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Analysis of the Effect of Internal Control on Financial Accountability of Selected Humanitarian Organizations in Nairobi City County, Kenya

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Abstract:
Humanitarian organizations are mandated to ensure efficient financial accountability so as to enable efficiency in their operations, hence, maximum utilization of resources. Most of the humanitarian organizations have largely developed inculcated internal controls, however it is largely unclear to what extend the operationalization of internal controls has taken place since we continuously witness some organizations still struggling to fulfil their mandate due on their financial accountability. The objective of this study was to determine the effect of preventive, detective and corrective controls on financial accountability of selected humanitarian organizations in Nairobi City County, Kenya. The study was guided by; Positive Accounting Theory, Stewardship Theory and the Agency theory. The study adopted a descriptive research design, with a target population of 70 employees of three Humanitarian organizations in Nairobi City County; World Vision, Compassion International Inc and Give Directly Kenya. The study employed a census sampling technique. Information was collected using a semi structured self-administered questionnaire to be filled by all respondents from the target population. The data from the main research was entered into a statistical package for social sciences (SPSS) for analysis within the framework of multiple linear regression model and relative frequencies. Then the results were presented in tables' graphs and bar charts for ease of understanding by the users of this statistical information. From the findings, internal controls positively and significantly affect financial accountability of the humanitarian organizations in Nairobi City County. It is recommended that to improve their financial accountability, there is need for organisations to put in place preventive controls such as having a cheque co-signing policy, segregation of duty, having a chart that clearly defines lines of authority and responsibility and an organization structures to point out all responsibilities of each section. There is also need to have a clear understanding of importance of internal controls and division of responsibility among all the employees to mitigate possibility of fraud and also create common awareness of the expectation in adhering to set standards.

Keywords: *Accountability, internal control, efficiency, humanitarian organizations*

1. Introduction

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

Some well-known global Non–Governmental Organizations (NGOs) such as World Vision have integrated internal control measures like delegation of authorities, policies separation of duties, among other measures and this has helped them achieve Financial Accountability and in turn operational efficiency (NGOs East Africa, 2019). In addition, these controls help in securing compliance with the organization's policies by evaluating and organizing the performance level of all units within the organization (Behn, DeVries& Lin, 2010).

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

In Kenya, a number of humanitarian organizations have inculcated internal control systems in their operations (Annual NGO Sector Report 2018/19). Despite having inculcated internal controls in their operations, organizations like Chemonics

International, could not account for 9.5 billion dollars global health supply chain contract, which caused USAID to rethink of their funding trends thus withdrawing their funds (Saldinger, 2019). Other local NGOs still suffer poor financial management due to lack of financial accountability and most of them are at the verge of withdrawing their aid. Other NGOs have fruitlessly failed to provide a full mandate as well as objectives whereas other NGOs are losing donor funding's due to their meager internal control measures (Rondinelli, 2013).

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

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

Detective controls are implemented by organizations in order to reveal errors and irregularities, as they occur, they include Audit and Bank reconciliation. Audit is further categorized into External and Internal audit (El-Nafabi, 2009). External audit would involve an independent review of the organization records, processes to inform the external parties, in most cases, this has a legal requirement, and ensures the organization is incompliance to the requirements of the law. Internal audit aims at reviewing the extent to which the internal controls are implemented and the resulting effect to the financial accountability within an organization. According to Donald and Delno (2009) internal audit reports is for the internal management utilization for internal decision-making. Bank reconciliation are statements that matches company's cash balances to the corresponding amount as captured on the bank statement, which is conducted at regular intervals to ensure correctness of company's or organization's cash records.

According to COSO (1992), corrective controls are controls designed to take a corrective action to remove errors and irregularities after they are detected, they include procurement and finance policies. In an organization, both procurement and finance policies are regularly reviewed to respond to a certain detected irregular. Policies like graduated thresholds for different procurement items, procurement committee quorums and composition, procurement guidelines, code of conducts would help an organization in achieving a corrective control mechanism (Pettit & Beresford, 2009). Financial policies entail procedures and responsibilities that provides directions and guidance to financial accountability in an organization (ACLBC Internal Control & Finance Policy, 2019). The study used procurement and financial policies as a corrective control variable to investigate how internal controls affect the financial accountability of humanitarian organizations in Nairobi City County, Kenya.

The existence of any firm in most cases is usually to make profit and maximize the wealth of the shareholder (Mutuku, Muathe& James, 2019). However, the activities within humanitarian organizations are non-commercial based and not for profit but for social benefit. Sound financial management practices are crucial so as to improve accountability, transparency, and efficiency, thereby facilitating the achievement of an organization's objectives (Padilla *et al,* 2012).

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

In a firm's financial management, budgetary allocation and financial reporting are very crucial (Ndegwa, &Mungai, 2019; Musau, Muathe&Mwangi, 2017). Specifically, summarizing, analysing, interpreting, record keeping and communicating financial information forms the basis of financial management. With all these concepts and practices in place, an organization can be sure of operational and administrative efficiency as well as the improvement of financial accountability. In this study, budgetary allocation and financial reporting was used to measure the financial accountability of the humanitarian organizations in Nairobi City County, Kenya.

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

It is, therefore, the work of the humanitarian organizations to ensure full integration of internal control systems so that the organizational resources are monitored, directed and measured. Therefore, for sound internal control, duties must be well segregated among the individuals involved in the process. This is to avoid tasking one person with control of the whole process. Some of the organizations are small and are therefore limited in terms of staff. Such should implement a double-checking procedure to ensure the steps are followed properly and that the process is devoid of errors. Other measures may as well be put in place to ensure NGOs are controlling their expenses well. With such measures in place, the organizations can be assured of the achievement of its goals and objectives (Gereffi*et. al*., 2001).

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

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

From the above, it is clear that most of the studies on the internal control and financial accountability of humanitarian organizations lacked payment processes, qualified finance staff, internal audit, bank reconciliations, finance& procurement policies as internal control variables, the methodology also largely focused on the secondary data. Therefore, this study aimed at filling the literature gap that exist in the area and investigate the effects of internal controls on financial accountability of Humanitarian Organizations in Nairobi City County, Kenya.

2. Literature Review

2.1. Theoretical Review

Different authors have developed a number of theories and applied them in conceptualizing and investigating operations within humanitarian organizations as well as the internal control. This study examined a few theories and their importance concerning how internal control affects the financial accountabilities for of humanitarian organizations. The agency theory applied on this study, was first proposed by Jensen and Meckling and published in 1976. The authors stated that there exists an agency relationship between contracting parties of a firm and these relationships are prone to conflicts of interests. The theory argues that relationships can be best organized in such a way that one party, called the principal determines the work to be done while the other party, called the agent performs duties and makes decisions on behalf of the principal. An all-inclusive agreement must be put in place so as to match the interests of both the agents and the principals (Barlie& Means, 1982). To further tighten the association, they suggested that the principal can employ an expert to monitor the agent(s). In relevance to this study, an agency relationship exists between donors and humanitarian organizations - when the donors who are sole owners of the firm hire managers to oversee the day-to-day operations of the firm and make relevant decisions on their behalf. Agency problems arise when the managers do not commit to fulfilling the organization's objectives and instead focus on personal interests or the growth of the firm rather than maximizing on the shareholders earnings.

Positive Accounting Theory was proposed by Watts and Zimmerman in 1986, the theory advocates for the use/adoption of new accounting policies and standards depending on the prevailing economic condition. As stated by Deegan and Unerman, (2006), Positive Accounting theory is built on the hypothesis that any engagements of an individual are always motivated by self-interest. In addition, they further argue that the above engagements in most cases will always be to take advantage of a particular situation to satisfy their own interests. According to Watts and Zimmerman (1986) the theory has three main assumptions; Bonus plan assumption, Debt covenant assumption and Political cost assumption. In relevance to the study, the theory is structured to clarify and predict the firms that will and those that will avoid the adoption of a particular accounting practice but stay silent on the practice the firm ought to use (Deegan &Unerman, 2006). In this view, the theory predict that firms will strive to adopt mechanisms that will discourage self-driven actions. Consequently, managers interests are therefore harmonised together with the firm's interest, thereby, avoiding the agency conflict. This theory supports the internal controls specifically the preventive and detective controls of the study

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

2.2. Empirical Review

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

A study by Brown, (2016) on KOSS financial fraud in 2009, Michael Koss CEO discovered the fraud of the American company which was at the time valued at $34 million after he was given tip off by American Express. As expressed by White collar (a senior accounting personnel), the level of fraud was significant considering the profit margins of the company, its turnover as well as the size of the organization. KOSS was found to have very week internal controls associated to its size that resulted too little segregation of duties. Additionally, the management of the organization relied on external auditors namely Grant Thornton, LLP or "GT" who failed them as the auditors had limited understanding of the business hence could not help in meeting the expectations and objectives of the senior management as well as those of the organization in general. As revealed in the study, these auditors did not adhere to the minimum standards required in an audit. The losses were however minimized as the external auditors later on agreed on a payment of $8.5 million to KOSS in July 2013. The study inculcated segregation of duties to mitigate such errors from occurring.

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

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

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

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

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

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

Therefore, the primary duty of the internal control manager is reviewing any accounting and financial controls that are in existence and other legal compliance processes put in place and make any necessary revisions or additions. In this regard, the management has a responsibility to ensure timely communication with department managers and other staff members on urgent changes that need to be implemented. Additionally, the management cooperates with the human resource department in updating policy manuals and other important ensure instant compliance by all staff involved. This was for instance witness when majority of financial institutions and services rushed to develop social media compliance policies aimed at preventing brokers and serve reps from unintentionally providing financial advice through their accounts (Hermanson, 2003).

3. Research Methodology

This study used descriptive survey design that was appropriate since it centers on a certain given point and therefore these disregards monitoring series over the passage of time. Descriptive research design is mostly that which intends to give an explanation of the what, who, when and the how of a study phenomenon (Cooper *et. al.*, 2003). In this study, the population was selected humanitarian organizations headquartered in Nairobi City County. The study sample was heads of the sections in the Finance department of the three humanitarian organizations (World Vision, Compassion International Inc and Give Directly Kenya). The three humanitarian organizations have been chosen to be the target population as they are the leading NGOs in the project funds utilization in the Country (Annual NGO Sector Report 2018/19). In addition, their presence and operations are felt in most parts of the Country including Nairobi City County.

The study employed a census sampling technique in selecting the respondent. This is because the targeted population in the study is of a small size and manageable to select and interview all the respondents. Data was collected using semi structured questionnaires.

Data was analyzed first quantitatively then later qualitatively. To obtain the Financial Accountability, the multiple linear regression model indicated below was applied;

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

Where:

Y	-	Financial Accountability
β_0	-	the regression constant,
X_1	-	Preventive control,
X_2	-	Detective control,
X_3	-	Corrective control and
ε	-	The error term.
$\beta_1, \beta_2, \beta_3$	-	The coefficients of independent variables

4. Research Findings and Discussions

4.1. Descriptive Analysis

The study had three independent variables which were preventive controls, detective controls and corrective controls. The dependent variable was financial accountability. The study used mean and standard deviation to summarize the results on each of the variables of the study.

4.1.1. Preventive Controls

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

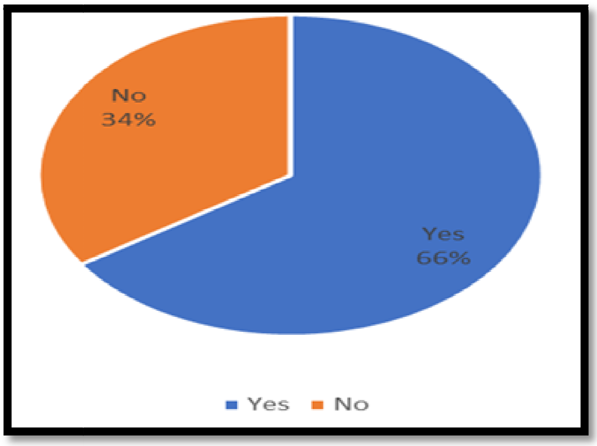

Figure 1: Whether Preventive Controls Affect Financial Accountability of Humanitarian Organizations
Source: Researcher (2021)

Further, respondents were asked to indicate the extent to which they concurred with various statements regarding preventive controls on a scale of 1-5 where 1=strongly disagree (SD), 2=disagree (D), 3=indifferent (IND),

4=agree (A) and 5=strongly agree (SA). From the results in Table 3, majority of the respondents strongly agreed that the organization has a cheque co-signing policy, cheque co-signing is an internal control that helps in risk mitigation, it is impossible for a signed cheque to be honored by any bank when it bears the signature for one person only (mean= 4.66).
All the respondents also strongly agreed that the organization has a chart that clearly defines lines of authority and responsibility and that organization structures points out all responsibilities of each section (mean=5). Additionally, majority of the respondents, mean 4.31 strongly agreed that it's impossible for any staff to access to any valuable information without the consent of senior staff with there a clear understanding of importance of internal controls and division of responsibility among all the employees. On average as represented by a mean of 4.4, majority of the respondents strongly agreed to existence of various preventive controls.

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

	SD	D	IND	A	SA	Mean	Std Dev
The organization has a cheque co-signing policy	0.0%	0.0%	0.0%	34.4%	65.6%	4.66	0.48
Cheque co-signing is an internal control that helps in risk mitigation	0.0%	4.7%	0.0%	32.8%	62.5%	4.53	0.73
Cheque co-signing has slowed down the operations	1.6%	34.4%	34.4%	0.0%	29.7%	3.22	1.25
It is impossible for a signed cheque to be honoured by any bank when it bears the signature for one person only.	6.2%	0.0%	0.0%	31.2%	62.5%	4.44	1.01
The organization has a chart that clearly defines lines of authority and responsibility	4.7%	0.0%	4.7%	7.8%	82.8%	4.64	0.95
It's impossible for any staff to access to any valuable information without the consent of senior staff	34.4%	0.0%	0.0%	0.0%	65.6%	3.63	1.91
Organization structures points out all responsibilities of each section.	4.7%	1.6%	4.7%	7.8%	81.2%	4.59	1.00
There a clear understanding of importance of internal controls and division of responsibility among all the employees	6.2%	6.2%	34.4%	4.7%	48.4%	3.83	1.28

Table 1: Descriptive Results on Preventive Controls
Source: Researcher (2021)

4.1.2. Detective Controls

The study also sought to examine the effect of detective controls on financial accountability of humanitarian organizations in Nairobi city County, Kenya. Accordingly, respondents were required to indicate whether detective controls affect financial accountability of the humanitarian organizations in Nairobi city County, Kenya. From the results in Figure 4.6, majority of the respondents, 67.2% agree that detective controls affect financial accountability of the humanitarian organizations while 32.8% disagreed. Detective controls help to detect errors that have occurred and also help inform on better practices that mitigate risks. This study findings supported those of Wabwire and Bogonko (2019) who found that controls have been applied in ensuring reliability in financial reporting, efficiency of operations of Humanitarian organizations. The purpose of internal controls is to curb accounts reporting errors in order to avoid fraudulent mistakes.

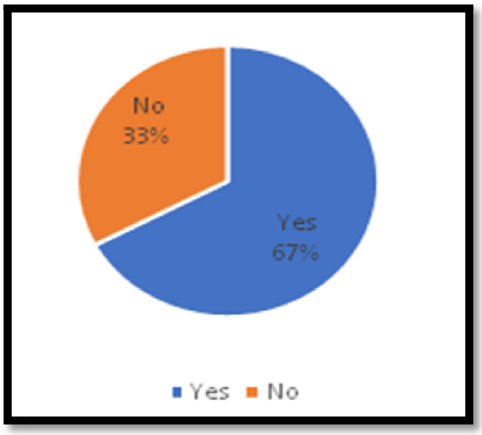

Figure 2: Whether Detective Controls Affect Financial Accountability of the Humanitarian Organizations
Source: Researcher (2021)

Additionally, respondents were asked to indicate the extent to which they concurred with various statements regarding detective controls. From the results in Table 2, all respondents strongly agreed that the organization has an internal audit department, internal audit as an internal control helps in risk mitigation and that bank reconciliation is carried out in the organization (mean=5). However, as confirmed by a mean of 1.69, internal audits have slowed down organizational operations and that internal audit findings and recommendations are disseminated to all staff. Majority of the respondents also agreed that internal audit regularly carried out in the organization (mean=3.34). Moreover, it was agreed that internal audit recommendations are strictly and fully implemented (mean=3.98), management decisions are guided by the previous audit recommendations (mean=3.66).

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

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

	SD	D	IND	A	SA	Mean	Std Dev
The organization has an internal audit department	4.7%	4.7%	4.7%	4.7%	81.2%	4.53	1.10
Internal audit as an internal control that helps in risk mitigation	4.7%	7.8%	3.1%	6.2%	78.1%	4.45	1.17
Internal audits has slowed down the operations	43.8%	1.6%	35.9%	7.8%	10.9%	2.41	1.40
Internal audit regularly carried out in the organization.	21.9%	4.7%	3.1%	35.9%	34.4%	3.56	1.54
Internal audit findings and recommendations are disseminated to all staff.	46.9%	3.1%	35.9%	6.2%	7.8%	2.25	1.32
Internal audit recommendations are strictly and fully implemented.	6.2%	3.1%	34.4%	32.8%	23.4%	3.64	1.07
Management decisions are guided by the previous audit recommendations	7.8%	0.0%	54.7%	4.7%	32.8%	3.55	1.18
Bank Reconciliation is carried out in the organization	9.4%	4.7%	4.7%	3.1%	78.1%	4.36	1.33
Bank Reconciliation findings and recommendations are disseminated to all staff.	42.2%	7.8%	7.8%	35.9%	6.2%	2.56	1.49
Bank Reconciliation recommendations are strictly and fully implemented.	4.7%	4.7%	34.4%	34.4%	21.9%	3.64	1.03
Management decisions are guided by the Bank Reconciliation recommendations	15.6%	3.1%	37.5%	9.4%	34.4%	3.44	1.40

Table 2: Descriptive Results on Detective Controls
Source: Researcher (2021)

4.1.3. Corrective Controls

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

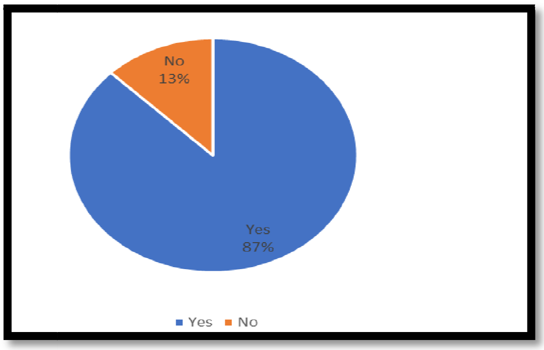

Figure 3: Whether Corrective Controls Affect Financial Accountability of the Humanitarian Organizations
Source: Researcher (2021)

Respondents were also asked to indicate the extent to which they concurred with various statements regarding corrective controls. The results are shown in Table 3. Majority of respondents agreed that the organization formulates new procurement policies to curb cases of fraud and that procurement policy is an internal control that has helped in risk mitigation as shown be respective means of 4.33 and 4.66. Moreover, majority of respondents strongly disagreed that procurement policies have slowed down organisational operations (mean=1.69) whereas they were indifferent to the statement that all staff are familiar with procurement policies and procedures (mean=2.67).

Regarding the statement whether procurement policies are strictly and fully implemented by all staff, the largest proportion disagreed (mean=2.69) whereas the largest proportion of respondents agreed that procurement processes that have violated the laid down policy and procedures do not succeed in this organization (mean=3.34). The organization formulates new financial policies to curb new case of fraud as all respondents agreed and Financial policy is an internal control that has helped in risk mitigation (mean=5.00). Majority of respondents also strongly disagreed that financial policies have slowed down the operations (mean=1.69) whereas they agreed that all staff are familiar with financial policies and procedures, financial policies are strictly and fully implemented by all staff (mean=4.33). All respondents involved in the study also strongly agreed that financial processes that have violated the laid down policy and procedures do not succeed in this organization (mean=5.00). On average, a mean of 3.73 indicates majority of respondents agreed with various statements on corrective controls. These finding similarly, agreed with Ndegwa and Mungai, (2019) that revealed that the internal controls systems had a significant positive influence on the Ministry's Financial Management. Turley and Zaman (2004) also found that internal control framework guarantees compliance with appropriate laws and regulations, and furthermore inward policies concerning the conduct of business.

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

SD	IND	A	SA	Mean	Std Dev	
Financial policies have slowed down the operations	65.6 %	34.4%	0.0%	0.0%	1.69	0.96
All staff are familiar with financial policies and procedures	0.0%	0.0%	67.2%	32.8%	4.33	0.47
Financial policies are strictly and fully implemented by all staff.	0.0%	0.0%	67.2%	32.8%	4.33	0.47
Financial processes that have violated the laid down policy and procedures do not succeed in this organization.	0.0%	0.0%	0.0%	100.0%	5.00	0.47
Average					3.73	0.67

Table 3: Descriptive Results on Corrective Controls
Source: Researcher (2021)

4.1.4. Financial Accountability

The study also examined the financial accountability of humanitarian organizations in Nairobi city County, Kenya. Respondents were required to indicate whether budgetary allocation has helped the organization enhance its financial accountability over the last five years. From the results all the respondents agreed whereby they cited the fact that through budgetary allocation, respondents indicated that staff are well guided in their implementation activities funds are used as per plans and brings awareness of spending levels when implementing an activity (32.8%).

Respondents were also required to indicate whether financial reporting has helped the organization enhance its financial accountability over the last five years. From the results in Table 6, all the respondents agreed. Accordingly, 34.4% indicated that financial reporting helps organisations to know their position at any given time, and the required actions and or the direction to pursue, 32.8% indicated that financial reporting has enhanced accountability of funds received and being spent with a further 32.8% agreeing that financial reporting gives financial performance information for strategy input.

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

Table 4: Whether Budgetary Allocation and Financial Reporting Have Helped the Organization Enhance Its Financial Accountability
Source: Researcher (2021)

Respondents were also asked to indicate the extent to which they concurred with various statements regarding financial accountability of humanitarian organisations in Nairobi city, Kenya. From the findings shown in table 4.5, majority of respondents strongly agreed that the organization has well laid down budgetary allocation policies (mean=4.34), budgetary Allocation has helped the organization achieve efficient financial management in its operations (mean=4.28), the organization’s budgetary allocation policies are strictly adhered to (mean=4.11), all staff are familiar with organization’s budgetary allocation policies (mean=3.88). On the same note, majority of respondents agree that procurement policies are strictly and fully implemented by all staff (mean=4.06), the organization has financial reporting policies in place and that all the funds allocated to projects are well managed.

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

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

Table 5: Descriptive Results on Financial Accountability of Humanitarian Organisations
Source: Researcher (2021)

4.2. Inferential Analysis

To establish the relationship between internal controls (preventive, detective and corrective) and financial accountability of humanitarian organizations in Kenya, inferential statistics of correlation as well as regression analysis were conducted. For the purpose of establishing the whether the relationship between the two sets of variables was significant, the study set a significance level of 5% on the coefficients of the variables. The following section presents correlation and regression analysis results.

4.2.1. Regression Analysis

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

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.767	0.588	0.567	0.271708
a Predictors: (Constant), Corrective control, Preventive control, Detective control				

Table 6: Model Summary Statistics
Source: Researcher (2021)

The significance of the regression model was confirmed by the F statistic of 0.000. The F calculated statistic of 28.52 was greater than F (3, 60) critical value of 2.758 which further confirmed the significance of the regression model used in this study. This implies that the internal controls examined in this study are appropriate factors in predicting deviations in the financial accountability of humanitarian organizations in Nairobi City County as shown in Table 7.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.317	3	2.106	28.52	.000
	Residual	4.43	60	0.074		
	Total	10.746	63			
a. Dependent Variable: Financial accountability						
b Predictors: (Constant), Corrective control, Preventive control, Detective control						

Table 7: ANOVA (Model Significance)
Source: Researcher (2021)

Table 11 presents the regression coefficient that were used to test the influence of internal controls (Corrective control, Preventive control, Detective control) on financial accountability of of humanitarian organizations in Nairobi city County.

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

Table 8: Regression Coefficients
Source: Researcher (2021)

The regression results as shown in Table 11 indicate that when all the variables of the study are held constant, financial accountability of humanitarian organizations in Nairobi city County will be at the intercept which is 0.124. Preventive controls positively and significantly influence financial accountability of humanitarian organizations in Nairobi city County (Beta = 0.385, Sig=0.000). Accordingly, a unit increase in preventive controls, would results in 0.385 increase in financial accountability of humanitarian organizations. These finding supported those of Muhinyo, (2018) who found that adoption of preventive controls improves accountability in the organizations. Additionally, Brown (2016) argued that segregation of duties to mitigate errors from occurring is an internal preventive mechanism that can foresee possible difficulties earlier and therefore improve financial accountability. However, the results fail to support the findings of Ogunmakin (2014) who found that preventive internal controls have an insignificant effect on accountability of public parastatals.

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

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

5. Conclusions and Recommendations

5.1. Conclusions

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

The study also concluded that detective controls positively and significantly affect financial accountability of the humanitarian organizations as they help to detect errors that has occurred and also help inform on better practices that mitigate risks. Having an internal audit department, regularly carrying out internal audit, disseminating internal audit findings and recommendations to all staff, strictly and fully implementing internal audit recommendations and having bank reconciliation improves financial accountability of humanitarian organizations in Nairobi city County.

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

5.2. Recommendations

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

The study also recommends humanitarian organizations to institute effective detective controls to improve their financial accountability. In this regard, the organisations should consider putting in place an internal audit department, regularly carrying out internal audit, disseminating internal audit findings and recommendations to all staff, strictly and fully implementing internal audit recommendations and having bank reconciliation.

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

5.3. Areas for Further Research

From the conceptual framework and findings of the study, there are other areas that future research can focus on. From model summary results, preventive controls, detective controls and corrective controls jointly accounted for up to 58.8% of the variation in financial accountability of humanitarian organizations in Nairobi city County, Kenya. This implies that 41.2% of the variation in financial accountability of humanitarian organizations in Nairobi city County, Kenya is accounted for by other factors not covered in the model of the study. Future studies can examine the impact of other factors not included in this study on financial accountability of humanitarian organizations.

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