

**INTERNAL CONTROL SYSTEMS AND FINANCIAL PERFORMANCE OF NGOs: A  
CASE OF ASSOCIATION OF VOLUNTEERS IN SERVICE INTERNATIONAL  
(AVSI) KABALE BRANCH - UGANDA**

**BY**

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## DECLARATION

I, the undersigned, hereby declare that the work embodied in this dissertation entitled “*Internal Control Systems and Financial Performance of NGOs. A case of AVSI – Uganda*” is an original research work carried out by me. To the best of my knowledge, I declare that the material that is not my original has been dually acknowledged.

Signature.....

Date.....

AGWATE DOREEN

## APPROVAL

This is to certify that Agwate Doreen is carrying out research entitled “*Internal Control systems and Financial Performance of NGOs A case of AVSI – Uganda*” under our supervision as University Supervisors.

Signature.....

Date.....

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**Supervisor**

Signature.....

Date.....

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**Co - Supervisor**

## **DEDICATION**

This work is dedicated to my daughter.

## **ACKNOWLEDGEMENTS**

I would want to express my gratitude to everyone who helped with the completion of my studies and research, both materially and morally.

I want to express my sincere gratitude to the Almighty God, who has helped me and directed me in everything I have done. I also ask for his protection and love to always be present in my life.

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## **LIST OF ABBREVIATIONS**

ACCA	Association of Chartered Certified Accountants
AVSI	Association of Volunteers in Service International
COSO	Committee of Sponsoring Organizations
CPA	Certified Public Accountants
CSOs	Civil Society Organizations
DRC	Democratic Republic of Uganda
FP	Financial Performance
ICS	Internal Control Systems
IFAC	International Federation of Accountants
INTOSAI	International Organization of Supreme Audit Institutions
MDG	Millennium Development Goals
NGOs	Non-Governmental Organizations
NSSF	National Social Security Fund
OPM	Office of the Prime Minister
ROA	Return on Assets
ROI	Return on Investment
UN	United Nations
UNHCR	United Nations High Commission for Refugees
USA	United States of America
USAID	United States Agency for International Development
VFM	Value for Money

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## **ABSTRACT**

The study was conducted from AVSI Uganda Kabale branch to establish the relation between internal control systems and financial performance of NGOs. The independent variables in the study included control environment, compliance with rules and information communication technology whereas the dependent variable was financial performance. The study followed a descriptive design. Data was collected from 100 respondents. Since descriptive analysis entailed description of a single variable and its attributes, frequency tables were used to present the data. At the bi-variate level, a Pearson correlation matrix was conducted to ascertain the relationships between the predictor variables and the dependent variable. Research findings showed that control environment = 0.630, information communication technology =0.585 and compliance with rules =0.649. The researcher came to a conclusion that information communication technology, compliance with rules and regulations and control environment have a positive significant relationship on financial performance of AVSI Uganda. The study recommended that processes should be improved and strengthened to ensure that there is ongoing and independent reconciliation of all AVSI balances, both asset and liability and on- and off balance sheet items. Policies and procedures should also exist to ensure that decisions are made with appropriate approvals.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Introduction**

This section provides the conceptual, historical, and contextual background of the study. This section is further subdivided into Statements of Issues, Objectives, Research Questions, Geographical Scope, Importance, Definitions of Key Terms, and Conceptual Framework.

#### **1.1 Background to the study**

##### **1.1.1 Historical Perspective**

Particularly following World War II, the ICS profession advanced alongside managerial advancement. Conceptually, it is similar to actions involved in banking compliance, quality control, and public accounting companies' financial audits. The management consulting and public accounting professions have major input into the theory that underpins ICS (Martens, 2002). The profession's growth surged as more internal auditors acquired the skills required to help companies and governmental organizations satisfy the tales' requirements (SAS 300).

According to the Auditing Standard Board, ICS is a measure of checks and balances, a method developed by a company to carry out a systematic approach that management can rely on to achieve its intended goals. But that was in the US, it only pertained to private organizations; it might not apply to public organizations, and many internal auditors might not have the appropriate expertise to help private companies and governmental organizations achieve their objectives.

Current events show that in order to add value to their operations, including the advancement of service delivery in their structures and development initiatives, public institutions or organizations must be able to enhance their level of financial performance as covered in Financial Reporting and Auditing Practice (Deegan and Unerman, 2006).

The concepts of ICS and FP made important advancements in the twenty-first century. When a powerful, centralized state with outstanding administrative powers emerged in Britain, it first began to take shape. It was most certainly the most developed polity since the Romans (Warren-

Hollister, 2009, p. 178). The basis of the English state was an efficient, financially sound administrative organization, particularly under Henry I (1100-1135).

Several instances of fraud and compromised standards of work that result in subpar work and a failure to realize value for money in public service institutions and other business organizations, according to reports from the United States of America (USA) (Solomon 1987), are primarily caused by a lack of internal controls or weak internal controls and poor financial reporting. A cross section of entities such as National Social Security Fund (NSSF), the Office of the Prime Minister (OPM), and the Ministry of Public Service, among other Ugandan institutions, have all been shaken by these scandals. Such transactions would have been identified and stopped by effective internal control mechanisms.

This has led to widespread business and institutional crises on a global scale that has nearly reached pandemic proportions in recent years. This study aimed to address these issues. Notable examples include Enron, Worldcom, Xerox, and recent claims of fraud against Lehman & Brothers in the US, Parmalat in Europe, and Chuoayama in Asia (Higson, 2012, p. 283). JCL and Randgold and Exploration Companies have both disclosed accounting issues in South Africa (Randgold and Exploration Co. Ltd. Annual Report, 2011, p. 18).

For lying about the company's profitability in the years before the company's foreign partners acquired a controlling stake, Cadbury Nigeria Plc's managing director and chief financial officer were sacked in Nigeria in 2006 (Cadbury Annual Report, 2006, p. 3). Although it is widely acknowledged that properly implemented systems of internal controls improve financial performance, most businesses have had trouble implementing significant ICS FP, which has led to an investigation into the effect of ICS on FP (Michael & Jensen, 1993, p. 852).

The NGO industry in Uganda, with a focus on humanitarian aid and other social activities, has expanded significantly over the past 20 years, with Gulu having a particularly high concentration of NGOs. According to reports, Gulu had the most NGOs in Uganda in 2006. (Abili, 2006). The rise of NGOs in the district is attributed to internal conflict that began in the 1990s and culminated in the proclamation of Gulu District's urgent need for humanitarian relief in 2003, according to Andrews (Scott 2013). The district had 140 NGOs by 2023 for this study, notwithstanding the scale-down of NGO activity in Gulu district due to an improvement in the humanitarian situation (Gulu NGO Forum 2016). Observed robust financial accountability

procedures are accessible to NGOs, but those in the Gulu district have struggled to satisfy their stakeholders with adequate financial accountability. In particular, the NGOs have broken the terms of the grant agreements by not properly accounting for donor funds, failing to submit returns to the NGO Bureau on time, and submitting erroneous and unreliable accountability reports, among other things.

Examples of the failures mentioned above that have recently happened include the abrupt termination by USAID in February 2015 of the \$50 million grant to Plan International for the NU-Hites project in Gulu and other nearby districts due to failure to manage and account for the funds in accordance with the grant agreement ("USAID cancels \$50 million funding to Uganda"); the Acholi Kingship's failure to timely and accurately account for the UGX 230 million of the 1.3 billion in funding and the Acholi Kingship's failure to manage.

Additionally, a UNHCR audit report for 2009 found that the UNHCR Gulu office and particularly her partner NGOs had not complied with the UN requirements on financial accountability by failing to award contracts fairly and performing bank reconciliations incorrectly (United Nations Internal Audit Report, 2010). According to a study on NGOs provided to the government of Uganda, less than 25% of the NGOs operating in Uganda were submitting annual returns, budgets, and annual work plans to the NGO Registration Bureau as required by law (Barr et.al, 2003). A large portion of the accounting information provided by the NGOs was incorrect, according to the audit.

To ascertain if internal control mechanisms and audit quality had an impact on financial responsibility given the circumstances that are common among NGOs in Uganda, a study of financial accountability in the Gulu region NGOs was required. The study also examined how audit quality affects how internal controls and financial accountability are linked.

### **1.1.2 Theoretical perspective**

According to this chapter's explanation, this study took into account the agency theory, positive accounting theory, and stewardship theory.

## **Agency theory**

In 1976, Jensen and Meckling developed agency theory. This perspective defines an agency relationship as a contractual arrangement whereby one or more parties (the principal(s)) choose a third party (the agent) to carry out a task on their behalf while granting the agent significant discretion. Agency theory is used to evaluate how investors and management interact. The agent (manager) undertakes to perform certain activities for the benefit of the principle (investors), and the principal agrees to pay the agent. In light of this, the theory views firms as crucial contractual frameworks that provide the exercise of control, which lowers agents' propensity for opportunistic behaviour (Mwangi, 2012).

The idea is that a comprehensive contract is developed to address the concerns of both the agent and the principal in order to balance the interests of the agency and the principal. The principal's use of an expert and mechanisms (auditors and control systems) to monitor the agent strengthens the agent-principal relationship (Jussi & Petri, 2004).

For the simple reason that internal control is one of many methods used in business to address the agency problem by reducing agency costs, which have an effect on both the relationship's overall performance and the benefits to the principal, our hypothesis is pertinent to our study. Internal control enhances the distribution of additional information to the shareholder (the principle) regarding the acts of the agent (management), reduces information asymmetry, and affects financial performance.

## **Stewardship Theory**

The definition of stewardship theory by Davsi et al. (1997) is "A steward protects and maximizes shareholders' wealth through firm performance, because by doing so, the steward's utility functions are maximized." Psychology and sociology are the foundations of stewardship theory.

Instead of emphasizing the individualist viewpoint, stewardship theory, in contrast to agency theory, lays more emphasis on top management acting as stewards and integrating their goals into the organization (Donaldson & Davsi, 1991). The stewardship position is exhibited by dedication to the company over self-interest by honoring the stewardship relationship and treating followers like owners and partners, further proving that organizations and individual roles can be easily obtained.

By valuing the stewardship relationship and treating followers as owners and partners, the stewardship role is illustrated with loyalty to the business over self-interest, further proving that organizations and individual roles can be easily attained.

### **Positive Accounting Theory**

Accounting research can be categorized as either positive research or normative research. The definition of positive research is that which aims to anticipate events and provide justifications for them.

Positive hypotheses relate to this kind of research, according to Deegan and Unerman (2006). These theories are frequently based on observations that may be impartially assessed and strengthened by additional observations. Positive theories are backed by observations; other theories are not. The researcher's beliefs form the basis of these normative notions.

Watts and Zimmerman (1986) created the positive accounting theory, which contends that the goal of positive accounting is to explain accounting practice. It says nothing about which technique a firm should adopt and is only intended to explain and predict which firms will and which firms will not utilize a specific accounting system. The foundation of the idea is "the assumption that all individual actions are driven by individual will always act in an opportunistic manner to the extent that the actions will increase their wealth" (Deegan and Unerman, 2006).

The term "monitoring cost" refers to the costs incurred for resolving issues involving the agency connection and establishing appropriate safeguards. From this perspective, the positive accounting theory predicts that businesses will attempt to set up controls to prevent self-interested behavior.

#### **1.1.3 Conceptual Perspective**

The study's evaluation of ICS took into account a number of criteria, including the control environment, internal audit, and control activities. Timely accountability, accurate reporting, and adherence to regulatory requirements were also considered.

Internal controls, as described by Mwindi (2008, p. 134), are "policies developed and implemented by those responsible for governance, management, and other staff to reasonably ensure that an entity's objectives will be met with regard to the accuracy of financial reporting,



effectiveness, efficiency of operations, and compliance with applicable laws and regulations." The internal control systems are intended, among other things, to monitor how well public sector and government operations follow federal directions.

According to Boyle et al. (2004), internal control is a process designed to provide some assurance regarding the accomplishment of objectives for accurate financial statements, profitable and efficient operations, and compliance with pertinent laws and regulations. In order to provide a reasonable level of assurance about the accomplishment of an entity's objectives with regard to the accuracy and dependability of its financial reporting, the effectiveness and efficiency of its operations, and compliance with relevant laws and regulations, internal controls are procedures that management, those responsible for governance, and other staff members design and implement.

Three factors were considered when evaluating financial performance: accountability (in terms of financial accountability), profitability (using both absolute and relative measures), liquidity (using liquidity ratios like current ratios, acid test ratios, and the case with which the entity settles its financial obligations), and profitability (using both absolute and relative measures).

The financial standing of an NGO can be determined by looking at its assets and liabilities, debt reduction initiatives, and the city's fiscal health in terms of bankruptcy risk. Ineffective budget management, together with rising pension and debt costs, are the main contributors to poor financial performance, according to Whitney (2013, p. 191). In this study, fiscal health and accountability are related to assets and liabilities, debt reduction, organizational liquidity, and financial responsibility.

The general public is NGOs' main target audience since it holds them accountable. While internal control system is conceptualized in terms of internal control activities, control environment, and internal audits, FP is viewed in terms of reliable accountability, prompt reporting, and compliance with laws, rules, and norms.

#### **1.1.4 Contextual Perspective**

The NGO AVSI Foundation, established in 1972, focuses on cooperative projects for development with an emphasis on education. The defence and enhancing individual's respect are the pillars of every endeavour and are at the forefront of its operations. We can function globally

thanks to a network of more than 700 partners and the 35 founding members. The AVSI Foundation strives for sustainable development that can satisfy the needs of the population as they actually are, with inspiration from the Social Teaching of the Catholic Church. To do this, it invests a lot of time and effort in programmes that focus on the challenges of education, where the person is encouraged to take an active role in their own growth. It also spends a lot of time and effort promoting organizations.

Human rights, humanitarian emergencies, migration are just a few of the areas where AVSI Foundation works. Benefiting from their experience, which has been developed over more than 40 years of history in various sectors, the Knowledge Center of the AVSI Foundation oversees the documentation created by various initiatives, protects the knowledge base, and promotes its continuous growth through publishing, research, and seminars. More than 2.6 million direct recipients are served annually by the AVSI Foundation.

In order to address peoples' true needs, the AVSI Foundation works to promote sustainable development. To do this, it devotes a lot of time and energy to supporting civil society organizations in addition to efforts focused on the educational challenge, in which the individual is encouraged and elevated to the centre of their own progress.

AVSI's network, which is made up of its founders and their partners in several countries, is one of the company's obvious assets in the problems they confront every day on all fronts. There are countless emergencies and justifications for providing development aid, and there are numerous and diverse projects currently in progress. A constant challenge to broaden their viewpoint and comprehend the more genuine needs of the people they wish to meet and serve, the shared fieldwork experience and the possibilities for collaboration with embedded organizations in even the most difficult circumstances is of great aid. AVSI has offices in Italy, the United States, but also in Rwanda, Burundi, Kenya, the Ivory Coast, Sierra Leone, the Republic of the Congo, South Sudan, Mozambique, Ecuador, Peru, Haiti, Mexico, Brazil, Jerusalem, Myanmar, and Uganda.

## **1.2 Statement of the problem**

According to Mawanda (2008), internal control systems are intended to safeguard the funds donated to NGOs, ensure their effective and efficient usage, and encourage donors' contributions

to be used only for the intended purpose. Therefore, preventing the recurrence of the aforementioned issues requires establishing robust internal controls. Even though most firms have internal control systems in place and have had them for a while, financial crimes are still a problem and are getting worse all the time. Examples of these financial crimes include departmental financial irregularities, senior or highly trusted staff cooperating, control violations, and others. Numerous researches have proven that internal controls put in place by management in the majority of firms have not been able to totally prevent these fraudulent events due to their inherent limitations and inefficient design and implementation. Instead, they have only substantially decreased the ongoing fraud and corruption committed by employees in the majority of firms.

Muio (2012) studied the impact of internal control on the financial performance of private hospitals in Nairobi and established a significant relationship between internal control system and financial performance. Kakucha (2009) evaluated the level of effectiveness of internal controls operating in Nairobi and established that there are deficiencies in the systems of internal controls, with the degree of deficiencies varying from one enterprise to another. Njui (2012) investigated the effectiveness of internal control and audit in promoting good governance in the public sector in Kenya and found that internal control has the greatest effect on corporate governance within Kenya government ministries followed by risk management while compliance and consulting had the least effect.

Internal control measures must be implemented in order for any organization's financial performance to be maximized. However, basing on the background and several studies carried out, the research picked interest to look at the impact of internal control systems on AVSI's financial performance.

### **1.3 Purpose of the study**

The study's purpose was to examine the relationship internal control systems have on the financial performance of non-profit organizations, namely AVSI-Uganda.

### **1.4 Objectives of the study**

- i. To examine the relationship between control environment and financial performance of AVSI Uganda.

ii. To assess the relationship between information communication and financial performance of AVSI Uganda.

iii. To ascertain the relationship between compliance with rules and financial performance of AVSI Uganda.

### **1.5 Research questions**

i. What relationship does control environment have on financial performance of AVSI Uganda?

ii. Is there any relationship between information communication affect financial performance of AVSI Uganda?

iii. Does compliance with rules have any relationship with financial performance of AVSI Uganda?

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

The scope of the study was examined at three levels, namely: geographical coverage of the study, content of the study and time scope.

#### **1.6.1 Content scope**

The content scope of this study concentrated on the selected internal controls, that is, compliance with rules, regulations and policies, timely reporting and reliable accountability.

#### **1.6.2 Geographical scope**

South Western Uganda's Kabale District served as the study's base of operations. Kabale District is in Kigezi sub-region. The major city in Uganda's Western Region, Mbarara, is located about 142 (88 km) to the southwest of this location. The distance from Kampala, Uganda's capital and largest city, via road is around 410km (250 mi).

#### **1.6.3 Time scope**

The study took place over the course of seven months and focused mostly on data pertaining to the next eight years, or 2015–2022. The eight-year period was chosen because it gave the researcher ample time to determine how internal control mechanisms affected AVSI Uganda's performance in financial matters.

## **1.7 Significance of the study**

Potentially, the study will add to the corpus of information already possessed by governmental and non-governmental organizations about internal control systems. Academics and scholars who are interested in performing more research on internal control systems and financial performance may find the study to be helpful.

The development partners, who are usually keen to promote the expansion of NGO's in Uganda, may be aware of many problems that make NGO administrations difficult to sustain.

The study may contribute to better internal control systems concept and how they determine NGOs' financial performance. The suggestions made by the study shall be helpful to the management and governance of agencies.

An academic achievement in the form of awarding of a degree in Master of Business Administration will result from the research in the form of knowledge and skills in data gathering, data analysis, and report writing.

For students, organizations, and other interested parties who might want to do relevant research, the study will be a valuable resource.

The suggestions and potential solutions to the problems could serve as a starting point for capacity building for donors and other interested parties.

The study's conclusions and suggestions will serve as a guide for strengthening the internal control system to help the business accomplish its goals.

The findings will help policymakers make decisions and give them the ability to implement regulations that will govern the operation of NGO's in the nation.

## **1.8 Definitions of Key terms**

### **Non Governmental organizations (NGOs)**

An organization that is not a part of the government and is not supported by the state is conceptualized by Freeman (1998). NGOs are often independent of the government because of this. The phrase is typically only used in reference to social, cultural, legal, and environmental advocacy organizations with core non-commercial or not-for-profit objectives. NGOs are

official, independent, society groups with a focus on advancing shared objectives on a national or international scale (Martens, 2002).

### **Internal Control**

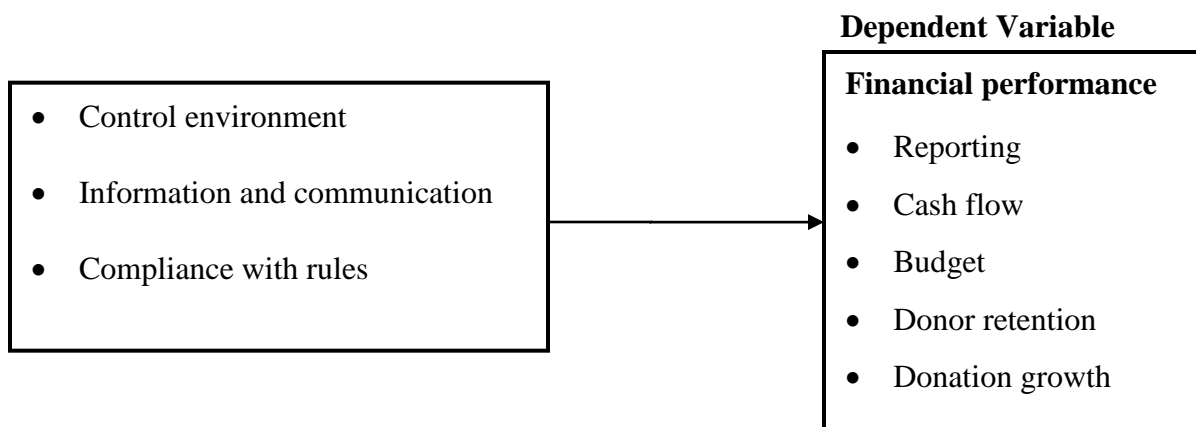
Includes series of steps that entities take to stop operating losses caused by fraud, mistakes, and technology failures. A suitable control outlines precise procedures for carrying out duties, reporting operational problems, and making judgments.

### **Performance**

Is a way to gauge how well you did. The ratio of actual results to the amount of effort expended is called performance efficiency. The region where performance deviates from the theoretical performance limit is known as the performance improvement zone. Performance requires an actor of some kind, although the actor may be a single person acting alone or a team of people cooperating.

## **1.9 A conceptual framework**

### **Independent Variable (Internal Controls)**



Source: *Adapted from (Nyaboke, 2017) and modified by the researcher.*

Internal control systems, including internal audits, are designed to improve the dependability of financial performance, either directly or indirectly, by enhancing accountability among information suppliers within an organization (Jensen, 2003). As a result, internal control has a much larger objective, such that the organization level of control problems connected with lower revenues will investigate ties between disclosure of material weakness and fraud, earnings

management, or restatements. Internal controls give an impartial assessment of the quality of managerial performance in carrying out assigned obligations in order to generate more money.

The capacity of a business to meet its financial goals is closely connected to the effectiveness of its internal control system. Effective internal control for profitability includes regular reviews of the accuracy and integrity of financial and operational data, an examination of the safeguards in place to protect assets, a determination of the extent to which employees adhere to management policies, procedures, and applicable laws and regulations, as well as an assessment of the effectiveness and efficiency with which management carries out its organizational goals.

Internal controls are classified into three types: preventive, detective, and remedial. Preventative controls anticipate future problems, make modifications, and prevent errors, omissions, or intentional acts from occurring. The detective controls detect and report instances of omission, inaccuracy, or malicious behavior. Finally, corrective controls assist in ensuring that the impact of a threat is limited, identifying the origin of a problem, and correcting errors that result from the problem. Corrective controls change the processing system to reduce the occurrence of faults found by detective controls.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2.0 Introduction**

This chapter analyzes relevant literature on the theoretical foundations of the study, the conceptual problems that the theories raise, as well as a few related empirical studies. The research was placed in perspective by the literature review, which also communicated with the reader the results of studies that are closely connected to the one being conducted and recognized where the study fits into the body of knowledge (Boote & Beile, 2005).

#### **2.1 Conceptual review**

##### **2.1.1 Internal Control Systems (ICS)**

Internal control systems are a group of strategies, plans, and practices that protect a company's assets, improve financial and operational performance, and encourage adherence to established regulations (Hopkin, 2012). Internal control systems are described by Ndungu (2013) from a different angle as a collection of organizational policies and processes that guarantee all transactions are carried out correctly to prevent fraud, waste, and abuse of an organization's resources.

A number of other organizations and individuals, including Cunningham (2004), International Organization of Supreme Audit Institutions [INTOSAI] (2004), Kaplan (2008), and COSO (2013), hold that internal control systems are procedures set up by an organization's management, board of directors, and other staff to provide a reasonable assurance as to the accuracy of financial information.

The COSO Integrated Framework for Internal Control (1992) and the Turnbull's Guidance on Internal Control (1999) take a far broader approach to internal controls than Sarbanes-Oxley, according to the International Federation of Accountants [IFAC] (2006), in terms of scope, objectives, and approach. They adopted controls that covered all of the company's activities or operations, not just those directly related to financial reporting, with a focus on a risk-based approach to internal controls (Moeller, 2013).



### **2.1.2 Financial performance (FP)**

Solomon and Pringle (1981) contend that in order to examine financial performance within an organization, comparison standards are required. These help the company monitor its growth over a longer period because knowing the indicators for only one time period is insufficient to assess the financial health of a firm. Financial performance analysis, according to Groppelli and Nikbakht (2002), can also be used to compare a company's financial situation to that of its competitors and to track changes over time. Both globalization and the advancement of information technology have increased the level of commercial competitiveness. A lot of scholars contend that the amount of wealth created in the corporate sector is influenced by intangible assets. They claim that intangible assets lead to better financial outcomes and value generation.

FP is a measure of companies' policies and operations in monetary terms. It is a general measure of a firm's overall financial health over a given period and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many ways to Measure Company's financial performance. This may be reflected in the firm's return on investment (ROI), return on assets (ROA), value added, among others and is a subjective measure of how a firm can use assets from its primary mode of business and generate revenues (Mishkin, 2007). Positive financial performance in a firm can be achieved by eradicating waste in benefits services processes and systems. The "critical success factor" for a firm is the degree to which it fulfils its set objectives and mission in terms of being efficient, effective and economical. The information obtained from a sound internal control system as reflected from financial statements will provide a report on a firm's financial performance and position that is useful to a wide range of users for assessing the stewardship and making economic decisions (Doyle et al., 2007).

Value for Money is achieved via the firm's internal control systems, which are crucial to attaining its stated mission and objectives. The primary strategy for VFM is the firm's control over the usage of resources to meet its predetermined goals. Heads of department should establish sound arrangements for planning, appraising, authorizing and controlling operations in order to achieve positive FP. FP and Value for Money are used to assess whether a firm has

obtained the maximum benefit from the goods and services it acquires and / or provides, within the resources available to it (COSO, 2013).

Value for money means not paying more than a product's worth or accessibility warrants. A well-managed public budget implies care for effectiveness, efficiency, and economy (cost minimization) (full attainment of the intended results). Reducing the level of fraud and irregularity by strengthening the company's internal financial control systems is the most efficient strategy to boost financial performance. Investors need to be confident that their funds are being used properly and efficiently to deliver the right service for the lowest possible price. FP analysis needs to pay attention to total risks and is related to concepts of efficiency and effectiveness (CPA Australia, 2008).

## **2.2 Theoretical Review**

### **2.2.1 Agency theory**

In 1976, Jensen and Meckling developed agency theory. This perspective defines an agency relationship as a contractual arrangement whereby one or more parties (the principal(s)) choose a third party (the agent) to carry out a task on their behalf while granting the agent significant discretion. Agency theory is used to evaluate how investors and management interact. The agent (manager) undertakes to perform certain activities for the benefit of the principal (investors), and the principal agrees to pay the agent. In light of this, the theory views firms as crucial contractual frameworks that provide the exercise of control, which lowers agents' propensity for opportunistic behaviour (Mwangi, 2012).

According to the theory, a comprehensive contract is written to address the concerns of both the agent and the principal in order to balance their respective interests. The agent-principal relationship is strengthened when the principal uses an expert and mechanisms (auditors and control systems) to keep an eye on the agent (Jussi & Petri, 2004). For the simple reason that internal control is one of several business strategies used to address the agency issue by lowering agency costs that have an impact on both the relationship's overall effectiveness and the benefits received by the principal (Payne, 2003; Abdel-Khalik, 1993), this theory is pertinent to the study.

Internal control lessens information asymmetry, decreases investor risk, and lowers low revenue through improving the delivery of additional information to the principal (shareholder) regarding the actions of the agent (management).

### **2.2.2 Stewardship Theory**

The definition of stewardship theory by Davsi et al. (1997) is "a steward protects and maximizes shareholders' wealth through firm performance, because by doing so, the steward's utility functions are maximized." Stewardship theory has roots in psychology and sociology. Stewardship theory, in contrast to agency theory, places more emphasis on top management acting as stewards and integrating their objectives into the organization, rather than emphasizing the individualist viewpoint (Donaldson & Davsi, 1991).

It follows from the above that stewardship theory unlike agency theory is a complete contrast and does not emphasize on the need to incur monitoring or agency co-ops. Meckling and Jensen (1994) further state that the cost incurred to curb agency problems (reducing information asymmetries and accompanying moral hazards) is low when owners directly participate in the management of the firm.

The steward theory supports the study by pointing out those managers of institutions of higher learning act as stewards of shareholders, suppliers, creditors, consumers, and employees of these institutions, which suggests that management must strike a balance. However, Donaldson and Davsi (1991) further note that returns are improved by having both of these theories combined rather than separated, which implies that management must strike a balance.

### **2.2.3 Positive Accounting Theory**

Positive research or normative research are the two categories that accounting research falls within. Positive research is defined as that which seeks to predict phenomena and offer explanations for them. Positive hypotheses are those that connect to this type of study (Deegan and Unerman, 2006). These hypotheses are frequently founded on observations, which can then be objectively evaluated and enhanced by other observations. Other theories, in contrast to positive theories, are not supported by observations. These normative ideas are based on the researcher's beliefs. Watts and Zimmerman (1986) are credited with developing the positive accounting theory, which focuses on explaining accounting practice.

It makes no recommendations as to which accounting system a firm should adopt; instead, it is intended to explain and forecast which firms will and which firms will not utilize a specific accounting technique.” According to Deegan and Unerman (2006), the theory is predicated on "the assumption that all individual actions are motivated by self-interest and that individuals will always act opportunistically to the extent that the actions will increase their wealth." From this angle, the positive accounting theory predicts that businesses will try to set up controls to restrain self-interested behavior. This is necessary to bring the interests of the company's managers (agents) and owners (principals) into alignment. The term "monitoring cost" refers to the expenses incurred for resolving issues involving the agency connection and setting up suitable safeguards.

### **2.3 Relationship between control environment and financial performance**

The control environment (CE) includes a number of significant dimensions. There are varying estimates of their numbers. For instance, Gyasi (2013) operationalizes the control environment and limits it to management's operating philosophies and styles, the entity's organizational structure, the methods used to assign authority and responsibility, as well as the directors' methods for enforcing control, such as the internal audit function. On the other hand, COSO (2013) claims that the control environment elements in the new internal control framework include board oversight, integrity and ethical values, structure, authority and responsibilities, human resources policies and procedures, and accountability.

In November 2013, the World Health Organization (WHO) adopted the COSO internal control structure and introduced a brand-new element called strategic direction. However, the CE components of the COSO internal control framework are still frequently referenced in the literature. The phrase "board oversight" is used to characterize the executive board structure in order to demonstrate the board's independence from management and to exert oversight over the adoption and operation of internal controls (COSO, 2013). According to WHO (2013), this justification of board supervision remains the norm for this component of assessing the control environment.

According to Hayes et al. (2005), this dimension evaluates the ethical norms of behavior that are in place and the procedures that help to motivate employees to carry out their jobs honorably. Trainor (2007) asserts that integrity and ethical principles require the board strategy of providing

examples of ethical behaviour to serve as the standard of measurement throughout the entire organization.

Control settings, according to Inusah et al. (2015), comprise management's operating philosophy and style, honesty, and ethical convictions. They also include internal audit, the audit committee, accountability, delegation of authority and responsibility, training, performance reviews, pay, benefits, and employee counselling. The size of the company's audit committee and the existence of stringent budgetary controls, according to Magara (2013), are indications of a robust control environment.

Ntongo (2012), the control environment fosters a climate that forces organizational members to carry out their duties and obligations in line with the set control objectives. All other internal control components are built upon the control environment (Anthony, 2004).

Kamau (2014), some of the control environment activities that an organization can engage in include having an accounting and financial management system, management being dedicated to the operation of the system, management closely monitoring the implementation of internal control systems in organizations, management giving junior officers feedback about the operation of the system, and having appropriate measures to correct misfeasance in operation.

In addition to ensuring that the board of governors and its committees are independent of management, management of an organization should uphold ethical principles in all management decisions, act with a high degree of integrity in the performance of their duties, and establish an objective, independent, and active audit committee. Kamau (2014) claims that organizations had an accounting and financial management system, that the management was committed to its operation, that it provided junior officers with feedback on the system's effectiveness, that it acted honorably in the execution of its decisions, and that the board of governors and its committees were independent of the management.

The effort organizations put forth to keep members accountable for their internal control responsibilities through rules and procedures is referred to as the accountability component under CE (COSO, 2011). Reducing resource misuse and limiting employee entitlement among organization members are the two objectives of accountability (COSO, 2013). According to

Gyasi (2013), this results in the organization doing well and demonstrating a greater commitment to progress.

In his study of the effect of the internal control environment on the financial performance of companies listed on the Nairobi Stock Exchange, Kinyua (2015) found a significant positive correlation between the internal control environment and financial performance, which is in line with Mawanda's (2008) finding that institutions with properly implemented internal control systems will always perform better financially. In order to further improve the financial performance of businesses listed on the Nairobi Securities Exchange, the study recommends enhancing the internal control environment.

Internal controls, according to Gift (2018), have a significant impact on an organization's financial performance and are positively correlated with financial success. Because it affects overall revenue and, in turn, the financial performance of hospitality organizations (HO) in the Rivers State, he came to the conclusion that the absence or insufficiency of the control environment could spell doom for an organization. One of the recommendations made was for management of HOs to regularly upgrade their information and communication infrastructure in order to better adapt to the ongoing changes in the global environment and improve their financial performance.

A financial institution's financial performance and its internal control system (control environment), per Khamis (2013), are strongly positively correlated. In his research, Mawanda (2008) discovered a connection between the control environment and the financial performance of the Uganda Martyrs University.

According to scholarly studies, financial constraints are a major obstacle for any kind of business. The implications of internal control mechanisms on financial performance in SDA institutions of higher education in Kenya were studied by Mawanda (2012) using quantitative methodologies. According to the study, internal control systems and financial success are significantly correlated. The study recommended internal audit department competence profiling, which ought to be based on what the University anticipates the internal audit to undertake and how many people would be required to carry out this task. As a result, the study brought attention to how crucial the internal audit department is to the development of internal controls that affect an organization's financial performance.

Through case studies on internal controls in Belgium, it was shown how important the control environment is for analysing internal auditing techniques. Sarens and De Beelde (2006) discovered a significant correlation between the internal audit function's role and fraud detection within an organization and certain control environment traits like tone at the top, level of risk and control awareness, and how well roles related to risk management and internal controls are defined and communicated.

Barra (2012) used an analytical method with a focus on control actions and monitoring to examine how sanctions and other internal controls affected employees' propensity to commit fraud in Kisumu. Information was submitted by both managerial and non-managerial staff employees. The results showed that the cost of fraud increases when control operations and role separation are present. Therefore, the advantage must outweigh the cost for an employee to commit fraud in a context with distinct responsibilities. Additionally, it was shown that separation of roles is the "least-cost" fraud deterrent for non-management staff, but the "least-cost" fraud disincentives for managerial staff are the heaviest fines. The results show that detective controls are necessary for preventative control methods like duty segregation to be effective.

Control environment refers to the management and other powerful personnel who make choices that represent the ideology and management philosophy of the company. Additionally, organizational culture has an impact on the control environment from the aforementioned and can have an impact on how an organization is structured in terms of its operations (Ndugu, 2013). Hence, an organization to succeed, management and other key figures must have moral principles (Kaplan, 2013).

## **2.4 The relationship between information communication and financial performance**

The information and communication component of internal control is made up of communication and information systems (INTOSAI, 2004). Communication systems, according to INTOSAI (2004) and Shim (2011), are the methods and avenues that organizations utilize to spread important data, guidelines, and rules. For communication systems to be functional, it is vital that information flow up, down, and across the organization by way of identifying, capturing, and transmitting crucial information in a timely manner to responsible parties to take appropriate action. Similar to this, Noel (2010) says in a prior contribution that information and

communication systems enclose the operations of the control environment and permit individuals within the business to access and share the information required to control, manage, and carry out its operations.

Companies are being encouraged to reexamine their stakeholder communication strategies in a serious manner. In order to support business strategy, integrated reporting, as required by the King III report, aims to combine the reporting of financial and non-financial performance measurements. The efficacy of communication and the calibre of the information are crucial in internal control procedures. A clear explanation of how an organization's strategy, governance, performance, and prospects contribute to the generation of value over the short, medium, and long term is contained in an integrated report, according to the IIRC (2013). A variety of stakeholders as well as those who make financial capital allocation or investment choices stand to gain from integrated reporting (IIRC, 2013).

Mwangi (2012) found that electronic banking greatly increased the performance of banks as a whole. Findings of the study showed that internet banking had strengthened customers' interactions with banks. The learner only paid attention to the internal control system's information and communication components. The claim that internal control systems have an effect on banks' financial performance is not adequately supported by the available data. The study conducted by Mwangi and Olumbe (2012) is comparable.

Etengu and Amony (2016) attempted to determine whether internal controls contribute in any way to the financial performance of organizations in a different study. They used the International Union for Conservation of Nature as a case study to see whether the control environment, control activities, and monitoring had any impact on the financial performance of Ugandan non-governmental organizations. The researchers' study was a primary data study because they used a survey design and collected their data from interviews and a structured questionnaire.

The results of the researchers' investigation supported the assertion that each of the internal control measures—control activities, control environment, and monitoring—is strongly correlated with financial success. In an effort to aid in enhancing the financial performance of the International Union for Conservation of Nature, the academics made recommendations through their study for the improvement of control activities, control environments, and monitoring.



Instead of using all five internal control system components, the researchers just used three. They conducted a study that was distinct from those that targeted the banking industry by focusing on an NGO in Uganda.

Mensah (2016) investigated if an information and communication technology has any impact towards financial performance of banks. Using the descriptive research approach, the results and conclusions showed that the relationship provided grounds that were significant in predicting information and communication technology and its impact on the financial performance of Ghanaian rural banks. Out of the five components, the scholar emphasized on one internal control.

Therefore, the conclusion that systems have an impact on the financial performance of rural banks in Ghana was untenable based on the use of a single internal control. The methodology used in Mensah's study was comparable to that used in study by Olumbe (2012).

Kariuki (2017), Kimotho (2015), Mensah (2014) and Mwangi (2012) studies used only a single component of internal control system which was not enough to conclude that internal control systems affect financial performance of institutions where those internal controls have been applied.

Internal controls and their impact on the financial performance of Kenyan commercial banks were examined by Muthusi (2017). The researcher employed control environment, monitoring, control activities, risk assessment, and information, communication, and technology as research variables. The researcher used a descriptive research design as his methodology. Data were gathered by the researcher from both primary and secondary sources. With the aid of the questionnaire, the scholar gathered information from primary sources.

Gift (2018) did a study to see whether internal controls and the financial performance of Rivers State hospitality firms were related in any way. The researcher's chosen research methodology was a survey research design. The researcher collected data from primary sources using a structured questionnaire and from secondary sources using the internet, books, and journals. Gift used correlation analysis, linear regression, and descriptive statistics to analyse the data. The results of the researcher's study showed that internal controls had a substantial impact on the financial performance of hospitality firms.

The researcher's research findings also indicated a favourable correlation between internal controls and financial performance of Rivers State hospitality firms. The research methodologies used in the Gift (2018) and Entengu and Amony (2016) studies, the survey study designs, were identical. Gift's study's findings, particularly those relating to internal control systems and the financial performance of diverse organizations, were comparable to those of the scholarly works that were analysed.

## **2.5 The relationship between compliance with rules on financial performance**

Regulatory compliance, according to Goddard (2002), is the act of adhering to the laws, rules, guidelines, and specifications that are pertinent to the company's operations. Compliance can be a state or a process when something is done in compliance with rules or requirements that have been established.

The sixth accounting history conference (2010) states that there is a presumption that local governing rulers or officials are required to prepare accounting documents and statements that are typically required by law, highlighting the need for regulated administrative structures where the use of accounting and other financial information is prevalent.

The Kitgum Town Council's financial statements as of June 30, 2015, were prepared in all material respects in accordance with the Local Government Financial and Accounting Manual 2007, Section 51(3) of the Uganda Public Finance Management Act 2015, the Local Government Financial Accounting Regulations, and the Local Government Act, Cap. 243 as amended), of Laws of Uganda, according to the OAG Report (2015). The Auditor General's Report on the Kitgum Town Council's financial statements for the fiscal year that ended on June 30, 2015. This demonstrated that the Kitgum Town Council produced their financial statements in accordance with all applicable laws, rules, and policies.

The administration may refer to any plan intended to change a certain circumstance as administrative controls (COSO, 2013). The application of laws and regulations, levies, loan fees, and market control are just a few of the techniques the government employs to address a variety of issues.

These legislative tools have the potential to genuinely or indirectly affect how associations present their budgets (Kinyua, 2016; Nyakundi and Nyamita, 2014; Muio, 2012; Ngugi, 2011; Simiyu, 2011).

According to Gerrit and Abdol (2010), organizational execution includes the sum of all the associations' work processes and activities. County referral hospitals have both financial and non-financial performance measures. The greatest way to enhance budgetary performance is to reduce the level of anomaly and extortion by making improvements to the organization's internal financial control systems. Regardless of cost, partners should be certain that their resources are being used effectively and efficiently to provide the necessary support.

Supported productivity can be seen as a persistent financial advantage that is recognized when the amount of money made from a company activity exceeds the expenditures, expenses, and obligations anticipated to keep the action going. The greatest way to increase net gain is to reduce the level of irregularity and extortion by making improvements to the organization's internal financial control systems (Wainaina, 2014). The board should constantly review every aspect of the company to ensure that internal controls are in place to strengthen the business and increase benefit (Kamau, 2014). Every business decision involves risk, which can be avoided or reduced by having strong internal controls.

According to Action Aid International Kenya (2010), compliance methodology requires improvement at key stages of the process, including planning, fieldwork, reporting, quality assurance and documentation. The function would also benefit from the ability to use dedicated investigative services that provide the capacity and directly relevant expertise to conduct compliance investigations. Current methods focus on a detailed review of the accuracy of information already provided in the annual disclosure statements of all donor-funded organizations. Amran (2010) suggests that efficiency could be achieved by testing a smaller sample of transactions in this way and directing the available additional time to the risk of underestimation to ensure that the information provided does not lack elements that require disclosure in the annual declaration. Thoroughness testing is done inconsistently and done appropriately.

The PROCASUR Africa Report (2012) found that poor control systems have resulted in huge investment losses through fraud and misuse of assets used to generate revenue, while members

and institutions have suffered huge losses. Inadequate controls have also led to corruption and collusion between management and external auditors, resulting in organizations not achieving their set goals. Technological changes have also brought challenges to governance systems, which has necessitated the development of new ways to govern organizations. The effectiveness of internal controls on a company's financial performance should be a major concern for most companies (Ewa and Udoayang, 2012). Because internal controls help prevent and detect fraud in an organization, donor-funded companies in Kenya should attach great importance to internal audit, which is generally a feature of large companies. It is a function that is either performed by company employees or can be obtained from an external organization to help management achieve company goals.

According to Okida (2011), donor money was reliant on the accountability systems set up by the implementing NGOs. It was discovered that NGOs were required to maintain a minimal set of financial accounts, including cash flow statements, statements of financial condition, and statements of comprehensive income. The study found that employee satisfaction with pay benefits could not be demonstrated and that community involvement in supervision of NGOs was still not sufficiently practiced. Before providing financing to and forming partnerships with NGOs, donors were careful to ensure that they were abiding by local laws and also got the oversight bodies involved in vetting the organizations' compliance and legality. It was established that NGOs produced particular reports and that sponsors required performance measurements to be completed.

Standardized, frequent, and adequate reporting that complies with pertinent governance, financial accounting, and reporting requirements (based on national laws and international good practice) is a crucial component of ensuring that NGOs are transparent in their operations (Chenhall et al., 2010). Such disclosure statements and reports are mandated by the government in several nations. For instance, NGOs seeking tax-exempt status in the United States are obliged to submit an annual information return with comprehensive financial, organizational, and programme information. Similar restrictions may also be included in the reporting requirements of some donors (Ebrahim, 2003).

Many sponsors have created their own financial management guidelines for their NGO partners, according to U4 Anti-Corruption Resource Centre (2013). Strong financial management

procedures are often produced by well-established NGOs, but it can be difficult for donors to enforce minimal requirements when working with partners who have lower capability. Existence of fundamental accounting tools (book of accounts, general ledger, general journal, cash receipt book, cash disbursement book, bank account records); separation of key functions (approving officer, bookkeeper, cash custodian); "four-eye" principles for expenses, requiring two signatures by relevant staff; annual financial statement of income and expenditures; and annual financial reports that are compliant with applicable laws and regulations are just a few examples of the minimum requirements.

According to GaKateeba (2010), compliance is a multifaceted issue that can have a variety of implications for the institutions it affects. Because it is frequently mandated by laws and regulations, financial organizations typically have a compliance role. According to Ashley (2012), compliance for international financial institutions (IFIs) focuses on adhering to best practices and exceeding market expectations. Compliance is the act of adhering to laws, rules, regulations, related self-regulatory organization standards, and codes of conduct in matters pertaining to upholding ethical standards of business conduct, handling conflicts of interest, and more specifically handling issues like combating money laundering and terrorist financing, as well as conducting investigations into allegations of corrupt and fraudulent behaviour.

## **2.6 Knowledge gap**

According to the studies of internal control measures and financial performance (Long, 2007), it is clear that most NGOs have integrated internal control measures in every unit of the organization that enhance efficiency is achieved at every unit. Such units include administration where it involves approval by the supervisor of employee's attendance entries. The purpose of this control mechanism is to ensure adherence to time and attendance procedures. However, this study, examined whether effective internal control systems have a relationship on financial performance. In addition, inadequate segregation of duties and inadequate documentation further allow the misappropriation of inputs by employees. Furthermore, ineffective internal control systems may result in erroneous internal management reports, and managers relying on such reports are more likely to make suboptimal operational decisions. Finally, ineffective internal control relating to information technology not only further results in erroneous internal reports, but also reduces organizations' effectiveness in monitoring the usage of resources and leads to

inefficient use and wastage of resources. This then was the knowledge gap that the study sought to reveal by carrying out an examination of the internal control systems employed by NGOs in enhancing financial performance.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

The study's research design, sampling strategy, target population, sample size, data collection techniques and tools, data analysis, data validity and reliability, ethical considerations, and predicted study constraints are all covered in this chapter.

#### **3.1 Research design**

Descriptive design was used as the research tool for this study. Both the qualitative and quantitative approaches were used under the direction of the AVSI staff, which was selected from a variety of fields. Utilizing the quantitative method, information regarding the operation of AVSI's internal controls was gathered and examined. The company's internal control system was the subject of a qualitative analysis. Because it makes the effects of the organization's internal control system more obvious, this layout was chosen. The study was deliberately non-experimental since the researcher intended to report and explores what the actual findings were in order to provide recommendations based on the facts to improve the situation. The descriptive analysis method was chosen for the current study since it aimed to understand a phenomenon and provide fundamental knowledge in a field of study.

#### **3.2 Study Population**

Population is the quantity of local residents who belong to a particular set of social, cultural, socioeconomic, ethical, or racial categories (Creswell, 2017). Sample size simply refers to the portion of the population that has been purposefully chosen in order to study the parents' characteristics. The term "population" refers to the total collection of individuals, occasions, or interesting items that the researcher wants to study (Afkar, 2017). Turyasingura and Agaba (2022) assert that generally speaking, conclusions are more accurate with a greater sample size. However, they also asserted that if every component of a group is the same, then choosing an even lower sample size will yield completely correct results because the population under study is homogeneous. Consequently, it is suggested that a small sample would yield a reasonably accurate estimate during the research process given comparability in respect to the characteristics

to the studied area. The study population was chosen based on its accessibility and familiarity with the study's topic. The study's target respondents included 10 accounting and finance officers, 02 internal auditors, 12 from Human Resource Department, 115 field officers, 21 from procurement and logistics, 10 directors.

### **3.3. Sample size and sampling techniques**

#### **3.3.1 Sample size**

According to records kept by the human resources department, the total number of employees is listed in Table 1 below, and the AVSI project's headquarters in Uganda serves as a proxy for population size. 170 respondents made up the study's entire population.

**Table 1: Sample size determination**

<b>Category of respondents</b>	<b>Target population</b>	<b>Sample size</b>
Accounting and Finance	10	10
Internal Auditing	02	02
Human Resource	12	08
Field/Social officers	115	73
Procurement and logistics	21	15
Directors	10	10
<b>Total</b>	<b>170</b>	<b>118</b>

**Source: Morgan & Krejcie 1970.**

#### **3.3.2 Techniques for Sampling**

##### **3.3.2.1 Sampling**

With the help of purposeful sampling, a predetermined number of respondents were chosen based on their work duties in relation to internal controls at AVSI International. This approach



was appropriate since the sample chosen included knowledgeable individuals who could provide data that was thorough enough to provide a deeper understanding of the issue.

### **3.4 Types of data**

The study used both primary and secondary data. Primary data was gathered from respondents directly via interviews and the case study questionnaires. The questionnaires were delivered to the respondents. The respondents filled out questions provided by the researcher. The majority of the qualitative data was gathered through interviews, while the respondents' responses to semi-structured questionnaires were employed to collect the respondents' quantitative data. The primary sources of secondary data were the internet, textbooks, related material from journals, and records from publications. In various libraries, the researcher looked for books and journals with information on the study variables that were used to expand the study.

### **3.5 Data Collection and instrument**

In order to gather primary data from AVSI employees and management, the study used self-administered questionnaires and interview schedules. Secondary data was also used to gather pertinent information.

#### **3.5.1 Questionnaire**

A questionnaire, according to Kothari (2004), is a piece of writing that consists of a number of questions printed or typed in a specific order on a form or collection of forms. It was based on the study's general objective or purpose, and responses to the survey's questions were graded on a five-point Likert scale, with the highest score being strongly agree and the lowest being strongly disagree. Mugenda and Mugenda (2003) assert that measuring the variable provides the researcher with information on the degree of individual difference on a particular variable.

On the basis of this, the suitable measuring tool was employed to gauge the variables and arrange the results into categories. Each respondent was expected to rate each and every statement provided explaining a specific variable on a Likert scale with a scale ranging from 1 to 5. The options on the scale were 5 for "Strongly Agree," 4, 3, "Neutral," 2, "Disagree," and 1 for "Strongly Disagree." Quantitative data was gathered via questionnaires. Comparing questionnaires to an interview guide, questionnaires were quick and simple to deliver.

### **3.5.2 Interviews**

The researcher also conducted interviews as a means of gathering data. They were used to supplement the questionnaires that had already been completed, but they also allowed the researcher to delve deeper into the responses provided in the questionnaires, which was especially useful given the significance of the research and the highly specialized nature of the subject being studied. Generally speaking, the project coordinator and general manager of the organization provided the qualitative data. In addition to other research done on the topic, secondary data was gathered from departmental reports that were both public and unpublished.

Additional data was gathered from the internet. To use secondary data is to use older data. This information was gained by reviewing written records, past research such as audited financial accounts, letters from auditors to management, and publications from other organizations, including manuals and policies, books and journals, proclamations, and numerous manuals obtained from libraries and the internet. Additionally, the researcher combined interviews with structured questionnaires. A small number of responders, including directors, internal auditors, and accounting and financial personnel, were subjected to this. 22 people responded to the survey.

### **3.6 Data processing and analysis**

Editing, sorting, coding, and analysis of the field data were done using SPSS version 16.0. Specific data was examined using descriptive statistics (frequency and percentages) and inferential statistics (correlation-Pearson ( $r$ ) correlation coefficient) to ascertain the relationship between internal control systems and financial performance.

### **3.7 Reliability and Validity**

According to Mouton and Marais (1990: pg. 50), reliability is the requirement that the use of a reliable measuring instrument on various people and groups under various sets of circumstances must yield the same results.

#### **3.7.1 Content validity**

Validity and dependability of a research tool are tested through pre-testing (Sekaran, 2001; Mugenda & Mugenda, 1999). A test is considered valid if it truly assesses the traits it was

intended to evaluate or is directly related to those traits. It demonstrates how well the instruments represent the range of information, abilities, viewpoints, and attitudes that respondents are predicted to possess (Amin, 2005). Piloting was used in this study to assess the validity and reliability of the data. It began with the researcher developing a set of questions and asking ten respondents who were not included in the sample to remark and offer suggestions. The researcher then planned a meeting for individuals who were interested and continued to consider the issues. In the end, the questionnaire underwent a preliminary field test. Giving the instruments to three independent experts who evaluated their relevance to the study objectives and rated the items on a scale of relevant (R) and irrelevant (IR) helped determine the validity of the instruments.

The CVI average was calculated.

$$\text{Thus, CVI} = \frac{\text{Number of items rated relevant by expert}}{\text{Total number of items in the instrument}}$$

For instance, if the instruments have 40 questions and the following summary of the data is obtained; Average CVI will be calculated.

**Table 2: Content validity**

<b>INDEX Judge</b>	<b>Score</b>	<b>Valid</b>
Judge 1	38/40	0.95
Judge 2	36/40	0.90
Judge 3	36/40	0.90
Judge 4	34/40	0.85
<b>Total</b>		<b>3.60</b>
<b>Average</b>		<b>0.90</b>

**Source:** *Primary data 2022.*

These findings suggested that research tools are appropriate for use in data gathering about the financial responsibility for service delivery. According to Amin (2005, p. 288), the average content validity index (CVI) for instruments should be 0.7 or higher. The average index of 0.90 may have been higher than the allowable limit. Instruments would be considered valid for the same reason.

### 3.7.2 Reliability

Reliability, according to Litwin (1995), is the extent to which a survey instrument is consistent with the variables it seeks to assess. The dependability of a measurement is consistency of measurement, according to Kothari (2009); the more trustworthy an instrument, the more consistent the measure. This means that the instrument can be deemed to be reliable if respondents consistently provided the same response to a question. Internal consistency is necessary since the numerous items should be evaluating the same constructs and should, therefore, positively correlate with one another (Kipkebut, 2010).

The results from using Cronbach's alpha formula as explained in the following Table 2 below.

**Table 2: Reliability Statistics**

<b>Variable List</b>	<b>Cronbach's Alpha</b>	<b>N of Items</b>
Control environment	.812	7
Information communication	.742	7
Compliance with rules	.811	7
<b>Overall</b>	<b>0.788</b>	<b>21</b>

The instrument was determined to be reliable for data collection with a Cronbach-alpha coefficient more than 0.60, according to the findings.

### 3.8 Ethical Consideration

Kabale University gave an introductory letter to AVSI International, the case study non-governmental organization, to show that the researcher was a Kabale University student pursuing a Master of Business Administration and that the activity was well known to the University Authorities.

### **3.9 Limitations of the study**

Some respondents could not find the time to complete the questionnaire because they were too busy with their everyday activities. The researcher provided them plenty of time in these conditions. The surveys were timely delivered to them, which allowed for this.

The inherent weaknesses of internal control, which contribute to the inability to identify material anomalies, fraud, and error that may adversely influence the operation of NGOs, were not examined in the study. Due to the respondents' fear of providing such information, they were not asked for their opinion in the context of collusion and managerial overrule.

Additionally, the study omitted secondary information about internal control. It is crucial to examine the NGO's yearly financial performance report. It was possible to establish whether the NGO successfully accomplished its goals by evaluating these reports, which helped to support the findings from the primary data. However, because the study was unable to get an annual financial performance report, this information was withheld.

Because respondents were uncomfortable being interviewed during working hours because it interfered with employees' workdays, the researcher ran out of time. However, this was avoided by the presentation of the organization's (AVSI) study permit, the authorization letter from Kabale University, and the questionnaire's ease of use.

The respondents reacted hesitantly to some questions about the company's confidentiality and privacy policies. Since the organization had already approved the research project, the researcher told the respondents that the information would only be used for academic purposes. Additionally, it was kept a secret from unauthorized parties.

## CHAPTER FOUR

### PRESENTATION OF RESULTS, ANALYSIS AND DISCUSSION

#### 4.1 Rate of response.

The response rate, as is shown in Table 3 below, is the proportion of the actual responses to the population that was targeted. The following information was obtained by the researcher from the numerous respondents that were her target audience.

**Table 3: Shows Population, Sample and Sampling techniques**

<b>Distinction of respondents</b>	<b>Expected respondents</b>	<b>Actual respondents</b>	<b>Percentages</b>
Accounting and Finance	10	10	100
Internal Auditing	02	02	100
Human Resource	08	08	100
Field/Social officers	73	59	81
Procurement and logistics	15	11	73
Directors	10	10	100.
<b>Total</b>	<b>118.</b>	<b>100.</b>	

*Source: Field Data 2023.*

Table 3 results showed the study's results by categories of respondents with a very high response rate. This was because nearly every research participant was available to provide information during data collection, which Turyasingura & Agaba (2022) claim is required for a study to be considered viable to have at least 70% of responses.

## 4.2 Respondent's bio-data

Bio-data about the respondent were gathered and are shown in Table 4 below.

**Table 4: Respondent's gender**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Males	54	54.0	54.0	54.0
Females	46	46.0	46.0	100.0
Total	100	100.0	100.0	

*Source: Field data 2023.*

The respondents' gender is shown in Table 4 above, where men made up 54.0% of the sample while women made up just 46.0%. In order to obtain opinions from both genders, it was implied that the study was gender-sensitive.

The distribution of age of respondents was grouped and presented in Table 5.

**Table 5: Respondent's age in years**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Below 25	7	7.0	7.0	7.0
25-35	39	39.0	39.0	46.0
36-45	39	39.0	39.0	85.0
46-55	13	13.0	13.0	98.0
Above 55	2	2.0	2.0	100.0
Total	100	100.0	100.0	

*Source: Field data 2023.*

In terms of respondents' ages, those under 25 made up 7.0%, those between 25 and 35 made up 39.0%, and those between 36 and 45 made up 38.0%, while those between 46 and 55 made up 13% and those above 55 made up 2.0%.

Table 6 below contains information about the respondents' marital status.

**Table 6: Respondents' Marital Status**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Single	34	34.0	34.0	34.0
Married	51	51.0	51.0	85.0
Widowed	11	11.0	11.0	96.0
Separated	4	4.0	4.0	100.0
Total	100	100.0	100.0	

*Source: Field data 2023.*

Table 6 above, showed that (51%) of the respondents were married, compared to 34% who were single, 11% who were widowed, and 4% who were also widowed.

Information on the qualifications of respondents is presented in Table 7 below.

**Table 7: Respondents qualification**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid PhD	2	2.0	2.0	2.0
Master's degree	17	17.0	17.0	19.0
Bachelor's Degree	56	56.0	56.0	75.0
Diploma	13	13.0	13.0	88.0
Advanced level	1	1.0	1.0	89.0
Ordinary level	5	5.0	5.0	94.0
Primary level	6	6.0	6.0	100.0
Total	100	100.0	100.0	

*Source: Field data 2023.*



Based on data in Table 7 above, it can be seen that the majority, or 56%, were degree holders, followed by 17% of masters level holders, 13% of diploma holders, 6% of primary level holders, 5% of ordinary level holders, and just 2 of PhD holders, while only 1% of advanced level holders. As a result, the vast majority of respondents had advanced degrees.

Data on the number of years spent working with AVSI is presented in Table 8.

**Table 8: Respondents years spent working with AVSI**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Over 10 years	6	6.0	6.0	6.0
5-10 years	39	39.0	39.0	45.0
1-5 years	43	43.0	43.0	88.0
Less than a year	12	12.0	12.0	100.0
Total	100	100.0	100.0	

*Source: Field data 2023.*

Basing on Table 8, of respondents totalling to 6% had worked for AVSI for more than ten years, 39% had done so for five to ten years, 43% for one to five years, and 12% had done so for less than a year. The majority of responders had thus been employed by AVSI for one to five years.

#### **4.3 Relationships linking control environment and financial performance**

The responses were received in this respect and shown in Table 9 below. The initial purpose investigated the connection control environment has on the financial performance of AVSI.

**Table 9: Descriptive statistics on control environment and financial performance**

Statements on control environment	Agree		Undecided		Disagree	
	F	%	F	%	F	%
The organization has an accounting and financial management system	85	85	03	03	12	12
Management is committed to the operation of the system	81	81	08	08	11	11
Management closely monitors implementation of internal control systems in our organisation	76	76	12	12	12	12
Management provides feedback to the junior officers about the operation of the system	71	71	14	14	14	14
Appropriate measures are taken to correct errors in operation of the accounting and finance management system	75	75	16	16	09	09
Management acts with a great degree of integrity in execution of their roles	72	72	14	14	14	14
Management decisions uphold ethical values	69	69	18	18	13	13
The organization has an objective, independent and active audit committee	70	70	20	20	10	10
The board of governors and its committees are independent of Management	74	74	09	09	17	17

**Source: Field data 2023**

The summary of the study's findings in Table 9 displays the replies in respect to the link control environment has on financial performance. 85% of respondents agreed that the organization has an accounting and financial management system, 3% were unsure, and 12% disagreed. Additionally, results showed that 81% of respondents agreed, 8% were unsure, and 12% disagreed with the statement regarding management's commitment to the system's operation. This agreed with the comments of Kamau (2014) that having an accounting and financial management system, management being committed to the system's operation, management

closely monitoring the implementation of internal control systems in organizations, management giving feedback to the junior officers about the operation of the system, and having appropriate measures to correct any errors are just a few control environment activities a company can engage in.

76% of respondents agreed, 12% disagreed, and 12% were undecided about the statement that management carefully monitors the implementation of internal control systems in our company. More responses were sought regarding the assertion that management gives advice to junior officers about how the system functions. Respondents were split 71% to 14% each in agreement, disagreement, and uncertain. Regarding the use of appropriate steps to correct errors in the accounting and financial management system, 75% of respondents agreed, 16% were unsure, and 00% disagreed.

Overall, 72% of respondents agreed, 12% disagreed, and 14% were not certain that organizational management performed their jobs with a high degree of honesty. This confirms Kamau's observations from 2014, according to which organizations have accounting and financial management systems, management is committed to the system's operation, management provides junior officers with feedback on the system's operation, management acts honorably in the execution of its decisions, and the board of governors and its committees are independent of management.

The assertion that the organization has an objective, impartial, and active audit committee was accepted by 70% of respondents, 20% of whom expressed uncertainty, and 10% of whom disagreed. In contrast, the statement that the board of governors and its committees are independent of management was supported by 74% of respondents, 9% of whom were undecided, and 17% of whom disagreed.

Table below shows the findings of the computation and presentation of the association between the control environment and financial performance.

**Table 10: Correlations between control environment and financial performance**

		Control Environment	Financial performance
Control environment	Pearson Correlation	1	0.630**
	Sig. (2-tailed)		.000
	N	100	100
Financial performance	Pearson Correlation	0.630**	1
	Sig. (2-tailed)	.000	
	N	100	100

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

The correlation coefficient of 0.630\*\* elaborates on the nature of the relationship between the control environment and financial performance at AVSI Uganda; the calculated value of 0.630 is significant enough to imply a relationship. The results in Table 10 demonstrate a strong correlation between AVSI Uganda's financial success and the control environment.

#### **4.4 The relationship between information communication and financial performance**

Evaluating the connection between AVSI Uganda's financial performance and information communication was important to meet the study's second objective. Table 11 below displays the replies from the field study's findings.

**Table 11: Descriptive statistics on information communication and financial performance of AVSI Uganda**

Statements on information communication technology	Agree		Undecided		Disagree	
	F	%	F	%	F	%
The company has well established information and communication channels	71	71	15	15	13	13
The company utilizes suggestion boxes for obtaining information that is sensitive and confidential for the effective management of the organization	65	65	21	21	14	14
Whistle blowing in the company has been and continues to be an effective way to obtain critical and sensitive information necessary for curbing cases of fraudulent activities	69	69	19	19	12	12
The company has developed effective policies and procedures on information and communication.	72	72	16	16	12	12
The company policies on information and communications provide well established techniques and mechanisms to address non-compliance in financial matters.	68	68	22	22	10	10
Rules or regulations are reviewed with one or more of the following: governing board, audit, finance or other committee.	70	70	15	15	14	14
The company maintains and follows procedures for record filing, retention, and disposal of accounting records and supporting documentation in accordance with applicable regulations.	75	75	12	12	13	13
Communication exists between management and the board of directors so that both have information needed to fulfill their roles with respect to the company's objectives.	72	72	11	11	17	17

**Source: Field data 2023**

Table 11 makes it apparent that respondents were asked to comment on eight different assertions concerning how information and communication technology relates to AVSI's financial

performance. The organization has well-established channels for information and communication, according to 71% of respondents, 15% of whom were unsure, and 13% of whom disagreed. It was also shown that 65% of respondents concurred, 21% were doubtful, and 14% disagreed that the business uses suggestion boxes to collect private and sensitive information for efficient business operations.

69% of respondents agreed with the statement that "whistle blowing at the company has been and still is an effective approach to obtain crucial and sensitive information required for reducing instances of fraudulent activity." Just 12% of those surveyed disagreed.

72% of respondents agreed, 16% were doubtful, and 12% disagreed that the business had developed successful information and communication rules and processes. The findings confirmed with Mensah (2016) noted that internal controls had a big impact on how profitable hospitality businesses were. Internal controls and the financial success of Rivers State hospitality enterprises were shown to be positively correlated, according to the researcher's study's findings.

68% of respondents agreed, 22% disagreed, and 10% were undecided when asked if the company's information and communications rules provide tried-and-true ways and procedures to deal with non-compliance in financial concerns.

When asked if the governing board, audit, finance, or other committees evaluate rules and regulations, the respondents provided the following answers: 15% were unsure, 14% disagreed, and 70% agreed.

75% of respondents agreed with the statement that the company maintains and abides by procedures for record filing, retention, and disposal of accounting records and supporting documentation in accordance with applicable regulations; 13% disagreed with the statement that management and the board of directors communicate so that both have the information necessary to fulfill their roles with regard to the company's objectives.

The correlation between information communication technology and financial performance was calculated and presented in Table 12 below.

**Table 12: Correlations between information communication technology and financial performance**

		Information Communication Technology	Financial Performance
ICT	Pearson	1	0.585**
	Correlation		
	Sig. (2-tailed)		0.000
	N		100
Financial performance	Pearson	0.585**	1
	Correlation		
	Sig. (2-tailed)		0.000
	N		100

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

As a result of the computed significant value being smaller than the threshold of 0.05, Table 12 displays a significant correlation between information communication and AVSI Uganda's financial performance of 0.585\*\*, with 0.000 as the significant value. As a result, the calculated statistic of 0.585 is significant enough to produce a connection that is in favor. Information and communication technology so significantly affects AVSI Uganda's financial performance. The results suggested that information and communication technology is crucial to AVSI Uganda's financial performance.

#### **4.5 The relationship between compliance with rules and financial performance of AVSI Uganda**

Finding the link between AVSI Uganda's financial success and rule compliance was the study's ultimate objective. The opinions of the respondents are shown in Table 13 in the manner that is specified.

**Table 13: Descriptive statistics on compliance with rules and financial performance of AVSI Uganda**

Statements on Compliance with regulations	Agree		Undecided		Disagree	
	F	%	F	%	F	%
Our organization has clear separation of roles	78	78	10	10	12	12
Every employee's work checks on the others	70	70	16	16	14	14
Corrective action is taken to address weaknesses	66	66	22	22	12	12
Staff are trained to implement the accounting and financial management system	63	63	20	20	17	17
It is possible for one staff to have access to all valuable information without the consent of senior staff	64	64	21	21	14	14
Controls are in place to exclude incurring expenditure in excess allocated funds	68	68	16	16	14	14
Departments have budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the variances given	74	74	19	19	17	17
The security system identifies and safeguard organizational Assets	69	69	11	11	20	20

**Source: Field data 2023.**

Eight questions about AVSI's compliance with regulations were posed to respondents, as shown in Table 13. 78% of respondents agreed that there was a clear division of labor inside the company, 10% were uncertain, and 12% disagreed. 70% of respondents endorsed the claim that each employee's work is evaluated by their coworkers, 16% expressed reluctance, and 14% disagreed. Corrective action addresses problems, according to 66% of respondents; 22% were unclear; and 12% disagreed. When asked if the personnel had received training to put in place an accounting and financial management system, the following responses were given: 20% were unclear, 17% disagreed, and 63% agreed. When asked if it was conceivable for one person to have access to all important information without senior staff authorization, 64% of respondents agreed, 21% were unclear, and 14% disagreed. In addition, when asked if there were any



limitations to prevent spending more money than was authorized, 68% of the respondents indicated there were, 16% said they were not sure, and 14% claimed there were not.

With the statements that departments review their budgets, compare actual spending to planned spending and provide justifications for differences, and whether the security system recognizes and protects organizational assets, 68% of respondents agreed, 16% were unsure, and 14% disagreed. However, 20% of respondents disagreed, while 69% agreed and 11% were unsure.

The correlation between compliance with rules and financial performance was computed and presented in Table 14.

**Table 14: Correlations between compliance with rules and financial performance**

		Compliance with rules	Financial performance
Compliance with rules	Pearson Correlation	1	0.649**
	Sig. (2-tailed)		0.000
	N	100	100
Financial performance	Pearson Correlation	0.649**	1
	Sig. (2-tailed)	0.000	
	N	100	100

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

From Table 14, it was determined that the correlation between AVSI Uganda's financial performance and rule compliance was 0.649\*\*, with a significant value of 0.000 because the calculated significant value of 0.000 is less than the critical value of 0.05. Thus, the calculated statistic of 0.649 is significant enough to result in a positive relationship. As a result, there is a considerable link between AVSI Uganda's financial performance and rule and regulation compliance. The results suggested that, in terms of AVSI Uganda's financial success, rule and regulation compliance is a crucial factor.

#### **4.6 The study findings on financial performance of AVSI Uganda**

The responses on studies on financial performance of AVSI Uganda are summarized in Table 15.

**Table 15: Responses on the study findings on the financial performance of AVSI Uganda**

Statements on financial performance	Agree		Undecided		Disagree	
	F	%	F	%	F	%
The internal control system led to proper financial monitoring in AVSI	75	75	11	11	14	14
The organization carries out a periodic review involving counting and documenting records	77	77	13	13	10	10
The internal control system has led to improved accountability in AVSI	69	69	16	16	15	15
Periodical reviews in the organization facilitate accurate accounting	71	71	11	11	18	18
The internal control system has led to proper management of funds in AVSI	76	76	12	12	12	12
The organisation complies with all the rules and regulations	79	79	13	13	08	08
The internal control system led to proper utilization of resources in AVSI	83	83	08	08	09	09
AVSI's accounting system adequately identifies the receipt and expenditure of grants	75	75	16	16	09	09
There is timely submission of activity reports	73	73	17	17	10	10
Periodic review reduces the time the organization spends analyzing counts such as inventory	73	73	12	12	15	15

**Source: Field data 2023.**

As shown in Table 15, respondents were subjected to ten statements on financial performance at AVSI.

Respondents were particularly asked if the business performs a periodic review, which involves counting and documenting records at specific intervals to know the current level of operational efficiency. 77% of respondents agreed with the statement, 13% were unsure, and 10% disagreed. If the internal control system has enabled proper financial monitoring in AVSI, the question was posed to the respondents.

79% of respondents agreed, 13% were doubtful, and 8% disagreed that the organization complies with all rules and regulations established by the organization. 83% of respondents agreed with the assertion that the internal control system had led to proper resource utilization in AVSI; 8% were doubtful; and 9% disagreed.

75% of respondents concurred, 16% expressed uncertainty, and 9% disagreed that AVSI's accounting system correctly records grant receipts and payments. The majority of respondents, 73%, agreed with the assertion that activity reports are submitted on time, while 17% were unclear and 10% disagreed. 73% of respondents agreed, 12% were unclear, and 15% disagreed when asked whether frequent reviews reduced the amount of time the business spent studying counts like inventory.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter presents the findings, judgments, and suggestions about the internal control framework and financial performance of the Association of Volunteers in Service International (AVSI) Kabale branch in Uganda. In this chapter, the areas that require more research are further presented.

#### **5.1 Summary of the research results**

##### **5.1.1 The relationship between control environment and financial performance of AVSI Uganda.**

The study's findings showed that respondents supported or agreed with the statement that there is a relationship between the control environment and the financial performance of AVSI Uganda based on whether the organization has an accounting and financial management system (85%), management's commitment to the system's operation (81%), management's close monitoring of the implementation of internal control systems in our organization (76%), management's commitment to the system's operation (81%), and management's commitment to the system's operation (81%). Whether the organization has an objective, independent, and active audit committee (70%) and whether the board of governors and its committees are independent of Management (74%); whether appropriate measures were taken to correct errors in the operation of the accounting and finance management system (75%); whether management acts with a high degree of integrity in carrying out their roles (72%); whether management decisions uphold ethical values (69%); and whether.

##### **5.1.2 The relationship between information communication and financial performance of AVSI Uganda.**

The findings revealed that the organisation has well established information and communication channels (71%), the company utilizes suggestion boxes for obtaining information that is sensitive and confidential for the effective management of the organization (65%), whistle blowing in the company has been and continues to be an effective way to obtain critical and sensitive

information necessary for curbing cases of fraudulent activities (69%), the company has developed effective policies and procedures on information and communication (72%), the company policies on information and communications provide well established techniques and mechanisms to address non-compliance in financial matters (68%), rules or regulations are reviewed with one or more of the following: governing board, audit, finance or other committee (70%). A communication channel exists between management and the board of directors so that both have access to the information necessary to carry out their responsibilities with regard to the company's goals (72%), and the company maintains and complies with policies for the record filing, retention, and disposal of accounting records and supporting documentation in accordance with applicable regulations.

### **5.1.3 The relationship between compliance with rules and financial performance of AVSI Uganda.**

The research found that there is a clear division of labor within the organization (78%), that each employee checks their work against that of their coworkers (70%), that corrective measures are taken to address weaknesses (66%), that staff is trained to implement the accounting and financial management system (63%), that it is possible for one employee to have access to all crucial information without the approval of senior staff (64%), and that controls are in place to prevent spending more than is budgeted for (68%).

## **5.2 Conclusions**

### **5.2.1 The relationship between control environment and financial performance of AVSI Uganda**

The results showed a strong correlation between the control environment and financial performance. There is a correlation between control environment and financial success; the correlation coefficient ( $r=.630$ ) was statistically significant in demonstrating this. Therefore, it can be concluded that having an accounting and financial management system, having a Management committed to the operation of the system, monitoring and implementing internal control systems in our organization, giving feedback to the junior officers about how the system is operating, and the presence of appropriate measures are taken to correct errors in operation of the accounting and finance management system improve financial performance in AVSI.

Having an accounting and financial management system, management's commitment to the system's operation, management's close monitoring of the implementation of internal control systems in organizations, management's provision of feedback to junior officers about the system's operation, and the existence of appropriate measures to address misconduct in operations are just a few of the control environment activities that an organization can engage in, according to Kamau (2014).

### **5.2.2 The relationship between information communication and financial performance of AVSI Uganda.**

The results showed a strong correlation between financial performance and information and communication technology. There is a correlation between control environment and financial performance; the correlation coefficient ( $r=.585$ ) was statistically significant in demonstrating this. From the results, it can be inferred that well-established information and communication channels, using suggestion boxes to gather sensitive and private information for the organization's effective management, developing effective information and communication policies and procedures, offering well-established techniques and mechanisms to address non-compliance in financial matters, maintaining and adhering to record-keeping procedures.

This is supported by Mensah (2016) who showed that internal controls have a major impact on the financial performance of hospitality firms. The researcher's research findings also indicated a favorable correlation between internal controls and financial performance of Rivers State hospitality firms.

### **5.2.3 The relationship between compliance with rules and financial performance of AVSI Uganda.**

The results showed a considerable correlation between regulatory compliance and financial performance. Correlations among compliance with regulations and financial performance  $r=.649$  was statistically significant to show that there a relationship. From the findings, it can be concluded that to rectify shortcomings, corrective action is taken, having trained staff to improve financial performance at AVSI Uganda, it is crucial to implement the accounting and financial management system, hold departmental budget reviews where actual spending is compared to budgeted spending and justifications are provided for variances, and put in place a security

system that identifies and protects organizational assets. This is supported by Chenhall et.al, (2010) who stated that an important component of NGO transparency is standardized, regular, and adequate reporting, in accordance with pertinent governance, financial accounting, and reporting requirements (based on national laws and international good practice), with the goal of making basic information about NGO operations accessible to the general public or oversight bodies.

### **5.3 Recommendations**

To further strengthen the financial performance of AVSI Uganda, the ICS components (control environment, adherence to norms and regulations, and information communication technology) should be improved.

In order to effectively implement internal control systems and reduce fraud, a supportive environment is necessary. Efficient and effective performance, along with management integrity and ethics, are stressed and strictly upheld as they determine the strength of the internal control environment and improved financial performance in public institutions. When the accounting system malfunctions, corrective action is always performed, and junior officers are given feedback on how well it works. This can be aided by careful examination of how internal control mechanisms are implemented.

In order to eliminate any chance of fraudulent activity on the part of the procurement team, the procurement policy for all AVSI purchases should be developed. For the correct management and control, AVSI must create reports that are relevant and sufficient.

Processes should be improved and strengthened to ensure that there is ongoing and independent reconciliation of all AVSI balances, both asset and liability and on- and off balance sheet items. Policies and procedures should also exist to ensure that decisions are made with appropriate approvals. Also to provide independent verification of a sufficient sample of transactions to ensure integrity of the decision making process.

The AVSI management should regularly evaluate policies and procedures to make sure that the proper internal controls have been set up. The effectiveness of the AVSI's internal control systems should be frequently evaluated by the organization's external auditors.

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## APPENDICES

### Appendix I: Self Administered Questionnaire for Respondents

Dear respondent,

I am AGWATE DOREEN a student of Kabale University, carrying out a research study on **“Internal Control on Financial Performance of NGO’s. A case of AVSI – UGANDA”**. As a requirement for the award of a Masters degree in business administration, I request you to spare some of your time and fill in the questionnaire below. The responses obtained will be treated with confidentiality and the study is purely for academic purposes.

#### SECTION A: GENERAL INFORMATION OF THE RESPONDENT

**Instruction:** Kindly tick or mark where applicable.

##### 1. Gender

Male	Female

##### 2. Age bracket of respondents

Below 25	25-35	36-45	46-55	Above 55

##### 3. Marital status

Single	Married	Widowed	Separated

#### 4. Designation

Manager	Head of department	Staff (Junior / Senior)	Others

#### 5. Qualification

PhD	Master's degree	Bachelor's degree	Diploma	A level	O level	Primary level

#### 6. Years spent working with AVSI International

Over 10 years	5-10 years	1-5 years	Less than a year

### SECTION B:

Please indicate the extent to which you agree with the following statements by ticking (✓) as in the previous section. (1-Strongly Disagree, 2- Disagree, 3-Not sure, 4-Agree, 5- Strongly Agree).

Independent variable (Internal Control Systems)
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<b>CE</b>	<b>Control Environment</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
CE1	The organization has an accounting and financial management system					
CE2	Management is committed to the operation of the system					
CE3	Management closely monitors implementation of internal control systems in our organisation					
CE4	Management provides feedback to the junior officers about the operation of the system					
CE5	Appropriate measures are taken to correct errors in operation of the accounting and finance management system					
CE6	Management acts with a great degree of integrity in execution of their roles					
CE7	Management decisions uphold ethical values					
CE8	The organization has an objective, independent and active audit committee					
CE9	The board of governors and its committees are independent of Management					
<b>ICT</b>	<b>Information Communication Technology</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
ICT 1	The company has well established information and communication channels					
ICT 2	The company utilizes suggestion boxes for obtaining information that is sensitive and confidential for the effective management of the organization					
ICT 3	Whistle blowing in the company has been and continues to be an effective way to obtain critical and sensitive information necessary for					



	curbing cases of fraudulent activities					
ICT 4	The company has developed effective policies and procedures on information and communication.					
ICT 5	The company policies on information and communications provide well established techniques and mechanisms to address non-compliance in financial matters.					
ICT 6	Rules or regulations are reviewed with one or more of the following: governing board, audit, finance or other committee.					
ICT 7	The company maintains and follows procedures for record filing, retention, and disposal of accounting records and supporting documentation in accordance with applicable regulations.					
ICT 8	Communication exists between management and the board of directors so that both have information needed to fulfill their roles with respect to the company's objectives.					
<b>CR</b>	<b>Compliance with rules and regulations</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
CR1	Our organization has clear separation of roles					
CR2	Every employee's work checks on the others					
CR3	Corrective action is taken to address weaknesses					
CR4	Staff are trained to implement the accounting and financial management system					
CR5	It is impossible for one staff to have access to all valuable information without the consent of senior staff					
CR6	Controls are in place to exclude incurring expenditure in excess					

	allocated funds					
CR7	Departments have budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the variances given					
CR8	Our security system identifies and safeguard organizational Assets					

**Dependent variable (Financial Performance)**

<b>FP</b>	<b>Financial Performance</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
FP1	The internal control system has led to proper financial monitoring in AVSI					
FP2	The organization carries out a periodic review which involves counting and documenting records at specified times to know the current level of efficiency in operation					
FP3	The internal control system has led to improved accountability in AVSI					
FP4	Period reviews in the organization facilitates accurate accounting, since the system can generate real time costs of operation					
FP5	The internal control system has led to proper management of funds in AVSI					
FP6	The organisation complies with all the rules and regulations.					
FP7	The internal control system has led to proper utilization of resources in AVSI					
FP8	AVSI's accounting system adequately identifies the receipt and expenditure of grants.					
FP9	There is timely submission of activity reports					
FP10	Periodic review reduces the time the organization spends analyzing counts such as inventory					

## **Appendix II: Interview Guide**

1. What is your gender?
2. How old are you
3. What is your marital status?
4. What is your designation?
5. What is your highest Qualification?
6. How many years have you spent working with AVSI International?
7. How does control environment affect financial performance of AVSI Uganda?
8. How does information communication affect financial performance of AVSI Uganda?
9. How does compliance with rules affect financial performance of AVSI Uganda?



### Appendix III: Krejcie and Morgan Table

Table 3.1									
<i>Table for Determining Sample Size of a Known Population</i>									
N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	354
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	170	118	400	196	1300	297	7000	364
50	44	180	123	420	201	1400	302	8000	367
55	48	190	127	440	205	1500	306	9000	368
60	52	200	132	460	210	1600	310	10000	370
65	56	210	136	480	214	1700	313	15000	375
70	59	220	140	500	217	1800	317	20000	377
75	63	230	144	550	226	1900	320	30000	379
80	66	240	148	600	234	2000	322	40000	380
85	70	250	152	650	242	2200	327	50000	381
90	73	260	155	700	248	2400	331	75000	382
95	76	270	159	750	254	2600	335	100000	384
<i>Note: N is Population Size; S is Sample Size</i>					<i>Source: Krejcie &amp; Morgan, 1970</i>				