thresholds for different procurement items, procurement committee quorums and composition, procurement guidelines, code of conducts would help an organization in achieving a corrective control mechanism (Pettit &

Beresford, 2009). Financial policies entail procedures and responsibilities that provides directions and guidance to financial accountability in an organization (ACLBC Internal Control and Finance Policy, 2019). The study used procurement and financial policies as a corrective control variable to investigate how internal controls affect the financial accountability for the selected humanitarian organizations in Nairobi City County, Kenya.

### **1.1.2 Financial Accountability**

The existence of any firm in most cases is usually to make profit and maximize the wealth of the shareholder. However, the activities within humanitarian organizations are non-commercial based and not for profit but for social benefit. Sound financial management practices are crucial so as to improve accountability, transparency, and efficiency, thereby facilitating the achievement of an organization's objectives (Padilla *et al*, 2012).

Financial accountability has been on the upward trend among the nongovernmental organizations over the past decades. This is being attributed to the emerging numerous cases of funds loss through lack of accountability, fraud, embezzlement, and other misappropriations introduced by more NGOs (Kristin, 2014). Additionally, ambiguity of the goals of these NGOs' among their stakeholders and management teams has also contributed to perceived lack of accountability among NGOs (Mawanda, 2008).

In a firm's financial management, budgetary allocation and financial reporting are very crucial (Ndegwa, & Mungai, 2019). Specifically, summarizing, analysing, interpreting, record keeping and communicating financial information forms the basis of financial management. With all these concepts and practices in place, an

organization can be sure of operational and administrative efficiency as well as the improvement of financial accountability. In this study, budgetary allocation and financial reporting was used to measure the financial accountability of the humanitarian organizations in Nairobi City County, Kenya.

### **1.1.3 Humanitarian organizations in Kenya**

Ayom, (2013) conceptualizes humanitarian organizations as organizations that are not state-funded or even part of the government but are self-governing and independent of the government. In Kenya, NGOs are defined as, any grouping or association of individuals that operate voluntarily and privately without the aim of gaining profit from the adventures. They have organized themselves internationally or nationally for the public benefit and with the aim of promoting development in the society, through engaging in charity, social welfare activities and/or conducting research in diverse areas not limited to, but inclusive of, agriculture, education, health, relief, industry, wildlife, and services and amenities supply services (Maru, Taddele, Ahmed & Abdalla, 2017). Under the NGO Coordination act (2000), registration of all humanitarian organization is mandatory, they are required to register with the NGO Coordination Board, fulfil their registration core mandate and should file annual tax return.

There are approximately about 8,893 humanitarian organizations, which currently operate in Kenya (NGO Coordination Board, Annual Sector Report, 2019). They raise their income through various sources including and not limited to income generated from lawful activities, real or personal property, grants, gifts, membership fees and donations of either cash, security and in-kind contributions. In most of the humanitarian organizations, funds are usually diverted into other uses that are not within the scope of the donor's work plan. This is the reason why Ali, (2016) notes

strongly in his findings that, for an organization to be efficient in-service delivery, best financial accountability practices and sound leadership are key.

According to the Annual NGO Sector Report 2018/19 NGO Co-ordination Board, 21.91% and 0.12% of the total registered NGOs in Kenya were deregistered and dissolved completely respectively. This was due to poor financial accountability caused inability to fully inculcate internal controls in their operations. This was the motivation for the researcher as he evaluates the impact of financial accountability on the internal controls affected their financial accountability. The study narrowed down to three major humanitarian organizations operating in Nairobi and with huge annual financial budget, which are World Vision, Compassion International Inc, and Give Directly Kenya.

## **1.2 Statement of the problem**

In an ideal world, proper financial accountability of humanitarian organizations is expected to foster maximum utilization of resources, which is not the case at times. According to the Annual NGO Sector Report 2018/19 NGO Co-ordination Board, 21.91% and 0.12% of the total registered NGOs in Kenya were deregistered and dissolved completely respectively. This was due to poor financial accountability; financial reporting and poor budgetary management caused inability to fully inculcate internal controls in their operations. Out of 11,262 number of registered NGOs by 2018, the total deregistered NGOs stood at 2,468, while the number of reinstated NGOs stood at 113, some of the NGOs that could not survive adding up to 14 which were completely deregistered.

It is, therefore, the work of the humanitarian organizations to ensure full integration of internal control systems so that the organizational resources are monitored, directed and measured. Therefore, for sound internal control, duties must be well segregated

among the individuals involved in the process. This is to avoid tasking one person with control of the whole process. Some of the organizations are small and are therefore limited in terms of staff. Such should implement a double-checking procedure to ensure the steps are followed properly and that the process is devoid of errors. Other measures may as well be put in place to ensure NGOs are controlling their expenses well. With such measures in place, the organizations can be assured of the achievement of its goals and objectives (Gereffi *et. al.*, 2001).

According to the study about financial accountability for humanitarian organizations, most organizations have inculcated other internal controls measures, for example, a study on internal control measure, one of the units is the administrative unit where the supervisor ensures the employee's attendance entries are approved. This rational is a control mechanism aimed at ensuring time observance and an increased possibility to following the attendance procedures (Slack *et. al.*, 2010). However, the study did not clearly indicate that there were internal control variables being measured. The study also lacked use of primary data in their analysis; instead, they used desktop review method.

Another study on financial fraud of KOSS, the company was facing financial distress and return on investment had been adversely affected, this was due to employee's fraud. The study revealed massive weaknesses in the internal control (Brown, 2016). The study however did not consider the segregation of duty as an internal control variable. In this study, review of the organizational existing data was majorly relied on, there was no use of primary data or questionnaire method.

From the above, it is clear that most of the studies on the internal control and financial accountability of humanitarian organizations lacked payment processes, qualified finance staff, internal audit, bank reconciliations, finance & procurement policies as

internal control variables, the methodology also largely focused on the secondary data. Therefore, this study aimed at filling the literature gap that exist in the area and investigate the effects of internal controls on financial accountability of Humanitarian Organizations in Nairobi City County, Kenya.

### **1.3 Study Objectives**

The study classifies the objectives into two categories namely; general and specific objectives. Specific objectives are drawn from the general objectives.

#### **1.3.1 General Objective**

From a general perspective, this study aimed at determining the effect of internal controls on financial accountability of humanitarian organizations in Nairobi City County, Kenya.

#### **1.3.2 Specific Objectives**

The following specific objectives directed the course of this study;

- i. To examine the effect of preventive controls on financial accountability of humanitarian organizations in Nairobi City County, Kenya.
- ii. To assess the effect of detective controls on financial accountability of humanitarian organizations in Nairobi City County, Kenya.
- iii. To determine the effect of corrective controls on financial accountability of humanitarian organizations in Nairobi City County, Kenya.

### **1.4 Research Questions**

- i. How do preventive controls affect financial accountability of humanitarian organizations in Nairobi City County, Kenya?
- ii. How do detective controls affect financial accountability of humanitarian organizations in Nairobi City County, Kenya?

- iii. How do corrective controls affect financial accountability of humanitarian organizations in Nairobi City County, Kenya?

### **1.5 Significance of the study**

The humanitarian organizations are expected to find this study more insightful, especially with regard to the value that results from the integration of internal control measures in the daily operations within the organizations and all possibilities that result in achieving their mandate. In practice, the findings of this study most likely inform these organizations why most of their operations fail at some point. It also provides guidance on the duties of internal control, which may lead to better financial management within an organization, and this will better the services offered by the humanitarian organizations to the intended groups of people.

Additionally, the studies' findings may be applicable to Kenyan government in putting into place policies that would help support structures required to strengthen the financial accountability of humanitarian organizations. This research also aims at informing the Government of Kenya on good internal controls measures that would foster good relations with country donors.

This research also aims at adding more knowledge to the already existing knowledge gaps through evidence-based findings that will extensively contribute to theory. It is of great help to future researchers in establishing existing research gaps as a basis for informing their research methodologies and literature research.

### **1.6 Scope of the study**

The researcher focused on investigating the effect of internal controls on financial accountability of selected humanitarian organizations. The study population was the 3 selected humanitarian organizations (NGOs) currently operating in Nairobi City



County, Kenya; World Vision Kenya, Compassion International Inc and Give Directly Kenya. The three organization have verifiable registration certificates with the NGO Coordination board and has managed the largest budget.

The independent variable is internal controls which include; Preventive Controls Detective Controls and Corrective Controls, while dependent variable is financial accountability, which is measured through budgetary allocation and financial reporting.

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

One of the shortcomings that the researcher experienced was time limitations as respondents expressed discomfort being interviewed during working hours as this ate into employees working hours. However, this was overcome through presentation of research permit from NACOSTI together with the Authorization Letter from Kenyatta University and the simplicity of the questionnaire.

Another shortcoming was that most of the organizations considered some information confidential and therefore resistance to giving the required information. To ensure that the above limitations were sorted, the researcher assured respondents that the purpose for this research was purely academic, and that the researcher would maintain the confidentiality of the information provided by not divulging it or using it in any other way.

### **1.8 Organization of the study**

The researcher categorized this study into five chapters, whereby, chapter one of the study comprises of the background, study objectives, scope of the study, study significance and lastly, study limitations. Second chapter entails the reviewed literature, which is divided into two sections namely; the theoretical review which

provides theories which for the basis of the study and the empirical review which gives insights into similar studies that have been conducted by various researchers. The third chapter looks at the study methodology comprising of research design, target population, data collection procedures and instruments applied, data analysis procedure, and the ethical concerns emerging from the methodology applied. The fourth chapter covers research findings from which discussions are drawn whereas the final chapter presents summary of findings, conclusions as well as the recommendations.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The author gives an analysis of theoretical review of literature, a critical analysis of empirical review followed by a summary of literature, and finally the conceptual frameworks.

#### **2.2 Theoretical Review**

Different authors have developed a number of theories and applied them in conceptualizing and investigating operations within humanitarian organizations as well as the internal control. This study examined a few theories and their importance concerning how internal control affects the financial accountabilities for of humanitarian organizations.

##### **2.2.1 Agency Theory**

The agency theory applied on this study, was first proposed by Jensen and Meckling and published in 1976 (Barlie & Means, 1982). The authors stated that there exists an agency relationship between contracting parties of a firm and these relationships are prone to conflicts of interests. The theory argues that relationships can be best organized in such a way that one party, called the principal determines the work to be done while the other party, called the agent performs duties and makes decisions on behalf of the principal. An all-inclusive agreement must be put in place so as to match the interests of both the agents and the principals (Barlie & Means, 1982). To further tighten the association, they suggested that the principal can employ an expert to monitor the agent(s).

In relevance to this study, an agency relationship exists between donors and humanitarian organizations - when the donors who are sole owners of the firm hire

managers to oversee the day-to-day operations of the firm and make relevant decisions on their behalf. Agency problems arise when the managers do not commit to fulfilling the organization's objectives and instead focus on personal interests or the growth of the firm rather than maximizing on the shareholders earnings.

This theory supports both the dependent and independent variables of Humanitarian Organizations (Barlie & Means, 1982). The firms' management have the mandate to ensure efficient financial management of the donors' funds. According to 'The Sarbanes-Oxley Act of 2002 (SOX)', the purpose of introduction of internal control mechanisms is to hasten the efficient financial accountability (Ashbaugh-Skaife *et al.*, 2007, p.192). This will therefore, enhance efficiency and effectiveness of the operations of the various Humanitarian organizations in their service delivery.

### **2.2.2 Positive Accounting Theory**

Proposed by Watts and Zimmerman in 1986, the theory advocates for the use/adoption of new accounting policies and standards depending on the prevailing economic condition. As stated by Deegan and Unerman, (2006), Positive Accounting theory is built on the hypothesis that any engagements of an individual is always motivated by self-interest. In addition, they further argue that the above engagements in most cases will always be to take advantage of a particular situation to satisfy their own interests. According to Watts and Zimmerman (1986) this theory has three main assumptions; Bonus plan assumption, Debt covenant assumption and Political cost assumption.

In relevance to the study, the theory is structured to clarify and predict the firms that will and those that will avoid the adoption of a particular accounting practice but stay silent on the practice the firm ought to use (Deegan & Unerman, 2006). In this view,

the theory predict that firms will strive to adopt mechanisms that will discourage self-driven actions. Consequently, managers interests are therefore harmonised together with the firm's interest, thereby, avoiding the agency conflict. This theory supports the internal controls specifically the preventive and detective controls of the study

### **2.2.3 Stewardship Theory**

Donaldson and Davis proposed this theory in 1997 and as pointed out by Muhunyo (2018), they defined a steward as the one who safeguards and maximizes the wealth of the shareholders by ensuring good performance in the organization. The emphasis of this theory is on the management of organizations being stewards hence the need to incorporate their goals in the firm. This means that the management will be motivated and satisfied only in the event of attainment of the organizations' goals Donaldson and Davis (1991) recognises the significance of practices and measures that supports the steward and provide total independence founded on trust, which is contrary to that Agency theory that views the manager /employees as economic beings.

In relevance to this study, the management of the humanitarian organizations are seen to acts as stewards of the donors, the employees and the community (Muhunyo, 2018). The management should put in place Internal Controls (Preventive, Detective and Corrective measures) in the organization to prevent problems and to protect its funds from misuse.

### **2.3 Empirical Literature Review**

The theory concentrates on the review of previous research result findings that the study intents to undertake. In this study, previous research result findings were reviewed in relation to internal control and their effects to the financial accountabilities for humanitarian organizations.

### **2.3.1 Preventive Controls and Financial Accountability of Humanitarian Organizations**

Muhinyo, (2018) study conducted on higher learning public institutions based in Nairobi, Kenya, on how the financial performance were influenced by the internal controls put in place, the findings indicated a significant effect between risk assessment, control activities, control environment, information and communication; and financial performance of public institutions of higher learning in Nairobi. The control activities applied in the study were Information, communication and monitoring, risk assessment and control environment. The dependent variable on the other hand was the financial performance in higher learning institutions in Nairobi City County (Muhinyo, 2018). The data was analyzed within the framework of multiple linear regression model. The study recommendation was adoption of internal control system so as to improve accountability in the organizations.

A study by Schaeffer (2009) indicated that though at certain age groups readers may view Haight Ashbury as a great organization due to his association with the '60s' peace movement, the engagement in non-profit activities such as the free clinics and his youthful exuberance, research portrays a different picture. Readers may agree with the views of one of its executives who portrayed the organization as not engaged in fraud. However, this study found out that embezzlement of money was witnessed at the Haight Ashbury Free clinic. This would have however been avoided had the management followed even the most basic steps of accounts payable best practices. Outgoing CFO of Haight Ashbury Free clinic decided to take advantage of the information that required not for profit receiving federal grants make a refund of any unspent funds, which were entirely intended to be channeled directly to the federal office. Authorities claimed that instead, the CFO formed an account at the Sacramento

bank which had a similar title to that of the federal office, and therefore in a period of less than two years, all the employees at the clinic had to return all the cheques, which was then deposited into his own created account. Lack of the cheque co-signer control exposed the clinic to this kind of risks it would have been difficult for this CFO to commit such a fraud with the co-signer control. This study introduced this internal control to prevent such fraud from occurring.

To enhance internal control measures and ensure sustainable risk management, a major building block to be considered by organizations is the segregation of duties. This control measure ensures that the critical processes and functions in any organization are assigned to more than one person based on the principle of shared responsibilities. This dispersion of duties helps eradicate fraud and errors that would occur in the absence of such control measure. The goal for segregation of duties aims at preventing the occurrence of prevent unilateral actions in key positions to the extent that surpasses the organization's fraud or errors tolerance limit.

A study by Brown, (2016) on KOSS financial fraud in 2009, Michael Koss CEO discovered the fraud of the American company which was at the time valued at \$34 million after he was given tip off by American Express. As expressed by White collar (a senior accounting personnel), the level of fraud was significant considering the profit margins of the company, its turnover as well as the size of the organization. KOSS was found to have very weak internal controls associated to its size that resulted too little segregation of duties. Additionally, the management of the organization relied on external auditors namely Grant Thornton, LLP or "GT" who failed them as the auditors had limited understanding of the business hence could not help in meeting the expectations and objectives of the senior management as well as those of the organization in general. As revealed in the study, these auditors did not

adhere to the minimum standards required in an audit. The losses were however minimized as the external auditors later on agreed on a payment of \$8.5 million to KOSS in July 2013. The study inculcated segregation of duties to mitigate such errors from occurring.

### **2.3.2 Detective controls and Financial Accountability of Humanitarian Organizations**

To study how internal controls affected or influenced the financial performance of Technical Training institutions in Kenya, (Munene, 2013), Internal Audit, Control Environment and Control Activities were used to measure the dependent variables while Accountability, reporting and liquidity were used to measure the institutions' financial performance. Data collection was done from the 37 Institutions and SPSS was applied in conducting the analysis process. The analysed data revealed inefficiencies in the internal audit departments and that these departments were understaffed. Further, internal audit activities were not being done on a regular basis.

In a study by Schneider and Church (2004) on auditors' opinions on the internal controls to be considered in making decisions of loan decisions, the auditors held the opinion that application of adverse internal control may negatively affect the lender's assessment significantly especially if an unqualified opinion is placed and applied as a whole based on the financial statement. In this regard, adverse internal control opinion can weaken the value that is attributed to any balance sheet thereby influencing the financial records for income in the lending decisions, and this could as a result affect the confidence of the lenders on the fact that financial statements presented are in conformance with the generally agreed upon principles of accounting.



Wabwire and Bogonko (2019), in their study on the effects of internal controls on public finance management of Busia County Government, Kenya whereby 125 respondents were sampled from a total targeted population of 181 employees in Busia County Government were collected revealed that the financial management of Busia County Government was significantly influenced by the control environment. The study therefore recommended that the County needed to employ competent professionals to perform the organization's functions.

In conclusion, from the studies discussed above it is evident that internal controls have been reviewed in literature. These controls have been applied in ensuring reliability in financial reporting, efficiency of operations of Humanitarian organizations. The purpose of internal controls is to curb accounts reporting errors in order to avoid fraudulent mistakes. The executive arm of these Humanitarian organizations is therefore tasked with the responsibility of devising and installing control measures in order to regulate the activities for which the organizations have been formed for.

A study on U.S Department of Health & Human service (2017) on the payroll issues indicated that, the salary payments paper checks were processed 2-days in advance of the last day of the allowable payroll pay period, which allowed employee illegal salary advance and hence duplicated payments on salary account totaling to \$82,175 in a span of 2-year period for seven employees. In that effect, two exempt employees were able to receive illegal overtime payments that totaled to \$31,800, other employees in the company also received 548 hours in excess of the correct annual leave that equated to \$11300. Payroll system that is in an automated environment should be used to track all the salaries plus the retirement advances, acquired plus

used leave other than off the system tracking. The study included internal audit as an internal control to detect these errors and prevent fraud.

### **2.3.3 Corrective Controls and Financial Accountability of Humanitarian Organizations**

Corrective controls are internal controls put in place to remedy an occurrence of a risk or a loss, which has been discovered by the detective internal control. Policies are some of the corrective control measures widely used by organizations. Humanitarian organizations should ensure that they create internal control whereby the purchases are governed by set policies that ensure the highest value is achieved for purchases made. This is achievable through conducting price checks before actual prices with different vendors, giving tenders to approved vendors only and putting in place a competitive process for contractors to make their bids before arriving at a decision of choosing one. This process might require compelling the office manager to check online prices at several stores before placing an order for office supplies and other equipment.

A study by Ndegwa and Mungai, (2019), on Influence of Internal Control System on Financial Management in the Ministry of Finance, Kenya, focused on a sample of 97 employees drawn from a target population of 128 employees in the ministry of Finance. The study findings revealed that internal controls systems had a significant positive influence on the Ministry's Financial Management. One of the study recommendations therefore was the adoption of reliable control systems in the organizations operations. A secure infrastructure was required to support the IFMIS so as to facilitate confidentiality and prevent unauthorized access. The study included use of such policies as an internal control measure.

A case study on U.S Department of Health & Human service by Denver, (2017) also touched on potential false Propane Delivery Tickets. The study indicated that, low-income Home energy Assistance program come in handy in assisting low-income households be able to achieve their immediate home energy needs. According to this study, clients had several complaints including receiving less propane as compared to what they ordered as well as receiving invoices did not support the amount of propane paid for. The study recommended that the department should consider the installation of a GPS system for tracking purposes and install meters on the trucks transporting propane to ensure that the amount of propane poured for every client was digitally captured the location of the pour shown. The study used such policies as an internal control measure.

#### **2.3.4 Internal Controls and Financial Accountability of Humanitarian Organizations**

A United Kingdom company, in their guide for humanitarian aid organizations, expresses that a solidly set down arrangement of internal controls guarantees that benefits are defended, it improves the unwavering quality of the bookkeeping information, it likewise improves consistency with appropriate laws or legally binding commitments and it advances operational efficiencies. The structure of internal controls and its execution is aimed at providing sensible confirmation in regard to meeting the set objectives in the organization. This structure can be grouped into three segments to guarantee the tasks of the organization are all well undertaken. These three segments are operational, compliance and financial reporting. To start with, as an operational structure, internal control guarantees adequacy, and proficiency in the utilization of assets. Furthermore, in conforming to appropriate laws and guidelines, internal control likewise assumes a noteworthy job. At last, financial reporting gives

sensible confirmation of the dependability of budgetary announcing (Ashbaugh-Skaife *et, al.*, 2007).

According to Turley and Zaman (2004), a Klynveld Peat Marwick Goerdeler (KPMG) survey on internal control; a practical guide (1999) states that, an internal control framework encourages its viable and most effective task through enhancing it to react fittingly to large business operations, financial, compliance and in averting different dangers to accomplishing the organization's objectives. This includes shielding accrued benefits from misfortunes or misuse and misrepresentation hence guaranteeing that liabilities are recognized and overseen.

An internal control framework guarantees the nature of inside and outside reporting. This would call for the maintenance of the correct and accurate records, processes and procedures that would result to a progression of opportune, pertinent and solid data from inside and outside the organization. An internal control framework likewise guarantees compliance with appropriate laws and regulations, and furthermore inward policies concerning the conduct of business. Internal controls have a role of ensuring that the procedures put in place are effective, adequate and in line with the set laws. The company manager put the controls in places as preventive measures to avoid losses that would result from technological breakdowns, theft or fraud. An operative control contains the correct solutions to internal control problems whereas a suitable control contains detailed instructions that the employees must adhere to in making decisions as well as executing their duties. An internal auditor concentrates on compliance at two levels-adherences to corporate policies and regulatory necessities.

Therefore, the primary duty of the internal control manager is reviewing any accounting and financial controls that are in existence and other legal compliance processes put in place and make any necessary revisions or additions. In this regard,

the management has a responsibility to ensure timely communication with department managers and other staff members on urgent changes that need to be implemented. Additionally, the management cooperates with the human resource department in updating policy manuals and other important ensure instant compliance by all staff involved. This was for instance witness when majority of financial institutions and services rushed to develop social media compliance policies aimed at preventing brokers and serve reps from unintentionally providing financial advice through their accounts (Hermanson, 2003).

#### 2.4 Summary of literature review and study Gaps

The table below lists in summary, the various literatures reviewed under this study, the revealed study gaps in the reviewed literature, and hence explaining what the current study covered.

**Table 2.1 Summary of literature review and study Gaps**

Author/Year	Title	Major Findings	Research Gaps	Current Study
Wabwire and Bogonko (2019),	Effects of internal controls on public finance management of Busia County Government, Kenya,	Study findings indicated that control environment significantly impacted on the financial management of Busia County Government.	The study focused on the County Government operations.	The current study focused on the selected Humanitarian organizations in Nairobi City County, Kenya
Ndegwa and Mungai, (2019)	Influence of Internal Control System on Financial Management the Ministry of Finance, Kenya	Study findings revealed that internal controls systems had a significant positive influence on the Ministry's Financial Management.	The study was centered on a general internal control system and Financial Management of the Ministry of Finance, Kenya	This study focused on the protective, detective and corrective controls and the selected

				Humanitarian organizations in Nairobi City County, Kenya
Muhinyo, (2018)	Internal control systems effect on financial performance of public learning colleges of a higher level in Nairobi, City County, Kenya	The findings on this study revealed a significant relationship between the control environment, the risk assessment, control activities and the information and communication; and the financial performance of the public learning colleges of a higher level in Nairobi City county	Study was centered mainly on public institutions of higher learning in Nairobi, City County, Kenya,	The current study focused mainly on the selected Humanitarian organizations in Nairobi City County, Kenya
Denver (2017)	Potential false propane delivery	The findings revealed that Clients did not receive amounts of propane ordered	The study did not adopt procurement policy as an internal control measure	The current study incorporated procurement policy as an internal control measure.
Brown (2016)	Financial fraud of KOSS	The findings showed that KOSS had major internal control weaknesses associated to limited segregation of duties	The study did not consider segregation of duties as an internal control measure.	The current study incorporated segregation of duty as an internal control variable.
Munene, (2013)	Effect of internal controls on financial performance of Technical Training institutions in Kenya	The findings revealed that there were inefficiencies in the internal audit departments and that these departments were understaffed. Furthermore, internal	The study was centered on financial performance of Technical Training institutions in Kenya, using	The current study employed Budgetary Allocation and Financial Reporting to measure

		audit activities were not being done on a regular basis	Accountability as the measure of financial performance	Financial management of the selected Humanitarian organizations in Nairobi City County, Kenya
Slack et. al., (2010)	Effects of internal control measures on operations of humanitarian organizations	Study findings revealed that Observance of time and attendance procedures were followed.	Doubts still exist to confirm the extent to which internal control measures have been inculcated into the operations of most of the humanitarian organizations to ensure efficient financial and operations in the organizations is as per what is required of every unit in every unit of the organization.	Current Study incorporated internal control measure as a variable in the study.

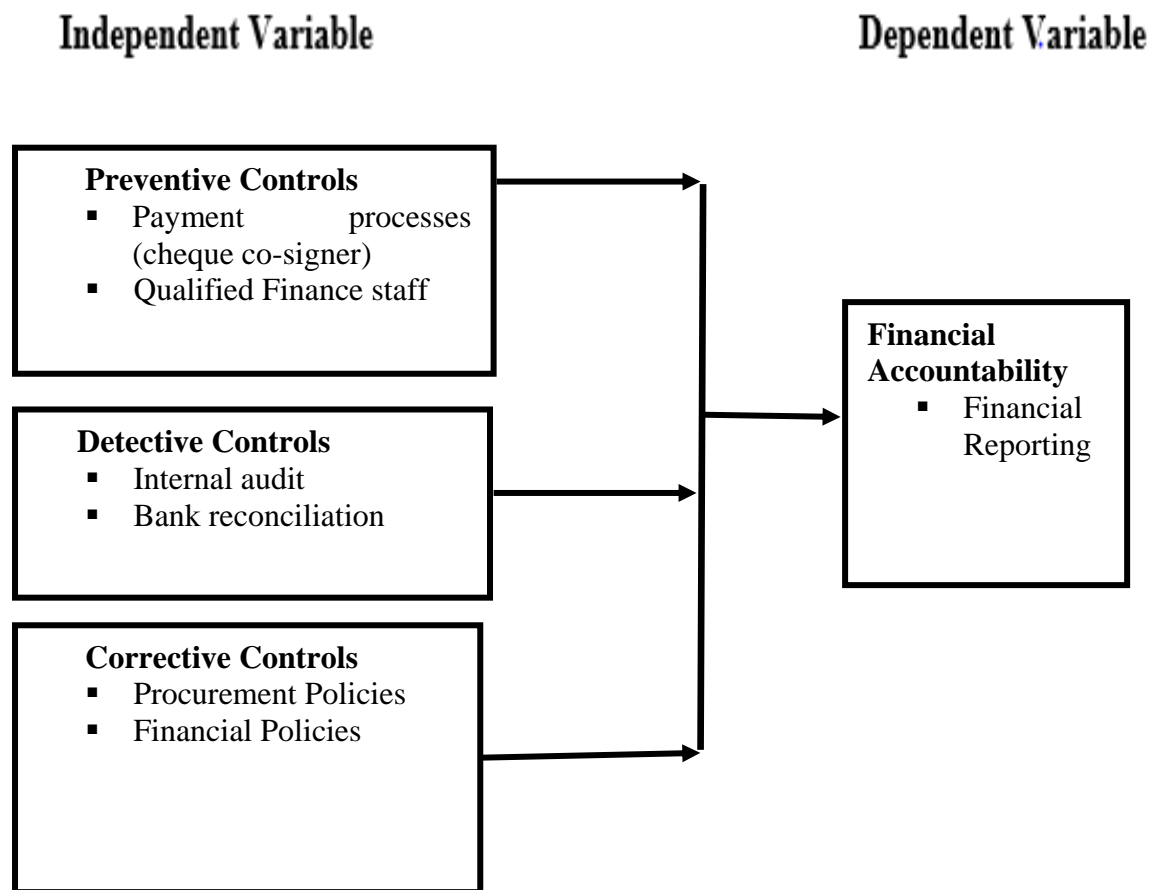
**Source: Author (2020)**

## **2.5 Conceptual Framework**

As applied in this study, a conceptual framework describes an interrelationship among the independent and dependent variables specified in the study. The dependent variable is financial accountability of humanitarian organizations and it is measured in terms of financial reporting. The independent variables are the internal controls; Preventive Control, which includes payment processes and qualified finance staff.

Detective Control, includes: Internal Audit and Bank reconciliation. Corrective Control, which includes: Procurement policies and Financial Policies. Efficient Financial accountability of humanitarian organizations can take place as planned when internal control constraints that undermine the process of operations are confined to have the organization run its operations smoothly. The optimum relationship among these variables, therefore, determines the proper running of humanitarian organization in Kenya.

**Figure 2.1: Conceptual Framework**



**Source: Author (2021)**



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The researcher discusses the research methodology and procedures adhered to during the process of research including design of the research, targeted population, size of the sample and the applied sampling technique, procedure for data collection, analysis of the data, diagnostic test and the ethical concerns.

#### **3.2 Research design**

Research design has its major objective as enhancing validity which Mugenda and Mugenda (2003) refer to as the degree to which obtained results from a study and conclusions drawn after data analysis represents the realities of the phenomenon under study. As defined by Kothari, (2007) a research design is a specific structure employed by a researcher in any study to come up with a solution. This study used descriptive survey design that was appropriate since it centers on a certain given point and therefore these disregards monitoring series over the passage of time. Descriptive research design is mostly that which intends to give an explanation of the what, who, when and the how of a study phenomenon (Cooper *et. al.*, 2003)

#### **3.3 Target population**

As pointed out by Muhunyo (2018), target population is defined by Kombo and Tromp (2011) as subjects or a group of people who have similar characteristics, from whom a researcher draws a sample to be studied in a survey. In this study, the population was selected humanitarian organizations headquartered in Nairobi City County.

The study sample was heads of the sections in the Finance department of the three humanitarian organizations (World Vision, Compassion International Inc and Give

Directly Kenya). The three humanitarian organizations have been chosen to be the target population as they are the leading NGOs in the project funds utilization in the Country (Annual NGO Sector Report 2018/19). In addition, their presence and operations are felt in most parts of the Country including Nairobi City County.

**Table 3.1: Target Population**

<b>Humanitarian Organization</b>	<b>Category</b>	<b>Target population</b>
World Vision	Heads of the sections in the Finance department	25
Compassion International Inc	Heads of the sections in the Finance department	23
Give Directly Kenya	Heads of the sections in the Finance department	22
	<b>Total</b>	<b>70</b>

**Source: NGO Coordination Board (2019)**

### **3.4 Sampling frame**

This is a device or the source material from which a researcher draws a sample (Turner, 2003). It is therefore, the complete list of every individual in a given population that qualify for sampling which may include households, individuals or institutions. In this study, the researcher drew a sampling frame from the employee database in three specific humanitarian organizations namely; World Vision, Compassion International Inc and Give Directly Kenya.

### **3.5 Sample and Sampling Technique**

The smaller group drawn from a main study population which the researcher studies or collects data from is referred to as a sample (Mugenda & Mugenda, 2003). Orodho (2003) defines a sample as the total number of observations a researcher includes in a statistical sample and is obtained from a specified population. The sample size is a critical feature of any empirical study as it directly impacts on the accuracy of the data obtained and determines the extent to which conclusion made based on obtained data can be generalized.

Sampling technique entails all the procedures followed in selecting a portion of a given population whereby the research is to be carried out, in such a way that it ensures generalizability of the conclusions drawn from study towards the larger population. The researcher on this study, employed a census survey to collect data from the entire target population. This is because the targeted population in the study is of a small size and manageable to select and interview all the respondents.

### **3.6 Data collection procedures**

According to Johnson and Turner (2003), data collection procedures refer to the total sum of events followed by a researcher in the data collection activity. For this particular study, the researcher began by collecting an introductory letter from Kenyatta University. He/she then took book appointments with the management of World Vision Kenya Compassion International Inc in Kenya and Give Directly Kenya, before formally visiting the organization on the agreed day. The researcher then requested the management to allow the research to be conducted within the organization. Once acceptance was granted, an introductory letter was addressed to organizations management team to allow the researcher to do the research at the organizations. The researcher then visited the study site on the appointed day to select

respondents and issue them with the questionnaires. The researcher collected the field questionnaires while ensuring that any problems that result from filling the questionnaire are well. All the information was assembled and for data entry and analysis.

### **3.6.1 Pilot Testing**

Pretesting and the validation of the study questionnaires was achieved by undertaking a pilot study. The main purpose of any pilot test is for the researcher to determine whether the questionnaire is likely to yield expected outcomes (Dawson, 2019). The pilot study aimed at testing the reliability of the research instruments being applied which in this regard were the questionnaires. The pilot group constituted 7 individuals from two random NGO's other than the selected sample for the study and this represented 10% of the study population, which is in line with (Cooper & Schindler, 2014). Individuals included in the pilot study were not engaged in actual/final study.

### **3.6.2 Validity**

This refers to the extent to which a research method accurately obtains results that corresponds to what it intends to measure. Extensive literature review was undertaken to ensure that there is some correlation between the results of this study, the established theories, and other measures of similar concept. Use of Likert Scale questionnaire in this study ensured a universal method in data collection that avoids ambiguity, while ensuring questions are easily understood and interpreted accurately by all respondents. Pilot study helped to validate the data collection tools.

### **3.6.3 Reliability**

Reliability is a concept used for testing or evaluating the extent to which research results can be reproduced especially when repeated under similar conditions.

Reliability test was done using Cronbach's alpha which is usually a methodology based on the internal consistency. The purpose of Cronbach's alpha is to determine the reliability of research data. Cronbach's alpha measures the average of measurable items and its correlation (Creswell and Creswell, 2017). Any coefficient value above 0.7 was considered to be acceptable for this study as recommended by Creswell and Creswell (2017). This is total conformity to the qualitative research design methodology that is employed in this study.

### **3.7 Data Analysis and Presentation**

Data collected through the questionnaires was later adopted and coding done to enhance data completeness and accuracy. The responses collected through the questionnaires were then put into specific themes. The researcher employed SPSS (Statistical Package for Social Sciences) in the analysis of both qualitative and quantitative data. According to Kothari (2009), Quantitative analysis entails the application of standard deviation, mode, median, mean and relative frequencies in analyzing data. Therefore, the data was analyzed first quantitatively then later qualitatively. To obtain the Financial Accountability, the multiple linear regression model indicated below was applied;

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$$

Where:

- Y** - Financial Accountability
- $\beta_0$**  - the regression constant,
- $X_1$**  - Preventive control,
- $X_2$**  - Detective control,
- $X_3$**  - Corrective control and
- $\varepsilon$**  - The error term.
- $\beta_1, \beta_2, \beta_3$**  - The coefficients of independent variables.

**Table 3.2: Operationalization and Measurement of variables.**

<b>Type of Variable variable</b>	<b>Variable</b>	<b>Operationalization</b>	<b>Measurement</b>
Independent variable	Preventive Controls	Internal control that helps an organization to mitigate against risk or loss or damage before it occurs.	<ul style="list-style-type: none"> <li>▪ Payment processes (cheque co-signer, segmentation of duties)</li> <li>▪ Qualified Finance staff</li> </ul>
	Detective Controls	Internal controls designed to identify the already existing problems in an organization.	<ul style="list-style-type: none"> <li>▪ Internal audit</li> <li>▪ Bank reconciliation</li> </ul>
	Corrective Controls	Internal controls put in place to remedy an occurrence of a risk or a loss, which has been discovered by the detective internal control.	<ul style="list-style-type: none"> <li>▪ Procurement Policies</li> <li>▪ Financial Policies</li> </ul>
Dependent variable	Financial Accountability	How well a firm controls the use of its funds in accordance to the firm's policies to ensure achievement of its goals?	<ul style="list-style-type: none"> <li>▪ Financial Reporting</li> </ul>

**Source: Author (2021)**

### **3.8 Ethical Consideration**

There are several rules and standards that every researcher is required to adhere to while conducting a research referred to as ethical considerations. In this study, the researcher keenly adhered to all ethical considerations stipulated by Kenyatta University and those that govern research in Kenya as a whole. Mugenda and Mugenda (2003) points out that the researcher must ensure respondents, participation is voluntary, do not apply discriminatory, unacceptable or offensive language during the formulation of interview schedules or the questionnaires. Another critical aspect

of consideration in data collection according to Bryman and Bell (2007) is the maintenance of a high level of confidentiality and a precise method of communication where by the possibility of misinterpreting the research questions is eliminated. Observing such factors also contributes in eliminating research biases. A research approval was obtained from the Graduate School at Kenyatta University and a research permit from NACOSTI, which was used while approaching various Humanitarian Organizations of interest.

## **CHAPTER FOUR**

### **RESEARCH FINDINGS AND DISCUSSIONS**

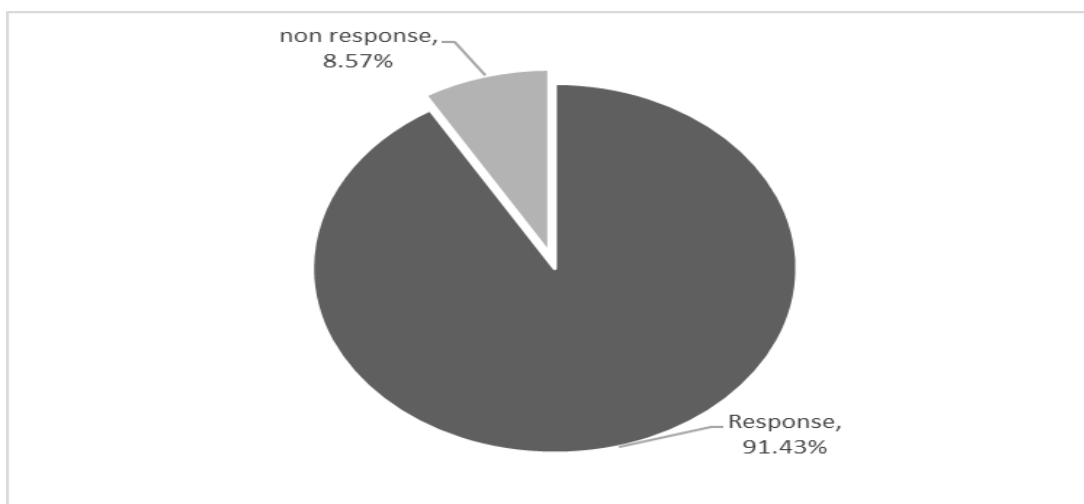
#### **4.1 Introduction**

In this chapter, the research data is presented; an analysis of collected data, the results and finally the interpretation of research findings. The main objective of the study was to determine the effect of internal controls on financial accountability of humanitarian organizations in Nairobi city County, Kenya. Frequencies, Percentages, frequency tables, figures as well as pie charts are presented to illustrate the data analysis and interpretation.

#### **4.2 Response Rate**

Precisely 70 questionnaires were distributed among all respondents of the study. As indicated in Figure 4.1, 64 out of the 70 questionnaires were completed and returned. This signified a successful response rate of 91.43%. The response rate is in accordance with the suggestions of Fincham (2008) that, above 70% response rate is deemed adequate to conduct statistical analysis of the collected data. Mugenda and Mugenda, (2003) are of the view that once a response rate of more than 50% is achieved, it can be adequately applied in data analysis and reporting; whereas a more than 60% response rate is regarded as good and above 70% as excellent. It is from these evidences that the researcher drew a conclusion that the achieved response rate was excellent for carrying out statistical analysis for the current study.





**Figure 4.1: Response Rate**

**Source: Researcher (2021)**

### 4.3 Reliability Analysis

A pilot study was conducted on 7 individuals from two random NGO's other than the selected sample for the study that represented a 10% of the entire study population for to ensure that the research instrument was reliable for data collection. In determining the reliability of the instrument, internal consistency of the items of 18 questionnaires that were subjected to pilot test using Cronbach's Alpha value of 0.7 as recommended by Mugenda and Mugenda (2003) was measured. As indicated in Table 4.1, the four independent variables all had alpha coefficient values higher than 0.7 ( $\alpha > 0.7$ ) implying that the questionnaire was a reliable data collection instrument for the study.

**Table 4.1: Reliability Test**

Scale	Cronbach's Alpha	Number of Items
Preventive control	0.752	8
Detective control	0.796	11
Corrective control	0.801	12
Financial accountability	0.764	10

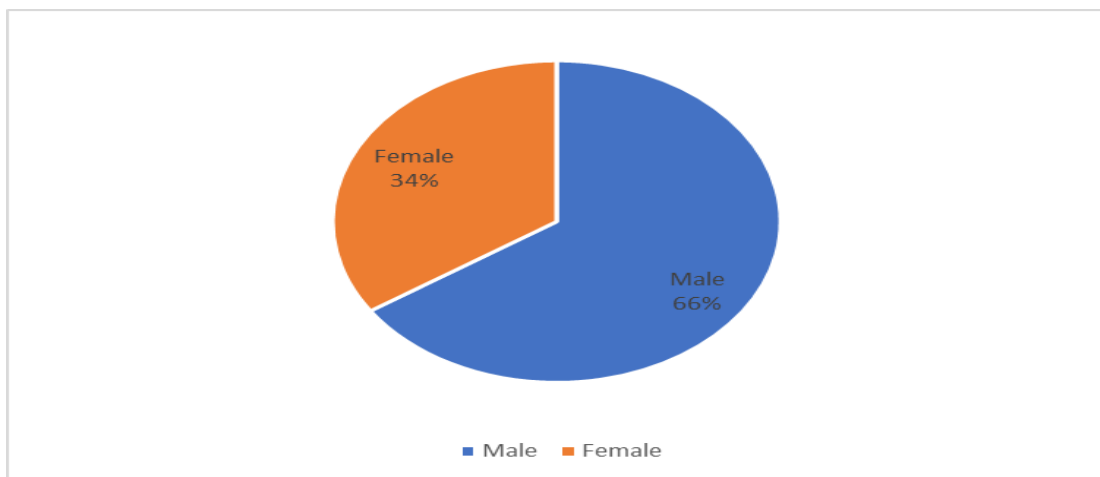
**Source: Researcher (2021)**

#### 4.4 Demographic Information

The researcher took time examining respondents' personal characteristics and presents the same in this chapter whereby demographic results are presented using both tables and figures. The key characteristics of the respondents under consideration in this research were gender, level of education, length of service and position held by the respondent.

##### 4.4.1 Gender of the Respondents

The researcher determined the gender composition of all respondents. The results as presented in Figure 4.2 show that male respondents were the majority as represented by 65.6% while 34.4% were females which points to low gender disparity among respondents of the study. The results also imply that the study sample was gender representative.



**Figure 4.2: Respondent Gender**

**Source: Researcher (2021)**

##### 4.4.2 Level of Education

The highest level of education of all participants in this study was established. Results in Table 4.2 show that all the targeted respondents had university degree. This implies

that all the respondents had adequate level of education and were skilled for their respective positions. In regard to the current study, high level of education of respondents improved reliability of the responses provided.

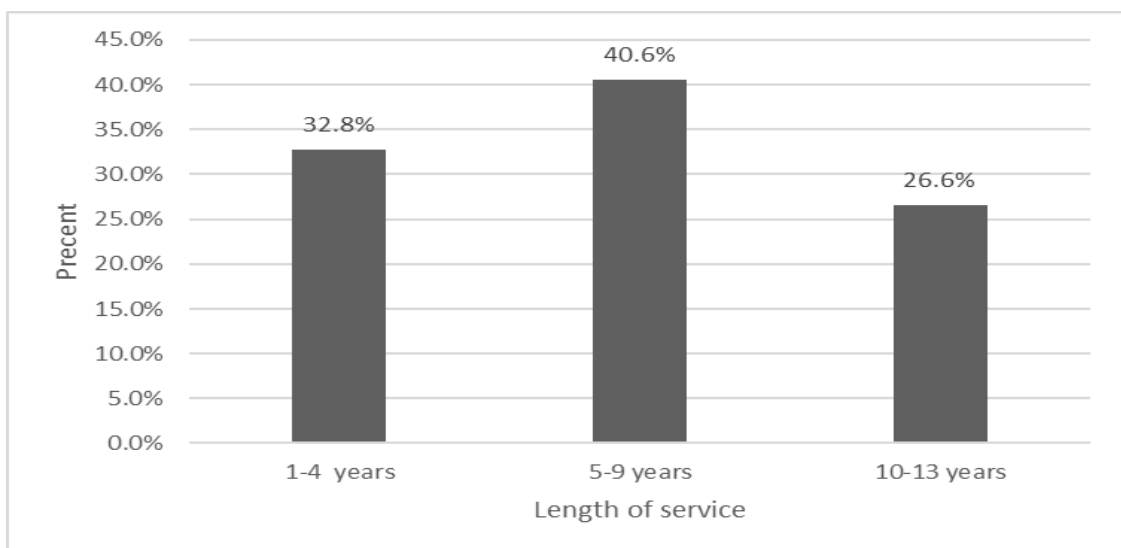
**Table 4.2: Respondent Level of Education**

<b>Level of Education</b>	<b>Frequency</b>	<b>Percent (%)</b>
University degree	64	100

**Source: Researcher (2021)**

#### 4.4.3 Length of Service in the Current Organisation

The study also aimed at determining the number of years served in the current organization by different respondents. As shown in figure 4.3, the largest proportion of the respondents represented by 40.6% had worked in the current organisation for a period of 5 to 9 years, 32.8% had served between 1 and 4 years while 26.6% had working experience spanning between 10 to 13 years. This clearly indicates that most respondents targeted had served in their respective organisations long enough to understand the factors that could influence financial accountability.

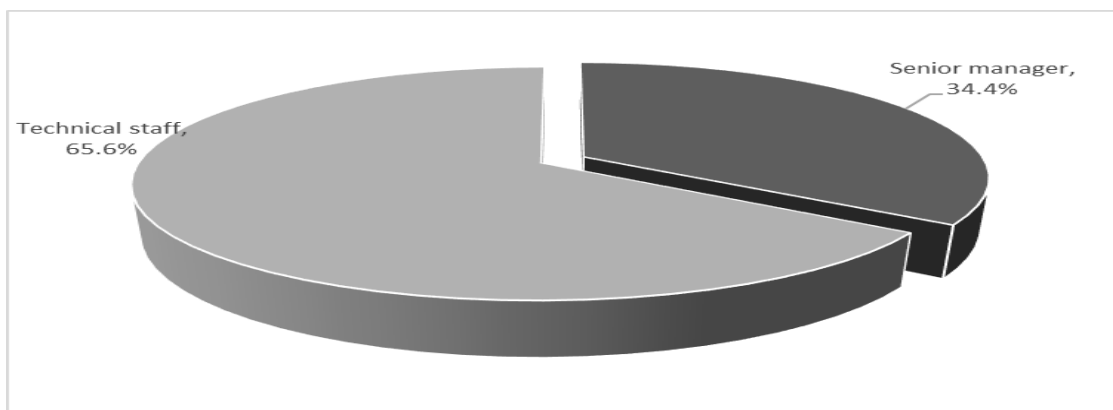


**Figure 4.3: Respondent Service Length**

**Source: Researcher (2021)**

#### 4.4.4 Position in the Organization

The study further determined the position held by respondents in their respective organisations. From the results in figure 4.4, a majority of respondents from the humanitarian organizations in Nairobi City County were heads of technical staff in finance represented by 65.6% while 34.4% were senior managers in finance. The results of this study therefore represented the opinions of both technical staff and managers within the humanitarian organisations.



**Figure 4.4: Position in the Organization**

**Source: Researcher (2021)**

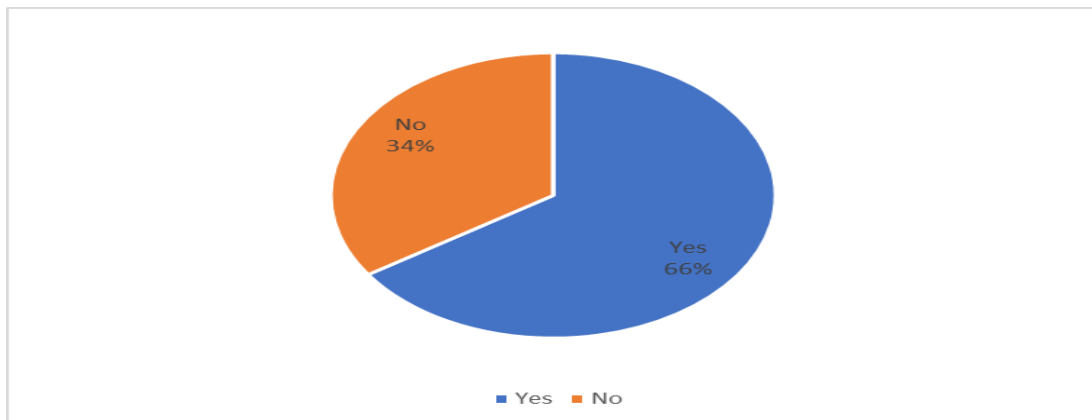
#### 4.5 Descriptive Analysis

The descriptive results on the study variables are presented in this part. This study had three independent variables which were preventive controls, detective controls and corrective controls. The dependent variable was financial accountability. In summarizing the study results each of the variables, the researcher utilized mean and standard deviation.

##### 4.5.1 Preventive Controls

The study examined the effect of preventive controls on financial accountability of humanitarian organizations in Nairobi city County, Kenya. To achieve this, every respondent was required to indicate whether preventive controls affect financial

accountability of the humanitarian organizations in Nairobi city County, Kenya. From the results in figure 4.5, majority of the respondents, 65.6% agree that preventive controls affect financial accountability of the humanitarian organizations in Nairobi city County, Kenya while 34.4% disagreed. Those who agreed cited the fact that controls help to mitigate possibility of fraud and theft and that they create common awareness of the expectation in adhering to set standards. These finding supported those of Muhinyo, (2018) who found that adoption of internal control system so as to improve financial accountability in the organizations. Similarly, this study supported the finding of a study by Schaeffer (2009) that found that control measure ensures that the critical processes and functions in any organization are assigned to more than one person based on the principle of shared responsibilities.



**Figure 4.5: Whether Preventive Controls affect Financial Accountability of Humanitarian Organizations**

**Source: Researcher (2021)**

In addition, respondents were required to indicate the extent to which they concurred with several statements regarding preventive controls on a scale of 1-5 whereby

1=strongly disagree (SD), 2=disagree (D), 3=indifferent (IND), 4=agree (A) and 5=strongly agree (SA).

From the results in table 4.3, majority of the respondents strongly agreed that the organization has a cheque co-signing policy, cheque co-signing is an internal control that helps in risk mitigation, it is impossible for a signed cheque to be honored by any bank when it bears the signature for one person only (mean= 4.66).

All the respondents also strongly agreed that their organization chart had lines of authority and responsibility clearly defined and that organization structures points out all responsibilities of each section (mean=5). Additionally, majority of the respondents, mean 4.31 strongly agreed that a staff member is completely locked out from accessing valuable information from the organization unless with the consent of a senior staff. This indicates that all the employees have a clear understanding of the value of division of responsibility and the importance of establishing internal controls in the organization. On average as represented by a mean of 4.4, majority of the respondents strongly agreed to existence of various preventive controls.

The study finding agreed with Mawanda (2008) who argued that internal controls play a vital role in influencing the performance of the management by ensuring they provide financial reports that are reliable and also comply with the laws and regulations put in place to advocate for good cooperate governance. Warren (2003) also reported that a firm introduces preventive controls in order to deter errors and irregularities from occurrence.

**Table 4.3: Descriptive Results on Preventive Controls**

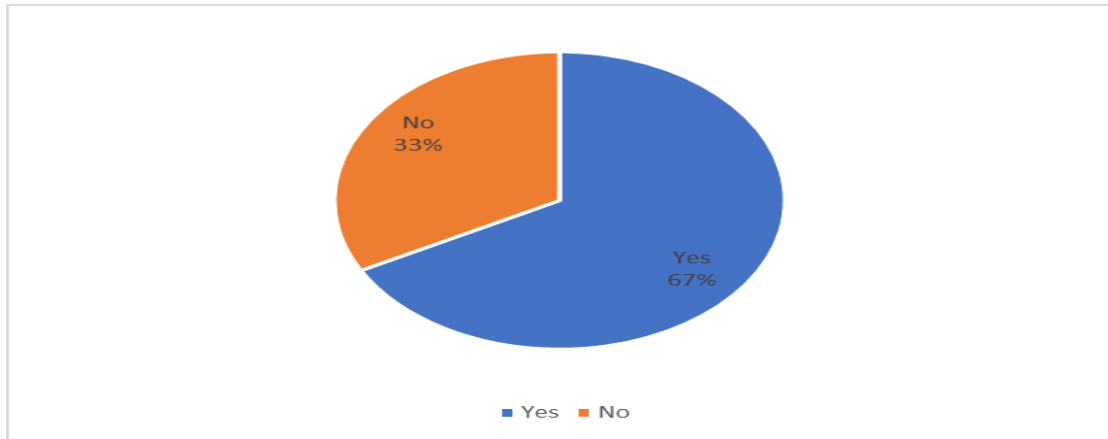
	<b>SD</b>	<b>D</b>	<b>IND</b>	<b>A</b>	<b>SA</b>	<b>Mean</b>	<b>Std Dev</b>
The organization has a cheque co-signing policy	0.0%	0.0%	0.0%	34.4%	65.6%	4.66	0.48
Cheque co-signing is an internal control that helps in risk mitigation	0.0%	4.7%	0.0%	32.8%	62.5%	4.53	0.73
Cheque co-signing has slowed down the operations	1.6%	34.4%	34.4%	0.0%	29.7%	3.22	1.25
It is impossible for a signed cheque to be honoured by any bank when it bears the signature for one person only.	6.2%	0.0%	0.0%	31.2%	62.5%	4.44	1.01
The organization has a chart that clearly defines lines of authority and responsibility	4.7%	0.0%	4.7%	7.8%	82.8%	4.64	0.95
Valuable information from the organization cannot be accessed unless by the consent of a senior staff	34.4%	0.0%	0.0%	0.0%	65.6%	3.63	1.91
Organization structures points out all responsibilities of each section.	4.7%	1.6%	4.7%	7.8%	81.2%	4.59	1.00
All employees clearly understand the value of division of responsibilities among them and the importance of internal controls.	6.2%	6.2%	34.4%	4.7%	48.4%	3.83	1.28

**Source: Researcher (2021)**

#### **4.5.2 Detective controls**

The study also sought to examine the effect of detective controls on financial accountability of humanitarian organizations in Nairobi city County, Kenya. Accordingly, respondents were required to indicate whether detective controls affect financial accountability of the humanitarian organizations in Nairobi city County, Kenya. From the results in Figure 4.6, majority of the respondents, 67.2% agree that detective controls affect financial accountability of the humanitarian organizations while 32.8% disagreed. Detective controls help to detect errors that has occurred and

also help inform on better practices that mitigate risks. This study findings supported those of Wabwire and Bogonko (2019) who found that controls have been applied in ensuring reliability in financial reporting, efficiency of operations of Humanitarian organizations. The purpose of internal controls is to curb accounts reporting errors in order to avoid fraudulent mistakes.



**Figure 4.6: Whether Detective Controls affect financial accountability of the humanitarian organizations**

**Source: Researcher (2021)**

Additionally, respondents were asked to indicate the extent to which they concurred with various statements regarding detective controls. From the results in table 4.4, all respondents strongly agreed that the organization has an internal audit department, internal audit as an internal control helps in risk mitigation and that bank reconciliation is carried out in the organization (mean=5). However, as confirmed by a mean of 1.69, internal audits have slowed down organizational operations and that internal audit findings and recommendations are disseminated to all staff. Majority of the respondents also agreed that internal audit regularly carried out in the organization (mean=3.34). Moreover, it was agreed that internal audit recommendations are strictly and fully implemented (mean=3.98), management decisions are guided by the previous audit recommendations (mean=3.66).



On the other hand, majority of the respondents as represented by a mean of 2.03 strongly disagreed that bank reconciliation findings and recommendations are disseminated to all staff. However, majority of respondents concurred with the statement that bank reconciliation recommendations are strictly and fully implemented (mean=4.00) and that management decisions are guided by the bank reconciliation recommendations.

On average, a mean of 3.49 was an indication that majority of respondents agreed that various detective controls are practiced in their organisations aimed at improving financial accountability. This study findings supported those of Wabwire and Bogonko (2019) who found that controls have been applied in ensuring reliability in financial reporting, efficiency of operations of Humanitarian organizations.

**Table 4.4: Descriptive Results on Detective Controls**

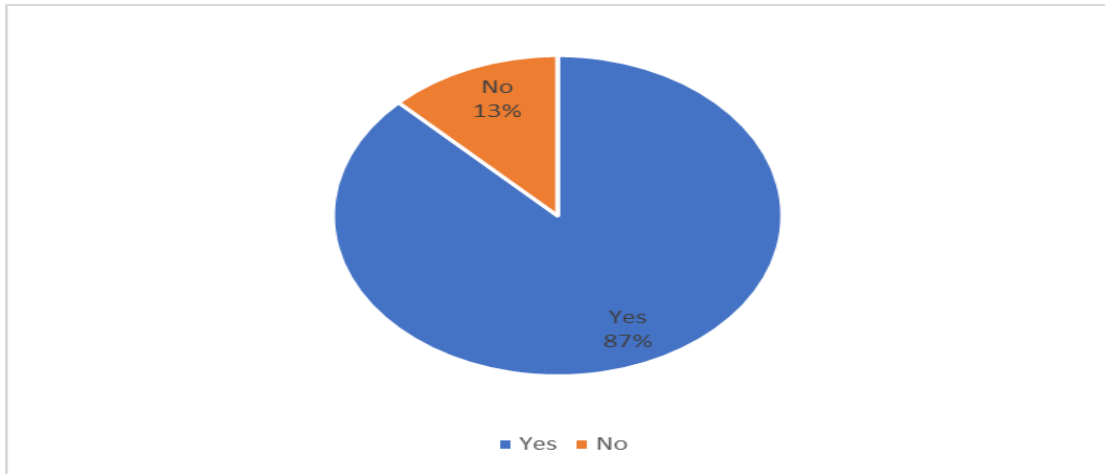
	<b>SD</b>	<b>D</b>	<b>IND</b>	<b>A</b>	<b>SA</b>	<b>Mean</b>	<b>Std Dev</b>
The organization has an internal audit department	4.7%	4.7%	4.7%	4.7%	81.2%	4.53	1.10
Internal audit as an internal control that helps in risk mitigation	4.7%	7.8%	3.1%	6.2%	78.1%	4.45	1.17
Internal audits has slowed down the operations	43.8%	1.6%	35.9%	7.8%	10.9%	2.41	1.40
Internal audit regularly carried out in the organization.	21.9%	4.7%	3.1%	35.9%	34.4%	3.56	1.54
Internal audit findings and recommendations are disseminated to all staff.	46.9%	3.1%	35.9%	6.2%	7.8%	2.25	1.32
Internal audit recommendations are strictly and fully implemented.	6.2%	3.1%	34.4%	32.8%	23.4%	3.64	1.07
Management decisions are guided by the previous audit recommendations	7.8%	0.0%	54.7%	4.7%	32.8%	3.55	1.18
Bank Reconciliation is carried out in the organization	9.4%	4.7%	4.7%	3.1%	78.1%	4.36	1.33
Bank Reconciliation findings and recommendations are disseminated to all staff.	42.2%	7.8%	7.8%	35.9%	6.2%	2.56	1.49

Bank Reconciliation recommendations are strictly and fully implemented.	4.7%	4.7%	34.4%	34.4%	21.9%	3.64	1.03
Management decisions are guided by the Bank Reconciliation recommendations	15.6%	3.1%	37.5%	9.4%	34.4%	3.44	1.40

**Source: Researcher (2021)**

#### 4.5.3 Corrective Controls

The study also examined the effect of corrective controls on financial accountability of humanitarian organizations in Nairobi city County, Kenya. Respondents were required to indicate whether these controls affect financial accountability of the humanitarian organizations in Nairobi city County, Kenya. As indicated in Figure 4.7, there was an unilateral agreement among the respondents that corrective controls affect financial accountability of the humanitarian organizations. Accordingly, respondents indicated that corrective controls have helped to correct errors that has occurred (34.4%), ensure that organization receive value for money (32.8%) and inform financial practice application (32.8). These finding supported the findings of Ndegwa and Mungai, (2019), that also revealed that, internal controls systems significantly influence the Ministry's Financial Management positively. One of the study recommendations therefore was the adoption of reliable control systems in the organizations operations.



**Figure 4.7: Whether Corrective Controls affect financial accountability of the humanitarian organizations**

**Source: Researcher (2021)**

Respondents were required to express to what extent they concurred with various statements regarding corrective controls. As displayed in table 4.5., there was a common agreement by a majority of respondents that the studied organization formulates new procurement policies to curb cases of fraud and that procurement policy is an internal control that has helped in risk mitigation as shown by respective means of 4.33 and 4.66. Moreover, majority of respondents strongly disagreed that procurement policies have slowed down organizational operations (mean=1.69) whereas they were indifferent to the statement that all staff are familiar with procurement policies and procedures (mean=2.67).

Regarding the statement whether procurement policies are strictly and fully implemented by all staff, the largest proportion disagreed (mean=2.69) whereas the largest proportion of respondents agreed that procurement processes that have violated the laid down policy and procedures do not succeed in this organization (mean=3.34). The organization formulates new financial policies to curb new case of fraud as all respondents agreed and Financial policy is an internal control that has

helped in risk mitigation (mean=5.00). Majority of respondents also strongly disagreed that financial policies have slowed down the operations (mean=1.69) whereas they agreed that all staff are familiar with financial policies and procedures, financial policies are strictly and fully implemented by all staff (mean=4.33). All respondents involved in the study also strongly agreed that financial processes that have violated the laid down policy and procedures do not succeed in this organization (mean=5.00). On average, a mean of 3.73 indicates a common agreement by the majority of respondents with various statements on corrective controls. These findings similarly, agreed with Ndegwa and Mungai, (2019) that revealed the fact that, the internal controls systems had a significant positive influence on the Ministry's Financial Management. Turley and Zaman (2004) also found that internal control framework assures operations that are within the confines of the existing laws and regulations and further to the organizational internal policies and procedures.

**Table 4.5: Descriptive Results on Corrective Controls**

	<b>SD</b>	<b>IND</b>	<b>A</b>	<b>SA</b>	<b>Mean</b>	<b>Std Dev</b>
The organization formulates new procurement policies to curb cases of fraud	0.0%	0.0%	67.2%	32.8%	4.33	0.47
Procurement policy is an internal control that has helped in risk mitigation	0.0%	0.0%	34.4%	65.6%	4.66	0.48
Procurement policies has slowed down the operations	65.6%	34.4%	0.0%	0.0%	1.69	0.96
All staff are familiar with procurement policies and procedures	32.8%	34.4%	32.8%	0.0%	2.67	1.25
Procurement policies are strictly and fully implemented by all staff.	32.8%	32.8%	34.4%	0.0%	2.69	1.26
Procurement processes that have violated the laid down policy and procedures do not succeed in this organization.	32.8%	0.0%	34.4%	32.8%	3.34	1.70
The organization formulates new financial policies to curb new case of fraud	0.0%	0.0%	0.0%	100.0%	5.00	0.48
Financial policy is an internal control that has helped in risk mitigation	0.0%	0.0%	0.0%	100.0%	5.00	0.48
Financial policies have slowed down the operations	65.6%	34.4%	0.0%	0.0%	1.69	0.96
All staff are familiar with financial policies and procedures	0.0%	0.0%	67.2%	32.8%	4.33	0.47
Financial policies are strictly and fully implemented by all staff.	0.0%	0.0%	67.2%	32.8%	4.33	0.47
Financial processes that have violated the laid down policy and procedures do not succeed in this organization.	0.0%	0.0%	0.0%	100.0%	5.00	0.47
Average					3.73	0.67

**Source: Researcher (2021)**

#### **4.5.4 Financial Accountability**

The study also examined the financial accountability of humanitarian organizations in Nairobi city County, Kenya. Respondents were required to indicate whether budgetary allocation has helped the organization enhance its financial accountability over the last five years. From the results all the respondents agreed whereby they cited

the fact that through budgetary allocation, respondents indicated that staff are well guided in their implementation activities funds are used as per plans and brings awareness of spending levels when implementing an activity (32.8%).

Respondents were also required to indicate whether financial reporting has helped the organization enhance its financial accountability over the last five years. As displayed in table 4.6, there was a unilateral agreement among all respondents. Accordingly, 34.4% indicated that financial reporting helps organisations to know their position at any given time, and the required actions and or the direction to pursue, 32.8% indicated that financial reporting has enhanced accountability of funds received and being spent with a further 32.8% agreeing that financial reporting gives financial performance information for strategy input.

**Table 4.6: Whether Budgetary Allocation and Financial Reporting Have Helped the Organization Enhance Its Financial Accountability**

	<b>Frequency</b>	<b>Percent</b>
Whether Budgetary allocation has helped the Organization enhance its financial management over the last five years	64	100
Whether Financial Reporting has helped the Organization enhance its financial management over the last five years	64	100
<b>Total</b>	<b>64</b>	<b>100</b>

**Source: Researcher (2021)**

Respondents in the study were required to mark the extent to which they agreed with diverse statements regarding financial accountability of humanitarian organisations in Nairobi city, Kenya. From the study findings shown in table 4.7, most of the study respondents strongly agreed to the fact that that the organization has well laid down budgetary allocation policies (mean=4.34), budgetary Allocation has helped the organization achieve efficient financial management in its operations (mean=4.28), the organization’s budgetary allocation policies are strictly adhered to (mean=4.11), all staff are familiar with organization’s budgetary allocation policies (mean=3.88).

On the same note, majority of respondents agree that procurement policies are strictly and fully implemented by all staff (mean=4.06), the organization has financial reporting policies in place and that all the funds allocated to projects are well managed.

Respondents also strongly agreed that financial reporting has helped the organization achieve efficient financial management in its operations. Majority of the study respondents agreed to the fact that all staff are familiar with financial reporting policies in the organization (mean=3.59) whereas majority of the study respondents strongly agreed that the financial reporting policies are strictly and fully adhered to by all staff in the finance department (mean=3.98). These findings agreed with those of Kristin (2014) who found that financial accountability has been on the upward trend among the nongovernmental organizations over the past decades. This is being attributed to the emerging numerous cases of funds loss through lack of accountability, fraud, embezzlement, and other misappropriations introduced by more NGOs.

**Table 4.7: Descriptive Results on Financial Accountability of Humanitarian Organisations**

	<b>SD</b>	<b>D</b>	<b>IND</b>	<b>A</b>	<b>SA</b>	<b>Mean</b>	<b>Std Dev</b>
The organization has well laid down Budgetary Allocation policies.	4.7%	4.7%	0.0%	32.8%	57.8%	4.34	1.04
Budgetary Allocation has helped the organization achieve efficient financial management in its operations.	6.2%	4.7%	0.0%	32.8%	56.2%	4.28	1.12
The Organization's Budgetary Allocation policies are strictly adhered to.	6.2%	12.5%	0.0%	26.6%	54.7%	4.11	1.27
All staff are familiar with Organization's Budgetary Allocation policies	6.2%	9.4%	29.7%	0.0%	54.7%	3.88	1.34
Procurement policies are strictly and fully implemented by all staff.	4.7%	6.2%	0.0%	56.2%	32.8%	4.06	1.01
The organization has financial reporting policies in place	6.2%	9.4%	3.1%	4.7%	76.6%	4.36	1.28
All the funds allocated to projects are well managed.	3.1%	7.8%	31.2%	28.1%	29.7%	3.73	1.07
Financial Reporting has helped the organization achieve efficient financial management in its operations.	7.8%	6.2%	4.7%	3.1%	78.1%	4.38	1.29
All staff are familiar with financial reporting policies in the organization	4.7%	6.2%	34.4%	34.4%	20.3%	3.59	1.03
Financial Reporting policies are strictly and fully adhered to by all staff in the finance department.	4.7%	1.6%	29.7%	18.8%	45.3%	3.98	1.12
Overall Average						4.07	

**Source: Researcher (2021)**

#### **4.6 Inferential Analysis**

In order to establish an interrelationship between internal controls (preventive, detective and corrective) and financial accountability of humanitarian organizations in Kenya, inferential statistics of correlation and regression analysis were conducted. In order to establish the whether the relationship between the two sets of variables was



significant, the study set a significance level of 5% on the coefficients of the variables. The following section presents correlation and regression analysis results.

#### 4.6.1 Correlation Analysis

The study conducted a correlation analysis to establish the existence of a relationship between various internal controls under study and the financial accountability of humanitarian organizations in Nairobi city County, Kenya by applying Pearson correlation coefficient. In order to determine the existence of any connection among the study variables, the researcher adopted a significance level of 5%. The study findings on correlation are as presented in Table 4.8.

**Table 4.8: Correlation Analysis**

<b>Correlations</b>		<b>Preventive controls</b>	<b>Detective controls</b>	<b>Corrective controls</b>	<b>Financial accountability</b>
Preventive controls	Pearson Correlation	1			
	Sig. (2-tailed)				
Detective controls	Pearson Correlation	-0.081	1		
	Sig. (2-tailed)	0.523			
Corrective controls	Pearson Correlation	0.055	-0.114	1	
	Sig. (2-tailed)	0.663	0.371		
Financial accountability	Pearson Correlation	.458**	.371**	.436**	1
	Sig. (2-tailed)	0.000	0.003	0.000	
	N	64	64	64	64

\*\* Correlation is significant at the 0.01 level (2-tailed).

**Source: Researcher (2021)**

The results in table 4.8 show that there exists a positive and significant relationship between preventive controls and financial accountability of humanitarian

organizations in Nairobi city County, Kenya ( $R = 0.458$ ,  $Sig=0.000$ ). This finding implied that increasing preventive controls will result to increase in financial accountability. These findings supported those of Muhinyo, (2018) who found that adoption of internal control system so as to improve accountability in the organizations. Similarly, this study supported the finding of a study by Schaeffer (2009) that found that control measure ensures that the critical processes and functions in any organization are assigned to more than one person based on the principle of shared responsibilities.

The study results further indicated a positive and significant association between detective controls and financial accountability of humanitarian organizations ( $R = 0.371$ ,  $Sig=0.000$ ). Similarly, improving the detective controls would consequently result in improvement of financial accountability among the humanitarian organisation. The findings agreed with those of Wabwire and Bogonko (2019) who found that controls have been applied in ensuring reliability in financial reporting, efficiency of operations of Humanitarian organizations.

Finally, the correlation results established a positive and significant relationship between corrective controls and financial accountability of humanitarian organizations in Nairobi city County, Kenya ( $R = 0.436$ ,  $Sig=0.000$ ). The finding implied that improvement in corrective controls would increase financial accountability. These findings supported the findings of Ndegwa and Mungai, (2019), that also revealed that the internal controls systems had a significant positive influence on the Ministry's Financial Management.

#### 4.6.2 Regression Analysis

For the purpose of establishing the significance of the influence of internal controls on financial accountability of humanitarian organizations in Nairobi city County, Kenya, a multiple regression analysis was conducted. The findings are indicated in subsequent sections. From the results in Table 4.9 model summary statistics show that internal controls (preventive, detective and corrective) had a strong positive influence on financial accountability of humanitarian organizations in Nairobi city County, Kenya as confirmed by a joint Pearson correlation of 0.767. This indicates that any efforts towards enhancing internal controls would strongly impact the financial accountability of humanitarian organizations in Nairobi city County, Kenya positively. Additionally, model summary statistics indicate that R-square is 0.588 implying that preventive, detective and corrective controls jointly explain up to 58.8% of the variation in financial accountability of humanitarian organizations in Nairobi city County, Kenya. The remaining 41.2% was accounted for by other factors not covered in the model presented in this study.

**Table 4.9: Model Summary Statistics**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.767	0.588	0.567	0.271708

a Predictors: (Constant), Corrective control, Preventive control, Detective control

**Source: Researcher (2021)**

The significance of the regression model was confirmed by the F statistic of 0.000. The F calculated statistic of 28.52 was greater than F (3, 60) critical value of 2.758 which further confirmed the significance of the regression model used in this study. This implies that the internal controls examined in this study are appropriate factors in predicting deviations in the financial accountability of humanitarian organizations in Nairobi City County as shown in Table 4.10.

**Table 4.10: ANOVA (Model Significance)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.317	3	2.106	28.52	.000
	Residual	4.43	60	0.074		
	Total	10.746	63			

a Dependent Variable: Financial accountability

b Predictors: (Constant), Corrective control, Preventive control, Detective control

Source: Researcher (2021)

Table 4.11 presents the regression coefficient that were used to test the influence of internal controls (Corrective control, Preventive control, Detective control) on financial accountability of of humanitarian organizations in Nairobi city County.

**Table 4.11: Regression Coefficients**

Coefficients	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.124	0.474		0.261	0.795
Preventive control	0.385	0.068	0.47	5.644	0.000
Detective control	0.314	0.057	0.462	5.519	0.000
Corrective control	0.342	0.062	0.462	5.532	0.000

a Dependent Variable: Financial accountability

Source: Researcher (2021)

The resultant regression equation becomes;

$$Y = 0.124 + 0.385X_1 + 0.314X_2 + 0.342X_3 + \varepsilon$$

Where:

- X<sub>1</sub>** - Preventive control,
- X<sub>2</sub>** - Detective control,
- X<sub>3</sub>** - Corrective control and
- ε** - The error term.

The regression results as shown in Table 4.11 indicate that if each and every variable in this particular study was to be held constant, financial accountability of humanitarian organizations in Nairobi city County will be at 0.124 which is the intercept. Preventive controls positively and significantly influence financial accountability of humanitarian organizations in Nairobi city County (Beta = 0.385, Sig=0.000). Accordingly, a unit increase in preventive controls, results in 0.385 rise in financial accountability of humanitarian organizations. These finding supported those of Muhinyo, (2018) who found that adoption of preventive controls improves accountability in the organizations. Additionally, Brown (2016) argued that segregation of duties to mitigate errors from occurring is an internal preventive mechanism that can foresee possible difficulties earlier and therefore improve financial accountability. However, the results fail to support the findings of Ogunmakin (2014) who found that preventive internal controls have an insignificant effect on accountability of public parastatals.

Detective controls also positively and significantly influence financial accountability of humanitarian organizations in Nairobi city County (Beta = 0.314, Sig=0.000). All other factors held constant; a unit increase in detective controls results in 0.314 increase in financial accountability of humanitarian organizations. The findings agreed with those of Wabwire and Bogonko (2019) who found that controls have been applied in ensuring reliability in financial reporting, efficiency of operations of Humanitarian organizations. On the other hand, the results fail to agree with the argument by Schneider and Church (2004) that application of adverse detective internal controls may negatively affect the lender's assessment significantly, weakens the value that is attributed to any balance sheet thereby influencing the financial records for income in the lending decisions resulting to low confidence of the lenders

as the financial statements presented fail to conform with the generally agreed upon principles of accounting.

Lastly, corrective controls positively and significantly influence financial accountability of humanitarian organizations in Nairobi city County (Beta = 0.342, Sig=0.000). Accordingly, a unit increase in preventive controls results in 0.342 increase in financial accountability of humanitarian organizations as other factors are kept constant. These finding supported the findings of Ndegwa and Mungai, (2019), that also revealed that the internal controls systems had a significant positive influence on the Ministry's Financial Management.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

In this chapter, the researcher summarizes the researcher findings and clearly bring out the study conclusions. Moreover, the researcher provides recommendations while identifying areas of interest for further research, based on identified gaps from current and past researches on public institutions.

#### 5.2 Summary of the Findings

This section presents a summary of the descriptive and inferential results of each of the variables of the study. The model summary results of the study indicated that the three independent variables of preventive controls, detective controls and corrective controls jointly explanatory power on financial accountability of humanitarian organisations in Nairobi county, Kenya. Correlation results also indicated that preventive controls, detective controls and corrective controls have a positive and significant relationship with financial accountability of humanitarian organisations in Nairobi county, Kenya. Similarly, regression results indicated that the three independent variables have a positive and significant effect on financial accountability of humanitarian organisations in Nairobi county, Kenya.

The first objective of the study was to examine the effect of preventive controls on financial accountability of humanitarian organizations in Nairobi city County, Kenya. Descriptive statistics indicated a high level of agreement among most respondents that preventive controls affect financial management of the humanitarian organizations in Nairobi city County. Preventive controls were found to help to mitigate possibility of fraud and theft also create common awareness of the expectation in adhering to set standards. Majority of the respondents strongly agreed that the organization has a

cheque co-signing policy, cheque co-signing is an internal control that helps in risk mitigation, it is impossible for a signed cheque to be honored by any bank when it bears the signature for one person only. Correlation results confirmed that preventive controls and financial accountability had a positive and significant relationship. Similarly, regression statistics showed that preventive controls positively and significantly influence financial accountability of humanitarian organizations in Nairobi city County.

The second objective of the study was to examine the effect of detective controls on financial accountability of humanitarian organizations in Nairobi city County, Kenya. From descriptive statistics, majority of the respondents agreed that detective controls affect financial management of the humanitarian organizations as they help to detect errors that has occurred and also help inform on better practices that mitigate risks. All respondents also strongly agreed that the organization has an internal audit department, internal audit as an internal control helps in risk mitigation and that bank reconciliation is carried out in the organization. Majority of the respondents also agreed that internal audit regularly carried out in the organization. On average, the results indicated that majority of respondents agreed that various detective controls are practiced in their organisations aimed at improving financial accountability. A positive and significant relationship between detective controls and financial accountability of humanitarian organizations was confirmed by correlation results.

The study also examined the effect of corrective controls on financial accountability of humanitarian organizations in Nairobi city County, Kenya. Descriptive statistics showed that all the respondents agreed that corrective controls affect financial management of the humanitarian organizations. In this regard, respondents indicated that corrective controls have helped to correct errors that has occurred, ensure that



organization receive value for money and inform financial practice application. Majority of respondents agreed that the organization formulates new procurement policies to curb cases of fraud and that procurement policy is an internal control that has helped in risk mitigation. Moreover, majority of respondents strongly disagreed that procurement policies have slowed down organisational operations whereas they were indifferent to the statement that all staff are familiar with procurement policies and procedures. Regression results showed that corrective controls positively and significantly influence financial accountability of humanitarian organizations in Nairobi city County.

### **5.3 Conclusions**

From the findings, the study concluded that preventive controls affect financial accountability of the humanitarian organizations in Nairobi city County. Preventive controls help to mitigate possibility of fraud and theft also create common awareness of the expectation in adhering to set standards. Additionally, the study concluded that preventive controls positively and significantly influence financial accountability of humanitarian organizations in Nairobi city County. An improvement in such controls such as having a cheque co-signing policy, segregation of duty, having a chart whereby there is a clear definition of each person's responsibilities and authority, and an organization structures to point out all responsibilities of each section in addition to a clear understanding of importance of internal controls and division of responsibility among all the employees would result to an improvement in financial accountability of humanitarian organizations in Nairobi city County.

The study also concluded that detective controls positively and significantly affect financial accountability of the humanitarian organizations as they help to detect errors that has occurred and also help inform on better practices that mitigate risks. Having

an internal audit department, regularly carrying out internal audit, disseminating internal audit findings and recommendations to all staff, strictly and fully implementing internal audit recommendations and having bank reconciliation improves financial accountability of humanitarian organizations in Nairobi city County.

Another conclusion made by the study is that corrective controls affect financial accountability of the humanitarian organizations. In this regard, respondents indicated that corrective controls have helped to correct errors that has occurred, ensure that organization receive value for money and inform financial practice application. The study also concluded that corrective controls positively and significantly influence financial accountability of humanitarian organizations in Nairobi city County. Improvement in both procurement policies would result to positive change in financial accountability of the humanitarian organizations.

#### **5.4 Recommendations**

It is recommended that for humanitarian organizations to improve their financial accountability, there is need to put in place preventive controls such as having a cheque co-signing policy, segregation of duty, having a chart that clearly defines lines of authority and responsibility and an organization structures to point out all responsibilities of each section in addition to a clear understanding of importance of internal controls and division of responsibility among all the employees to mitigate possibility of fraud and theft also create common awareness of the expectation in adhering to set standards.

The study also recommends humanitarian organizations to institute effective detective controls to improve their financial accountability. In this regard, the organisations should consider putting in place an internal audit department, regularly carrying out

internal audit, disseminating internal audit findings and recommendations to all staff, strictly and fully implementing internal audit recommendations and having bank reconciliation.

It is recommended that for humanitarian organizations to improve their financial accountability, there is need to institute corrective controls such as formulating new procurement policies to curb cases of fraud, having a procurement policy to help in risk mitigation, effectively disseminating information to all staff regarding procurement policies and procedures, strictly and fully implementing the procurement policies by all staff and formulating new financial policies to curb new case of fraud.

### **5.5 Areas for Further Research**

The researcher found areas of interest for further research based on this study findings as well as the conceptual framework. From model summary results, preventive controls, detective controls and corrective controls combined accounted for up to 58.8% of the variation in financial accountability of humanitarian organizations in Nairobi city County, Kenya. From this, one can draw a conclusion that 41.2% of the financial accountability variations of humanitarian organizations in Nairobi city County, Kenya can be attributed to other factors that are not covered in the model of this study. Future researches in this field can examine the impact of other related factors not included in this study on financial accountability of humanitarian organizations.

Further, this study determined the effect of internal controls on financial accountability of humanitarian organizations in Nairobi city County, Kenya. The unit of analysis of this study was therefore selected humanitarian organisations in Nairobi city County, Kenya. This particular methodology and conceptual constructions can be applied for other studies.

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## APPENDICES

### **Appendix I: Introduction Letter.**

Dear respondent,

Ref: DATA COLLECTION ON FINANCIAL ACCOUNTABILITY FOR NGOs IN  
NAIROBI.

I am an MBA student from Kenyatta University, currently conducting a baseline survey to document the financial and operational management processes and challenges inherent in Humanitarian Organizations.

As a method of data collection, I am using a questionnaire to gather information on various Humanitarian Organizations.

Note that, this is purely an academic research, that is a requirement by the university for every student to achieve the academic goal and graduate. The information collected in this study will not be divulged whatsoever, rather will be treated with care and strict confidentiality.

Kindly respond to the questions accordingly. For purposes of confidentiality, kindly do not include your name or personal details such as would reveal your identity in any part of the questionnaire.

Thank you in advance for your cooperation.

Kind regards,

Michael N. Muithya

Reg No. D53/OL/CTY/37568/2017

## Appendix II: Questionnaire.

### PERSONAL

### INFORMATION

(Please tick where appropriate)

1. **Gender:** What is your gender? Kindly tick the appropriate box.

Gender	Male	Female
Please tick		

2. **Education Level:** What is your highest level of education? Kindly tick the appropriate box |

Level of Education	Degree	Diploma	Certificate	Form 4
Please tick				

3. **Service Length:** How long have you served in this organization?

Service Length (Years)	0-4	5-9	10-13	Over 14
Please tick				

Name of your employer: \_\_\_\_\_

4. **Contract Level:** What position do hold in the organization? Please tick.

Position	Senior	Middle	Technical	Supervisor	Junior staff

Level	Manager	Manager	Staff		
Please tick					

**Part A. Preventive Control and Financial Accountability of Humanitarian organizations.**

Table 1: To what extent would you concur with the statements indicated below? Please tick the appropriate box using the key below.

1= Strongly disagree 2 = Disagree 3 = Indifferent 4 = Agree 5 = Strongly agree

Statement	Strongly Disagree	Disagree	Indifferent	Agree	Strongly Agree
<b>Cheque co-signer.</b>					
The organization has a cheque co-signing policy					
Cheque co-signing is an internal control that helps in risk mitigation					
Cheque co-signing has slowed down the operations					
It is impossible for a signed cheque to be honored by any bank when it bears the signature for one person only.					
<b>Segregation of duty.</b>					

The organization possesses a chart where the lines of authority and responsibility are clearly defined.					
A staff cannot by any means access valuable information from the organization unless permitted by a senior staff member					
Organization structures points out all responsibilities of each section.					
<b>Employees understand concepts and importance of internal controls including division of responsibility</b>					

Do you think preventive controls affects financial management of the humanitarian organization (financial reporting/budgetary allocation)?

Yes.....

No.....

If yes,

Briefly

explain.....

.....

.....

.....

**Part B. Detective Control and Financial Accountability of Humanitarian organizations.**

Table 1: To what extent would you concur with the following below statements? Please tick the appropriate box using the key below.

1= Strongly disagree 2 = Disagree 3 = Indifferent 4 = Agree 5 = Strongly agree

<b>Statement</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Indifferent</b>	<b>Agree</b>	<b>Strongly Agree</b>
<b>Internal Audit.</b>					
The organization has an internal audit department					
Internal audit as an internal control that helps in risk mitigation					
Internal audits have slowed down the operations					
Internal audit regularly carried out in the organization.					
Internal audit findings and recommendations are disseminated to all staff.					
Internal audit recommendations are strictly and fully implemented.					
Management decisions are guided by the previous audit					

recommendations					
<b>Bank Reconciliation</b>					
Bank Reconciliation is carried out in the organization					
Bank Reconciliation findings and recommendations are disseminated to all staff.					
Bank Reconciliation recommendations are strictly and fully implemented.					
Management decisions are guided by the Bank Reconciliation recommendations					

Do you think detective controls affect the financial management of the humanitarian organization (financial reporting/budgetary allocation)?

Yes.....

No.....

If yes,

Briefly

explain.....

.....

.....

.....

**Part C. Corrective Control and Financial Accountability of Humanitarian organizations.**

Table 1: To what extent would you concur with the following below statements? Please tick the appropriate box using the key below.

1= strongly disagree 2 = Disagree 3 = Indifferent 4 = Agree 5 = strongly agree

Statements	Strongly Disagree	Disagree	Indifferent	Agree	Strongly Agree
<b>Procurement Policies</b>					
The organization has procurement policies					
Procurement policy is an internal control that has helped in risk mitigation					
Procurement policies has slowed down the operations					
All staff are familiar with procurement policies and procedures					
Procurement policies are strictly and fully implemented by all staff.					
Procurement processes that has violated the laid down policy and					



procedures do not succeed in this organization.					
<b>Financial Policies</b>					
The organization has financial policies					
Financial policy is an internal control that has helped in risk mitigation					
Financial policies has slowed down the operations					
All staff are familiar with financial policies and procedures					
Financial policies are strictly and fully implemented by all staff.					
Financial processes that has violated the laid down policy and procedures do not succeed in this organization.					

Do you think corrective controls affects the financial management of the humanitarian organization (financial reporting/budgetary allocation)?

Yes.....

No.....

If yes,

Briefly

explain.....  
 .....  
 .....  
 .....

**Part D. Financial Accountability of Humanitarian organizations in Nairobi City County, Kenya.**

Table 1: To what extent would you concur with the following below statements? Please tick the appropriate box using the key below.

1= Strongly disagree 2 = Disagree 3 = Indifferent 4 = Agree 5 = Strongly agree

Statements	Strongly Disagree	Disagree	Indifferent	Agree	Strongly Agree
<b>Budgetary Allocation</b>					
The organization has well laid down Budgetary Allocation policies.					
Budgetary Allocation has helped the organization achieve efficient financial management in its operations.					
The Organization's Budgetary Allocation policies are strictly					

adhered to.					
All staff are familiar with Organization's Budgetary Allocation policies					
Procurement policies are strictly and fully implemented by all staff.					
<b>Financial Reporting</b>					
The organization has financial reporting policies in place					
All the funds allocated to projects are well managed.					
Financial Reporting has helped the organization achieve efficient financial management in its operations.					
All staff are familiar with financial reporting policies in the organization					
Financial Reporting policies are strictly and fully adhered to by all staff in the finance department.					

Do you think Budgetary Allocation has helped the Organization enhance its financial management over the last five years?

Yes.....

No.....

If yes,

Briefly

explain.....

.....

.....

.....

Do you think Financial Reporting has helped the Organization enhance its financial management over the last five years?

Yes.....

No.....

If yes,

Briefly

explain.....

.....

.....

.....

**Appendix III: List of Selected Humanitarian Organizations in Nairobi City County, Kenya.**

- World Vision Kenya
- Compassion International Inc
- Give Directly Kenya

Source: [www.ngocouncil.co.ke](http://www.ngocouncil.co.ke), (2019)