

**INTERNAL CONTROL SYSTEM AND FINANCIAL MANAGEMENT IN SELECTED
LOCAL NON-GOVERNMENT ORGANIZATIONS
IN MOGADISHO, SOMALIA**

**BY
MOHAMED MUSE MOHAMED
MBA/42577/141/DF**

**A Research Report Submitted To The College Of Economics And Management In Partial
Fulfillment Of The Requirements For The Masters Of Business Administration
(Finance and Accounting) In Kampala International
University Kampala, Uganda**

JULY 2018

DECLARATION

I **Mohamed Muse Mohamed**, a student of Kampala International University do here by declare that this is my research work and it has never been submitted to any other university or organization for academic purposes.

SIGNATURE **DATE:**

MOHAMED MUSE MOHAMED

APPROVAL

The undersigned certifies that he has read through and hereby recommends for acceptance by Kampala International University a dissertation entitled “Internal control system and financial management in selected local non-government Organizations in Mogadishu, Somalia” in partial implementation of the requirements for the award of Masters Degree (MBA) of Kampala International University.

Dated

Signature:.....

DR.WANDIBA AUGUSTINE
SUPERVISOR.

DEDICATION.

I dedicate this research to my parents Mr. Muse Mohamed Jinow and Ms. Fadimoa Osman Nur for the love, kindness, guidance and deep understanding of my being at Kampala International University.

ACKNOWLEDGEMENT.

I am grateful to all the people who have inspired me and assisted in getting this paper done, I am most grateful to my supervisor, whom I owe gratitude; the learned Dr. Wandiba Augustine for the advice, guidance and the academic supervision he has accorded me.

I wish to acknowledge and thank my colleagues of Kampala International University and friends who offered the support and encouraged me throughout the difficult and tedious moments to come compile this piece of work.

I am grateful to my parents, Mr & Mrs Muse, Osman, My wife, Sowda Abdi. My brother Abdishakur Dahir, and DR. Kamal Dahir for all the invaluable support I received from them.

ABSTRACT

This study aimed at assessing the impact of internal control systems on financial management in local NGOs in Mogadishu, Somalia, five specific objectives explained this study and these were; (i) to limit the impact of controlling environment on financial management in local NGOs in Mogadishu, Somalia, (ii) to set up the influence of risk assessment on financial management in local NGOs in Mogadishu, Somalia, (iii) to seek the relationship between operational control activities and financial management in local NGOs in Mogadishu, Somalia, (iv) to identify the effect of information & communication system on financial management in selected local NGOs in Mogadishu, Somalia and (v) examining the examine the impact of monitoring & evaluation system on financial management in selected local NGOs in Mogadishu, Somalia. This research employed descriptive survey research design to describe the relationship between variables. The study population was 156 and sample size was 114 respondents. Regression model and person's linear correlation coefficients were used in the analysis. The findings revealed the following: controlling environment significantly affects financial management in selected local NGOs in Mogadishu, Somalia, risk assessment has a significant effect on financial management in selected local NGOs in Mogadishu, Somalia, operational control activities have a significant relationship on financial management in selected local NGOs in Mogadishu, Somalia, the findings indicated the effect of information & communication system on financial management in selected local NGOs in Mogadishu, Somalia, this implied that a improvement in internal control system improves financial management among in selected local NGOs in Mogadishu, Somalia and infective internal control system leads to poor financial management, the findings indicated a significant impact between monitoring & evaluation system and financial management in selected local NGOs in Mogadishu, Somalia, , the researcher concluded that effective controlling environment it increases financial management in selected local NGOs in Mogadishu, Somalia, an improvement in risk assessment highly increases financial management in selected local NGOs in Mogadishu, Somalia, an improvement in operational control activities increases financial management in selected local NGOs in Mogadishu, Somalia, improvement in internal control system improves financial management among in selected local NGOs in Mogadishu, Somalia and infective internal control system leads to poor financial management, and lastly, improving the monitoring & evaluation system increases financial management in selected local NGOs in Mogadishu, Somalia. The researcher recommended that; the selected local NGOs in Mogadishu Somalia to make sure that both management and employees are assigned appropriate levels of authority and responsibility to facilitate effective internal control, local NGOs in Mogadishu Somalia to should put in place an effective information system to capture and process data in a meaningful way, the local NGOs in Mogadishu, Somalia should make sure that human resource policies and practices are designed and implemented to facilitate effective internal control, the local NGOs in Mogadishu Somalia should make sure that all stakeholders have the right to know how their funds being used, and the local NGOs in Mogadishu, Somalia to make sure that all financial information are recorded accurately and presented clearly.

TABLE OF CONTENT

DECLARATION	i
APPROVAL	ii
DEDICATION.	iii
ACKNOWLEDGEMENT.....	iv
ABSTRACT.....	v
TABLE OF CONTENT.....	vi
CHAPTER ONE	1
INTRODUCTION	1
1.0 Introduction	1
1.1 Background to the Study.....	1
1.1.1 Historical perspective.....	1
1.1.2 Theoretical Perspective.....	4
1.1.3 Conceptual perspective	5
1.1.4 Contextual Perspective.....	6
1.2 Statement of the Problem.....	7
1.3 Purpose of the Study	7
1.4 Research Objectives.....	7
1.5 Research Question	8
1.6 Hypotheses.....	8
1.7 Scope of the Study	9
1.7.1 Content Scope	9
1.7.2 Geographical Scope	9
1.7.3 Time Scope	9
1.8 Significance of the Study	9
1.9 Operational Definitions of Key Terms	10
CHAPTER TWO	11
RELATED LITERATURE.....	11
2.0 Introduction.....	11
2.1 Theoretical framework.....	11
2.2 Conceptual Framework.....	12

2.3 Review of Related Literature	12
2.3.1 Internal control system.....	12
2.3.1.1 Control Environment	13
2.3.1.2 Risk assessment	14
2.3.1.3 Operational and control activities	14
2.3.1.4 Information and Communication Systems.....	16
2.3.1.5 Monitoring and evaluation System	16
2.3.1.5.1 Accountability.....	17
2.3.1.5.2Transparency.....	18
2.3.1.5.3Controlling	18
2.3.1.5.4Monitoring	18
2.3.1.5.5Keeping Records	19
2.3.2 Internal Control.....	19
2.3.2.1 Budgeting.....	20
2.3.2.2 Accounting Records.....	20
2.3.2.3 Financial Control	21
2.3.2.4 Efficient Financial Management Process.....	21
2.3.2.5Managing scarce resources	21
2.4Related studies	22
2.4.1 Internal controls and financial management	22
2.5 Research Gap	24
CHAPTER THREE.....	25
METHODOLOGY	25
3.0 Introduction.....	25
3.1 Research design	25
3.2 Research Population.....	25
3.2.1 Sample Size.....	26
3.4 Sampling technique.....	26
3.5 Research instruments	26
3.6 Validity and reliability of the instrument.....	27
3.6.1 Testing the validity of the research instrument.....	27
3.6.2 Reliability of the instrument	27
3.7 Data gathering procedures	27

3.8 Data analysis	28
3.9 Ethical considerations	29
3.10 Limitations of the study	29
CHAPTER FOUR.....	31
DATA PRESENTATION, ANALYSIS AND INTERPRETATION	31
4.0 Introduction.....	31
4.1 Profile of Respondents.....	31
4.2 Internal control system.....	33
4.3 Financial management	36
4.4 Effect of control environment on financial management in selected local NGOs in Mogadishu Somalia	37
4.5 Effect of risk assessment on financial management in selected local NGOs in Mogadishu Somalia	39
4.6 Effect of information & communication system on financial management in selected local NGOs in Mogadishu Somalia	41
4.7 Effect of monitoring & evaluation system on Financial management in selected local NGOs in Mogadishu Somalia	43
4.8 Relationship between operational control activities and financial management in selected local NGOs in Mogadishu Somalia	44
CHAPTER FIVE	46
DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS.....	46
5.0 Introduction.....	46
5.1 Discussion of findings.....	46
5.2 Conclusions.....	49
5.3 Recommendation	49
5.4 New knowledge acquired.....	50
5.5 Areas for further research	50
REFERENCES.....	51
APPENDIX I:RESEARCH QUESTIONNAIRE.....	52
APPENDIX II: QUESTIONNAIRE	53
APPENDIX III: MAP OF STUDY AREA	58

CHAPTER ONE

INTRODUCTION

1.0 Introduction

Chapter one has the Background of the Study, Problem statement, Purpose of the Study, Research Objectives, Research Question, Hypothesis, Scope of the Study, Significance of the Study, Operational Definitions of Key Terms.

1.1 Background to the Study

The background to the study presents Historical, theoretical, conceptual and contextual perspectives of history.

1.1.1 Historical perspective

Globally, In the United States, there was little need for internal controls in the colonial period because there was little in the way of large industry. In fact, accounting textbooks of the period never referred to the subjects of internal auditing or internal control. In government, however, the need for an audit function was recognized. The first U.S. Congress in 1789 approved an act that included a provision for the appointment of a secretary of the treasury, a comptroller, and an auditor (Gray **et al.**, 2006). Although the roots of internal controls do date back into the nineteenth century, real expansion did not occur until the early part of the twentieth century with the growth of the large corporate form of business. The major factor in internal auditing was the extended span of control faced by management in business employing thousands of people and conducting operations in many locations (Mercer, 2002).

Over the last two decades, there has been a growing interest on how non-governmental organizations NGOs manage their activities and financial resources. This increased attention is related to the fact that some NGOs receive significant financial resources from donors (Gray **et al.**, 2006; Goddard and Assad, 2006) and also on the premise that they are viewed as more credible in addressing particular societal and developmental needs. In addition, an active “home-grown” VO sector in developing nations is associated to a stronger civil society and an increased democratic development (Mercer, 2002; Chandhoke, 2002). Basically, the recommended

standards encompass those standards that have been adopted by the AICPA for use in audits to express an opinion on the fairness of financial statements. Governmental audits, however, go a step beyond those standards that are applicable to audits of financial statements. The scope of a governmental audit (i.e., an audit of or for a government agency) is composed of three elements: Financial compliance, Economy and efficiency, and Program results (AICPA, 2000).

Defalcations and improperly maintained accounting records were major problems, and the growth in the volume of transactions resulted in a substantial bill for public accounting services for the organization that tried to maintain control by continuing the traditional form of audit by the public accountant (Kasenge, 2009). The objectives of early internal auditors were primarily built around the protection of assets. The National Industrial Conference Board's study of internal auditing explained the early motives as follows: Protection of company assets and detection of fraud were the principal objectives. Consequently, the auditors concentrated most of their attention on examinations of financial records and on the verification of assets that were most easily misappropriated. A popular idea among management people a generation ago was that the main purpose of an auditing program was to serve as a psychological deterrent against wrongdoing by other employees (Chandhoke, 2002).

The World Association of Non-Governmental Organizations the (WANGO, 2005) has set up a code of ethics and conduct relevant to this study is the position that NGOs should strive for openness and honesty internally and toward donors and members of the public. Periodic accountings should be made. The standards required that an NGO to be transparent in all of its dealings with the government, the public, donors, partners, beneficiaries, and other interested parties, except for personnel matters and proprietary information. Similarly, an NGO's basic financial information, governance structure, activities, and listing of officers and partnerships shall be open and accessible to public scrutiny and the NGO is to make effort to inform the public about its work and the origin and use of its resources. Furthermore, an NGO should be accountable for its actions and decisions, not only to its funding agencies and the government, but also to the people it serves, its staff and members, partner organizations, and the public at large (Assad, 2006).

The WANGO (2005) also emphasized the need for truthfulness and legal it where an NGO should be honest and truthful in its dealings with its donors, project beneficiaries, staff, membership, partner organizations, government, and the public in general, and should respect the laws of any jurisdiction in which it is active. The set standards are that an NGO should give out accurate information, whether regarding itself and its projects, or regarding any individual, organization, project, or legislation it opposes or is discussing. Similarly, an NGO should not engage in any activities that are unlawful under the laws of the nation in which it is organized or works, and must be strongly opposed to, and not be a willing partner to, corruption, bribery, and other financial improprieties or illegalities. Furthermore, an NGO should have a policy for staff and volunteers to confidentially bring evidence to the governing body of misconduct of anyone associated with the organization.

Related to the standards an NGO should meet all of the legal obligations in the countries in which it is organized or works. Such obligations may include laws of incorporation, fundraising legislation, equal employment opportunity principles, health and safety standards, privacy rules, trademark and copyright legislation, and so forth. NGOs have become major players in the field of international and national development. Since the mid-1970s, the NGO sector in both developed and developing countries has experienced exponential growth. From 1990 to 2000 total development Aid disbursed by International NGOs increased ten-fold.

In 1992, the international NGOs channelled over \$7.6 billion of aid to developing countries (World Bank report, 2008). Non-governmental organizations (NGOs) are independent of Government and business. They play an important role in society, especially where the Government and the private sector have inadequate capacity to provide public goods like health facilities, drugs, shelter, clothing, education and sanitation (Kasenge, 2009). NGOs have non-financial objectives as their primary role. The donors normally require the NGOs to draw up work programmes, backed up by budgets, for the particular activities to be carried out for a period.

Historically some types of internal controls date back thousands of years. As mentioned earlier, the Greeks, Romans, and Egyptians were conducting internal controls through audits before the birth of Christ. Interestingly, the scope of these early controls was in many ways akin to that of

modern internal audits; both included an examination of the correctness of accounting records and an evaluation of the propriety of activities reflected in the accounts. Emphasis was on improving management control over the activities of the organization. Such broad emphasis was not to reappear on a wide scale until after World War II (Institute of Internal Auditors, 2005).

NGOs have mainly functioned to service the needs of the landless, usually assisted by foreign donor funding as a counterparts to the state's efforts (Lewis, 1993). More than 90% of NGOs describe their activities as targeted at the poor and the vulnerable. The sectoral outline shows the activities with participation rates exceeding 15% in Uganda as follows: Education and training, HIV/AIDS awareness training and prevention, Community development, Support to farmers, Advocacy and Human rights, raising awareness, Counselling, Child services and preventive health care. Besides all these advancement in the field of NGO, internal controls create public interest, donor confidence and positive attitude from government officials (Lewis, 1993).

However, there has been little international published evidence particularly beyond the sphere of developed countries such as UK, USA and Australia on how NGOs and their actors use (or not) internal controls and how this status-quo has influence NGO performance so within smaller, locally established and less professionally managed NGOs (Dixon et.al, 2006). In this light, this study sought to contribute to the literature by providing additional evidence on the state of internal controls and NGO performance in the Somalia context and by adopting an interpretive perspective/approach to explain the relationship between internal controls in the so-called locally-created NGOs in Mogadishu, Somalia.

1.1.2 Theoretical Perspective

The study will utilize the Contingency theory by Morgan (2007), contingency theory is an organizational theory that claims that there is no best way to organize a corporation, to lead a company, or to make decisions. Instead, the optimal course of action is contingent (dependent) upon the internal and external situation. A contingent leader effectively applies their own style of leadership to the right situation. Contingency theory enables a researcher to systematically introduce factors to explain or predict expected phenomena (Umanath, 2003). The theory hypothesize a conditional relationship between two or more independent variables with a dependent variable and subject it to an empirical test (Drazin & Van de Ven, 1985) it's also

contributes in the identification of relationship that is complex among variables i.e. examining moderating or mediating effect of variables (Heo& Han, 2003). In line with the above, this theory is applied in the context of internal audit effectiveness which depend upon the contingent variables such as effective audit committee, effective internal control system, risk management, audit experience, cooperation between internal and external auditors and performance measurement.

1.1.3 Conceptual perspective

Anne (2010) defined internal control is an accounting system designed to promote efficiency, and assure the achievement of a policy or avoid fraud and error. Internal Control is taken major role of managing an organization. It involves the plans, methods, and procedures used to achieve the missions, goals, and objectives and, support performance. Internal Control which is equal with management control helps managers achieve desired results through effective stewardship of resources. Internal control reduces the risks with undetected errors or irregularities, but designing and seek effective internal controls is not a simple task and cannot be accomplished through a short set of quick fixes (Hutter, 2001).

DDumba(2007) defined internal control, is a process for assuring achievement of an organization's objectives and goals in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies. A broad concept, internal control involves everything that controls risks to an organization to avoid problems. Internal control is an organization's resources are directed, monitored, and measured by the management. And it plays an important role in capturing and preventing fraud and protecting the organization's resources, both physical (e.g., machinery and property) and intangible (e.g., reputation or intellectual property such as trademarks) (Jegers, 2001).

Maines(2006) defined financial management as the efficient and effective management of money (funds) in such a manner as to accomplish the objectives of the organization. It is the specialized function directly associated with the top management. The significance of this function is not seen in the 'Line' but also in the capacity of 'Staff' in overall of a company. It has been defined differently by different experts in the field. The term typically applies to an organization or company's financial strategy, while personal finance or financial life management refers to an

individual's management strategy. It includes how to raise the capital and how to allocate capital, i.e. capital budgeting. Not only for long term budgeting, but also how to allocate the short term resources like current liabilities. It also deals with the dividend policies of the share holders (Wahlen, 2006).

Financial Management is the operational activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operation. Financial Management is an area of financial decision making, harmonizing individual motives and enterprise goals. Financial management is the area of business management devoted to a judicious use of capital and a careful selection of sources of capital in order to enable a business firm to move in the direction of reaching its goals (Mercer, 2002).

1.1.4 Contextual Perspective

The demand of internal audit in most African countries boosted since its early beginning in 1930; however internal audit activities are not fully exercised (Giorgis, 2004). For example in Ethiopia Less awareness is given to operational control audits as well as the application of modern techniques such as flowcharting, statistical sampling, and computer auditing. Internal auditors spend by enclosing that accounting records are properly maintained and reliable. Further the large of internal audit departments do not have a written audit charter. Therefore, the objectives, authority, scope, and responsibilities of internal auditing are not explained out in most organizations, and no measures indicators exist to ensure that the internal control department is recognized as acting to support of senior management.

In Somali companies' remittance handle a lot of money and contributes the livelihood of hundreds of thousands families and develop the private sectors in a hole country where there is no properly functioning government or properly economic policy function by the central national bank, therefore how an internal auditor is expected to be high while the staff security has no guarantee and risk is higher level . Somali remittance companies suffer loss of millions of dollar suitable to lack of good quality control system in remittance companies and professional internal auditors therefore most of Somali organizations do not have effective and independence auditors (Somali money transfer association, 2009).

The primary objective of this research is to define the role of internal control systems and financial management selected remittance local non-government organizations and how it is effective and also to measure the level of internal control system effectiveness in the selected remittance companies. This study contemplates to seek the influence of internal audit on the effectiveness of internal control system in Somali remittance companies. Further, this study identified the relationship of internal audit and the quality of internal control system.

1.2 Statement of the Problem

Internal controls in all organizations including NGOs are mandatory practices that are envisaged to contribute to various indicators of the Organization performance (Bariyima, 2012). Despite all the efforts to put in place internal controls, there are continued reports of a wide range of financial fraud practices inside the organization, mismanagement, error of the transactions, thefts, waste of organization's assets and to say it short a precarious state of Local NGO (Audit Report, 2013). To this effect, there has been no empirical evidence on how internal controls have influenced the reliability of financial reports, efficiency and effectiveness of NGO operations and compliance to laws and regulations surrounding local NGO working for the betterment of the people of Mogadishu, Somalia (Monitoring Report, 2014).. In view of this discrepancy, there was need to investigate the relationship between internal control system and local NGO financial management to highlight best practices in NGO management to improve the lives of those who benefit from them.

1.3 Purpose of the Study

The purpose of this study was to assess the effect of internal control systems on financial management in selected local NGOs in Mogadishu, Somalia.

1.4 Research Objectives

- i) To examine the effect of controlling environment on financial management in selected local NGOs in Mogadishu, Somalia.
- ii) To establish the effect of risk assessment on financial management in selected local NGOs in Mogadishu, Somalia.

- iii) To assess the effect of information & communication system on financial management in selected local NGOs in Mogadishu, Somalia.
- iv) To assess the effect of monitoring & evaluation system on financial management in selected local NGOs in Mogadishu, Somalia.
- v) To establish the relationship between operational control activities and financial management in selected local NGOs in Mogadishu, Somalia.

1.5 Research Question

- i) What is the effect of controlling environment on financial management in selected local NGOs in Mogadishu, Somalia?
- ii) What is the effect of risk assessment on financial management in selected local NGOs in Mogadishu, Somalia?
- iii) What is the effect of information & communication system on financial management in selected local NGOs in Mogadishu, Somalia?
- iv) What is the effect of monitoring & evaluation system on financial management in selected local NGOs in Mogadishu, Somalia?
- v) What is the relationship between operational control activities and financial management in selected local NGOs in Mogadishu, Somalia?

1.6 Hypotheses

- i) There is no significant effect of controlling environment on financial management in selected local NGOs in Mogadishu, Somalia.
- ii) There is no significant effect of risk assessments on financial management in selected local NGOs in Mogadishu, Somalia
- iii) There is no significant effect of information & communication system on financial management in selected local NGOs in Mogadishu, Somalia
- iv) There is no significant effect of monitoring & evaluation system on financial management in selected local NGOs in Mogadishu, Somalia
- v) There is no significant relationship between operational control activities and financial management in selected local NGOs in Mogadishu, Somalia

1.7 Scope of the Study

1.7.1 Content Scope

The study will concentrate on internal control system with considerations of control environment, control activities, risk assessment, communication and information, and internal control monitoring and how they influence financial management in local NGOs in terms of stewardship, accountability, transparency, consistency and integrity.

1.7.2 Geographical Scope

The study will be carried out in selected three NGOs (Baraka Relief, Helping Hand and Inxa) local NGOs in Mogadishu, Somalia which a semi-autonomous state in the war ravaged Somalia.(as shown in appendix)

1.7.3 Time Scope

The study covered the period 2011-2015 the time when most local NGOs were implementing their three-year plans and faced with challenges of internal controls and financial management.

1.8 Significance of the Study

The information acquired from this research has considerable benefits to various bodies and institutions as under mentioned.

To local NGOs: the local NGOs will use the study outcome both local and international NGOs and donor agencies in understanding internal control systems associated with local NGOs and the nature financial management systems that relevant to these organizations.

Scholars: the study findings are helpful to those under taking financial management as a course and practitioners; it shall act as a source of information (secondary data) in their attempt to undertake research in the same topic.

Government: The results of this study will be used by governments of developing and developed countries to design appropriate guidelines and policies that will direct the operations of local NGOs in relation to internal control and financial management.

Researcher: The Study would be important because it will contribute to the researcher's fulfillment of requirements for the award of Masters Degree in Finance and Accounting.

Academics and future researches: The study would provide up to date literature for academicians and other stakeholders who are keen on to know more about internal control systems and financial management.

1.9 Operational Definitions of Key Terms

Internal control is a set of integrated methods and procedures translated into regular and periodic activities that preserves safety of asset, improves client service, and ensures reliability of financial information. In this research, the term internal control means how to authorize transactions, segregation of duties, documentations, and reconciliation of financial reports.

Reliability of financial report: means the preparation of timely, reliable and relevant reports needed for decision-making within the organization.

Compliance with Laws and Regulations: Means how the Organizations comply with all applicable laws. Laws should be understood not only in terms of the obligations that they create, but also for the rights and protection that they afford.

The board is responsible for the organization's compliance with applicable laws and with those non-binding rules, codes and standards with which the organization has elected to comply.

Management: is the process of creating an environment in which resources can be used to their best advantage to realize the organization's goals.

CHAPTER TWO

RELATED LITERATURE

2.0 Introduction

This chapter will comprise of the conceptual review, theoretical review and reviews of some of the works of different researchers on the relationship between the study variables.

2.1 Theoretical framework

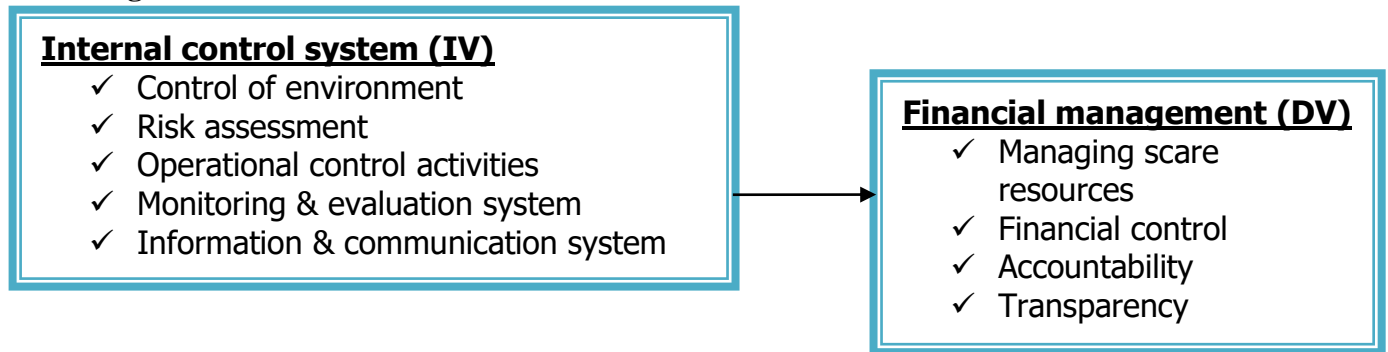
This study will be assisted by the Contingency theory by Morgan (2007). Contingency theory is known as one of those theory that are usually been used recently in management accounting and auditing research though use of theory may have different effect, and equally its effectiveness depend upon the stage/or field that is been proposed (Drazin& Van de Ven, 1985). Contingency theory enables a researcher to systematically introduce factors to explain or predict expected phenomena (Morgan, 2007).

The contingency approach to leadership was influenced by two earlier research programs endeavoring to pinpoint effective leadership behavior. During the 1950s, researchers at Ohio State University administered extensive questionnaires measuring a range of possible leader behaviors in various organizational contexts. Although multiple sets of leadership behaviors were originally identified based on these questionnaires, two types of behaviors proved to be especially typical of effective leaders: (1) *consideration* leader behaviors that include building good rapport and interpersonal relationships and showing support and concern for subordinates and (2) *initiating structure* leader behaviors that provided structure (e.g., role assignment, planning, scheduling) to ensure task completion and goal attainment (Morgan, 2007).

The theory hypothesize a conditional relationship between two or more independent variables with a dependent variable and subject it to an empirical test it's also contributes in the identification of relationship that is complex among variables i.e. examining moderating or mediating effect of variables In line with the above, this theory is applied in the context of internal audit effectiveness which depend upon the contingent variables such as effective audit committee, effective internal control system, risk management, audit experience, cooperation between internal and external auditors and performance measurement (Heo& Han, 2003).

2.2 Conceptual Framework

The conceptual framework indicating the effect of internal control system on financial management



Source: Adopted from Signaling theory of Myers-Majluf (1984)

The conceptual framework explains the relationship between internal control system and financial management. Internal control system which is independent variable is to be conceptualized in terms of control of environment, risk assessment, operational control activities, information & communication system and lastly monitoring & evaluation system. On the other hand, financial management which is the dependent variable was conceptualized as stewardship, accountability, transparency, consistency and integrity.

2.3 Review of Related Literature

2.3.1 Internal control system

Internal Control System is a formalized system intended to provide reasonable assurance that the objectives of a program as a whole are met, e.g. financial control, quality control or process control. COSO defines internal control is a process affected by directors, management and other personnel. This process is designed to provide reasonable assurance regarding the achievement of goals in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations (COSO, 1992)

The internal control system is a key corporate governance facet that has attracted considerable attention in recent years. The Committee of Sponsoring Organizations' (COSO) Internal Control

Integrated Framework conceptualizes an internal control system to comprise of several components, including the control environment, risk assessment, monitoring of controls, information and communication, and control activities (COSO, 1992). Although internal control systems operate at different levels of effectiveness, a system of internal control is said to be effective when it fulfills the following key attributes of an effective internal control system: sound control environment, sound risk assessment process, sound operational control activities, effective information & communication system, effective monitoring & evaluation system (COSO, 1992). These components derived from the way management runs an organization, and seen to be integrated with the management process and the internal control (Alam& Ahmed, 2004).

2.3.1.1 Control Environment

As indicated in the Internal Control - Integrated Framework of COSO, the control environment sets the key of an organization, influencing the control process of its people (COSO, 1992), in its magazine *Tone at the Top*, published exclusively for senior management, boards of directors, and audit committees, and the Institute of Internal Auditors underline that a strong tone at the top plays a pivotal role because the control environment represents an organization's first line of defense to mitigate the risks of financial reporting errors. Researches prove that a commitment to strong internal control by the top management is often translated into a better performance.

It's the all other components of internal control, providing discipline and structure. Control environment encompasses the ethical values of the staff, management's and operating style, assignment of authority and responsibility, and finally the leadership and direction of the Board of Directors (COSO, 1992).

Similarly, an effective control environment is an environment where competent people understand their responsibilities, the limits to their authority, and are knowledgeable, mindful, and committed to doing what is right and doing it the right way. They are committed to following an organization's policies and procedures and its ethical and behavioral standards. The control environment encompasses technical competence and ethical commitment; it is an

intangible factor that is essential to effective internal control (Sampson, 1999). However, not only at the top management level but also at building a strong consciousness of control mechanisms throughout the organization's culture is one of the ways to ensure effective control environment in the organization (Institute of Internal Auditors, 2005).

2.3.1.2 Risk assessment

Risk assessment is a vital exercise for all-size organizations since every structure faces a diversity of risks from internal and external sources that must be assessed. A requirement for a risk assessment is the identification of clear objectives (COSO, 1992). Operations of the organization can be put in danger and its objectives remain unattained by uncontrolled risk-taking. This is why the management must assess all risks. Risk assessments are considered effective if they help determine what the risks are, what controls are needed, and how they should be managed (COSO, 1992).

Risk assessment of COSO expects that after risks have been identified, a risk analysis be performed to prioritize those risks. A complete risk assessment encompasses the assessment of the likelihood of risk occurring as well as the estimation of quantitative and qualitative costs of the potential risk. In addition, also included is the determination of how to manage the risk (COSO, 1992). Setting priorities is one of the ways that enable organization to focus on risks with reasonable likelihood of occurrence and higher effects (Sampson, 1999).

Although smaller organizations are more likely to have a more informal, less structured risk assessment process, the basic concepts of internal control component should occur in every organization as recommended by the Institute of Internal Auditors (IAA) in its discussion of 'Putting COSO's Theory into Practice' (Institute of Internal Auditors, 2005).

2.3.1.3 Operational and control activities

Control activities, are policies and procedures that help to ensure the management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the organization's objectives. Control activities occur throughout the organization, at all levels and in all functions be it in small or large organizations (COSO, 1992). Major aspects of control

activities in small organizations are higher concentration of decision making authority, wider breadth of control, and more direct ways of communication (Sampson, 1999).

According to the purpose or intention of the type of control desired, there is a need to differentiate between preventive and detective controls. The former seeks to prevent undesirable events from occurring. Such types of controls deter losses and they include proactive measures. Examples of preventive controls are separation of duties, proper authorization, adequate documentation, and physical control over assets (Sampson, 1999).

Detective controls, on the other hand, attempt to identify undesirable acts. Such controls make it evident that a certain loss has occurred but they do not prevent a loss from occurring. These types of control activities include reviews, analyses, variance analyses, reconciliations, physical inventories, and audits (Sampson, 1999). Elements of control activities include approvals, authorizations, and verifications. These are part of the preventive type of control activities in that employees perform their duties within limited parameters. Operations requiring approval of supervisors duly treated by the later so that the policies of the organization are adhered to (Sampson, 1999).

Related to this point, another preventive element is segregation of duties. In cases where such control activities are operating efficiently, employees are provided with clear duties and responsibilities. Personnel involved in authorization are segregated from those responsible for inventory and those involved in recording transactions. Such segregation of duties is one aspect of an effective internal control system (Sampson, 1999). Reconciliation activities are part of detective control activity that is performed by employees so that differences and incompatibilities are identified among a set of data or transactions. Not only identification but also measures to correct such imbalances are involved in the reconciliation activities (Sampson, 1999).

Another element of detective control activities is the reviews of performances. In such cases, performances are compared to a pre-defined benchmark and inconsistencies are reported accordingly. Not all elements of control activities can be categorized as either preventive or detective. Some elements exhibit both features. This is the case of security of assets and controls

over information systems. Indeed, by restricting access to certain assets to a limited number of employees have both a preventive and a detective purpose. The same is true with controls over information systems that address both general controls as well as application controls (Sampson, 1999).

2.3.1.4 Information and Communication Systems

An internal control to be an effective one, relevant information must be identified, communicated and captured in a form and timeframe that enable people to carry out their responsibilities (COSO, 1992).

Reports are produced by the information systems. Thus, operational, financial, and compliance-related information contained in such reports enable to ensure effective control over the organization (COSO, 1992). Effective communication is central to effective internal control. Employees are expected to participate in the internal control activities as much as they are kept informed of what is expected of them, and how their specific duty fits into the grand picture (COSO, 1999). Therefore, controls are standardized by the use of information technology and effective communication system (Institute of Internal Auditors, 2005).

2.3.1.5 Monitoring and evaluation System

The quality of internal control needs to be assessed overtime through monitoring mechanisms such as on-going monitoring and separate evaluations. The purpose of such activities is to ensure that internal control is well designed and duly-applied. Monitoring is the glue that links the 5 components of effective internal control. Monitoring activities are relevant to all aspects of these components (COSO, 1992). In cases where there is a lack of separate evaluations in small organizations, highly effective on-going monitoring comes into picture to compensate for the lack (Institute of Internal Auditors, 2005).

On-going monitoring activities include various management and supervisory activities that evaluate and improve the design, execution, and effectiveness of internal control. Separate evaluations, on the other hand, such as self-assessments and internal audits, are periodic evaluations of internal control components resulting in a formal report on internal control (COSO, 1992).

Therefore, each of the above described component of effective internal control is narrowly linked to each other to form an integrated whole that we referred to as integrated framework. Changes in organization environment trigger changes in the framework as an entity. (COSO, 2009).The internal control definition--with its underlying fundamental concepts of a process, effected by people, providing reasonable assurance--together with the categorization of objectives and the components and criteria for effectiveness, and the associated discussions, constitute this internal control framework (COSO, 1992).

There are many tools which managers can use to help achieve good practice in financial management and control. Lewis (2003) categorizes these tools into planning, organizing, controlling and monitoring as discussed below;

2.3.1.5.1 Accountability

Those who have invested not just money but also time, effort and trust in the organization, are interested to see that the resources of the organization are used effectively and for the purpose for which they were intended. Accountability is the moral or legal duty, placed on an individual, group or organization, to explain how funds, equipment or authority given by a third party has been used (Lewis, 2003).

In addition, Sing (2009) argues that the institution must explain how it has used its resources and what it has achieved as a result to all stakeholders, including beneficiaries. All stakeholders have the right to know how their funds and authority have been used.

Providing the organization has set a budget and has kept and reconciled its accounting records in a clear and timely manner, it is then a very simple matter to produce financial reports which allow the managers to assess the progress of the organization. A system of controls; checks and balances; collectively referred to as internal controls are put in place to safeguard an organization's assets and manage internal risk (Lewis, 2003). Their purpose is to deter opportunistic theft or fraud and to detect errors and omissions in the accounting records. An effective internal control system also protects staff involved in financial tasks (Siddika, 2007).

2.3.1.5.2 Transparency

Systems must be established whereby all financial information is recorded accurately and presented clearly, and can be easily disclosed to those who have a right to request it (Lewis, 2003). If this is not achieved, it can give the impression that there is something to hide. According to Singh (2009), the institution must be open about its work, making information about its activities and plans available to relevant stakeholders. Otherwise, if an organization is not transparent, then it may give the impression of having something to hide.

2.3.1.5.3 Controlling

A system of controls, checks and balances are essential to ensure proper application of procedures and resources during program implementation (Lewis, 2003). The tools in controlling include; budgets, delegated authority, procurement procedure, reconciliation, internal and external audit, fixed assets register, vehicle policy, insurance, etc.

2.3.1.5.4 Monitoring

This involves producing regular and timely information for managers and stakeholders for monitoring purposes. Monitoring involves comparing actual performance with plans to evaluate the effectiveness of plans, identify weaknesses early on and take corrective action if required. The tools in monitoring could be; evaluation reports, budget monitoring reports, cash flow reports, financial statements, project reports, donor reports, audit reports, evaluation report, etc.

In addition to the management of daily operations and interactions with other organizations, managers of non-governmental organizations are also responsible for ensuring the financial security of their agency. This requires putting systems into place that monitor income generation, management, and responses to funders. According to Mostashari (2005), all organizations need money. Alongside staff, money is the one thing that takes up most management time. Good financial management involves the following four building blocks:

2.3.1.5.5 Keeping Records

The foundations of all accounting are basic records that describe the organization's earnings and spending. This means the contracts and letters for money received and the receipts and the invoices for things that are bought. These basic records prove that each and every transaction has taken place.

They are the cornerstones of being accountable. Management must make sure that all these records are carefully filed and kept safe (Mostashari, 2005).

It is also important to write down the details of each transaction undertaken. These should be written down in a 'cashbook' - which is a list of how much is spent, on what and when. If an organization is keeping the basic records in good order and writing down the details of each transaction in a cashbook, it is difficult for it to go far wrong (Mostashari, 2005).

2.3.2 Internal Control

Management must make sure that the organization has proper controls in place so that money cannot be misuse. Controls always have to be adapted to different organizations (Mostashari, 2005). However, some controls that are often used include: keeping cash in a safe place (ideally in a bank account); making sure that all expenditure is properly authorized; following the budget; and monitoring the amount of money that has been spent on what every month. Other controls include; employing qualified finance staff; having an audit every year; and carrying out a bank reconciliation' every month i.e. checking that the amount of cash at bank is the same as the amount indicated in cash cashbook. This strategy is particularly important because it proves that the amounts recorded in the cashbook and the reports based on it are accurate. Operational control is important for sustaining an organization's successes by improving its ability to consistently reap the benefits of sound management.

Abt Associates (2003) argues that controls established to: keep organizational assets; check the reliability of accounting data; promote operational efficiency and effectiveness and encourage the adherence to prescribed policies. Internal controls as a form of financial management seeks to reduce the risks of unauthorized acquisition, use, or disposition of assets.

Internal controls also help ensure the accuracy and reliability of financial information reported to management and to external organizations. Management accounting facilitates the analysis of costs.

2.3.2.1 Budgeting

For good financial management, each organization needs to prepare accurate budgets, in order to know the amount of money needed to carry execute the planned tasks. However, Mostashari (2005) explains that a budget is only useful if it worked out by carefully forecasting the amount of money expected to be spent on the planned activities. Therefore, the first step in preparing a good budget is to identify exactly what the organization hopes to do and how it will do it. Management accounting information can facilitate the preparation of meaningful budgets, which in turn provide useful measures for monitoring financial performance (Abt Associates, 2003). Management accounting information allows an organization to; review historical data and use it to forecast future financial transactions; focus on key cost items, such as staff salaries and drugs, which typically consume the majority of financial resources; and encourage variance reporting and analysis, which makes the budget a useful tool for monitoring expenditure.

Thus, budgeting follows listing down the planned activities, how much they will cost and how much income they will generate. However, in the Not-for-profit organizations, the element of how much they will generate is always missing since most of them depend on the fund from donors.

The Building Blocks of Financial Management there is no model finance system, which suits all NGOs. However, there are some basic building blocks, which must be in place to achieve good practice in financial management. Lewis (2003) describes the basic building blocks of financial management to include the following;

2.3.2.2 Accounting Records

Every organisation must keep an accurate record of financial transactions that take place to show how funds have been used. Accounting records also provide valuable information about how the organization is being managed and the extent to which it is achieving its objectives.

2.3.2.3 Financial Control

Linked to the organization's strategic and operational plans, the budget is the cornerstone of any financial management system and plays an important role in monitoring the use of funds. Financial controls objective criteria such as return on investment (ROI) in the evaluation of business-level managers' performance. They are similar to what Ouchi (1980) and Eisenhardt (1985) referred to as outcome controls. The, top-level managers establish financial police for any business and measure the business-level managers' and performance how achieved the goals against those targets. Thus, emphasis on financial controls requires each division's performance to be largely independent. As a organization grows especially through acquisition, it also grows in complexity and the number of units that corporate executives must oversee and manage (thereby increasing their spans of control). These changes make it difficult for corporate managers to use strategic controls. To reduce information-processing demands, they may change their emphasis from strategic to financial controls. (Michael A. Hitt, et al)

2.3.2.4 Efficient Financial Management Process

For the financial management process to take place effectively, financial systems and procedures need to cover two aspects of accounting. It is useful to identify a series of good practice principles which can be used as a standard in developing proper financial management systems in an NGO (Lewis, 2003; Singh, 2009). These principles are intended to guide behavior and help in the development of policies and procedures in an NGO. They describe seven principles of financial management and advise that management of NGOs should look to these seven principles as goals to work towards. They include;

2.3.2.5Managing scarce resources

NGOs operate in a competitive environment where donor funds are increasingly scarce. These organizations must therefore make sure that donated funds and resources are used properly, and to the best effect, to achieve the organization's mission and objectives (Lewis, 2003). The staff of the NGO may also argue that the organizations core mission will suffer if scarce resources are diverted to profit-making ventures. This is a legitimate concern, especially in the short run. (In the long run, the whole point of the profit-making ventures is to increase resources to the core

mission.) Similar concerns can also arise whenever NGOs expand their core activities into new areas to the possible neglect of their existing work. Good management always requires effective allocation of scarce resources throughout an organization.

2.4 Related studies

2.4.1 Internal controls and financial management

Nbeta (2009), in his studies on effects of internal control system on the petrol station inventory management in Uganda, case study of Kampala stations operated by Petro Uganda Limited, this researcher has found out that internal control exist at petro Uganda. However, the effect of internal controls depending on the level of implementation of the system. Application of some elements of internal control system and omission or lax on at least one of the rest could complete jeopardize the whole process. Because the elements are interlinked and they have to be applied together for the system to function properly.

Ssuuna,(2008) studied the effects of Internal Control Systems on Financial Performance in an organization of Higher Learning in Uganda a Case of Uganda Marytrs University, the study examined and established a significant relationship between internal control system and financial management. This relationship was examined through the dimensions of internal control systems and that of the financial performance selected for this particular study. The dimensions of internal control systems (control environment, internal audit, and control activities) were linked to the dimensions of performance (liquidity, accountability, and reporting). Details show that control environment is linked to liquidity, control environment is also linked to accountability, and control environment is related with reporting. Similarly, the study found that internal audit as a dimension of internal control system, is related with all the dimensions of financial performance in the following details; internal audit and liquidity are related, internal audit is related with accountability, and internal audit and reporting have significant relationship. In addition, control activities as a dimension of internal control system and all the dimensions of financial performance are related; control activities and liquidity are related, control activities and accountability are related, and control activitiesand reporting are related.

Dumba(2007) noted that internal control system and performance of Sheraton Kampala Hotel, the researcher observed internal control system within many organizations seem not always to contribute to better organization performance because of so many reasons.

Anne (2010)in her study on Internal Control Systems in the Financial Sector of the Norwegian Economy: A case study of DnB NOR ASA,she observed that internal control is considered to be an instrument in handling risks that could prevent the group from attaining its targets. The group has developed internal models that analyze and calculate the risk of operations, including credit, market and liquidity risks, as indicated in the bank's Directors' Report. It is also acknowledged in the organization that internal control ensures effective operations, high quality internal and external reporting, together with group compliance with related laws, regulations and internal guidelines, including the company's value and codes of ethics. The company believes that independent and effective audit ensures satisfactory internal control as well as reliable financial reporting. The group audit carries out independent assessment of risks and checks on group activities. The result is then presented to the Board of Directors of the relevant companies in the DnB NOR ASA group, the holding company's Board of Directors, the Audit committee and the group management.

Singh (2009) quotes Prof. Bradley who describes financial management as an area of business management, devoted to a judicious use of capital and a careful selection of sources of capital, in order to enable a spending unit to move in the direction of reaching its goals. Financial management brings together planning, budgeting, accounting, financial reporting, internal control including internal audit, external audit, procurement, disbursement of funds and the physical performance of the program, with the main aim of managing resources efficiently and achieving pre-determined objectives. Singh (2009) further explains that the financial management of any program usually deals with the following: practices and arrangements for review and approval of annual work plans (AWPs) and budgets; based on costing guidelines and approved activities; funds flow mechanisms; financial powers and delegation; financial accounting system. He also notes other aspects involved in financial management as; internal controls to ensure funds are effectively used for program objectives; financial reporting which includes management reporting and external reporting; and audit and accountability at organizational headquarter level as well as in subsidiary branches.

2.5 Research Gap

There are diverse internal control practices that directly influence the financial performance of Non-organization across Africa. On the other hand, Abt Associates (2003) argues that financial management includes financial accounting, which targets both internal users of accounting information and external users such as funding/collaborating agents, investors, bankers, and government officials. Typically, financial accounting produces summary-level statements that describe the financial status of an organization. The information is generally organized around certain regulated or standardized formats of financial bookkeeping and measurement. The study examined and set up a significant relationship between internal control system and financial performance. This relationship was examined through the dimensions of internal control systems and that of the financial performance selected for this particular study. The dimensions of internal control systems (control environment, internal audit, and control activities) were linked to the dimensions of performance (liquidity, accountability, and reporting). Details show that control environment is linked to liquidity, control environment is also linked to accountability, and control environment is related with reporting. Similarly, this study investigated this context in the region of Mogadishu, Somaliland to close the literature gap regarding internal control systems and financial management in NGOs.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents the research design, the research population, sample size, sampling procedures, research instruments, validity and reliability of instruments, data gathering procedures, data analysis, ethical considerations and limitations of the study.

3.1 Research design

This study will use the descriptive survey design specifically the descriptive correlation strategies. Descriptive studies are non-experimental researches that describe the characteristics of a particular individual, or of a group. It deals with the relationship between variables, testing of hypothesis and development of generalizations and use of theories that have universal validity. It will also involve events that have already taken place and will be related to present conditions (Kothari, 2004). Further, descriptive surveys will be used to discover causal relationships (descriptive correlation) to provide precise quantitative description and to observe behavior (Amin, 2005).

3.2 Research Population

The target population will include a total of 156 workers and administrators of the selected NGOs in Mogadishu Somalia. The population includes the administrative staff (NGO officials) and NGO workers. The administrative staff is composed of over 30 NGO officials, whereas the working staff is composed of 118 workers from the selected NGOs, the researcher will calculate the sample size which will be obtained from the research population using the Slovenes formula.

3.2.1 Sample Size

This research utilized Slovene's formula in determining Sample Size for Research Activities.

The formula used for these calculations was:

Slovene's for

$$n = \frac{N}{1 + N(0.05)^2} = \frac{156}{1 + 156(0.05)^2} = \frac{156}{1.37}$$

$$n = 113.8$$

$$n = 114$$

Table 3. 1: the selected sample size

Category	Target population	Sample size	Sampling technique
NGO Officials	36	24	Simple random sampling
NGO workers	120	90	Simple random sampling
Total	156	114	

3.4 Sampling technique

The sampling technique to be utilized in this study will be simplerandomsampling whereby eachrespondent will be given an equal chance of being selected to participate in this study. Still simple random sampling will be used to get the specific respondents to be interviewed from each of the workers until the required population will be achieved.

3.5 Research instruments

The data collection instruments will be self-administered questionnaire and interview guide. Both structured and unstructured questionnaires will be used to collect data. A structured questionnaire will be used as it contains a list of possible alternatives from which respondents can select answer that best suits their situation. An unstructured questionnaire (open ended) will be also used as it provides freedom for respondents to express their feelings because they permit depth response.

3.6 Validity and reliability of the instrument

3.6.1 Testing the validity of the research instrument

The questionnaire was given to three lecturers to judge the validity of questions according to the objectives. After the assessment of the questionnaire, the necessary adjustments will be made bearing in mind the objectives of the study. Then a content validity index (CVI) was obtained using the following formula,

$$CVI = \frac{\text{No.of questions declared valid}}{\text{total No.of questions in the questionnaire}} = \frac{35}{39} = 0.89$$

A minimum of 0.8 of CVI was used to test validity.

3.6.2 Reliability of the instrument

To ensure the reliability of the instrument, the researcher will use the test-retest method, where by the questionnaire were given to 8 people and after two weeks, the same questionnaire were given to the same people and the Cronbatch Alpha was computed using SPSS. The minimum Cronbatch Alpha coefficient of 0.78 will be used to declare an instrument reliable.

3.7 Data gathering procedures

After authorization from the university the researcher took and send questionnaires and interview guide to the respondents for answering the set questions. This took two to three weeks and then the researcher sat down for tabulation of data to get out the useful information to answer the set questions.

During the research, the researcher employed different methods for data collection during the study. Other methods such as questionnaires, photography, observation and documentary analysis were also used.

Key respondents were sampled randomly to provide detailed and authentic information for the study. The NGO officials and workers were the main target group, but they were sampled randomly for interviews and Focus Group Discussions.

The research based on both the reviewing of secondary data and collection of primary information from the respondents. Some of the sources/methods to be used in collection of data are;

On top of interviews, observation coupled with listening was used to collect data on process involved: internal control systems and financial management is done, and this provided immediate feedback and information.

After receiving the Questionnaires, the researcher edited the Questionnaires for completeness and correctness.

3.8 Data analysis

The frequency and percentage distributions were used to determine the demographic characteristics of the respondents. The means and standard deviations were applied in order to assess the internal control systems and financial management.

The following mean ranges and descriptions were used to interpret responses:

For the extent of internal control systems

or the level of financial management

The researcher used Pearson's linear correlation coefficient (PLCC) and linear regression model to analyze the relationship between internal control systems and financial management. The hypotheses were tested using the p-value. The decision is to reject the null hypotheses if the p-value is less than significance level (0.05), and to accept otherwise

3.9 Ethical considerations

To ensure utmost confidentiality for the respondents and the data that was provided by them as well as reflecting on the ethics practiced in this study, the research was guided by the principles of respect for people, beneficence, and justice. The researcher ensured that participants' rights, including the right to be informed about the study, the right to freely decide whether to participate in the study, and the right to withdraw at any time without penalty was considered. The participants were requested to sign an informed consent form assuring them that all data collected was coded to protect their identity and privacy.

3.10 Limitations of the study

Testing: There were used of research assistants in the administration of the questionnaires in terms of time of administration, understanding of the items in the questionnaires and explanations given to the respondents.

Extraneous variables might be beyond the researcher's control such as respondents' honesty, personal biases and uncontrolled setting of the study.

Attrition/Mortality: Not all questionnaires were returned as neither completely answered nor even retrieved back due to circumstances on the part of the respondents such as travel, sickness, hospitalization and refusal/withdrawal to participate. In anticipation to this, the researcher reserved more respondents by exceeding the minimum sample size. The respondents were reminded not to leave any item in the questionnaires unanswered and were closely followed

up as to theSome key informants were revealed in detail the gaps and deficiencies that could affect its success; this could affect the content validity of the first research question.

The research environments may be classified as uncontrolled settings where extraneous variables could influence on data gathered such as comments from other respondents, anxiety, stress, motivation on the part of the respondents while on the process of answering the questionnaires.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter presented the analyzed data and interpretations made there of following the study objectives. It specifically showed data on profile of respondents, the effect of controlling environment on financial management in selected local NGOs in Mogadishu, Somalia, the effect of risk assessment on financial management in selected local NGOs in Mogadishu, Somalia, the relationship between operational control activities and financial management in selected local NGOs in Mogadishu, Somalia, the effect of information & communication system on financial management in selected local NGOs in Mogadishu, Somalia the effect of monitoring & evaluation system on financial management in selected local NGOs in Mogadishu, Somalia.

4.1 Profile of Respondents

Respondents in this study were described according to their age, gender, level of education qualification and work experience. In each case, respondents were asked using a questionnaire to provide their respective profile information to enable the researcher classify and compare them accordingly. Their responses were analyzed using frequencies and percentage distributions as summarized in table 4.1 below;

Table 4.1: Profile of the respondents

Profile of the respondents	Frequency	Percentage (%)
Gender		
Male	75	65.8
Female	39	34.2
Total	114	100
Age		
20-25	13	11.4
26-39	40	35.1
40-54	44	38.6
55 & above	17	14.9
Total	114	100
Education		
Certificate	9	7.9
Diploma	22	19.3
Degree	43	38.7
Masters	23	20.2
PhD	17	14.9
Total	114	100
Position		
Top Management	38	33.3
Financial Officer	41	35.9
Staff only	35	30.7
Total	114	100
Experience		
Below 5 yrs	32	28.1
5-9 yrs	55	48.2
10 & above	27	23.6
Total	114	100

Source: Primary Data, 2016

Results from table 4.1 indicated that there were more male (65.8) than female (34.2). This implies that local NGOs employees are dominated by males. This clearly shows that most employees of the local NGOs are male. The result indicating that there were more male than female workers working in local NGOs in Mogadishu, Somalia.

The findings of the study showed that 38.6% of the respondents belonged to the age of (40-54), and the 35.1% of the respondents are the age of (26-39), 14.9% of the respondents are the age of (55 & above), and 11.4% of the respondents are the age of (20-25). So that local NGOs hired mostly the ages (40-54), because this age is the most productive ages of the employee in terms of experience and qualifications.

Table 4.1 showed that majority of the respondents are bachelor degree holders that make up 38.7% of the respondents and mostly they are top management and financial officers, the second group of the respondents were the master degree holders which stand for 20.2% of the respondents, the third group of the respondents has diploma which represents 19.3% of the respondents; the fourth group of the respondents are PhD holders which stand for 14.9% of the respondents, the last group of the respondents has certificates which represents 7.9% of the respondents. So we can say the majority of this selected employees are bachelor holders since they are 38.7% of the employees. If we look at the experience of the respondents, the result shows that 48.2% have been working for more than five years, and 28.1% have worked below 5 years, were 23.6% of the respondents have been working in service for 10 & above. The findings indicate that there is high employee retention in local NGOs in Mogadishu, Somalia, 33.3% of the respondents are top managers of the local NGOs while 35.9% of the respondents were financial officers and 30.7% of the respondents are staff.

4.2 Internal control system

The independent variable in this study (internal control system) was broken into five constructs and these were; control environment, risk assessment, operational control activities, information & communication activities & monitoring and evaluation. All the items were based on a four point Likert scale, in which respondents were required to show the extent to which they agree or disagree with each question or item. The SPSS software was used to analyse their responses using means and ranks as indicated in table 4.2.

Table 4.2 Internal control system

Items on Internal control system	Mean	Interpretation	Rank
Control environment			
The board of directors understands and exercises oversight responsibility for internal control	3.35	Very Good	1
The organization structure is periodically reviewed to ensure its relevance.	3.05	Good	2
The organizational structure supports effective internal control	2.78	Good	3
Management and employees are assigned appropriate levels of authority and responsibility to facilitate effective internal control	2.46	Poor	4
Human resource policies and practices are designed and implemented to facilitate effective internal control	1.66	Very poor	5
Average mean	2.66	Good	
Risk assessment			
Risks relevant to the organization financial management have been managed.	3.51	Very Good	1
The potential for material misstatement due to fraud is explicitly considered in assessing risk	3.13	Good	2
The organization identifies and analyzes risks for determining how the risks should be managed	2.77	Good	3
Actions are taken to address risk to the achievement of financial reporting objectives	1.48	Very poor	4
Average mean	2.72	Good	
Operational control activities			
Approvals, authorizations, verifications, reconciliations and maintenance of security are observed in the NGO	3.38	Very Good	1
Internal audits are always carried out in your NGO	3.23	Good	2
Performance reviews are usually carried out to the satisfaction of stakeholder	2.71	Good	3
The creation and maintenance of related records are observed in the NGO	2.48	Poor	4
Average mean	2.95	Good	
Information and communication			
Information used to execute other control components is identified, captured and distributed to guide internal control responsibilities	3.27	Very Good	1
Matters affecting the achievement of organisations objectives are communicated to stakeholders	3.21	Good	2
The employees are encouraged to report suspected improprieties to management.	2.82	Good	3
There is an effective information system in place to capture and process data in a meaningful way.	2.18	Poor	4
Average mean	2.87	Good	
Monitoring and evaluation system			
Internal control deficiencies are identified and communicated in a timely manner to parties responsible stakeholders	3.10	Good	1
Ongoing or separate evaluations enable management to determine whether internal control are functioning well	2.93	Good	2
Average mean	3.02	Good	
Overall mean	2.84		

Source: Primary Data, 2016

Results in table 4.2 indicated that internal control system was rated good and this was indicated by the overall mean of 2.84, implying that there is a formalized system intended to provide reasonable assurance that the objectives of local NGOs in Mogadishu, Somalia are met. Results further indicated that internal control system differ on different perspectives; for example, control environment, the respondents rated this construct as good and this was indicated by the average mean of 2.66, implying that the internal environment has always been controlled well in selected NGOs in Selected local NGOs in Mogadishu Somalia. Still results indicated that the board of directors understands and exercises oversight responsibility for internal control (mean=3.35), the organization structure is periodically reviewed to ensure its relevance (mean=3.04), the organizational structure supports effective internal control (mean=2.78), management and employees are assigned appropriate levels of authority and responsibility to facilitate effective internal control (mean=2.46). However, this construct (training) was rated very poor on only one item (mean=1.66), hence implying that the human resource policies and practices are not designed and implemented to facilitate effective internal control.

With respect to risk assessment, this variable was rated good and this was indicated by the average mean of 2.72, hence implying that risks are always assessed well in order to minimize fraud. Risks relevant to the organization financial management have been managed (mean=3.51), the potential for material misstatement due to fraud is explicitly considered in assessing risk (mean=3.13), the organization identifies and analyzes risks for determining how the risks should be managed (mean=2.77), one item was rated very poor which implied that but there has been no actions taken to address risk to the achievement of financial reporting objectives (mean=1.48).

Concerning operational control activities, four items were used to measure this construct and was rated good and this was indicated by the average mean of 2.95, two items were rated as good (mean=3.23 & 2.71 respectively), this implied that internal audits and performance reviews are usually carried out to the satisfaction of stakeholder. One item was rated low (mean=2.48) which implied that the creation and maintenance of related records are not observed in the NGOs.

With respect to monitoring and evaluation system, this variable was rated good and this was indicated by the average mean of 3.02, hence implying that the activities taking place in the selected NGOs are always monitored and evaluated well. Still results indicated that the internal

control deficiencies are identified and communicated in a timely manner to parties responsible stakeholders (mean=3.10), and the ongoing or separate evaluations enable management to determine whether internal control are functioning well (mean=2.93).

4.3 Financial management

The dependent variable in this study was financial management, this variable was broken into five constructs and these are; managing of scarce resources (with 4 questions in the questionnaire), financial control (with five items), accountability (with 3 items), transparency (with four questions in the questionnaire) and internal control (with four questions in the questionnaire). The responses were analyzed using SPSS and summarized using means and ranks as indicated in table 4.3 below;

Table 4.3: Extent of financial management in selected local NGOs

Source: Primary Data, 2016

The following mean ranges were used to interpret the means:
which implies that financial management in the local NGOs of Mogadishu is done through effective managing of scarce resources, financial control, accountability, transparency and internal control.

Managing scarce resources as the first construct on the dependent variable was measured using four items and this was rated good (mean=2.63), this implied that the available resources in selected local NGOs are managed well. NGOs usually disclose how resources have been acquired (mean=3.51), the central government has provided funds for implementation of policies (mean=2.85), the financial management is the heart of financial control in NGO (mean=2.76), the NGO operate in a competitive environment where donor funds are increasingly scarce

(mean=2.52). Results indicated that the lowest rated item was (mean=1.93), hence implying that to a certain extent NGOs have not made sure that the donated funds and resources are used properly.

With respect to financial control, results indicated that this was also rated good and this was indicated by the average mean of 2.71, hence implying that the available financial resources in selected NGOs are controlled well. Funds are spent in accordance with the NGOs objectives (mean=3.68), NGO custodian holds the assets and funds in trust and makes sure that they are used in accordance with the constitution(mean=3.25), the information is generally organized standardized formats of financial bookkeeping and measurement (mean=2.64), one item was rated poor (mean=2.44) and one item was rated very poor (mean=1.55), this implies that not all stakeholders have the right to know how their funds have been used, and not all financial information is recorded accurately and presented clearly.

With respect to accountability, results indicated that this was also rated good and this was indicated by the average mean of 2.79. Inconsistent approaches to financial management have viewed as an indication of manipulation (mean=3.27), managers can decide if the NGO is on target to achieve its objectives within agreed times scales and budget (mean=2.66), one item was rated poor (mean=2.45), this implied that planning in the selected NGOs is not based to the management process and doesn't involve looking ahead to prepare for the future.

Concerning transparency; this construct was rated good and this was indicated by the average mean of 2.87, this implies that there is transparency in carrying out local NGOs' activities. NGOs have principles intended to guide behavior and help in the development of policies and procedures (mean=3.30), the workers in the NGO operate with honesty and propriety. (mean=3.18), the resources of the organization are coordinated to ensure implementation (mean=2.57), however the NGO monitoring does not involve comparing actual performance with plans to evaluate the effectiveness of plans (mean=2.41).

4.4 Effect of control environment on financial management in selected local NGOs in Mogadishu Somalia

This section presents the results of the regression model estimated to analyze the effect of control environment on financial management in selected local NGO in Mogadishu, Somalia.

Table 4. 4: Effect of control environment on financial management in selected local NGOs in Mogadishu Somalia

Model Summary

Coefficients^a

Regression analysis results in the Model Summary table revealed that control environment accounted for 27.4% on financial management in selected local NGOs in Mogadishu Somalia and this was indicated by r-squared of 0.274 implying that to small extent control environment contribute to financial management in selected local NGOs in Mogadishu Somalia.

The ANOVA table indicated that control environment significantly affects financial management in selected local NGOs and this was indicated by the F-value=136.963 and Sig-value=.000, since the sig. value (0.000) was less than 0.05 and which is the maximum level of significance required to declare a significant effect. This implies that control environment highly contributes to financial management in selected local NGOs in Mogadishu Somalia.

The coefficients table indicated that considering the standard error, control environment significantly influence the financial management in selected local NGOs in Mogadishu Somalia ($\beta=0.329$, Sig=0. 000).

Testing of Hypothesis

Control environment has a significant effect on financial management in selected local NGOs and this was indicated by the Sig-value=.000, since the sig. value (0.000) was less than 0.05 and which is the maximum level of significance required to declare a significant effect.

4.5 Effect of risk assessment on financial management in selected local NGOs in Mogadishu Somalia

This section presents the results of the regression model estimated to analyze the effect of risk assessment on financial management in selected local NGO in Mogadishu, Somalia.

Table 4.5: Effect of risk assessment on financial management in selected local NGOs in Mogadishu Somalia Model Summary

Coefficients

Regression analysis results in the Model Summary table indicated that the risk assessment accounted for 37.2% on financial management in selected local NGOs in Mogadishu Somalia and this was indicated by r-squared of 0.372 implying that risk assessment significantly contributes 37.2% on financial management in selected local NGOs in Mogadishu Somalia.

The ANOVA table indicated that risk assessment significantly affects financial management in selected local NGOs and this was indicated by the F-value=13.955 and Sig-value=.000, since the sig. value (0.000) was less than 0.05 and which is the maximum level of significance required to declare a significant effect. This implies that risk assessment highly affects the financial management in selected local NGOs in Mogadishu Somalia.

The coefficients table indicated that considering the standard error, risk assessment significantly affects financial management in selected local NGOs in Mogadishu Somalia ($\beta=0.193$, Sig=0.000).

Testing of Hypothesis

Risk assessment has a significant effect on financial management in selected local NGOs and indicated by the Sig-value=.000, since the sig. value (0.000) was less than 0.05 and which is the maximum level of significance required to declare a significant effect.

4.6 Effect of information & communication system on financial management in selected local NGOs in Mogadishu Somalia

This section presents the results of the regression model estimated to analyze the effect of information & communication system on financial management in selected local NGO in Mogadishu, Somalia.

Table 4.6: Effect of information & communication system on financial management in selected local NGOs in Mogadishu Somalia

Coefficients

Regression analysis results in the model Summary table indicated that the information & communication system significantly affects financial management in selected local NGOs in Mogadishu Somalia at a rate of 23% and this was indicated by r-squared of 0.230, hence implying that information & communication system significantly influences financial management in selected local NGOs in Mogadishu Somalia.

The ANOVA table indicated a positive significant effect of information & communication system has on financial management in selected local NGOs and this was indicated by the positive F-value=108.275 and Sig-value=.000, since the sig. value (0.000) was less than 0.05 and which is the maximum level of significance required to declare a significant effect. This implies that information & communication system highly affects financial management in selected local NGOs in Mogadishu Somalia. Still this implied that high levels of information & communication system improve the level of financial management in selected local NGOs and poor information & communication system measures reduce it.

The coefficients table indicated that considering the standard error, information & communication system significantly affects the financial management in selected local NGOs of Mogadishu Somalia ($\beta=0.362$, Sig=0.000).

Testing of Hypothesis

Information & communication system has a significant effect on financial management in selected local NGOs and this was indicated by the Sig-value=.000, since the sig. value (0.000)

was less than 0.05 and which is the maximum level of significance required to declare a significant effect.

4.7 Effect of monitoring & evaluation system on Financial management in selected local NGOs in Mogadishu Somalia

This section presents the results of the regression model estimated to analyze the effect of monitoring & evaluation system on financial management in selected local NGO in Mogadishu, Somalia.

Table 4:7 Effect of monitoring & evaluation system on financial management in selected local NGOs in Mogadishu Somalia

Regression analysis results in the model Summary table indicated that the monitoring & evaluation system significantly affects financial management in selected local NGOs in Mogadishu Somalia at a rate of 60.9% and this was indicated by r-squared of 0.609, hence implying that monitoring & evaluation system significantly influences financial management in selected local NGOs in Mogadishu Somalia.

The ANOVA table indicated a positive significant effect monitoring & evaluation system has on financial management in selected local NGOs and this was indicated by the positive Beta=0.741 and Sig-value=.000, since the sig. value (0.000) was less than 0.05 and which is the maximum level of significance required to declare a significant effect. This implies that monitoring & evaluation system highly affects financial management in selected local NGOs in Mogadishu Somalia. Still this implied that high levels of monitoring & evaluation system improves the level of financial management in selected local NGOs and poor monitoring & evaluation system measures reduce it. The coefficients table indicated that considering the standard error, monitoring & evaluation system significantly affects the financial management in selected local NGOs ($\beta=0.741$, Sig=0.000).

Testing of hypothesis

The hypothesis was rejected since the significant value was found to be less than 0.05 (Sig=0.000).

4.8 Relationship between operational control activities and financial management in selected local NGOs in Mogadishu Somalia

This section presents the results of Person's Linear Correlation Coefficient (PLCC) computed to examine the relationship between operational control activities and financial management in selected local NGOs in Mogadishu, Somalia.

Table 4.8 Pearson correlation between operational control activities and financial management

Source: Primary Data, 2016

The Pearson's Linear correlation Coefficient (PLCC) results in table 4.6 indicated the effect of operational control activities on financial management in Selected local NGOs in Mogadishu Somalia, since the sig. value (0.003) was far less than 0.05 and r-value (0.498) which is the maximum level of significance required to declare a significant relationship in social sciences. Therefore this implies that an effective operational control activity partly improves financial management in selected local NGOs in Mogadishu Somalia and an ineffective operational control activity reduces it.

Table 4.9: Multiple Linear Regression Analysis between DV and IV**Source: Primary Data, 2016**

Regression analysis results in table 4.5 above revealed that internal control system accounted for 82.3% on financial management and this was indicated by the adjusted r-squared of 0.823 leading to an implication that internal control system significantly affects the level of financial management. The coefficients table further indicated that of all the aspects of internal control system, operational control activities accounted for the biggest influence on financial management ($\beta=0.614$, Sig=0.001).

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter focuses on the findings, conclusions; recommendations based on the conclusions of this study and suggested areas that need further research following the study objectives and study hypothesis.

5.1 Discussion of findings

This study aimed at assessing the effect of internal control systems on financial management in selected local NGOs in Mogadishu, Somalia, five specific objectives guided this study and these were; (i) to determine the effect of controlling environment on financial management in selected local NGOs in Mogadishu, Somalia, (ii) to establish the effect of risk assessment on financial management in selected local NGOs in Mogadishu, Somalia, (iii) to explore the relationship between operational control activities and financial management in selected local NGOs in Mogadishu, Somalia, (iv) to identify the effect of information & communication system on financial management in selected local NGOs in Mogadishu, Somalia and (v) examining the examine the effect of monitoring & evaluation system on financial management in selected local NGOs in Mogadishu, Somalia.

5.1.1 Objective one; the effect of controlling environment on financial management

The findings indicated that controlling environment significantly affects financial management in selected local NGOs in Mogadishu, Somalia, therefore this implies that effective controlling environment it increases financial management in selected local NGOs in Mogadishu, Somalia. This finding is in line with Sampson (1999) who noted that an effective control environment is where competent people understand their responsibilities, the limits to their authority, and are knowledgeable, mindful, and committed to doing what is right and doing it the right way. They are committed to following an organization's policies and procedures and its ethical and behavioral standards. The control environment encompasses technical competence and ethical commitment; it is an intangible factor that is essential to effective internal control. However, not only at the top management level but also at building a strong consciousness of control mechanisms throughout the organization's culture is one of the ways to ensure effective control environment in the organization (Institute of Internal Auditors, 2005).

5.1.2 Objective two; risk assessment and financial management

The findings indicated that risk assessment has a significant effect on financial management in selected local NGOs in Mogadishu, Somalia, this was so because risk assessment had a significant correlation on financial management, hence confirming that an improvement in risk assessment highly increases financial management in selected local NGOs in Mogadishu, Somalia. The finding also agrees with COSO (2010) where it was noted that risk assessment is a vital exercise for all-size organizations since every structure faces a variety of risks from external and internal sources that must be assessed. A requirement for a sound risk assessment is the identification of clear objectives. Operations of the organization can be put in danger and its objectives remain unattained by uncontrolled risk-taking. This is why the management must assess all risks. Risk assessments are considered effective if they help determine what the risks are, what controls are needed, and how they should be managed.

5.1.3 Objective three; the effect of information & communication system on financial management

The findings indicated the effect of information & communication system on financial management in selected local NGOs in Mogadishu, Somalia, this implied that a improvement in internal control system improves financial management among in selected local NGOs in Mogadishu, Somalia and infective internal control system leads to poor financial management. The finding also agrees with DDumba (2011) who indicated that for an internal control to be an effective one, relevant information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities, effective communication is central to effective internal control.

5.1.4 Objective four; examining the effect of monitoring & evaluation system on financial management

The findings indicated a significant effect between monitoring & evaluation system and financial management in selected local NGOs in Mogadishu, Somalia, hence confirming that improving the monitoring & evaluation systemincreasesfinancial management in selected local NGOs in Mogadishu, Somalia. The finding also agrees with Lewis (2013) who indicated that the quality of internal control needs to be assessed overtime through monitoring mechanisms such as on-going

monitoring and separate evaluations, in cases where there is a lack of separate evaluations in small organizations, highly effective on-going monitoring comes into picture to compensate for the lack (Mercer, 2012).

Reiss (2014) added that on-going monitoring activities include various management and supervisory activities that evaluate and improve the design, execution, and effectiveness of internal control, separate evaluations, on the other hand, such as self-assessments and internal audits, are periodic evaluations of internal control components resulting in a formal report on internal control.

5.1.5 Objective five; relationship between operational control activities and financial management

The finding still indicated that operational control activities have a significant relationship on financial management in selected local NGOs in Mogadishu, Somalia, this was so due to the significant correlation which existed between operational control activities and financial management among the employees, this led to an implication that an improvement in operational control activities increases financial management in selected local NGOs in Mogadishu, Somalia. The finding also agrees with Sampson (2011) who indicated that according to the purpose or intention of the type of control desired, there is a need to differentiate between preventive and detective controls. The former seeks to prevent undesirable events from occurring. Such types of controls deter losses and they include proactive measures. Examples of preventive controls are separation of duties, proper authorization, adequate documentation, and physical control over assets.

Similarly Jegers (2012) noted that detective controls, on the other hand, attempt to identify undesirable acts, such controls make it evident that a certain loss has occurred but they do not prevent a loss from occurring. Elements of control activities include approvals, authorizations, and verifications. These are part of the preventive type of control activities in that employees perform their duties within limited parameters. Operations requiring approval of supervisors duly treated by the later so that the policies of the organization are adhered to (Jegers, 2012).

5.2 Conclusions

From the findings of the study, the researcher concludes that controlling environment significantly affects financial management in selected local NGOs in Mogadishu, Somalia. Consequently effective controlling environment will increase financial management in selected local NGOs in Mogadishu, Somalia.

The researcher concludes that risk assessment significantly affects financial management in selected local NGOs in Mogadishu, Somalia. Hence an improvement in risk assessment will increase financial management in selected local NGOs in Mogadishu, Somalia.

The researcher further concludes that there is a significant relationship between information & communication system on financial management in selected local NGOs in Mogadishu, Somalia. This implies that improvement in internal control system will improve financial management among in selected local NGOs in Mogadishu, Somalia and ineffective internal control system leads to poor financial management.

In addition, the researcher concludes that there is a significant effect between monitoring & evaluation system has financial management in selected local NGOs in Mogadishu, Somalia. Hence an improving the monitoring & evaluation system will increase financial management in selected local NGOs in Mogadishu, Somalia.

finally, it was concluded that operational control activities is significantly related to financial management in selected local NGOs in Mogadishu, Somalia. Hence an improvement in operational control activities will increase financial management in selected local NGOs in Mogadishu, Somalia.

5.3 Recommendation

The local NGOs should develop a good controlling environment system to monitor, record and track all the finances so that there is effectiveness in internal control system and ensure to cover loopholes in the system to enhance financial management in selected local NGOs.

The local NGOs in Mogadishu should develop an effective risk assessment system which makes risk assessment easy and flexible so as to boost financial management in selected local NGOs.

The local NGOs should develop information & communication system that enables them have minimum supplies at all times, this will help them control finances and hence increase on the financial management in selected local NGOs in Mogadishu Somalia.

The local NGOs in Mogadishu Somalia should develop an effective monitoring & evaluation system and make sure they always have a monitoring plan that enables them have minimum frauds at all times, this will help them control finances and hence increase on financial management in selected local NGOs in Mogadishu Somalia.

The local NGOs in Mogadishu Somalia should develop an effective of operational control activities which makes operational control easier and flexible so as to post financial management in selected local NGOs in Mogadishu Somalia.

5.4 New knowledge acquired

The study was able to bridge the gaps that were not covered by the previous studies on internal control system and financial management in selected local NGOs in Mogadishu, Somalia. The study brought up new frontiers of knowledge on how local NGOs in Mogadishu, Somalia should apply internal control system systems and the weaknesses that were found out in their current operations hindering financial management in terms of managing scarce resources, financial control, accountability, transparency and internal controls.

5.5 Areas for further research

Prospective researchers and even students are encouraged to research on the following areas;

1. Risk assessment and managing of scarce resources in selected local NGOs in Mogadishu, Somalia.
2. Monitoring and financial control in selected local NGOs in Mogadishu, Somalia.
3. Internal control system and accountability in selected local NGOs in Mogadishu, Somalia.

REFERENCES

- Lewis, F (1993) *Non-governmental Organizations and the State in Asia*, New York, Routledge
- Maines, L. A., and J. M. Wahlen (2006). The nature of accounting information reliability: Inferences from archival and experimental research. *Accounting Horizons* 20(4): 399-425.
- Mercer, C. (2002), NGOs, civil society and democratization: a critical review of the literature, *Progress in Development Studies*, 2(1) 5-22
- Nbeta (2009), Effects of internal control system on the petrol station inventory management in Uganda, *case study of Kampala stations operated by Petro Uganda Limited*,
- Salkind, N. (2000). *Exploring research*. New York: Macmillan publishing co
- Sampson, D (1999), *Understanding Internal Controls: A Reference Guide for Managing University Business Practices*. Retrieved on [May 12, 2010] from the *world wide web*: <http://www.edu/ctlacct/under-ic.pdf>
- Siddika, M (2007). Accounting systems and financial report of NGOs: *Case study of BRAC's projects*
- Ssuuna, (2008) *Effects of Internal Control Systems on Financial Performance in an Institution of Higher Learning in Uganda a Case of Uganda Martyrs University*,
- Von Bertalanffy, L (1957) General systems theory *A critical review General Systems*, 7, 1-20
- World Bank report, (2008). A strategic action plan for managing non-government with special reference of India definition of NGOs, *International NGO Journal* 3 (3), 074-076.

APPENDIX I:RESEARCH QUESTIONNAIRE
KAMPALA INTERNATIONAL UNIVERSITY
COLLEGE OF HIGHER DEGREE AND RESEARCH
MASTER OF BUSINESS ADMINISTRATION

Dear respondent,

My name is **Mohamed Muse Mohameda** student of Kampala International University carrying out an academic research on the **InternalControlSystemandFinancial Management in selected local NGOs**. You have been randomly selected to participate in the study and are therefore kindly requested to provide an appropriate answer by either ticking the best option or give explanation where applicable. The answers provided will only use for academic purposes and will be treated with utmost confidentiality.

NB:pleasedo not write your name anywhere on this paper.

APPENDIX II: QUESTIONNAIRE

Section A: Profile of the respondent:

1. Gender:

- _____ Male
- _____ Female

2. Age:

- _____ 18 – 20
- _____ 21 – 30
- _____ 31 – 40
- _____ 41 – 50
- _____ 51 and above

3. Education level

- _____ Certificate
- _____ Diploma
- _____ Undergraduate degree
- _____ Post graduate degree

4. Duration worked in your Organization

- _____ Under one year
- _____ One to three years
- _____ Three to five years
- _____ More than five

5. Duration worked in your current position

- _____ Under one year
- _____ One to three years

- ____Three to five years
- ____More than five

Section B: Internal Control system:

Direction: Please respond to the options and kindly be guided with the rating system below.
Please write your rating in the space provided.

Response	Model	Rating	Description	interpretation
Strongly Agree	(4)		You agree without doubt at all	Very Good
Agree	(3)		You agree with some doubt	Good
Disagree	(2)		You disagree with some doubt	Fair
Strongly disagree	(1)		you disagree without doubt at All	Poor

Internal control environment

____(1) The board of directors understands and exercises oversight responsibility for internal control

____(2) The organizational structure supports effective internal control

____(3) Management and employees are assigned appropriate levels of authority and responsibility to facilitate effective internal control

____(4) Human resource policies and practices are designed and implemented to facilitate effective internal control

____(5) The organization structure is periodically reviewed to ensure its relevance.

Risk assessment

___ (6) The organization identifies and analyzes risks for determining how the risks should be managed

___ (7) The potential for material misstatement due to fraud is explicitly considered in assessing risk

___ (8) Actions are taken to address risk to the achievement of financial reporting objectives

___ (9) Risks relevant to the organization financial performance have been managed.

Activities and procedures

___ (10) Approvals, authorizations, verifications, reconciliations and maintenance of security are observed in the local NGOs

___ (11) The creation and maintenance of related records are observed in the NGO

___ (12) Performance reviews are usually carried out to the satisfaction of stakeholder

___ (13) Internal audits are always carried out in your NGO

Information and communication

___ (14) Information used to execute other control components is identified, captured and distributed to guide internal control responsibilities

___ (15) Matters affecting the achievement of organisations objectives are communicated to stakeholders

___ (16) There is an effective information system in place to capture and process data in a meaningful way.

___ (17) The employees are encouraged to report suspected improprieties to management.

Monitoring

___(18) Ongoing or separate evaluations enable management to determine whether internal control are functioning well

___(19) Internal control deficiencies are identified and communicated in a timely manner to parties responsible stakeholders

Section C: FINANCIAL MANAGEMET

Direction: Please respond to the options and kindly be guided with the rating system below. Please write your rating in the space provided.

Managing scarce resources

___ (1) Financial management is the heart of financial control in your NGO.

___ (2) Your NGO usually discloses how resources have been acquired.

___ (3) Your NGO operate in a competitive environment where donor funds are increasingly scarce.

___ (4) Your NGO has made sure that donated funds and resources are used properly.

Financial control

___ (5) All financial information is recorded accurately and presented clearly.

___ (6) The information is generally organized standardized formats of financial bookkeeping and measurement.

___ (7) Funds may not be spent in accordance with the NGOs objectives.

___ (8) All stakeholders have the right to know how their funds have been used.

___ (9) Your NGO custodian holds the assets and funds in trust and makes sure that they are used in accordance with the constitution.

Accountability

___ (10) Inconsistent approaches to financial management have viewed as an indication of manipulation.

___ (11) Managers can decide if the NGO is on target to achieve its objectives within agreed times scales and budget.

___ (12) Planning is basic to the management process and involves looking ahead to prepare for the future.

Transparency

___ (13) your NGO monitor involves comparing actual performance with plans to evaluate the effectiveness of plans.

___ (14) Individuals in the NGO operate with honesty and propriety.

___ (15) The resource of the organization has to be coordinated to ensure implementation.

___ (16) Your NGO has principles intended to guide behavior and help in the development of policies and procedures.

APPENDIX III: MAP OF STUDY AREA

