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FINANCE

INTERNAL CONTROLS AND FINANCIAL MANAGEMENT OF HUMANITARIAN NON-GOVERNMENTAL ORGANIZATIONS IN NAIROBI CITY COUNTY, KENYA

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ABSTRACT

Purpose of the study: The study sought to investigate the effect of internal control system on financial management of humanitarian non-government organizations in Nairobi city county, Kenya. NGOs support the society by providing community development, disaster relief, social movements and sustainable system development, among others.

Statement of the problem: Despite the various internal controls' measures in place, financial management remains a concern among NGOs in Kenya. Information on inefficient budget utilization, organization's assets misuse, misappropriation of donor funds and late financial reporting have been reported. As stated by Global Fund Audit, several NGOs were barred from applying for new funding programs and have lost offers for project implementation awards as a result of their organizations' ineffective internal control system.

Research methodology: A descriptive research design was adopted. The data was gathered from 185 participants selected from accounting, administration and operations departments of humanitarian NGOs in Nairobi City County. Data was analyzed using descriptive and inferential statistics.

Findings: The study found that internal control system of humanitarian NGOs is a significant determinant of financial their financial management. Regression results revealed that internal audits have beneficial influence on financial management of humanitarian NGOs in Nairobi County. Also, internal control environment has beneficial effects on financial management of humanitarian NGOs in Nairobi city. The study revealed that information communication has beneficial effects on financial management of NGOs in Nairobi city. Finally, it was also established that risk assessment has beneficial effects on financial management of NGOs in Nairobi city.

Recommendations: The study recommends humanitarian NGOs in Nairobi City County to invest in effective internal audit departments, improving the control environment of their organizations and help automate data flow, give real-time information, and integrate their accounting and other business-related tools to encourage accountability and transparency in financial management.

Keywords: *Internal Control System, Internal Audit, Internal Control Environment, Information Communication, Risk Assessment*

INTRODUCTION

Internationally, internal controls are an instrument which enables institutions to achieve their defined goals (Ruhara & Moronge, 2016). While internal controls were historically seen as existing in the domain of accountants and auditors, they are part of the management's responsibility, which is primarily responsible for making sure that controls are effectively carried out in an organization. Constant monitoring is essential to ensure that an internal control system function efficiently (Wandera & Sang, 2017). The inability to properly assign resources to objectives while maintaining the value for money depends on the existing internal control system. Issues such as excess expenditure, payroll control and the process of procedural procurement may best be dealt with under a strong system of internal control (Ngumi, 2013). The much-reported controversies in the context of international NGOs over recent years resolve the question as to why internal controls are seen as paramount. As indicated by a survey carried out in 2015 by Thompson Reuters Foundation, about a third among the 25 largest NGOs do not publish data about fraud, but disclose cases of fraud to the regulators. They also have mechanisms of internal resolution, yet they were not been able to provide fraud information (Thompson Reuters, 2015). In addition, it was found that between 2009 and 2014, a value of 2.7 million US dollars was lost on annual basis.

The NGO suffered a loss of £496,000 to fraud and corruption, with 296 recorded occurrences of which were reported in that year. The value decreased marginally below that of 2015/16 (£537,000), with 293 cases and £652,149 registered in 2014/15 (Express UK, 2021). Moreover, as reported by internal audit, Mercy Corps, which operates in Portland, Oregon and helps disadvantaged communities in Congo, suffered a loss of £639,000 siphoned from its Eastern Democratic Republic of the Congo emergence program during the year 2018. Mercy Corps suffered another loss of $257,670 in a project in Afghanistan project in the year 2011 when a staff member cashed a forged cheque (Self Help Africa, 2020). The Norwegian Refugee Council (NRC) (2018) uncovered 14 incidents of accounting maladministration in nine countries, including Pakistan, Afghanistan and Liberia. The greatest setback was made in Columbia, which was not reached by the beneficiaries for where construction materials worth $50,000 never reached the intended beneficiaries.

The NGO documented 61 and 55 financial mismanagement incidents in the Annual Anti-corruption works in NRC reports of 2018 and 2017 respectively which occurred in Democratic2Republic2of Congo, Iraq, Ethiopia, Lebanon, Kenya, Mali, Nigeria, Myanmar, Syria, Somalia, Uganda and Tanzania. These fraudulent cases indicate poor or malfunctioned internal controls which further illustrates the need to study how internal controls affect NGOs performance. Furthermore, the prices payment made for some printed materials was massively inflated, contributing to a loss of EUR16, 881, in the Southern and East Africa. All these losses were as a result of weaknesses and gaps in and a deficit of effective systems of internal control, contributing to loss of revenue due to failures in meeting objectives resulting in projects termination and withdrawals of donors. Sound financial management ensures continued effective operations and involvement of NGOs (Ramadan & Borgonovi, 2015). NGOs make more profitable and productive decisions on resource distribution and utilization, raising of funds and other transactions through sound financial management. Sound skills in decision making enable Non-Governmental Organizations to allocate the appropriate amount of funding in their projects. Thus, funds are efficiently and optimally utilized as averted by Ngumi (2013).

STATEMENT OF THE PROBLEM

NGO existence is essential, particularly in a developing nation like Kenya. Kenya, as a third world economy, faces numerous challenges in the economic and social spheres. This has compelled the involvement of a number of non-governmental organizations from all over the nation (Ntongo, 2012). NGOs support the society by providing community development, disaster relief, social movements and sustainable system development, among others (Arhin, 2018). Despite the various internal controls measures in place, financial management remains a concern, evident through inefficient budget utilization, organization's assets misuse, misappropriation of donor funds and late financial reporting. Corruption is common in African nations, as reported by Transparency International (2010), posing a serious risk of employees circumventing ineffective internal controls seeking to please their own interests. As stated by Global Fund Audit, several NGOs were barred from applying for new funding programs and have lost offers for project implementation awards as a result of their organizations' ineffective internal control system. The majority of available research on internal controls and financial performance in Kenya focus on profit-oriented business organizations such as cooperative societies, banks (Muturi & Kiyieka, 2018), commercial enterprises, supermarkets, higher learning institutions, devolved governments (Jagongo & Rutto, 2020) and technical training institutions (Atieno et al., 2019). These studies focused on different industries hence may not be generalized to the study context. Therefore, this study purposed to examine the effects of internal control system on financial management of humanitarian NGOs within Nairobi County, Kenya.

RESEARCH OBJECTIVES

i. To determine the effect of internal audit on financial management of humanitarian non-government organizations in Nairobi city county, Kenya
ii. To establish the effect of internal control environment on financial management of humanitarian non-government organizations in Nairobi city county, Kenya
iii. To establish the effect of information communication on financial management of humanitarian non-government organizations in Nairobi city county, Kenya
iv. To examine the effect of risk assessment on financial management of humanitarian non-government organizations in Nairobi city county, Kenya

LITERATURE REVIEW

THEORETICAL REVIEW

The Accountability Theory

In 1999, Lerner and Tetlock established the theory of Accountability. The "agent" is the individual whose actions are examined (Anton & Cummings, 1990; Batson & Adelberg, 1978), and the "principal" is the individual who has the authority to assess and examine the agent (Batson & Adelberg, 1978; Anton & Cummings, 1990). Without the right to hold the agents responsible for actions they commit, there exists no basis for collective expectations or social order (Tetlock, 1992). Organizational approaches to the essence of accountability from stakeholders compise the establishment of formal reporting relationship, disciplinary procedures, performance management and tracking. Accountability is the expectation of an individual being called upon to justify their behavior to others, whether explicitly or implicitly (Teltock, 1992). Those persons who refuse to offer a satisfactory reason for their actions will suffer negative consequence as a result of their failure in accountability (Stenning, 1995). Individuals who provide compelling justifications, otherwise, reap the profit. Lowry, Eggett, and Vance (2015), indicate that accountability theory explains how the natural need to justify one's actions in front of a third party causes one to believe and feel accountable by the way in which judgments and decisions are executed.

This theory explains and anchors internal audits and internal control environment variables. According to Endaya and Hanefah (2016) internal auditor must review and verify the financial statements as part of the assessment in order to make a determination regarding the accuracy of the data contained therein. The purpose of an audit is to inform users about the fundamentals of accounting, best practices in that area, and how to publish financial statements in a way that accurately depicts the company's financial status and performance. The theory further anchors the variable internal control environment. According to Otley and Berry (1998) internal control system places a lot of emphasis on organization control and accounting. Tectlock (1992) argued that because of the unavoidable need to account for a consequence and a decision-making procedure, an individual's proclivity to think deeply and systematically about operational activities increases. Therefore, without internal control of environment, institutional system will not last long if group members are not held accountable. The theory further anchors the financial management variable. According to Chang et al. (2020) budgetary controls, financial controls, monitoring, and accountability measures can be implemented with the help of accounting theory precedents to ensure high-performance and high-quality services. The theory therefore, promotes the implementation of financial management methods, such as financial controls, budgetary controls, monitoring, and accountability for effective financial performance.

The Stewardship Theory

McDonald (1990) developed Stewardship Theory as a practical application of Agency Theory. According to the Stewardship Theory, administrators are compelled to act in the interests of their businesses and owners. The institution's assets should be well-managed. As per the Stewardship Theory, the agents and principals who guide trustworthy moral behavior in line with the stakeholders and organization may be united (Davis et al., 1997). When administrators are left on their own, stewardship refers to the belief that they act as responsible stewards and protect properties they are in charge of, and that they will be pleased and encouraged when the entire business succeeds. In stewardship theory, collectivistic, trustworthy and pro-organizational behaviors profit more than personal motives suggesting that organizational intentions outweigh individual motivation (Hernandez, 2012). Managers, as per Davis et al. (1997), have interests aligned with the needs of their directors rather than seeking to achieve personal goals.

The theory anchors information communication aspects of the organization. When it comes to achieving the organization's strategic objectives, managers collaboratively function as stewards according to Vallejo$_2$(2009) & Goyder$_2$(2011) The productive and accountable governance of the assets allocated both now and in the coming years, for the purpose of carrying over the resources in a good state. Empowering organizational structure, mutually trusting relationships and participation-oriented contexts, as per the Stewardship Theory, foster pro-organizational behavior and performance (Davis et al., 1997). Consequently, monitoring expenses are lowered. The theory supports the elements of information communication in the current study because donors, who act as the principals, apply it to verify if managers' actions must be communicated to be consistent with the organization's and beneficiaries' interests in achieving effective financial management.

Enterprise Risk Management theory

Enterprise risk management theory was first advanced by Nocco and Stulz (2006). The theory asserts that instead of managing each risk separately, the approach promotes the measurement and control of significant risks affecting a given entity as a whole. Its fundamental objective is to integrate the disparate risk management silos inside a business into a single, all-encompassing framework. According to Beasley et al. (2005) senior corporate executives and staff should actively participate in the risk management process of analyzing and responding to a wide variety of company hazards, according to the ERM risk management framework of managing risk. This idea supports participation in risk management by all members of the organization, not just a select few. The theory anchors risk assessment and financial management variables studied in this study. According to Arena et al. (2010) ERM also emphasizes the value of transparent procedures and rules for controlling risks. According to the theory, businesses will be better able to identify, analyze, and manage risks if they establish written policies that outline their risk appetite, strategic goals, tolerance, and systematic processes. The idea also emphasizes the development of a culture of risk management in which all stakeholders are given the authority and responsibility to control risks. Anton and Nucu (2020) argued that ERM techniques contribute to firms' long-term viability, stakeholder confidence, and competitive advantage; hence explaining the concept of financial management.

EMPIRICAL LITERATURE REVIEW

Internal Audits and Financial Management

Nansamba (2019) conducted a study on effect of internal audit on financial performance of commercial banks in Uganda. The authors employed descriptive and correlational research design which allowed quantitative methods of analysis. The study sought to investigate the effects of financial audit standards, independence of internal audit and professional on financial performance of commercial banks in Uganda. The study discovered that financial audit procedures, internal audit impartiality, and expert proficiency had positive influence on the performance of Ugandan financial institutions. As a result, the research advised Ugandan financial institution administration to embrace effective internal auditing procedures such as internal auditing principles, internal auditing impartiality, professional proficiency, and internal controls in order to improve productivity. However, given the differences in scope the findings of Nansamba (2019) cannot be generalized to fit the context of NGOs in Nairobi city.

Kwabena et al. (2019) conducted a study on financial audit and financial performance of firms listed at Nairobi Security Exchange. The study employed a descriptive research design. The demographic consisted of all of the Nairobi stock exchange's registered companies. To gather pertinent data, questionnaires were utilized. The financial performance of enterprises registered on the NSE was based on certified and publicized financial accounts. The findings of the quantitative and qualitative assessments indicated that a high-quality financial audit enhances the financial profitability of companies registered on the NSE by increasing investor trust. However, give the focus of Kwabena et al. (2019) was on financial audit, and financial performance, there is conceptual differences with the present research which focused on internal audit and financial management. Moreover, the research context was on firms listed at NSE, and since there exist operational differences, their study findings cannot be applied in the context of NGOs.

Control Environment and Financial Management

Masanja and Masimba (2020) investigated how well internal control system affected the effectiveness of financial management at a few training institutes. The study used a quantitative technique, and its descriptive and correlational research design. The MS-TCDC and the University of Arusha both participated in the study. The study revealed that control environment has significant and beneficial impact on financial management. However, given their small sample size, their findings cannot be generalized to apply to all public universities in Arusha and Tanzania, neither can they be applied to fit the context of NGOs in Kenya.

Moreover, Mulyati et al. (2020) analyzed how the Serdang Bedagai Regency government's internal control system components affect the accuracy of its financial accounts. The research method used is causal associative quantitative research. There were 126 participants in this study who were budget users (PA)/KPA, financial administration officers in 47 SKPD in the district government of Serdang Bedagai Regency. According to the study's findings, the control environment, and risk assessment have beneficial influence on the accuracy of the Serdang Bedagai district government's financial statements. The study context was Serdang Bedagai Regency government's while the current research focus is on NGOs in Nairobi city and therefore their results cannot be used to inform policies and practices in relation to internal control systems and financial management of NGOs.

Information Communication and Financial Management

Hewa Wellalage *et al*. (2021) examined how business owners saw the impact of ICT on their financial management in African countries. Their investigation, which included information on 1436 firm owners from the World Bank Enterprise Survey database and an inverse probability of treatment weighting (IPTW) based on propensity scores, revealed that ICT improves entrepreneurs' financial management. However, given that the study focused on entrepreneurs financial management, it contextually differs with the present research which focused on humanitarian NGOs within Nairobi City County, Kenya.

Malowa (2021) aimed to determine how internal control systems could affect the financial management role to achieve efficient service delivery in Ugandan urban administration. The research was a case study involving seven employees from Ugandan urban administration. The study found that, designing, developing, and implementing information communication system in any public body is essential, timely, and value-adding. In particular, the element of minimizing mistakes and fraud is a critical component of the financial management role in all agencies. However, given that the research was a case study, their results only apply to the case studied and cannot be generalized to fit other contexts, and in particular the current research context of humanitarian NGOs within Nairobi City County, Kenya.

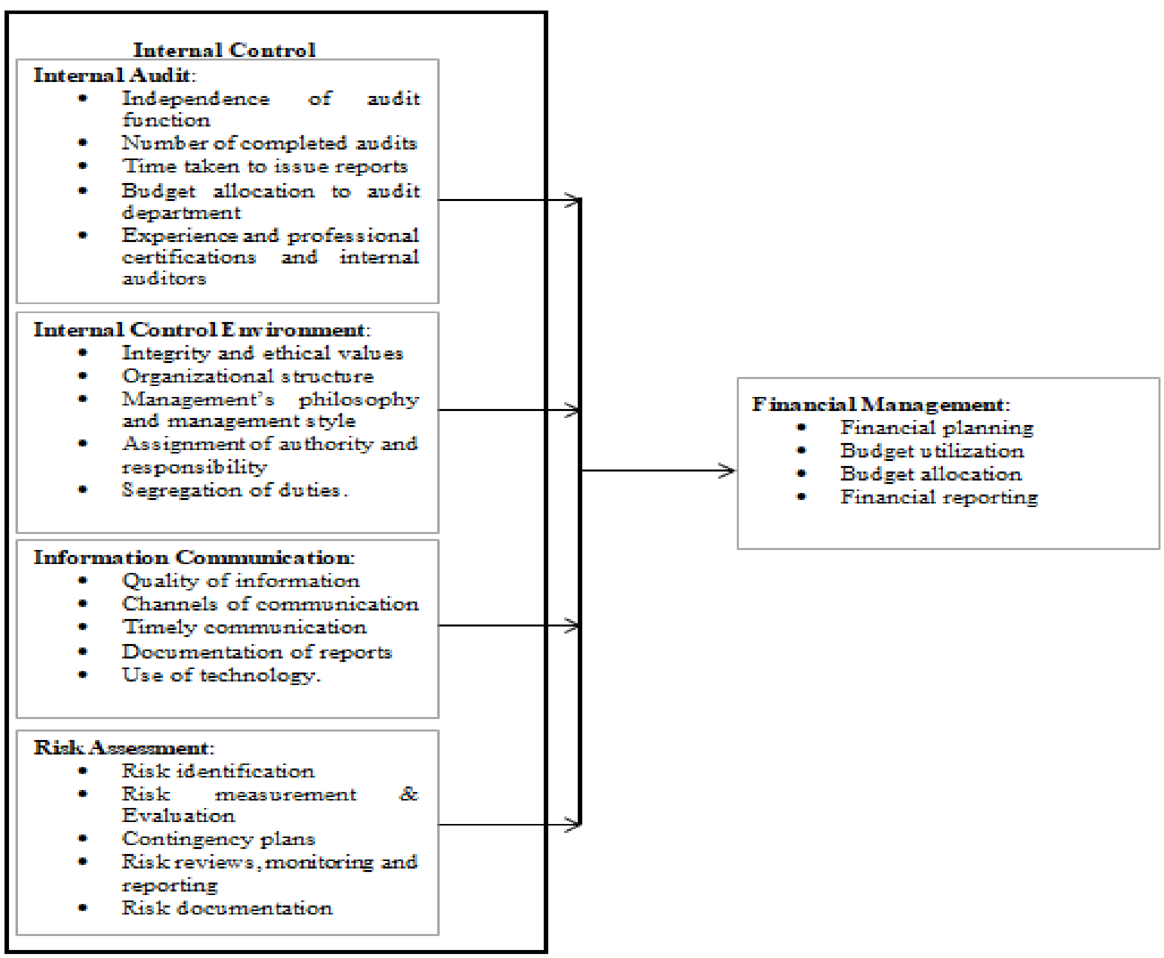
Risk Assessment and Financial Management

Mulyati et al. (2020) analyzed how the Serdang Bedagai Regency components of the government's internal control system impact the accuracy of its financial accounts. The research method used is causal associative quantitative research. There were 126 participants in this study who were budget users (PA)/KPA, financial administration officers in 47 SKPD in the district government of Serdang Bedagai Regency. According to the study's findings, the risk assessment have beneficial influence on the accuracy of the Serdang Bedagai district government's financial statements. The study context was Serdang Bedagai Regency government's while the current research focus is on NGOs in Nairobi city and therefore their results cannot be used to inform policies and practices in relation to internal2control2systems and financial2management of NGOs.

Utama and Walundari (2020) investigated the use of internal controls to guard against fraud in village financial management. This study used a case study approach to qualitative exploratory research. Primary and secondary data were collected for this study through interviews, documentation, and observation. According to the findings environment control, risk assessment, control activities, information and communication, and monitoring had beneficial impacts on fraud control. Since the study was a case study of Ketapang village, the study lacked scientific rigor and provided very little basis for the generalization of the results.

Masanja and Masimba (2020) investigated how well internal control systems affected the effectiveness of financial2management at a few training institutes. The study used a quantitative technique, and its descriptive and correlational research design. The MS-TCDC and the University of Arusha both participated in the study. The study revealed that risk assessment has significant and beneficial impact on financial management. However, given their small sample size, their findings cannot be generalized to apply to all public universities in Arusha and Tanzania, neither can they be applied to fit the context of NGOs in Kenya.

Figure 1: Conceptual framework



RESEARCH METHODOLOGY

A descriptive research design was adopted. The target population is the set of items, people or events from which the researcher seeks to draw conclusions. There are 387 Non-governmental organizations in Nairobi City, Kenya, per the Kenya Business Directory as at December 31st 2020). The study examined this demographic in this research advocacy, agribusiness, economic empowerment, education, ecology, health, human rights, aid, as well as research are some of the primary fields in which NGOs work. The entire populace for the research was made up of all NGOs operational in Nairobi City County, Kenya. The study utilized stratified and simple random sampling techniques to select the respondents. A questionnaire containing closed ended questions was administered to each respondent in the sample population. Open-ended and closed-ended questions were included in the tool. Data was analyzed using descriptive and inferential statistics. Descriptive statistics (variable means, percentages and the standard deviation of the variables) and inferential statistics (OLS model and correlation analysis) were used to analyze the study's data.

RESEARCH FINDINGS AND DISCUSSIONS

Descriptive Statistics

Table 1: Internal Audit Descriptive Statistics

	Disagreed	Neutral	Agreed	Mean	SD
The organization has in place an Internal Audit Department	2.70%	3.80%	93.50%	4.3	0.7
Internal Audit Department is adequately staffed	7.00%	4.30%	88.60%	4.2	0.8
Internal Audit Department has adequate budget allocation for training	4.30%	8.60%	87.00%	4.2	0.8
Internal Audit staff conduct regular audits of organization's activities	7.00%	19.50%	73.50%	4	0.9
Internal Audit Reports are issued timely	10.30%	16.20%	73.50%	4	1
Internal Audit Reports address weaknesses in the Internal Control System	9.20%	12.40%	78.40%	4.1	0.9
Management regularly monitors implementation of Audit findings	4.90%	10.80%	84.30%	4.2	0.8
Internal Auditors make appropriate recommendations to management for improvement	5.40%	8.10%	86.50%	4.2	0.8
Internal Auditors perform their duties with a greater degree of autonomy and independence from the Management	5.40%	8.10%	86.50%	4.2	0.8
Internal Auditors have adequate Certifications from relevant Professional bodies	2.70%	2.70%	94.60%	4.3	0.7
Aggregate				**4.2**	**0.82**

Source: Study Data (2022)

These findings in Table 1 are consistent to that of Moroney and Coram (2018) who noted that effective IA departments enhance value by providing the control, monitoring and internal evaluation environment in organizations to detect corruption activities. In addition, Baltaci & Yilmaz (2006) argues that IA department is very crucial to financial performance due to its role in enhancing transparency and effectiveness, an assertion which agrees with the findings of the present research.

Table 2: Control Environment Descriptive Statistics

	Disagreement	N	Agreement	Mean	Std
The organization has an accounting and financial management system	0.00%	35.10%	64.90%	4	0.9
Management is committed operation of the system	0.00%	21.60%	78.40%	4.2	0.8
Management closely monitors implementation of Internal Control Systems	0.00%	27.00%	73.00%	4.1	0.8
Employees and Management acts with a culture of great degree of integrity in executing their roles	3.80%	28.60%	67.60%	4	1
Ethical values are upheld in all management decisions	6.50%	19.50%	74.10%	4	0.9
The organization has a Board of Directors independent of the Management	6.50%	22.20%	71.40%	4	0.9
The organization has an organizational structure which is clear at all levels	2.20%	34.10%	63.80%	4	0.9
There is clear assignment of authority, responsibility, supervision and reporting channels	3.80%	37.30%	58.90%	3.8	0.9
The organization has adequate policies and procedures at all departments with sufficient separation of duties	3.80%	21.10%	75.10%	4.2	0.9
The organization conducts Annual Performance Reviews of the employees job objectives	1.60%	36.20%	62.20%	3.9	0.9

Source: Study Data (2022)

The findings in Table 2 are consistent with Thomas and Metrejean (2013) who claimed that managers are in charge of creating healthy internal control systems by providing instructions for better behaviour, enforcing a positive ethical tone, removing obstacles to positive conduct, enforcing discipline, developing a code of ethics, making sure that employees have the required level of competence to carry out their duties, and clearly delineating areas of authority and responsibility.

Table 3: Descriptive Statistics of Information Communication

	Disagreement	N	Agreement	Mean	Std
The organization utilizes information technology for communication	3.20%	3.80%	93.00%	4.3	0.7
The organization utilizes automated information management systems in Procurement, Financial Reporting, Monitoring and Human Resources management	7.60%	3.20%	89.20%	4.3	1
The organization has clear channels of information flow	4.90%	7.60%	87.60%	4.3	0.8
Information within the organization is received and disseminated in a timely manner	12.40%	3.20%	84.30%	4	1.1
The organization receives communication from internal and external sources in a useful form	9.70%	2.20%	88.10%	4.1	0.9
Information received helps to monitor achievement of organization operations and financial reporting	9.20%	3.20%	87.60%	4.1	0.9
Departments identify, capture, process and communicate information that others need in a form and timeframe that is useful	8.60%	40.50%	50.80%	3.7	1
Information in the organization is documented using appropriate media	4.30%	43.80%	51.90%	3.7	0.9
Periodic reports are made to top management and Board of Directors of the organization	1.10%	31.40%	67.60%	4	0.8
Aggregate				**4.06**	**0.9**

Source: Study Data (2022)

These results in Table 3 are in line with Lemoye (2005) who observed that accurate and valid and consistent information must be obtained and disseminated within the business institution. Information on fraudulent operations is not disclosed to top leadership and the Council of Governors until when problems become severe in some situations, while information in management and financial reports is erroneous or not conveyed on time in other cases.

Table 4: Descriptive Statistics of Risk Assessment

	Disagreement	N	Agreement	Mean	Std
The organization has mechanisms to monitor achievement of its objectives	16.20%	20.50%	63.20%	3.7	1.3
The organization has diversified sources of revenue	30.80%	17.30%	51.90%	3.4	1.4
The organization has adequate mechanisms for creating risk awareness within the organization	21.10%	16.20%	62.70%	3.7	1.3
The organization has Enterprise-wide systems to identify and analyze risks to its objectives	3.80%	3.80%	92.40%	4.4	0.7
The organization has adequate controls over procurement, custody and disposal of assets	5.90%	3.80%	90.30%	4.4	0.8
Internal and External risks are duly considered in Change Management	5.90%	3.80%	90.30%	4.3	0.8
The organization has clear channels of detecting and systems reporting risks	11.90%	2.20%	85.90%	4	1
The organization performs periodic review of plans and budgets to incorporate new risks	8.10%	6.50%	85.40%	4.2	1
The organization has well defined business process flows for mitigating risks	8.60%	2.70%	88.60%	4.1	1
Aggregate				**4.02**	**1.03**

Source: Study Data (2022)

This finding in Table 4 are in line with the assertions by Wanjohi (2017) who noted that risk management, has a strong positive association with an institution's financial efficiency and Kiragu (2014) who noted that risk reduction techniques like loss control, risk transfer and management have beneficial effects on organizational financial performance.

Table 5: Descriptive Statistics of Financial Management

	Disagree	N	Agree	Mean	Std
The organization produces and submits timely and quality periodic financial reports to its donors	0.00%	23.80 %	76.20%	4.2	0.8
The organization produces timely and quality management reports for internal use by management and Board of Directors	2.70%	1.60%	95.70%	4.4	0.7
The organization prepares annual departmental plans and budgeting based on pre-determined guidelines	3.80%	23.20 %	73.00%	4.1	0.9
The organization has well defined processes and tools for monitoring budget utilization	24.30%	15.10 %	60.50%	3.5	1.3
The organization performs periodic reviews of monthly/quarterly/annual plans, budgets and objectives	1.10%	34.10 %	64.90%	3.9	0.8
The organization has mechanisms for efficient allocation of funds to the departments	8.60%	2.70%	88.60%	4.2	0.9
The organization has well defined guidelines and budgetary controls over expenditures in its operations	21.60%	14.10 %	64.30%	3.6	1.3
Aggregate				**3.99**	**0.96**

Source: Study Data (2022)

These results in Table 5 are consistent with Demba (2019) who noted that financial management techniques including budgeting, internal controls, and financial reporting are crucial for the efficient operation of government organizations. According to Oyelakin and Abdullahi (2022) successful application of the internal management mechanism contributes to high financial efficiency.

Correlation Analysis

The study carried out an analysis to measure the level of correlation between the study variables as presented in Table 6

Table 6: Correlation Matrix

		1	2	3	4	5
Financial management (1)	Pearson Correlation	1.000				
	Sig. (2-tailed)					
	N	185				
Internal Audit (2)	Pearson Correlation	0.650**	1.000			
	Sig. (2-tailed)	0.000				
	N	185	185			
Control Environment (3)	Pearson Correlation	0.582**	0.357**	1.000		
	Sig. (2-tailed)	0.000	0.000			
	N	185	185	185		
Information Communication (4)	Pearson Correlation	0.769**	0.512**	0.428**	1.000	
	Sig. (2-tailed)	0.000	0.000	0.000		
	N	185	185	185	185	
Risk Assessment (5)	Pearson Correlation	0.716**	0.588**	0.384**	0.535**	1.000
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	
	N	185	185	185	185	185

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

Source: Study Data (2022)

The findings in Table 6 reveal that NGOs internal audit correlates positively and significantly with financial management (r = 0.650, p-value = 0.000). This implies that increase in effectiveness of internal audit coincides with increase in financial management of humanitarian NGOs in Nairobi city. This may be attributed to financial, operational and compliance controls, as well as, point of action recommendations resulting into improved financial management. Internal control environment has a positive and significant correlation with financial management (r= 0.582, p-value = 0.000). This implies that increase in effectiveness of internal control environment coincides with increase in financial management of humanitarian NGOs in Nairobi city. Improvement in internal control environment imply that the employees of NGOs are held accountable, are responsible and the organizational structure as well as systems are effectively functioning, hence translating to effective financial management practices.

The correlation matrix also found that information communication has a positive and significant correlation with financial management (r= 0.769, p-value = 0.000). This implies that increase in effectiveness of information communication coincides with increase in financial management of humanitarian NGOs in Nairobi city. The positive relationship maybe explained by efficient transmission of information, hence allowing accurate reporting and recording of financial information between departments. In addition, risk assessment correlates positively and significantly with financial risk management (r = 0.716, p-value = 0.000). This implies that increase in effectiveness of risk assessment coincides with increase in financial management of humanitarian NGOs in Nairobi city. Risk assessment ensures that there are detective and preventive measures of ensuring proper financial resource utilization and prevent against risks. Therefore, risk assessment provides a system whereby financial resources are effectively and efficiently used leading to effective financial management.

Inferential Statistics.

A regression analysis sought to ascertain the manner in which the independent variables predict dependent variables. Thus, to quantify the strength amid the study variables, multiple regression was adopted to study the determinants of internal control system and their influence on the financial management.

Model Summary

The model summary presents the correlation coefficient (R) and coefficient of determination (adjusted R squared). The correlation coefficient indicates the strength of relationship between the variables. The coefficient of determination presents the extent with which the dependent variable is explained by independent variable.

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.886[a]	0.784	0.780	.279742451030904

a. Predictors: (Constant), Internal Audit, internal control environment, information communication, risk assessment

Source: Study Data (2022)

As shown in Table 7, coefficient of determination of adjusted (R^2) is 0.780, which translates to 78%. This implies that 78% variation in financial management of NGOs at Nairobi City County is explained by changes internal control system namely internal audit, internal control environment, information communication and risk assessment while 22% of the change NGOs financial management is attributable to circumstances outside the purview of the study. These factors may include financial risks management, financial regulations and practices among others. This was in line with Nansamba (2019), Muturi and Kiyieka (2018) and Mulyati et al. (2020) who found that internal control system dimensions are significant predictors of financial management.

Analysis of Variance

The study sought to establish the overall significance of the model. The findings in table below present the results.

Table 8: Significant Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	51.261	4	12.815	163.761	0.000[b]
	Residual	14.086	180	0.078		
	Total	65.347	184			

a. Dependent Variable: Financial Management

b. Predictors: (Constant), Internal Audit, internal control environment, information communication, risk assessment

From the table 8 above, it can be established that the regression model is significant. The F-statistics is 163.761 and its corresponding p-value is 0.000, which implies that internal control system are significant predictors of financial management of NGOs at Nairobi City County. This was also consistent with Nansamba (2019), Muturi and Kiyieka (2018) and Mulyati et al. (2020) who found that internal control system namely internal audit, risk assessment, monitoring, control environment, information and communication are significant predictors of financial management.

Regression Coefficients

Regression analysis presents the Beta coefficients and the P values which helps in developing the linear relationship between variables. The Beta coefficients indicate the changes in units to the dependent variable as a result of changes in the independent variable. The Beta coefficient also indicates the direction with which the dependent variable changes as a result of changes in the independent variable. If the P values are less than 5% then the specific variable is said to be significant in explaining the changes in the dependent variable. Table 9 presents the results.

Table 9: Regression Coefficient

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-1.866	0.265		-7.041	0.000
	Internal Audit	0.517	0.054	0.422	9.548	0.000
	Internal Control Environment	0.396	0.070	0.222	5.658	0.000
	Information Communication	0.199	0.050	0.177	3.949	0.000
	Risk Assessment	0.334	0.051	0.301	6.559	0.000

a. Dependent Variable: Financial Management

$$Y = -\mathbf{1.866} + \mathbf{0.517}\ \textit{Internal Audit} + \mathbf{0.396}\ \textit{Internal Control Environment} + \mathbf{0.199}\ \text{Information Communication} + \mathbf{0.334}\ \text{Risk Assessment}$$

The first objective of the study was to establish the influence of internal audits on the financial management of humanitarian NGOs within Nairobi City County, Kenya. To achieve this objective, the study sought to test the null hypothesis that Internal Audits does not have significant influence on financial management of humanitarian NGOs within Nairobi City County, Kenya. As shown in Table 9, internal audit has a positive and significant effect on financial management of humanitarian NGOs within Nairobi City County Kenya ($\beta = 0.517$, t-statistics = 9.548 >2, P-value = 0.000 < 0.05). The results imply that a unit increase in internal audit results into increase in financial management of humanitarian NGOs in Nairobi City County by 0.517. Since, t-statistics is greater than 2 and p-value is less than 0.05, the study rejects the null hypothesis that Internal Audits does not have significant influence on financial management of humanitarian NGOs within Nairobi City County, Kenya. Therefore, internal audits have positive and significant influence on financial management of NGOs within Nairobi City County, Kenya.

The results imply that improvement in internal audits results into improved financial management practice by the humanitarian NGOs in Nairobi city. This relationship is attributed to the financial, operational and compliance controls, as well as, point of action recommendations resulting into improved financial management. This is in tandem with Ziniyel (2018) who found that internal audit team has positive beneficial effects on financial management and financial performance of public institutions in Ghana. The second objective of the study was to establish the influence of internal control environment on the financial management of humanitarian NGOs within Nairobi City County Kenya. To achieve this objective, the study sought to test the null hypothesis that internal control environment does not have significant influence on financial management of humanitarian NGOs within Nairobi City County, Kenya. As shown in Table 4.14, internal control environment has a positive and significant effect on financial management of humanitarian NGOs within Nairobi City County Kenya ($\beta = 0.396$, t-statistics = 5.658>2, P-value = 0.000 < 0.05). The results imply that a unit increase in internal control environment increases financial management of humanitarian NGOs in Nairobi city by 0.396. Since, t-statistics is greater than 2 and p-value is less than 0.05, the study rejects the null hypothesis that internal control environment does not have significant influence on financial management of humanitarian NGOs within Nairobi City County, Kenya.

The internal control environment has a positive and significant influence on financial management of NGOs within Nairobi City County, Kenya. The results shows that increase the effectiveness of internal control environment in terms of policies and practices that promotes high ethical values, commitment, and integrity is likely to result into improved financial management in terms of timely and accurate financial reports, effective allocation of funds, well defined budgetary controls, and effect budget utilization. Improvement in internal control environment imply that the employees of NGOs are held accountable, are responsible and the organizational structure as well as systems are effectively functioning, hence translating to effective financial management practices. The control environment, control activities, and supervision have a major impact on financial accountability and, as a result, financial management (Vasilie, 2019; Masanja & Masimba, 2020).

The third objective of the study was to establish the influence of information communication on the financial management of humanitarian NGOs within Nairobi City County Kenya. To achieve this objective, the study sought to test the null hypothesis that information communication does not have significant influence on financial management of humanitarian NGOs within Nairobi City County, Kenya. As shown in Table 4.14, information communication has a positive and significant effect on financial management of humanitarian NGOs within Nairobi City County Kenya ($\beta = 0.199$, t-statistics = 3.949>2, P-value = 0.000 < 0.05). This result implies that a unit increase in information communication leads to an increase in financial management of humanitarian NGOs in Nairobi City County by 0.199. Since, t-statistics is greater than 2 and p-value is less than 0.05, the study rejects the null hypothesis that information communication does not have significant influence on financial management of humanitarian NGOs within Nairobi City County, Kenya. Therefore, information communication has a positive and significant influence on financial management of NGOs within Nairobi City County, Kenya.

The result shows that information communication is beneficial factor of internal control system that improves the financial management of humanitarian NGOs in Nairobi city. When information communication is leveraged via timely transmission and sharing of accurate information within organizational departments, the organization is able to meet and achieve the objectives of financial management in timely manner. Efficient transmission allows accurate reporting and recording of financial information between departments. Mulyati et al. (2020) reported a similar finding and argued that real time financial information when used in conjunction with Integrated Financial Management Information Systems (IFMIS) can improve management by and enhancing decision-making capabilities of the managers.

The forth objective of the study was to establish the influence of risk assessment on the financial management of humanitarian NGOs within Nairobi City County Kenya. To achieve this objective, the study sought to test the null hypothesis that risk assessment does not have significant influence on financial management of humanitarian NGOs within Nairobi City County, Kenya. However, results in Table 4.14 show that risk assessment has a positive and significant effect on financial management of humanitarian NGOs within Nairobi City County Kenya ($\beta = 0.334$, t-statistics = $6.559 > 2$, P-value = $0.000 < 0.05$). This result implies that a unit increase in risk assessment leads to an increase in financial management of humanitarian NGOs in Nairobi City County by 0.334. Since, t-statistics is greater than 2 and p-value is less than 0.05, the study rejects the null hypothesis that risk assessment does not have significant influence on financial management of humanitarian NGOs within Nairobi City County, Kenya. Therefore, risk assessment has a positive and significant influence on financial management of NGOs within Nairobi City County, Kenya.

The result suggests that risk assessment is crucial to the financial management of humanitarian NGOs within Nairobi city. Risk assessment measures to identify, mitigate and manage risks allow NGOs to efficiently fulfill their operational processes while engaging in a broad range of financial management programs. Risk assessment ensures that there are detective and preventive measures of ensuring proper financial resource utilization and prevent against risks. Therefore, risk assessment provides a system whereby financial resources are effectively and efficiently used leading to effective financial management. Utama and Walundari (2020) and Masanja and Masimba (2020) also found that risk assessment has beneficial impact on financial management. In particular, Utama and Walundari (2020) argued that through risk assessment, governments, business, and investors can determine the likelihood that a bad event will have a negative impact on their operations; as a result, it helps them mitigate the risk or prepare for the risk, resulting in improved financial management.

CONCLUSION

Internal control system of humanitarian NGOs is a significant determinant of their financial management. Variables such as internal audit, internal control environment, information communication and risk assessment contribute to functioning internal control system which leads to improved financial management. From the findings, internal audit was widely practiced by humanitarian NGOs under study and also had the highest impact on financial management. This is because internal audits enhance the reliability of financial reporting and management, either directly or indirectly by increasing accountability among information providers in the organization. Risk assessment and internal control environment follow closely with varying impact, while information communication has the least impact on financial management among the internal control system factors. Therefore, this study concludes that internal control system is salient and fundamental feature of humanitarian NGOs in Nairobi City County. It provides an independent appraisal of the quality of the financial management and managerial performance in carrying out assigned responsibilities, and in formulation and implementation of proper financial planning, decisions and implementation that helps to factor proper use of resources and finances.

The study concludes that internal audits have positive and significant influence on financial management of NGOs within Nairobi City County, Kenya. This positive influence of internal audit on financial management is attributed to the financial, operational and compliance controls, as well as, point of action recommendations resulting into improved financial management. Increases in effective practices in internal audit department have a beneficial impact on financial management of humanitarian NGOs in Nairobi City County. Therefore, the foundation of sound financial management for NGOs in Nairobi City County is effective internal audit practice and activities, which is crucial to generate smooth operations and the proper implementation of financial controls and policies at the organizations. The study concludes that internal control environment has have significant influence on financial management of humanitarian NGOs within Nairobi City County, Kenya. The results showed that increase the effectiveness of internal control environment in terms of policies and practices that promotes high ethical values, commitment, and integrity is likely to result into improved financial management in terms of timely and accurate financial reports, effective allocation of funds, well defined budgetary controls, and effect budget utilization. Internal control environment activities ensures that the NGOs goals are aligned with the organizations operations resulting into operational effectiveness and efficiency, trustworthy financial reporting, security of state assets, and compliance with laws, regulations, and policies hence higher levels of good financial management.

The study concludes that information communication has a positive and significant influence on financial management of humanitarian NGOs within Nairobi City County, Kenya. Although information communication had the least effect on financial management among the other internal control factors studied in this study, it is established that it has beneficial effects on financial management of humanitarian NGOs in Nairobi City County. Increase in information communication improves financial management of humanitarian NGOs in Nairobi City County. Information communication promotes timely, accurate and reliable information regarding NGOs accounting records; hence promoting efficiency and measure of financial management policies and compliance. The study concludes that risk assessment has significant influence on financial management of humanitarian NGOs within Nairobi City County, Kenya. The study established that risk assessment is an important predictor of financial management of humanitarian NGOs in Nairobi city and had a beneficial impact. Specifically, the study established that an improvement in risk assessment improves financial management of humanitarian NGOs in Nairobi City County. The most important factors affecting an organization's financial management are risk identification and mitigation. Risk assessment ensures that all types of risks are identified, mitigated and managed; hence improving the financial management of humanitarian NGOs in Nairobi City County.

RECOMMENDATIONS

The study recommends humanitarian NGOs in Nairobi City County to invest in effective internal audit departments. This should entail matters and policies that promote internal audit independence, high qualifications and competent internal auditors that will ensure that the NGOs are in compliance of the laws and organizations policies, and who will provide valuable audit reports and recommendations. Moreover, the humanitarian NGOs should have internal audit team, which will follow-up the application and implementation of the audit reports and recommendations. The humanitarian NGOs in Nairobi city to invest in improving the control environment of their organizations. In practice, the organizations should have specific standards of conduct that should be understood throughout all levels of the organization and processes aimed at evaluating performances and addressing deviations from expectations. The humanitarian NGOs in Nairobi City County should hold each worker liable for their internal control obligations in the fulfillment of the company goals. Humanitarian NGOs in Nairobi City County to work to improve their information communication department. To encourage accountability and transparency in financial management, NGOs should integrate accounting software with other business-related programs, automate data flow, and offer real-time information. The study recommends the use of cost-efficient procedures for rapid risk identification and effective risk mitigation practices. They should regularly evaluate their risk management procedures to determine whether they are still useful in the constantly shifting environment.

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