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Abstract

NGOs operate in diverse environments and deal with different types of stakeholders, they face several risks, including financial fraud, mismanagement, and non-compliance with legal and regulatory frameworks. They are therefore vulnerable to fraud and embezzlement due to their reliance on donations and grants, lack of oversight, and decentralized operations. This study sought to determine the effect of internal controls on resource mobilization of non-governmental organizations in Nairobi County. The study adopted a descriptive research design. The target population of the current study was 64 humanitarian NGOs that are based in Nairobi County. While the unit of analysis was the 64 humanitarian NGOs, the unit of observation were two respondents from finance and project management departments of these organizations. The study adopted a census sampling technique where the entire sample size of 128 was used. Primary data was collected using a structured questionnaire. A regression model was used to test the effect of Internal Controls on the resource mobilization of Humanitarian NGOs in Nairobi County. The results indicated that internal control has a positive and significant effect on resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County ($B = 0.273$; $t = 2.524 > 1.96$, $= P\text{-Value} = 0.013 < 0.05$). The results of the first hypothesis revealed that Internal Control has a positive and significant effect on resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County. The study concluded that Humanitarian Non-Governmental Organizations in Nairobi County ought to increase their internal control measures in order to boost their resource mobilization. The study recommends that Humanitarian non-governmental organizations need to implement internal control measures, such as control environment, risk assessment and information & communication, in order to improve their financial accountability. To reduce the likelihood of fraud and to raise everyone's awareness of the expectations for adhering to established standards, it is also necessary to have a clear understanding of the significance of internal controls and the division of duty among all the employees.

Keywords: *Internal Controls, Resource Mobilization & Non-Governmental Organizations*

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1.1 Introduction

Internal controls are a set of policies and procedures designed to safeguard assets, ensure accuracy and completeness of financial information, and promote compliance with laws and regulations (Alemu, 2020). These controls are crucial to prevent fraud, waste, and abuse and to maintain the trust of donors, beneficiaries, and stakeholders (Eniol & Akinselure, 2016). As NGOs operate in diverse environments and deal with different types of stakeholders, they face several risks, including financial fraud, mismanagement, and non-compliance with legal and regulatory frameworks. Therefore, internal controls are crucial for NGOs to mitigate these risks, ensure transparency, and maintain stakeholders' trust and confidence (Cordery, Belal & Thomson, 2019).

NGOs are vulnerable to fraud and embezzlement due to their reliance on donations and grants, lack of oversight, and decentralized operations (Rahman *et al.*, 2020). Therefore, implementing internal controls such as segregation of duties, dual control, and regular financial audits can help prevent fraud and safeguard the organization's resources. The control environment sets the tone for an NGO's internal control system. It includes the attitudes, policies, and procedures that are in place to ensure that the organization operates in an ethical and transparent manner. By establishing a strong control environment, NGOs can create a culture of accountability and responsibility that is essential for effective internal controls. According to Alemu, (2020) and Eniola and Akinselure (2016), internal controls can be achieved through a combination of the control environment, risk assessment, and control activities. Risk assessment is a critical component of internal controls for NGOs.

Cordery, Belal, and Thomson (2019) conducted a study in the United Kingdom on formal reporting issues related to the regulatory requirements as well as various alternative forms of informal accountability mechanisms in NGOs. Kibukamusoke and Ssewankambo (2019) conducted a study in Uganda where a specific non-governmental organization, War Child was assessed. Karanja and Karuti (2014) did an assessment of factors influencing sustainability of non-governmental “organizations in Kenya. Similarly, Odhiambo (2013) asserted that there was lack of accountability experienced among the NGOs in Kisumu County, which hindered their resource mobilization.

Resource mobilization (RM) involves all that has to be done in order to get in possession of recently discovered resources in an organization and also increasing the amounts of organization resources by using the available ones in a better way. Batti (2014) reveals that RM is a component of great value for making an organization stronger. Regrettably, competition for the resources provided by the donors is so high and the NGOs ability to get possession of resources relies on the level of competition in the field on how well it is able to compete with others in the same field and how well it can find out new source of resources in the environment. Resource mobilization involves; acquiring financial resources, mapping human resources, acquisition of physical resources, community involvement and participation, accountability and transparency, financial accounting and management. Physical resources are items that take space, have value, and are used in operation of the organization.

Across the years, the international involvement with NGOs and donor contributions have reduced immensely with donors withdrawing their projects and programs. This contributed to a shift towards more humanitarian-oriented relief and recovery of the funds (Parks, 2010). This has

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affected the operations of NGOs in Kenya where they have to be accountable for them to access more funds. The withdrawal of donor funding has led to their reduced activities as a result of financial unsustainability which is the most crucial factor for sustaining operation of NGOs (Chelangat, 2018). Consequently, majority of NGOs in Kenya do not have a guaranteed future. This may be attributed to the fact that they lack adequate funding and if the funding is available, they are unable to account for the use of these funds. Recently, there has been an increase in the number of registered NGOs. However, majority of them collapse after 5 years of operation due to poor performance or misappropriation of funds (Nuka, 2019). This study focused on the effect of internal controls on resource mobilization of non-governmental organizations in Nairobi County.

2.1 Literature Review

Fraud Triangle Theory

The theory was proposed by Donald Cressey (Cendrowski *et al.*, 2007). According to Vona, (2012) a fraud triangle must be incorporated by the organization in assessing the fraud risks. Trusted persons become trust violators when they have financial problems not shareable, believe that the problem can be secretly resolved due to their financial position in an organization and are able to justify their actions to themselves and others (Ajekwe & Ibiameke, 2016). For every trust violator, there must be opportunity by the embezzler, pressure and ability to rationalize the action.

Organizations ought to understand that as much pressure, financial reporting fraud cannot occur unless an opportunity is present (Center for Audit Quality, 2010). Opportunity is highly influenced by the responsibility and authority given to the person which they use intentionally to override the controls (Vona, 2012). Opportunities for fraud are mostly when the tone at the top is lax or existence of ineffective controls, however the best controls do not eliminate entirely the risk of fraud (Center for Audit Quality, 2010). A weakness in internal controls provides an opportunity for fraudsters to commit a crime.

Cressey interviewed 200 embezzlers, who were in prison and concluded that every fraud has pressure which is the motivation, rationalization of personal ethics and opportunity to commit fraud. The three factors are the corner ends of the fraud triangle, (Singleton *et al.*, 2006b); Albrecht *et al.*, 2015). The theory is important as it helps organizations to set up a strategy to prevent and investigate fraud occurrences. The three sides of the fraud triangle are interrelated.

Internal controls and resource mobilization

Effectiveness of internal controls on resource mobilization should be considered most important in every firm because the task of internal controls is to prevent and detect fraud in the firm. Internal controls are put in place to ensure safe custody of all assets; to avoid misuse or misappropriation of the firm's assets and to detect and safeguard against probable frauds. Like all firms, NGOs are faced with fraud risks thus the importance of assessing how internal controls may affect their resource mobilization.

Magara (2013) evaluated the effect of internal control on DT-SACCOs in Kenya. The determinants of internal controls used were control environment, risk assessment, control activities and monitoring mechanisms. The study relied on both secondary and primary data obtained from 122 DT-SACCOs in Kenya. The regression analysis conducted established that the independent variables have a positive strong correlation with the dependent variable. Each of the independent

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variables namely, the control environment, risk assessment, control activities and monitoring mechanisms contribute positively to the financial performance of SACCOs in Kenya. It is also evident from the study that without the presence of strong internal controls within these institutions, the SACCOs would be performing poorly with the risk of eventual collapse as a result of poor financial performance. The current study focused on the effect of internal control on resource mobilization of humanitarian NGOs in Nairobi County. The study creates a conceptual and contextual gap that the current study sought to fill.

Otieno (2014) conducted a study on internal controls and its effect on the performance of MFIs in Kisumu County. The determinants of internal control used were control environment, control activities, and information & communication whereas for financial performance was Liquidity. Descriptive and correlation research design was adopted, and a case study done on the chosen institutions. Convenience sampling technique was used and a total of 7 institutions were chosen from a total population of 18 micro-finance institutions and a total of 35 respondents chosen purposively for this study. Questionnaires were used to collect primary data and data collected analysed using correlation and presented through tables. Findings revealed that there is a positive relationship between internal control and financial performance of Micro-finance Institutions. The study recommended that the institutions should tighten controls to tend towards a 100% debt collection. The study further points out that keen attention should be paid to adopt more efficient management information systems. The current study focused on the effect of internal control on resource mobilization of humanitarian NGOs in Nairobi County. The study created a conceptual and contextual gap that the current study sought to fill.

Jones (2009) also did research on the effectiveness of internal control and came to the conclusion that institutions that provide insufficient internal control should be addressed. Despite a working financial system, outcomes may nevertheless favour the wealthy over the poor due to information asymmetries or social polarization. The wide variety of cost estimates raises the crucial question of what society is getting in return for its significant investment in the regions, which also points to a lack of internal control in these programs. The current study focused on the effect of internal control on resource mobilization of humanitarian NGOs in Nairobi County.

In a study by Muithya and Kosgei (2021) on public higher education institutions based in Nairobi, Kenya, the researchers looked at how internal controls affected the institutions' financial performance. The results showed a significant relationship between risk assessment, control activities, the control environment, information, and communication, as well as the financial performance of Nairobi's public higher education institutions. Information, communication, and monitoring, risk assessment, and control environment were all used as controls in the study. The financial performance of higher education institutions in Nairobi City County served as the dependent variable, on the other hand (Muhinyo, 2018). Multiple linear regression model analysis was used to examine the data. Adoption of internal control systems was advised by the study to increase accountability in the workplace. The current study focused on the effect of internal control on resource mobilization of humanitarian NGOs in Nairobi County.

Alemu (2020) investigated the purpose of ascertaining the effect of internal control system on organizational performance in Ethiopia. The study used descriptive design in soliciting information on the effect of internal control system on organizational performance. Data was collected from the respondents' using questionnaires and analyzed using descriptive statistics. The

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study findings indicated that the organization carried out proper authorization and approval of transactions. The result of the study also showed that that almost 2/3 of the respondents did agree with the fact that the organization reconciled physical cash with cash book balances, while 21% disagreed on the facts. This was because most business purchases (receipts) were not recorded so identifying the actual value of the assets was difficult leaving accountants with no knowledge on the assets.

2.2 Conceptual framework

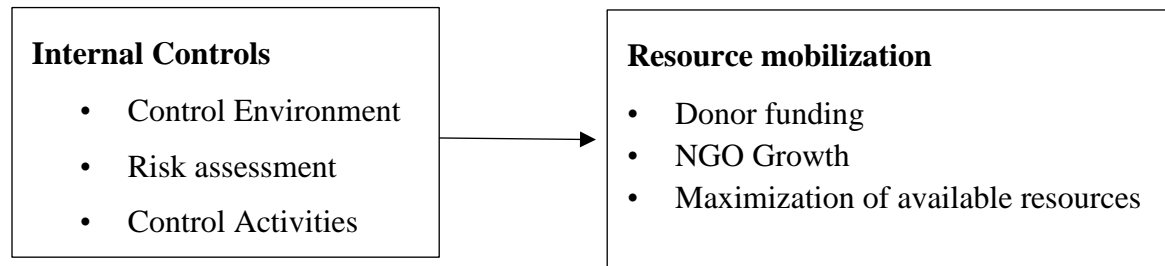


Figure 1: Conceptual Framework

3.1 Research Methodology

The study adopted a descriptive research design as this provided accurate information of the resource mobilization situation of Non-Governmental Organizations (Saunders *et al.* 2009). The target population of the current study was 64 humanitarian NGOs that are based in Nairobi County. While the unit of analysis was the 64 humanitarian NGOs, the unit of observation were two respondents from finance and project management departments of these organizations. The study adopted a census sampling technique where the entire sample size of 128 was used. Primary data was collected using a structured questionnaire. A regression model was used to test the effect of Internal Controls on the resource mobilization of Humanitarian NGOs in Nairobi County. The regression model adopted the form:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where;

Y = Resource mobilization

X₁ = Internal Controls

4.1 Results and Findings

The study identified one hundred and twenty-eight (128) respondents. However, only one hundred and twelve (112) questionnaires were duly filled therefore attaining a response rate of 87.5%.

4.2 Descriptive statistics of Internal Controls

Internal Controls was identified as one of the independent variables in the study. The indicators were; control environment, risk assessment and control activities. These were analysed using a 5-point Likert scale and the following were the descriptive statistics were obtained from the responses.

Table 1: Internal Controls Summary Statistics

Statement	Mean	Standard Deviation
Our Non-Governmental Organization conducts risk assessment regularly	3.46	1.237
There is positive management attitude towards the organization objectives on control environment	3.36	1.368
There are periodic updates of job descriptions that ensures employees are aware of the duties they are expected to perform	2.85	1.239
Our Non-Governmental Organization has contingent strategies to overcome risks on falsification of financial statements	3.34	1.359
Our organizational structure supports the control environment needed to enhance revenue management	3.26	1.469

Most of the respondents agreed that there are internal control measures in place that ensure financial accountability is practiced in Humanitarian Non-Governmental Organizations in Nairobi County. The results obtained established that respondents agreed to a moderate extent that their Non-Governmental Organization conducts risk assessment regularly (Mean=3.47) and agreed to a moderate extent that there is positive management attitude towards the organization objectives on control environment (Mean=3.36). The findings also highlighted that respondents agreed to a moderate extent that there are periodic updates of job descriptions that ensures employees are aware of the duties they are expected to perform (Mean=2.85), their Non-Governmental Organization has contingent strategies to overcome risks on falsification of financial statements (Mean=3.34) and their organizational structure supports the control environment needed to enhance revenue management (Mean=3.26). The standard deviation values obtained revealed that the responses did not deviate far away from the mean as the values were small. These findings are at par with a study done by Muithya (2021) which assessed internal controls and financial accountability in selected Humanitarian organizations in Kenya. The study found that that majority of Humanitarian organizations in Nairobi County have put up internal control measures that ensure financial accountability of Humanitarian organizations.

4.3 Correlation Analysis

This study utilized the Pearson correlation coefficient to establish the association between the variables used in the study. According to Kumar (2011), a correlation analysis indicates the direction and strength of the relationship between variables and ranges from -1 to +1. The results for the correlation analysis are presented in Table 2.

Table 2: Correlation Analysis

	IC	RM
Internal Controls	Pearson Correlation Sig. (2-tailed)	1
Resource mobilization	Pearson Correlation Sig. (2-tailed)	.600 .000
	N	112

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The results in table 2 indicated that Internal Control has a strong positive and significant effect on Humanitarian Non-Governmental Organization’s resource mobilization ($r = 0.600$, $Sig = 0.000$, < 0.05). This implies that a unit increase in Internal Control measures leads to a significant improvement in the resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County. The findings imply that when there are precise internal control measures, the resource mobilization of Humanitarian Non-Governmental Organizations is likely to improve.

4.4 Linear Regression Analysis

To establish the effect of Internal Controls on resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County, a linear regression model was used. The estimation of the regression model has model summary, ANOVA and model coefficients. The results are presented and explained in the sub sections that follow. The model summary results as presented in Table 3.

Table 3: Regression Model Summary

R	R-Squared	Adjusted R-Squared	Std. Error Estimate
0.717	0.514	0.501	0.60747

The results in Table 3 showed that the Internal Controls, had a strong correlation with resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County ($R = 0.717$). This implies that Internal Controls have a strong effect on the resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County. The R-square value was 0.514 in this study. This implies that up to 51.4% of the variation in resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County is explained by Internal Controls.

ANOVA shows the deviation of the predicted regression model from the actual regression model. The ANOVA results are presented in Table 4. The F statistic value was significant ($F = 38.109$, $P\text{-Value} = 0.000 < 0.05$) which implies that the overall regression model to determine the effect of Internal Controls, on resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County.

Table 4: Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	42.109	1	14.063	38.109	.000
Residual	39.854	110	0.369		
Total	82.044	111			

To establish the beta coefficients, constant and their significance, the regression results were highlighted in Table 5. The study established the model significance using both P values as well as critical t values. For the p-values, a variable had a significant effect on humanitarian NGOs’ resource mobilization if the value was less than 0.05 and critical t value was greater than absolute

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1.96. In such a case, the null hypothesis was rejected. The regression model coefficients are presented in Table 5.

Table 5: Regression Model Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	0.567	0.361		1.571	0.119
Internal Controls	0.273	0.108	0.236	2.524	0.013

From Table 5, the regression equation is given by;

$$Y = 0.567 + 0.273 X_1$$

Where: Y = Resource mobilization, X_1 = Internal Controls,

The regression model indicates that when resource mobilization measures around internal control is held constant, the resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County is positive at 0.567.

4.5 Discussion of Findings

The results of the hypothesis revealed that Internal Control has a positive and significant effect on resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County. The results in Table 5 indicate that internal control has a positive and significant effect on resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County ($B = 0.273$; $t = 2.524 > 1.96$, $= P\text{-Value} = 0.013 < 0.05$). These results imply that efficient internal control measures improve resource mobilization of Non-Governmental Organizations in Nairobi County. The null hypothesis developed on the non-significance of internal controls on resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County was rejected.

These findings are at par with a study done by Magara (2013) evaluated the effect of internal control on DT-SACCOs in Kenya. The determinants of internal controls used were control environment, risk assessment, control activities and monitoring mechanisms. The regression analysis conducted established that the independent variables have a positive strong correlation with the dependent variable. Each of the independent variables namely, the control environment, risk assessment, control activities and monitoring mechanisms contribute positively to the performance of SACCOs in Kenya. Additionally, Otieno (2014) conducted a study on internal controls and its effect on the performance of MFIs in Kisumu County. The findings revealed that there was a positive relationship between internal control and financial performance of Micro-finance Institutions. On the other hand, a Nigerian study by Eniola and Akins lure (2016) had contradicting findings. The study assessed the effect of internal controls on financial performance of selected manufacturing firms in the country. The results obtained revealed that internal control has a positive insignificant effect with fraud perpetrated in the organizations.

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5.1 Conclusion

The study highlights the importance of the internal control in influencing the resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County, thus it can be concluded that Humanitarian Non-Governmental Organizations in Nairobi County ought to increase their internal control measures in order to boost their resource mobilization. The results led to the rejection of the null hypothesis on the insignificance of internal control on resource mobilization of Humanitarian Non-Governmental Organizations in Nairobi County. Consequently, internal control highlights the need to be watchful on the risks /issues that face the Humanitarian Non-Governmental Organizations in Nairobi County.

6.1 Recommendations

The study recommends that Humanitarian non-governmental organizations need to implement internal control measures, such as control environment, risk assessment and information & communication, in order to improve their financial accountability. To reduce the likelihood of fraud and to raise everyone's awareness of the expectations for adhering to established standards, it is also necessary to have a clear understanding of the significance of internal controls and the division of duty among all the employees.

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