



EFFECT OF INTERNAL CONTROL PRACTICES ON THE SUSTAINABILITY OF NGO'S IN NAIROBI COUNTY

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ABSTRACT

In the recent past, there has been a notable decrease in the foreign funding causing the already strained sector to experience greater challenges and to the worst facing closure. This study intended to establish the effect of internal control practices on the sustainability of the NGOs in Nairobi City County. A sample of 285 out of the target population of 1000 senior program managers or chief executive officers was obtained using stratified random sampling. Primary data was collected using structured questionnaires and secondary data was obtained from the audited financial statements of the NGOs through the sampled officers. The researcher collected back 181 questionnaires and found 172 to be satisfactorily completed for analysis yielding a 60.35% response rate. The data was analysed using descriptive and inferential statistics using IBM SPSS Version 23 and was presented in tables and charts. Frequencies, percentages and descriptive statistics were used for data summaries and examination of the distribution characteristics. Regression and Correlation analysis were used to analyse and assess the goodness of fit of the functional relationships modelling the effects of financial management practices on sustainability of NGOs. Chi square test was used to test for independence of various attributes, while ANOVA was used to test for equality of means. The response variable (NGO sustainability) data was tested and found to be normally distributed using the Shapiro-Wilks and Smirnov-Kolmogorov tests. Internal control practices were found to have significant effects on all indicators of NGO sustainability. The study recommended that the management should urgently develop measures to improve the internal control practices which were found to be way below the expected standards and which were likely to compromise on the growth and sustainability of the NGOs.

Key Words: NGO Sustainability, foreign funding, internal control

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INTRODUCTION

The number of non-governmental organizations is growing rapidly within the African nations and the world at large. Numerous NGOs are contributing to the growth of this industry and many others are beneficiaries to the grants that are awarded through various donor organizations. Makoba (2018) stated that in the third world countries, NGOs are contributing greatly in the relief, rehabilitation, community development, among other important activities, and therefore they complement the weak states and markets in the promotion of economic growth and the provision of basic services to the people in those countries. He further argued that the failure by the governments in Africa in delivering economic development has been a great factor to the growth witnessed in the NGO sector. Tortajada (2016) stated that most of the NGOs are faced with sustainability challenges which are mainly attributed to the difficulties in the design, monitoring, and implementation of the project financing strategies and this could have a negative impact on the sustainability of such organizations.

According to the 2016 CSO sustainability index for the sub-Saharan Africa, the region is rapidly changing and these organizations will make vital contributions to service provision and advocacy but they face daunting hurdles, including the financial insecurity and other threats from the hostile governments (USAID, 2016). The report also noted that a decline in foreign funding was offset by growth in domestic sources of funding but on a positive note, there was a notable development on the internal financial management. A great concern on this report was that some of the developing countries and many sub-Saharan countries including Burundi, Rwanda, Ethiopia, South Sudan, Tanzania and Uganda have reported an alarming decline in sustainability of the NGOs.

The NGO received Kenya Shillings 125.2 billion from local and international sources within the year 2013/2014. With the increased funding, there are concerns that the NGOs continue to depend on the

donor funding making them to face sustainability challenges when the donors withdraw or delay in funding (Koros, 2016). The resources available must be managed appropriately with the intention of sustaining the organization in to the future.

To remain strategic, the NGOs in Kenya must now address the issue of sustainability. Sustainability is the possibility that the organization will operate in a way that may be sustained indefinitely, that is to generate something without depleting or destroying the necessary resources. (Silvius, Schipper & Planko, 2012). USAID (2016), a report on the sustainability index for NGO's in Sub-Sahara Africa (USAID, 2016) indicated that most of the countries in this region continue to report a decline in sustainability compared to the previous years, and the overwhelming concentration of the decline of those NGOs was reported to be East Africa, thereby raising a great cause for concern (USAID, 2016). The unpredictability in donor funding patterns (Arhin et al, 2018), has further made the situation to deteriorate as most of these NGOs depend highly on the donor funds and although some NGOs have made attempts to raise funds internally, the amount raised from within is inadequate to sustain the programmes and the organizations are left to depend more on donor funding. Inconsistency in the receipt of the funding for the organization directly affects the liquidity and may lead to closure.

The government, through the NGO coordination board partners with the NGOs in service and product delivery in important sectors such as education, health, livelihood and environmental protection, human rights and rehabilitation. Lack of sustainability of the NGOs would mean a great reduction in the provision of these basic needs to the communities and in the long-run it may result to drastic effects on the quality of life to the beneficiaries. The survival of NGOs greatly benefits the government, the communities who are beneficiaries and the donors who are fundraisers. This study sought to establish the effect of internal control practices on the sustainability of the NGOs

in Nairobi County, with the aim of addressing these problems that may lead to the decline or collapse of those NGOs.

Research Objective

The objective of this study was to establish the effect of internal control practices on the sustainability of the NGOs in Nairobi City County

Research Hypothesis

H₀₁: Internal control practices have no statistical significance effect on the sustainability of NGOs in Nairobi County

LITERATURE REVIEW

Resource Based View Theory

Barney (1991), on the study on the firm's and sustainable advantage analyzed and interpreted the tangible and intangible resources of the firm so as to gain valuable insights on the need for the firm to identify and engage valuable, rare, inimitable and organized resource. These resources are said to enable the firm to gain competitive advantage over the other firms. For a NGO to win in the competing environment and remain relevant to the donors and other relevant parties, they must engage resources that have these unique characteristics. According to the resource based view, the firm resources would include the assets, organizational processes, information systems, human resource and the other form attributes and the firm often uses internal characteristics to explain its performance and strategy. The resources are controlled by the firm to enable it to design and implement strategies.

Barney (2001), developed the theory further and stated that, the resource based view offers important insights as to why a firm with these valuable, rare, inimitable and well organized resources is able to enjoy superior performance as compared to the other firms.

The Theory of Economic Regulation

The Theory of economic regulation was developed by Posner (1974). It states that, the state or the machinery power of the state is a potential resource or threat to every industry in the society

as it is able to prohibit, compel or take or give money and selectively help or hurt a vast number of industries. The theory further explains who will receive the benefits or burdens of regulation, what form of regulation it will take and the effect of regulation upon allocation of resources. Kendra, James and Aseem, (2014) observed that the governments are key pillars to the NGO environment and the scholars must appreciate the important role of the state regulation in defining the political space granted to the NGOs by shaping the emergence, sustenance, strategy and collapse of these organizations. The NGO coordination board is charged with the responsibility to ensure there is efficient regulation, policy advisory and capacity development of the NGOs in Kenya.

Empirical Review

Matan and Hartnett (2012) defined internal controls as the process by which an organization's resources are directed, monitored, and measured and the further stated that the major challenges witnessed in the non-governmental organizations include weak controls of expenditure, lack of managerial control, difficulties of obtaining funding and spending of the funds raised on covering the operation costs instead of spending the fund on welfare to serve the community in need. These controls are also mechanisms that the top management exercises in order to meet the organization's objectives in relation to the effectiveness, and productivity (Cheruiyot, Oketch, Namusonge, and Sakwad, 2017). Park, Matkin and Malowe (2016) cited that deficiency in internal controls expose the organization to the risk of a number of negative effects such as the loss of financial resources, undetectable fraudulent claims, expensive errors in the grants management and embarrassing media attention. Internal control practices comprise of a series of procedures designed to promote and protect sound management practices, both general and financial. Odhiambo (2013) suggested that there were concerns about the accountability in the non-governmental organizations and this was attributed

to the loss of funds in those organizations either due to embezzlement, lack of documentation or due to poor structures that exist in those NGOs. On the study on donor funding, Kenya was placed among the countries that are classified under the sustainability evolving category. Improvement in the NGOs management in Kenya is therefore a great necessity is the country is to achieve the sustainability enhanced status.

By following internal accounting control procedures, an organisation will significantly increase the likelihood that the financial information is reliable, so that managers and the board can depend on accurate information to make decisions, assets and records of the organisation are not stolen, misused or accidentally destroyed, the organisation's policies are followed, and government regulations are complied with. Keulder and Benz (2011). Lewis (2016) explained that a good way to set up internal control systems and procedures is to use the direct approach where the firm encourages the right action, preventive approach where the firm deter the wrong actions, detective approach where the firm identify if and where it has gone wrong, and corrective approach where correction to errors or losses are made. Opong, Owiredu, Abedana and Asante (2016) stated that internal controls have significant positive impact on performance of the faith-based NGOs when measured using economy and efficiency, but many people within such organizations are not sure of the presence of such controls and they are therefore not aware of the individual roles that they should play to strengthen the system. The study further recommended that the management should take the responsibility to improve the communication, establish and maintain controls and also educate the employees on the existence and the importance of such controls. The controls should also be periodically reviewed by the management so as to establish their significance. In support on the contribution of internal controls on the performance of the organization,

Mutinda and Ngahu (2016) also observed that internal financial control systems significantly influenced the financial sustainability of NGOs the internal control system are positively correlated with financial sustainability of the NGOs and recommended that the NGOs' policy makers should come up with elaborate internal control systems. Abdulkadir (2014) argued that there are many positive changes in organizational performance that are associated with good internal controls which ultimately lead to sustainability of its programs as donors and other key stakeholders develop trust and support its programs. The study further concluded that formal internal control systems as currently practised in the corporate world have not been fully incorporated in the faith based organizations. On the contrary, Ojua, O, M. (2016). Argued that lack of or limited knowledge of the controls by the personnel and interference in the already existing control parameters, negligence and little monitoring which is not adequate coupled with the lack of duties separation hindered the implementation of the internal control systems in faith based organizations in Nigeria.

Segregation of duties is another important factor in setting and safeguarding the organization's assets. Ayene (2014) stated that the internal controls with an organization will be enhanced if the duties of the people within the organization are assigned responsibility is a way that no one person handles all aspects of the transaction alone. The responsibility management and the custody of the assets should be shared amongst a number of personnel. In support of these findings, Lewis (2015) argued that putting too much responsibility on one person weakens the financial controls and sharing the duties amongst the various members of the team within the finance function protects the organization and those involved in the work from the temptation of misuse of funds

The NGO must set monitoring mechanisms that help them to ascertain whether the components of internal control are functioning as intended and to identify the deficiencies that may result. Lewis

(2015) stated that monitoring involves making comparison of the set activities and the plans in order to evaluate the effectiveness of the plans, identify weaknesses and take corrective actions, and it entails continuous reporting and decision making. Internal and external audits are tools that are extensively used by organizations to monitor the operations of an organization. Saud (2015) stated that Internal Audit is designed to add value and improve company's operations and it also helps the organization to maintain integrity and reliability of a given organization. Agbujule (2009) advised that in an efficiency-innovation environment, high-monitoring easily provides feedback and ensures that the stated objectives are met and the organization improves its effectiveness. Bhattacharyya, and Bandyopadhyay, (2012) recommended effective financial controls and prudent approval systems which support effective expenditure management systems and consequently improve the financial performance. Adebisi (2017) stated that effective internal controls are precautionary and preventive measure that the organization must develop and implement in they are to minimize or completely eliminate fraud within the parastatals. These control practices are continuous measures which may be modified with time and therefore close monitoring is very necessary in order to determine whether the implementation of the set controls is constantly done and also to confirm that the implementation is in line with the set policies. Mutinda and Ngahu (2016) conducted their study within Nakuru County. The study captured important observation in relation to financial sustainability and internal controls in NGOs in Nakuru County. Further study need to be carried out in other locations that have wider population and more concentration of NGOs like Nairobi County.

METHODOLOGY

The study was anchored on a positivist paradigm research philosophy. The study used a descriptive research design. The data collected was presented using frequency distributions and graphs. The study

used descriptive research design since it gives conclusive results between two or more variables. The study was conducted in the NGOs within Nairobi County. Nairobi is the capital city of Kenya, a regional business hub and a host of numerous national, continental and global organization headquarters. The study in this county brought out more diverse aspects of NGO sustainability. The target population for this study was the Senior Program Managers or Chief Executive Officers from the 1000 registered and active NGOs in Nairobi County as per the NGO Coordination Board report (2018). The list of the 1000 registered NGOs in Nairobi County formed the study's sampling frame. Due to the heterogeneity of the population, the study used stratified random sampling technique. The population was divided into homogeneous strata or subgroups and a proportional simple random sample drawn from each stratum (Arun, et al 2016). The basis of strata was the NGO Categories. Based on the population of 1000 organizations, a sample size of 285 NGOs was determined to make the sample representative of the population. The sample size was determined using the Yamane (1967) sample size formula:

$$n = \frac{N}{1+N(e)^2}$$

Where: n = sample size

N = Population size

e = Standard error

$$\text{Sample size} = \frac{1000}{1 + 1000(0.05)^2} = 285$$

To ensure proportionality, the sample elements were distributed across all sectors where the number of elements to be selected from stratum h was determined as;

$$n_h = \frac{N_h}{N} \times n$$

Where;

n_h = sample elements selected from stratum h

N_h = Total number of elements in stratum h

N = The population size where $\sum_{h=1}^k N_h = N$; k = the number of strata forming the population

n = The desired sample size (285) where, $\sum_{h=1}^k n_h = n$

Table 1 showed the distribution of both population and sample elements across the sectors.

Table 1: Sample Size

NGO category (stratum)	No. of Senior Program Managers or Chief Executive Officers	Sample size
Health sector	141	40
WASH and Livelihood	100	29
Education	166	47
Orphanages and Rehabilitation	99	28
Environment protection and Human Rights	494	141
Total	1000	285

Both primary and secondary data were used for the purpose of the study. Questionnaires were used to collect data from the sampled officers. The questionnaires comprised of structured closed questions and Likert-type questions. The collected data was cleaned, edited and organised using MS Excel, then transferred to SPSS (version 23) for analysis and presentations. The study employed both descriptive and inferential statistics techniques.

RESULTS

Internal Control Practices

The Institute of Chartered Accountants of England and Wales (ICAEW) (2000) defines internal control as the whole system of controls established by management in order to carry on the business of the organization in an orderly and efficient manner,

ensure adherence to management policies, safeguarding of assets and secure, as far as possible, the completeness and accuracy of financial records. Hayles (2005) notes that to mitigate exposure to financial risks which is arguably a consequence of financial imprudence, financial controls and other internal controls must be instituted in organizations to ensure accountability and safeguarding of sensitive information. According to the Ayagre, Ishmael and Nartey (2014), institutions should not be complacent about the need for working internal control systems if they have to achieve effectiveness and efficiency of operations, reliability of financial reporting, and compliance to the set regulations. Table 2 showed the Likert scale summary statistics on NGOs' internal control practices.

Table 2: Likert Scale Frequencies and Descriptive Statistics on internal control practices

Variable Indicators	P/F	SD	D	N	A	SA	Mode
The organization has a functional internal audit unit	P	8.9	47.4	8.1	26.7	8.9	2
	F	15	82	14	46	15	
External Audits are carried out and reports submitted to the authorities	P	10.4	45.9	11.1	20.7	11.9	2
	F	18	79	19	36	20	
There are established structures and reporting lines for objectives.	P	10.4	41.5	21.5	14.1	12.6	2
	F	18	71	37	24	22	
Individuals are held accountable for their internal control responsibilities.	P	8.9	41.5	14.8	23.0	11.9	2
	F	15	71	26	40	20	
Financial management duties are well distributed to various personnel	P	11.1	30.4	17.8	31.9	8.9	4
	F	19	52	31	55	15	

Expenditure approvals are done at various defined levels	P	8.9	29.6	23.0	28.9	9.6	2
	F	15	51	40	50	16	
Continuous monitoring and evaluation of internal control systems is done.	P	8.1	34.1	25.2	22.2	10.4	2
	F	14	59	43	38	18	

*P: Percent F: Frequency SD: Strongly Disagree D: Disagree N: Neutral A: Agree SA: Strongly Agree

Table 3: Descriptive statistics

Mean	2.4235	Sample Variance	1.0241
Median	3	Kurtosis	2.9480
Mode	2	Skewness	0.8310
Standard Deviation	1.0120	Count	172

It is paramount to have an organizational internal audit unit that is functional, effective and prudent with minimal issues of inefficiencies. This is because an efficient and effective internal control system that has an empowered internal audit serves as the foundation of sustainable financial prudence in an organization. It raised concerns to find that only 61 respondents (35.6%) were able confirm that their organizations had functional audit units. 14 respondents (8.1%) were neutral about this aspect, while a notable 97 respondents (56.3%) indicated that there was no existence of functional internal audit units in their organizations.

External audits provide important and valuable insights into the information that exist within an organization. The findings and audit processes give an organization the confidence and reassurance that their information and the way they conduct business is genuine and legitimate. 56 respondents (32.6%) indicated that external audits were routinely carried out and reports submitted to the authorities, 19 respondents (11.1%) were neutral, while an aggregate of 97 respondents (56.3%) felt that this was not the case in the NGOs where they served.

Established structures, guidelines and procedures of efficient and effective reporting in an organization are essential for the achievement of the set goals and objectives. There should exist a combination of authoritative reporting standards set by policy boards which guide recording and reporting of

accounting and audit information. 46 respondents (26.7%) indicated that there were established structures and reporting lines for objectives. 37 respondents (21.5%) were neutral, while an alarming 89 respondents (51.9%) felt that such structures were not established in their organizations.

Among the goals of internal control systems are accountability, transparency and responsibility for any financial deeds by the individuals holding various offices and portfolios in an organization. As such, an effective control system is one that ensures that individuals are held accountable for their internal control responsibilities. The study found that 60 respondents (34.9%) felt that individuals are held accountable for their internal control responsibilities, 26 respondents (14.8%) were neutral, while a significant 86 respondents (50.4%) were of the opinion that this does not actually happen.

Dividing financial management duties among the employees is an essential step in running an organization. A clear-cut job description and duty assignment for each employee ensures that all necessary tasks are completed and completed well. Assigning specific duties also allows employees to specialize and perform their tasks efficiently. 70 respondents (40.8%) confirmed that financial management duties are usually distributed well among the personnel, 31 respondents (17.8%) were

neutral, while 71 respondents (41.5%) disagreed to this practice happening in their organizations.

Organizational expenditure approvals are an important element of expenditure control in budget execution and financial resources management. Through expenditure approvals and the overall expenditure control system, NGOs will not only be able to maintain high-level fiscal discipline but also be able to implement the planned activities within the approved appropriations. 66 respondents (38.5%) felt that expenditure approvals are done at various defined levels within their NGOs, 40 respondents (23%) were neutral, while 66 respondents (38.5%) felt that these approvals are not done at the various levels.

Continuous monitoring and evaluation of NGO internal control systems identifies trends, measures changes, and captures knowledge to improve the systems' performance and increase transparency. 56 respondents (32.6%) indicated that continuous monitoring and evaluation of internal control systems happens in their organizations, 43 respondents (25.2%) were neutral, while 73 respondents (42.2%) felt that this does not happen in their NGOs.

The overall mean rating of internal control practices in the NGOs was determined as 2.4235 with a median of 3 and mode of 2. This implied that generally, the respondents disagreed with the positive statements about internal control practices in NGOs. This was a poor rating which raised concerns about the existence and execution of proper internal control practices. The findings were associated with a standard deviation of 1.0120 which indicates relatively low variability. The distribution of the responses was found to be mesokurtic with a coefficient of kurtosis of 2.9480, but positively skewed with unequal measures of central tendency; mean, median and mode, and a coefficient of skewness equal to 0.8310.

Test for Independence: Chi Square Test

On the internal control practices, the computed Chi Square statistics were found to be less than the

Critical Chi Square statistic (31.410) and the P-Values greater than the significance level (0.05) for all aspects of internal control practices in NGOs. Therefore, the null hypotheses failed to be rejected for all attributes tested implying that internal control practices are statistically independent of the NGO's age bracket. As such, NGOs do not have to be in existence for a long time in order to establish and activate efficient internal control systems and practices. Proper internal controls enhance the sustainability of an organization.

Regression analysis: effect of internal control practices on NGO sustainability with NGO regulation as a moderating variable

Each indicator of the response variable (NGO sustainability) was regressed against the internal control practices (X_1), NGO regulation as the moderating variable (M) and the interaction of internal control practices and NGO regulation (X_1M).

SUMMARY

The study examined primary data collected using structured questionnaires that were administered using the drop-and-pick method yielding a response rate of 60.35%. The Likert scale items were tested for reliability using the Cronbach Alpha Coefficient and were found to be consistent and reliable.

The respondents were drawn from various NGOs serving in different sectors including WASH and livelihood who constituted 28%, health constituting 27%, education constituting 23%, human rights and protection constituting 14% and orphanages and rehabilitation constituting 8% of the respondents. Further, the respondents served in various financial related capacities within the NGOs ranging from accountants who accounted for 35.77%, finance managers accounting for 30.89%, finance officers accounting for 13.01%, general managers accounting for 10.57% and the treasurers who accounted for 9.76% of the responses.

Lewis (2015) and Abdulkadir (2014) stated that good financial management includes internal controls which are used to reduce or stop fraud,

safeguard the assets of the organization and reduce the possible risks and they are useful in ensuring that the organizations improve their overall performance and also increase the confidence of their financiers as well as other stakeholders. Having functional internal control systems such as audit units in an NGO is key in ensuring that both internal and external requirements in terms of standards are met.

The findings in this study raised great concerns that only 35.6% of the respondents were able confirm that their organizations had internal audit units with 56.3% indicating that such units did not exist in their organizations. Further, on the practice of routine external audits and submission of reports to the authorities, it was noted with concern that only 32.6% confirmed that the practice was carried out in their NGOs, while a significant 56.3% confirmed the opposite. The findings were contrary to the recommendations made by Ayene et al (2014) who observed that the grant recipients are expected to maintain a state of audit readiness as failure to conduct audit could lead to questioned costs and possible cost disallowances requiring refunds. Abdulkadir (2014) stated that, there is great need for organizations to establish or enhance strong internal controls that will enable them improve their overall performance and also increase the confidence of their financiers as well as other stakeholders. In agreement to these findings, Saud (2015) observed that audit helps the organization to effectively manage and accomplish its set objectives by employing a disciplined, systematic approach that enable the organization to improve the effectiveness of risk management, control and governance within their processes and also gives valuable recommendations and suggested improvement on the weak areas with the aim of improving effectiveness and efficiency. Lewis (2017) stated that audits demonstrate commitment to transparency and accountability and it is also a legal requirement in most cases. From the study under discussion audit was not embraced by most of the organization and this is a weak point that may

compromise on the accountability within the system.

Proper reporting structures are key in the achievement of the set organizational objectives. In this study, 26.7% of the respondents indicated that there exist structures and reporting lines for objectives, while 51.9% felt that such structures are not established in their organizations. Lack of appropriate structures would mean that the strategies that are meant to enable the organization do not have an appropriate framework where they can operate, hence the failure to achieve the set organizational goals and objectives. This is in line with the observations by Mutinda and Ngahu (2016) who stated that there exists a positive significant influence of the internal control systems on the financial sustainability of the organization and the NGOs depended to a large extent on internal financial controls structures to meet this important objective which contribute greatly to its survival. It is also important to hold individuals responsible for and accountable for their actions in an organization. However, only 34.9% of the respondents felt that individuals are accountable for their managerial responsibilities in the pursuit of objectives while the majority; 50.4% felt that the individuals are not accountable for their responsibilities relating to the internal controls in the organization. The finding in this study in relation to the accountability of the individuals responsible for various responsibilities within the organization show a negative trend where only a few organizations have established appropriate structures and reporting lines that enhance accountability. This can pose a great financial management threat and affect the sustainability of the organization negatively.

Regarding the segregation of duties, 40.8% of the respondents confirmed that financial management duties are usually distributed well among the personnel, while 41.5% were of a contrary opinion. In support of these findings, Ayene et al (2014) and Lewis (2015) recommended that it is important to safeguard the assets of the organization by

segregating duties to ensure that the responsibilities within the finance function are shared amongst the team members as this reduces the temptation of the misuse of funds and also mismanagement of the resources available to the firm. From the findings on this aspect of the discussion here above, there level of segregation of duties is still very low, at 40.8% and therefore there is a great room for improvement is the NGO has to achieve their goals and objectives. Lewis (2017) further said that the segregation of duties is a preventive measure that aims to remove the opportunity for theft and fraud and therefore sharing the duties around the team protects those involved and further minimizes the misuse of funds. He recommended that organizations develop a study matrix that help to organize an effective and practical sharing of such duties. Lack of segregation of duties open doors to misappropriation and other compromise in the management of the organization's resources.

On expenditure approvals, 38.5% felt that the approvals are done at various defined levels while 38.5% felt that this does not happen. Going by the observations made by Bhattacharyya, and Bandyopadhyay (2012) concluded that expenditure management is a process that helps the organization to regulate the cost of services and appropriate financial controls and approval systems are significant predictors for good financial management, the NGOs seems to be having a great challenge of little appreciation of expenditure approvals and this may compromise the spending patterns by those organizations. Scott (2019) observed that in regards to the expenditure management practices some of the major lapses in the approval systems include the payment of expenditure without the required approvals, fraudulent transactions and irregular payments. Lack of the necessary approvals at the various stages in the business operations would compromise of the financial management practices and further affect the long-time survival of the organization.

Lastly, continuous monitoring and evaluation of the activities within the system is critical for continuous improvement and enhanced standards. However, the finding was that only 32.6% of the NGOs practice continuous monitoring and evaluation while 42.2% do not monitor the activities within the organization to establish whether the practice is within the set parameters. Agbujule (2009) and Kariuki and Reddy (2017) recommended that effective monitoring, evaluation and continuous controls systems enabled the organization to improve their systemic efficiency. In support to this, Adebisi (2017), stated that a good system of internal controls is one that is economical and effective in the relation to the size of the business, the nature of that business and the available resources and due to the dynamics of the organization in terms of its operations, the management should be pro-active and also actively engaged in to deal with the changes as they occur. The internal controls should therefore be maintained as well as strict adherence to the management policies maintained. Mutinda and Ngahu (2016), Abdulkadir (2014) observed that internal financial control systems significantly influenced the financial sustainability of the NGOs. The findings in this study indicate a negative position as far as monitoring and evaluation is concerned and points to the great need to improve in the monitoring and evaluation within these organization systems within the NGOs in Nairobi County

Ojua, O, M. (2016) concluded that the internal controls in the faith based organizations are based on trust and they do not base the controls on the required accounting principles, and therefore they are not best placed to maximize the effectiveness on the internal controls to benefit their organizations. The internal control practices are independent of the NGO's age bracket. The findings under this study therefore showed a negative trend in the monitoring and evaluation and general internal controls systems which signals to a lapse in the financial management practices of the NGOs

and has potential to influence the sustainability in the existing NGOs in Nairobi City County.

Internal control systems were also found to be a statistically significant explanatory variable in the determination of NGO sustainability. It was found that improved internal control systems would result to increased current ratio, decreased donor dependency level and increased survival ratio. However, the rates at which improved internal control practices influence the indicators of NGO sustainability to increase or decrease would be significantly reduced by the effect of NGO regulation.

CONCLUSION

On internal control practices, most NGOs did not have functional internal audit units and did not conduct routine external audits and submit reports to the authorities. Further, the structures and reporting lines for objectives in most NGOs were lacking, individuals were not held responsible and accountable for their actions as required in the set standards that would enable the organization to attain its set objectives and the segregation of duties, which is an important finance and accounting requirement for success in organizations

is barely practiced. In a significant number of NGOs, expenditure approvals were not done at various defined levels and there was no continuous monitoring and evaluation of internal control systems. These internal control practices did not rely on the age of an NGO. The poor internal control indicated a lapse in a very important financial management practice and could pose a great threat to the survival of the organization.

Internal control practices also affected NGO's sustainability significantly in a way that improved internal control practices result to increased current ratio, decreased donor dependency level and increased survival ratio. However, NGO regulation reduces the rate at which improved internal control practices influence the indicators of NGO sustainability.

RECOMMENDATIONS

There was an urgent need to improve the internal controls which according to the study were way below the required standards. Compromise on the internal control processes posed a great danger to the NGOs in Nairobi and hence the need for urgent review and action by the management of these organizations.

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