

THE ROLE OF INTERNAL AUDIT ON PERFORMANCE OF NON-PROFIT ORGANIZATIONS: CANDLELIGHT ORGANIZATION, HARGEISA, SOMALILAND

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Abstract

The main objective of the study was to examine the role of internal audit on performance of nonprofit organizations. Candlelight was used as a case study. The major issue covered was Reliability of financial reporting, preparation of timely, reliable and relevant reports needed for decision-making, safeguarding the resources and finally monitor the organization's compliance with all applicable laws, rules, codes and standards. The research questions were answered using both quantitative and qualitative research methods which integrate a descriptive research design. Questionnaire and interviews were the instruments used. A target population was 50, from which a sample size of 45 participants was selected using stratified sampling. The major findings of study show that internal audit significantly promotes organizational performance of NGOs. The findings show that management support, organizational independence, staff competency and sound management controls enhance internal audit effectiveness and the ways to promote internal audit effectiveness so that the organization triumphs. Finally, this research paper recommended that Candlelight Organization should try to apply bench marking as a tool to evaluate and assess how other internal audit functions in their sector are operating and must adopt in order to improve.

Keywords: *Financial reporting, internal audit, performance, non-governmental organizations.*

INTRODUCTION

In the past, internal auditing was realized as a process and mechanism to double-check the thousands or hundreds of financial transactions that were posted to the ledgers or accounts. In the 1950s and 60s, it only contained of fundamental tests of the accounts with a view to isolating or separate errors, abnormalities and irregularities. Huge standardized auditing work programs would be prepared that determined the steps that had to be taken to verify figures in the main accounting ledger and feeder systems. Most of today's internal auditor facilitates or eases the growth of appropriate controls and dominance as part of a wider and larger risk strategy, and supplies assurances on the reliability and dependability of these controls. The move from elaborated low-level checks of vast volumes of mainly in the financial transactions to high-stepped input into corporate risk management strategies has been enormous. In fact, it was the need to keep records of ownership of quantities of goods that led to the development of writing and arithmetic. It was centuries later that literature and mathematics evolved separately, far removed from this initial accountability application.

Since 1995 till this day, candlelight has grown from modest beginning of working in office room donated by another local NGO and staff composed of one director supported by five different volunteer social workers, with highly limited coverage to reach. Fledged organization with interventions in all over Somaliland regions and four sectoral departments via, education

health, environment and income generation. The formation of the organization coincided with an eruption of internal civil strife in parts of Somaliland in 1994-95 and its first activities focused on addressing the needs of the duplicated communities from Buroa the regional capital Togdheer region.

PROBLEM STATEMENT

Native (Somaliland) business people and those from neighboring countries establish nonprofit organizations in Somaliland, but they are still facing difficulties to enjoy a huge profit and maintain their business due to poor internal auditing performance. The rules and measurement of performance and carrying out is very vital to current performance gaps or spaces between current and desired or craved performance and supplies indication of progress and development towards closing the gaps. The main problem was signaled that its foremost indicators are: organizations failed to achieve its goals fraud and cash misuse, asset misappropriation Donate fund, financial crises in the organization, lack work scope management, Lack of Work-Breakdown-Structures, Poor planning and low shareholders' affect. internal auditing, Cash misuse, No access control, Poor financial management, Weak internal control, Poor employee recruiting, Too much operational expenses, Asset misappropriation, Poor bad duty recovery

RESEARCH OBJECTIVES

The general objective is to investigate the relationship between internal auditing and performance of nonprofit organizations in selected Candlelight organization in Hargeisa Somaliland.

- To determine the level internal auditing in selected Candlelight in Hargeisa
- To determine level of performance in selected Candlelight in Hargeisa Somaliland.
- To determine if there is significance relationship between auditing and performance in selected nonprofit organization in Hargeisa Somaliland

LITERATURE REVIEW

The main variables or factors in the outgrowth of internal auditing was the protracted span of control faced by management teams in the businesses employing thousands of people and dealing operations in many different locations. Defalcation, embezzlements and irregularly maintained accounting records were prima problems, and the growth rate in the volume and capacity of transactions led in a substantial bill for different public accounting services for the organization that proven to maintain control by continuing the traditional and primitive form of audit by the public accountants. According to Lawrence R. Dicksee (2009) "Internal Auditing interested with the confirmation of accounting data, with deciding the veracity and reliability of accounting statements and reports by organizational staff members, in particular internal auditing is the systematic and scientific examination of the books of a accounts and records of a business so as to enable the auditor to satisfy himself that the statement of financial positions and statement of comprehensive income. are properly drawn up so as to exhibit a true and fair view of the financial statement of affairs of the business and profit and or loss for the financial period, the auditor will have to go through various books and accounts and related evidence to satisfy himself about the accuracy and authenticity to report the financial health of the business.

METHODOLOGY

Research Design

There are different types of research designs; this study will follow descriptive research design in order to describe the relationship between internal audit and performance non-profit organizations. The population of this study was the employee that were operating the Candlelight organization Hargeisa Somaliland. Therefore, 50 people will be target population of the study and by using slovens' formula the sample size of the study was 45.

RESULTS

4.1 Demographic characteristics

	Categories	Frequency	Percentage
Age	Valid		
	18-25	10	25.0%
	26-40	27	67.5%
	41-50	2	5.0%
	Above 50	1	2.5%
	Total	40	100.0%

Gender	Male	16	32.5%
	Female	24	67.5%
	Total	40	100.0%
Education	Valid		
	Secondary	6	15.0%
	Certificate	4	10.0%
	Degree	25	62.5%
	Postgraduate	5	12.5%
	Total	40	100.0%
Experience	Valid		
	1-3	18	45.0%
	4-10	17	42.5%
	11-20	4	10.0%
	Above 21	1	2.5%
	Total	40	100.0%
Marital status	Valid		
	Single	13	32.5%
	Married	27	67.5%
	Total	40	100.0%

Source: Own survey

Results table 4.1 Indicated in terms of age, it shows that a majority of the respondents 40% were aged between 26 - 40 years followed by 62% were aged between 18 -35 years, 25% of the respondents are 50 years and above, and lastly 2.5% were aged under 18 years. The majority of respondents were adult people with active memory hence information obtained from them can be trusted and looked at as a true and good representation of the information the researcher was looking for. In case of gender, there were more female (67.5%) than male (32.5%). This implies that the majority of the respondents are female.

In the case of their education background, 6% of the respondents were in secondary level, while 4% of the respondents were certificate level, 25% of the respondents Degree level, and finally 4% of the respondents were postgraduate holders, and this implies that the majority of the

respondents were Degree level while respondents aged between 10% lastly above 21 were 2.5%.

In the case of experience were the respondent aged between 1-3 were 45% and respondent aged 4-10 were respondent 42.5%, 11-20 were 10% and lastly 21-above were 2.5%.

In the case of their marital status were (32.5%) single and (67.5%) were married, so the majority of the respondents were married.

Table 4.2: Internal audit

No	Indicators	Mean	Std deviation	Interpretation
	Internal audit			
1	Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.	3.47	.716	Strongly agree
2	Internal auditing is a catalyst for improving an organization's Effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes.	3.43	.712	Strongly agree
3	Independently assessment and evaluate systems of control throughout the authority and its activities	3.30	.648	Strongly agree
4	Provide reassurance to management that their agreed policies are being carried out effectively facilitate good practice in managing risks	3.55	.639	Strongly agree
5	Recommend improvements in control, performance and productivity in achieving corporate objectives	3.22	.735	Agree
6	Review the value for money processes, arrangements, systems, and units within the authority work in partnership with the external auditors.	3.63	.768	Strongly agree
7	Audits of financial statements examine financial statements to determine if they give a true and fair view or fairly present the financial statements in conformity with specified criteria.	3.35	.736	Strongly agree
	Grand mean	3.33		

Source: Own survey

Table 4.2. Shows the respondents that internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Strongly agree (Mean 3.47), while the respondents Strongly agree that Internal auditing is a catalyst for improving an organization's Effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes.(Mean 3.43), the respondents strongly agree Independently assessment and evaluate systems of control throughout the authority and its activities (Mean 3.43), The respondents Strongly agree that The business matches its cash flows with its cash inflow (Mean 3.55) move over the respondents agree that recommend improvements in control, performance and productivity in achieving corporate objectives(mean 3.22), table 4.2.Shows that the respondents Strongly agree review the value for money processes, arrangements, systems, and units within the authority work in partnership with the external auditors. (mean3.68),the respondents Strongly agree Audits of financial statements examine financial statements to determine if they give a true and fair view or fairly present the financial statements in conformity with specified criteria.(mean 3.53), The grand mean indicated that the extent Internal audit and performance nonprofit organization in candlelight Hargeisa Somaliland is high satisfactory (mean index 3.33 satisfactory) this implies that the extent of is High satisfactory since the general mean shows satisfactory.

Table 4.3: Performance

No	Indicators	Mean	Std deviation	Interpretation
	Performance of nonprofit organization			
1	Performance and profitability goals as well as safeguarding of resources are the major objectives to be attained by effective and efficient	3.30	.723	Strongly agree
2	Reliability of financial reporting means the preparation of timely, reliable and relevant reports needed for decision-making within the organization.	3.47	.751	Strongly agree
3	One of the most important responsibilities of the board is to monitor the organization's compliance with all applicable laws, rules, codes and standards.	3.38	.925	Strongly agree
4	Auditor independence is a much more structured and defined term, as well as a regulatory requirement for performance.	3.45	.552	Strongly agree
5	The performance of a compliance audit is dependent upon the existence of verifiable data and of recognized criteria or standards, such as established laws and regulations, or an organization's policies and procedures.	2.90	.778	agree
6	Internal auditing needs to design and deliver services that maximize the value added to the organization, balancing quality outcomes that satisfy clients with attention to quality processes.	3.47	.751	Strongly agree
7	Compliance audit is a review of an organization's procedures to determine whether the organization is following specific procedures, rules or regulations set out by some higher authority.	3.30	.648	Strongly agree
	Grand mean	3.32		

Sources: Own survey

Table4.3 shows the respondents strongly agree that Performance and profitability goals as well as safeguarding of resources are the major objectives to be attained by effective and efficient Mean of (mean 3.30), while the respondents Strongly agree Reliability of financial reporting means the preparation of timely, reliable and relevant reports needed for decision-making within the organization.(Mean 3.47) some respondent Strongly agree One of the most important responsibilities of the board is to monitor the organization's compliance with all applicable laws, rules, codes and standards. Moreover, strongly agree Auditor independence is a much more structured and defined term, as well as a regulatory requirement for performance. (Mean 3.45). Some of the respondent agree The performance of a compliance audit is dependent upon the existence of verifiable data and of recognized criteria or standards, such as established laws and regulations, or an organization's policies and procedures.(mean 2.90) the respondent strongly agree Internal auditing needs to design and deliver services that maximize the value added to the organization, balancing quality outcomes that satisfy clients with attention to quality processes.(mean 3.47) Lastly the respondent strongly agree Compliance audit is a review of an organization's procedures to determine whether the organization is following specific procedures, rules or regulations set out by some higher authority.(mean 3.30) The table 4.3 grand mean shows that the extent of education service delivery is high satisfactory with a mean (3.32).

CONCLUSION

The level of internal audit in Candlelight nonprofit organization in Hargeisa Somaliland is satisfactory (mean index 3.33 high satisfactory) This implies that the extent of Internal Audit is satisfactory since the general mean shows high satisfactory. The level of internal audit is high satisfactory with a mean (3.30). The correlation results between internal audits and performance nonprofit organization it indicates that the correlation between internal audit and performance of non-profit organization is significant ($r = -PLCC, r; sig. = 0.05$). This implies that the cause's internal audit highlighted a strong significant relationship to the performance nonprofit organization this is an indicator that the better observing the causes and fiscal decentralization with non-profit service delivery. Therefore at 0.05, null hypothesis is rejected and research hypothesis is accepted to the fact that fiscal decentralization brings nonprofit service delivery.

RECOMMENDATIONS

- The organizations have got to use accrual bases of accounting (double entry bookkeeping) to record financial transactions
- The organization must record all its transactions in the following accounting books: I) cash book for each bank account, and II) petty cash book
- the following details should enter in the cash book for each transaction: the serial number, date, description, reference number and the amount (in and out)
- the cash book should be backed up by physical records containing files of source documents for each transaction
- Receipts/invoices payments /vouchers, authorization form and any other relevant document should record for each transaction; receipts and payments being recorded separately
- The organizations must have cash book for each bank account each project account separately
- The organization should use and maintain a petty cash book
- The organization has to use and maintain all relevant books including; wages book, assets register and stock control book

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