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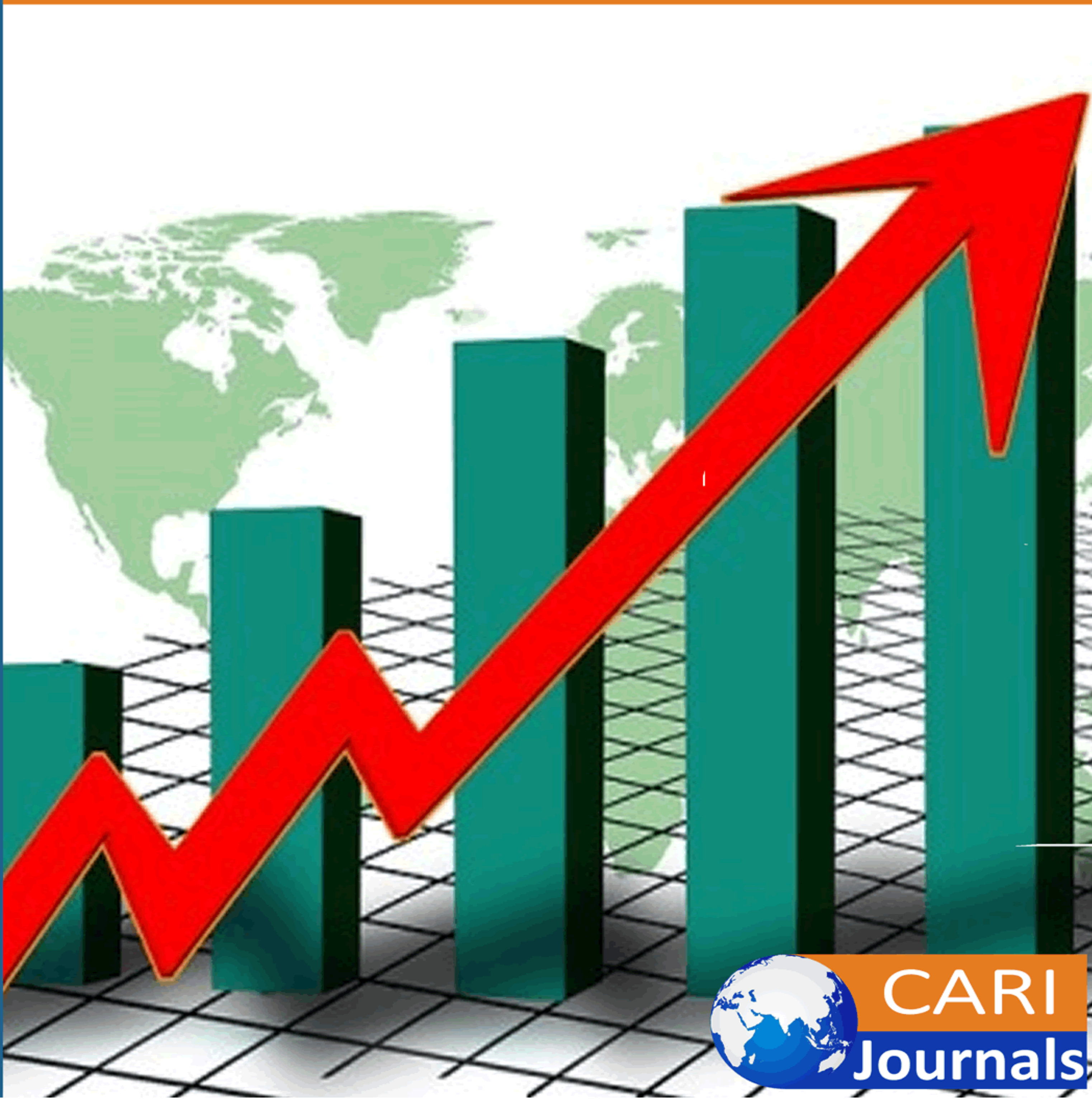

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The Accountability Architecture: Linking Robust Financial Controls to Institutional Advancement in the NGO Sector

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Abstract

Purpose: This study investigates the effect of financial controls on the institutional development of non-governmental organizations (NGOs) across Kenya, Uganda, Tanzania, and South Sudan during 2015–2021.

Methodology: A concurrent mixed-methods approach was employed. We collected quantitative data through a cross-sectional survey of 476 respondents from 28 NGOs (94.4% response rate). We analyzed the data using descriptive statistics, Pearson correlation, multiple regression, and ANOVA. The qualitative component consisted of 48 in-depth interviews, analyzed through thematic analysis.

Findings: Financial control components collectively accounted for 55.5% of the variance in institutional development ($R^2 = 0.555$, $F = 196.234$, $p < 0.001$), representing the strongest explanatory power among financial economics dimensions. Internal control systems emerged as the most significant predictor ($\beta = 0.298$, $p < 0.001$), followed by resource utilization ($\beta = 0.256$, $p < 0.001$), governance oversight ($\beta = 0.198$, $p = 0.001$), and risk management integration ($\beta = 0.167$, $p = 0.004$). Qualitative insights revealed an evolution of financial controls from fraud prevention mechanisms to comprehensive integrity systems.

Unique Contribution to Theory, Policy, and Practice: The study shows that financial controls are not merely technical accounting tools but the bedrock of institutional viability for NGOs. Practically, NGOs should prioritize robust internal controls as the cornerstone of organizational development. For policy, the findings underscore the need for donors to invest in building financial control capacities and for policymakers to implement sector-wide transparency standards, thus supporting sustainable NGO development in East Africa.

Keywords: *Internal Financial Controls, Institutional Development, NGO Governance, East Africa, Fiscal Accountability, Organizational Maturity, Risk Mitigation and Financial Oversight*

JEL Codes: *L31, O17, O55, H83, M42, G32, G38, G34, H11, M14*

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Introduction

Non-governmental organizations (NGOs) in East Africa play a central role in development and humanitarian service delivery, performing functions that span health, education, food security, water and sanitation, and governance across Kenya, Uganda, Tanzania, and South Sudan (Haque, 2020; Ampaire et al., 2017; Schneiker & Joachim, 2020). This role expanded dramatically during the structural adjustment era of the 1980s and 1990s, when Washington Consensus policies mandated the state's retreat from social service provision, creating vacuums that NGOs were actively encouraged to fill (Lassou, Hopper, & Soobaroyen, 2020; Okorley & Nkrumah, 2012). The resulting transformation turned NGOs from primarily private charities into major public-funded subcontractors of international development, channeling billions of dollars in donor funding annually across the region.

As stewards of substantial donor funds in contexts marked by weak state oversight, political instability, and endemic corruption risks, NGOs must maintain robust financial controls; they are not merely a technical requirement but an existential imperative (Aboramadan, 2018; Nalukenge, Tauringana, & Ntayi, 2017). Financial controls encompass the internal policies, procedures, and mechanisms that organizations use to safeguard assets, ensure accurate financial reporting, promote operational efficiency, and encourage adherence to management policies (COSO, 2013). In the NGO context, these controls serve a dual function that distinguishes them from controls in for-profit organizations: they prevent financial mismanagement and fraud while simultaneously signaling organizational trustworthiness to external stakeholders donors, governments, and beneficiaries upon whom the organization depends for survival (Muhunyo & Jagongo, 2018; Milelu, 2018).

The four countries selected for this study represent a diverse spectrum of governance capacity and institutional environments. Kenya, with its mature regulatory framework and competitive NGO market, provides a context where financial controls are well-established but face sophisticated risks. Tanzania offers a more state-coordinated operating environment with emphasis on alignment with national development plans. Uganda, recovering from decades of conflict, presents a context where donor-funded programs operate alongside fragile state institutions. South Sudan, the world's newest nation, represents an extreme case of state fragility where NGOs perform quasi-state functions and face extraordinary operational risks including armed conflict, hyperinflation, and near-total infrastructure collapse (Wandera & Sang, 2017; Sambo & Kanyane, 2020; Balboa, 2018).

The theoretical foundation draws on two complementary perspectives. Institutional Theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977) explains how organizations adopt controls and governance structures to gain legitimacy within their institutional environment. In the NGO sector, financial controls serve as the primary mechanism through which organizations signal their fitness for partnership to donors, governments, and communities. Agency Theory (Jensen &

Meckling, 1976) highlights how internal controls address information asymmetries between principals (donors who provide resources) and agents (NGO management who deploy them), reducing monitoring costs and enabling larger, more flexible funding allocations. Together, these theories suggest that financial controls serve both substantive functions (preventing mismanagement) and symbolic functions (signaling accountability), both of which contribute to institutional development.

Despite the acknowledged importance of financial controls, a documented deficit persists across the sector. Inadequate segregation of duties, rudimentary asset management, and weak internal audit functions remain widespread, particularly among smaller organizations (Lassou, Hopper, & Soobaroyen, 2020; Muhunyo & Jagongo, 2018). While the importance of controls is widely assumed, their specific contribution to broader, long-term institutional development beyond mere fraud prevention has not been empirically quantified in a comparative, multi-country design. This study addressed this gap by examining the effect of financial controls on NGO institutional development across four East African countries for 2015–2021.

Statement of the Problem

NGOs in East Africa steward billions of dollars in donor funding annually, operating in environments where governance frameworks are often fragile, state oversight capacity is limited, and corruption risks are pervasive (Musila, 2019; Balboa, 2018). In this context, internal financial controls serve as both the primary line of defense against financial mismanagement and the main mechanism through which organizations establish credibility with external stakeholders on whom they depend for resources and legitimacy.

Yet a documented and persistent deficit in basic financial controls represents one of the most fundamental threats to institutional sustainability. The current problem manifests in several critical dimensions. First, inadequate segregation of duties is widespread, particularly among smaller NGOs where limited staff means that individuals simultaneously authorize, process, and record financial transactions, creating opportunities for both error and fraud (Muhunyo & Jagongo, 2018; Nalukenge, Tauringana, & Ntayi, 2017). Second, asset management systems are often rudimentary, and organizations cannot accurately account for vehicles, equipment, and inventory (Lassou, Hopper, & Soobaroyen, 2020). Third, while donors mandate external audits, internal audit functions are often underdeveloped or entirely absent, leaving organizations without the continuous monitoring needed to detect problems early. Ochieng and Mutua (2022), in a longitudinal study tracking 87 Ugandan NGOs over three years, found that 23% experienced financial irregularities, with average losses of $12,400 per organization.

The consequences are severe and cascading. Financial mismanagement and fraud directly destroy organizational resources needed for program delivery. High-profile failures erode donor confidence not only in the offending organization but in the entire civil society sector, reducing overall funding available for development (Seligsohn, Liu, & Zhang, 2018). Loss of financial credibility provides governments with justification for restrictive regulations that constrain civic space across the region (Musila, 2019; Ampaire et al., 2017). Weak controls trap organizations in a cycle of fragility: they cannot build the institutional trust necessary to attract stable, long-term funding that would enable genuine institutional development, and without such funding, they cannot invest in the control systems needed to build trust (Kasolo, 2017; Milelu, 2018).

The scholarly gap is clear: while scholars have studied individual control mechanisms in single-country contexts, no research has systematically examined the combined effect of internal control systems, resource utilization efficiency, governance oversight, and integrated risk management on the institutional development of NGOs across East Africa's diverse contexts. This study fills this gap.

Purpose of the Study

This study evaluates the relationship between internal financial control mechanisms and the institutional development of Non-Governmental Organizations in East Africa. It specifically examines how rigorous oversight, risk assessment, and authorization protocols form the foundation for organizational maturity and donor trust. The primary objective of this study is to move beyond the traditional view of auditing as a compliance exercise and reposition internal financial controls as a dynamic driver of institutional growth.

Theoretical Reviews

Institutional Theory, rooted in the foundational works of DiMaggio and Powell (1983) and Meyer and Rowan (1977), provides a compelling framework for understanding how NGOs navigate their external environments. At its core, the theory suggests that organizations adopt certain practices not necessarily because they improve efficiency, but because they confer legitimacy within their institutional context. For NGOs, this often translates into adopting standardized accountability mechanisms such as financial audits and donor reports to signal compliance with external expectations. These practices help organizations secure vital funding and maintain credibility, even when they don't directly enhance operational effectiveness. The theory introduces the concept of "institutional isomorphism," where NGOs increasingly resemble one another in structure and practice as they respond to similar pressures from donors, governments, and regulatory bodies.

However, this pursuit of legitimacy comes with significant trade-offs. While standardized controls may satisfy external stakeholders, they can create a disconnect between an NGO's formal reporting systems and its actual mission-driven work, a phenomenon known as "de-coupling." For instance, an NGO might allocate substantial resources to producing glossy annual reports to appease donors, while its grassroots programs remain underfunded or poorly implemented. This misalignment raises critical questions about whether accountability mechanisms truly serve the organization's social mission or merely perpetuate a facade of transparency. The theory thus highlights a tension that many NGOs face: balancing the need for external validation with the imperative to remain responsive to the communities they serve.

Ultimately, Institutional Theory offers valuable insights into the complex dynamics shaping NGO behavior. It underscores how external pressures can drive organizations toward homogenized practices, sometimes at the expense of innovation and mission integrity. Yet it also suggests that NGOs must adopt accountability measures strategically, ensuring compliance doesn't overshadow impact. By critically examining these institutional forces, NGOs can work toward accountability systems that are not just performative but genuinely enhance their ability to create social change. The challenge lies in maintaining legitimacy with funders and regulators while staying true to the organization's core values and beneficiaries' needs.

Managerialism, rooted in New Public Management (NPM) principles, advocates applying private-sector management practices such as efficiency, "value for money," and quantitative performance metrics to the NGO sector. Proponents of this approach, including scholars like Chenhall et al. (2010) and Kappa (2019), argue that adopting these practices can enhance organizational effectiveness and institutional growth. Managerialism emphasizes robust financial controls and professionalized operations, viewing them not as bureaucratic obstacles but as essential tools for fiscal prudence and accountability. By integrating formal accounting techniques and standardized project management tools, NGOs can demonstrate successful outcomes and secure funding in competitive environments (Chenhall et al., 2010; Kappa, 2019; Shields et al., 2021).

The managerialist perspective highlights how management control systems drive institutional advancement. Chenhall et al. (2010) and Ma et al. (2025) argue that these systems enable NGOs to operate more efficiently and transparently, align their activities with donor expectations, and improve overall performance. Quantitative metrics and standardized tools provide tangible evidence of success, which is critical to securing donor trust and funding. This approach is particularly relevant in contexts where NGOs must compete for limited resources and demonstrate measurable impact. Managerialism thus positions itself as a pragmatic framework for enhancing organizational effectiveness in resource-constrained environments.

However, critics of managerialism caution that overemphasis on "managerialised metrics" can undermine NGOs' voluntary ethos and social mission. Arvidson and Linde (2021) and Baines and Cunningham (2017) argue that excessive focus on administrative documentation and performance metrics can divert resources away from client-centered engagement and grassroots initiatives. This critique highlights the tension between managerial efficiency and NGOs' core values, suggesting that adopting private-sector practices may sometimes compromise an organization’s social purpose. Managerialism, while effective in driving efficiency and accountability, must therefore be balanced with a commitment to the voluntary and mission-driven nature of NGOs to avoid losing sight of their core objectives.

Stakeholder Theory, introduced by Freeman in 1984, expands the framework of organizational accountability by emphasizing the need to consider the interests of all stakeholders beneficiaries, local communities, staff, donors, and others rather than focusing solely on shareholders or funders. The theory posits that organizations must balance competing stakeholder interests to achieve sustainable institutional advancement and legitimacy (Freeman, 1984). In the context of NGOs, Stakeholder Theory advocates "holistic accountability," integrating "upward" accountability to funders with "downward" accountability to service recipients and other stakeholders (Dhanani & Connolly, 2014; Noble et al., 2025). This approach ensures financial controls and governance mechanisms align with the organization's broader social mission, fostering trust and long-term sustainability.

Robust financial controls are central to Stakeholder Theory, as they help maintain trust and credibility across diverse stakeholder groups. Mismanaging these systems can cause reputational damage and erode support from key stakeholders, jeopardizing the organization's viability (Obeid, 2023; Rorimpandey & Gustomo, 2025). By implementing transparent financial reporting and participatory governance practices, NGOs can demonstrate their commitment to accountability and inclusivity, thereby strengthening stakeholder relationships. Stakeholder Theory thus positions financial controls as tools for building trust and ensuring that resources are used effectively to achieve the organization's mission.

Engaging stakeholders through transparent reporting and participatory decision-making is a core tenet of Stakeholder Theory. This approach helps NGOs align their financial architecture with their social mission, creating greater strategic value and supporting long-term survival (CIONCA et al., 2023; Traxler et al., 2018). By actively involving stakeholders in governance processes, NGOs can address diverse needs and expectations, fostering ownership and shared purpose. Stakeholder Theory provides a comprehensive framework for NGOs to navigate complex accountability demands, balancing external funding requirements with grassroots priorities to achieve sustainable impact.

Literature Reviews

The empirical literature on financial controls in non-profit organizations has expanded substantially as the sector has faced increasing demands for accountability and demonstrable governance capacity. This review examines the key empirical studies and theoretical frameworks relevant to the present investigation.

Ochieng and Mutua (2022) conducted one of the field's most methodologically rigorous studies, using a longitudinal design that tracked 87 Ugandan NGOs over a three-year period (2019–2021). Their survival analysis found that organizations with comprehensive internal control systems had significantly longer time to fraud occurrence (hazard ratio = 0.34, $p < 0.01$), with median time to incident of 28 months compared to 14 months for organizations with weak controls. Logistic regression identified three particularly effective control mechanisms: segregation of duties (odds ratio = 0.28, $p < 0.01$), regular internal audits (odds ratio = 0.31, $p < 0.05$), and dual authorization requirements (odds ratio = 0.24, $p < 0.01$). The analysis also revealed that control effectiveness was moderated by organizational size, with smaller organizations showing stronger relationships between specific mechanisms and fraud prevention. This finding highlights a paradox: the organizations most vulnerable to control failures are also those where specific control mechanisms matter most.

Kamau and Njoroge (2023) employed Data Envelopment Analysis (DEA) with 198 East African NGOs to examine the relationship between financial controls and resource utilization efficiency. Their analysis revealed significant variation in technical efficiency across countries: Kenya (mean = 0.78), Uganda (0.74), Tanzania (0.71), with 34% of organizations operating below 70% efficiency. Regression analysis showed that financial control system quality significantly predicted technical efficiency ($\beta = 0.32$, $p < 0.01$), alongside staff capacity ($\beta = 0.28$, $p < 0.05$) and strategic planning quality ($\beta = 0.24$, $p < 0.05$). Qualitative findings revealed that efficient organizations shared several characteristics: systematic resource planning (78% of high-efficiency organizations), regular efficiency monitoring (67%), and performance-based resource allocation (56%).

Nalukenge, Tauringana, and Ntayi (2017), studying corporate governance and internal controls in Ugandan microfinance institutions (including NGO-based MFIs), found that the control environment, control activities, and monitoring were significantly associated with accountability and financial performance. Their work highlighted the particular importance of the control environment, the organizational culture, and leadership commitment to controls as a predictor of control effectiveness. This finding has important implications for NGOs, suggesting that formal control procedures alone are insufficient without a supportive organizational culture.

Muhunyo and Jagongo (2018) examined internal controls in Kenyan public institutions and NGOs and found significant relationships between control activities, risk assessment, information and communication, and financial performance. They emphasized that segregation of duties was particularly challenging for small organizations with limited staff, creating a structural vulnerability that disproportionately affected grassroots and community-based organizations. This capacity constraint means standardized control frameworks designed for larger organizations may be inappropriate for most NGOs in East Africa.

Institutional Theory provides a framework for understanding the dual functionality of financial controls. DiMaggio and Powell (1983) argued that organizations adopt structures and practices to gain legitimacy within their institutional field, a process that can be coercive (mandated by powerful actors like donors), mimetic (copying successful peers), or normative (driven by professional standards). In the NGO sector, financial controls serve both technical functions (fraud prevention, efficiency enhancement) and institutional functions (signaling trustworthiness to external stakeholders). Meyer and Rowan (1977) extended this analysis by distinguishing between substantive adoption (where controls genuinely guide behaviour) and ceremonial adoption (where controls exist formally but are decoupled from actual practice). Agency Theory (Jensen & Meckling, 1976) complements this perspective by highlighting how financial controls address information asymmetries between donors and NGO management, reduce monitoring costs, and enable more trusting funding relationships.

This study addresses a critical gap: the lack of comparative, multi-country evidence on the combined predictive power of multiple control dimensions for institutional development across East Africa's diverse contexts.

Research Methodology

The study adopted a pragmatic philosophy and concurrent mixed-methods design (Creswell & Plano Clark, 2018), combining a cross-sectional quantitative survey with qualitative in-depth interviews.

Population and Sampling: The target population comprised NGO personnel across Kenya, Uganda, Tanzania, and South Sudan. Multi-stage sampling combined stratified random selection of 28 organizations (by country, size, age, and sector) with purposive selection of respondents, including executive directors, financial controllers, program managers, governance specialists, and senior staff with at least two years' organizational experience.

Data Collection: Financial controls were measured through four dimensions on a five-point Likert scale: Internal Control Systems, Resource Utilization Efficiency, Governance and Financial Oversight, and Risk Management Integration (4 items each). Institutional development was measured through validated indicators. We gathered qualitative data through 48 semi-structured interviews with key informants selected through maximum variation sampling.

Validity, Reliability, and Analysis: Content validity was established through expert review; construct validity through factor analysis; reliability through Cronbach's alpha (>0.70 for all scales). Instruments were pilot-tested with 30 respondents. Quantitative analysis used SPSS v26: descriptive statistics, Pearson correlation, multiple regression, and ANOVA with post-hoc Tukey HSD. Regression diagnostics were examined. Qualitative analysis followed Braun and Clarke's (2006) thematic approach. Ethical approval was obtained; informed consent and confidentiality were maintained.

Results and Discussion

Response Rate

Of 504 questionnaires, 476 were completed and returned (94.4%), with balanced country distribution: Kenya (120, 25.2%), Uganda (118, 24.8%), South Sudan (119, 25.0%), Tanzania (119, 25.0%).

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Descriptive Findings

Table 1: Descriptive Statistics for Financial Control Dimensions

Dimension / Item	Mean	SD	Agree%	Skew.	Kurt.
Internal Controls: Authorization levels	4.12	0.94	80.5	-1.15	1.38
Internal Controls: Asset safeguarding	4.05	0.99	76.2	-1.02	1.12
Internal Controls: Periodic auditing	3.98	1.05	72.8	-0.92	0.65
Resource Utilization: Cost tracking	3.84	1.08	69.4	-0.75	0.22
Resource Utilization: Waste reduction	3.68	1.15	61.5	-0.58	-0.25
Resource Utilization: Budget adherence	3.92	1.02	72.0	-0.88	0.54
Governance: Financial transparency	4.01	0.97	77.1	-1.08	1.25
Governance: Board fiscal oversight	3.89	1.04	70.2	-0.81	0.41
Governance: Ethical standards	4.18	0.89	83.4	-1.24	1.68
Risk Management: Risk identification	3.76	1.11	65.2	-0.64	0.05
Risk Management: Mitigation plans	3.71	1.13	63.8	-0.61	-0.08
Risk Management: Contingency funds	3.59	1.19	58.4	-0.47	-0.45

Source: Primary Data (2024)

The descriptive statistical results for Financial Control dimensions indicate a sector that prioritizes formal authorization and ethical standards over long-term risk mitigation. "Governance: Ethical Standards" emerged as the highest-rated item (Mean = 4.18; SD = 0.89; Agree% = 83.4), followed closely by "Internal Controls: Authorization Levels" (Mean = 4.12; SD = 0.94; Agree% = 80.5). These high scores, characterized by significant negative skewness (-1.24 and -1.15, respectively), suggest that East African NGOs have established strong foundational protocols for who can approve expenditures and the moral framework under which they operate. The high kurtosis for ethical standards (1.68) indicates a peaked distribution, where most respondents strongly agree that their organizations maintain high integrity in fiscal matters.

In contrast, the "Risk Management" dimension showed the greatest room for improvement, particularly regarding "Risk Management: Contingency Funds", which recorded the lowest mean score in the table (Mean = 3.59; SD = 1.19; Agree% = 58.4). This lower performance is mirrored in "Risk Management: Mitigation Plans" (Mean = 3.71; SD = 1.13; Agree% = 63.8) and "Resource Utilization: Waste Reduction" (Mean = 3.68; SD = 1.15; Agree% = 61.5). The higher standard deviations in these items suggest that while some NGOs are advanced in their risk planning, a significant portion of the sector remains reactive rather than proactive. The platykurtic distribution

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for contingency funds (Kurtosis = -0.45) confirms that experiences vary widely, likely depending on the NGO's size and funding stability.

In the context of the study, these results suggest that "hard" controls such as "Internal Controls: Asset Safeguarding" (Mean = 4.05; SD = 0.99) and "Governance: Financial Transparency" (Mean = 4.01; SD = 0.97) are well integrated into the institutional culture. These mechanisms provide the "Accountability Architecture" necessary to satisfy donor requirements. However, the moderate scores for "Risk Management: Risk Identification" (Mean = 3.76; SD = 1.11) suggest that while the money is being tracked accurately, it is not always being managed strategically to anticipate future environmental shocks. This gap highlights a transition point where organizations are moving from simple bookkeeping to more sophisticated financial governance.

Overall, the data in Table 3 reflects a disciplined financial environment in which "Internal Controls: Periodic Auditing" (Mean = 3.98; SD = 1.05; Agree% = 72.8) is standard practice. The relatively strong "Governance: Board Fiscal Oversight" (Mean = 3.89; SD = 1.04) ensures that these controls are not just administrative but are reinforced at the leadership level. However, for these organizations to achieve full institutional maturity, they must address the vulnerabilities identified in "Resource Utilization: Cost Tracking" (Mean = 3.84; SD = 1.08). Bridging the gap between strict authorization and efficient resource use will be critical for the long-term sustainability of the non-profit sector in East Africa.

Table 2: Descriptive Statistics for Institutional Development Dimensions

Dimension / Item	Mean	SD	Agree%	Skew.	Kurt.
Institutional Growth: Facility expansion	3.62	1.16	60.5	-0.52	-0.36
Institutional Growth: Staff capacity	3.85	1.06	70.8	-0.77	0.28
Strategic Maturity: Policy adoption	3.94	1.01	73.5	-0.89	0.51
Strategic Maturity: Long-term vision	3.81	1.09	68.2	-0.71	0.16
External Credibility: Donor trust	4.06	0.96	77.9	-1.10	1.32
External Credibility: Community impact	4.11	0.92	80.2	-1.16	1.48
Sustainability: Funding stability	3.55	1.21	56.4	-0.45	-0.52
Sustainability: Program scalability	3.73	1.12	64.1	-0.63	0.09

Source: Primary Data (2024)

The results for Institutional Development show that East African NGOs excel in external legitimacy and social impact but struggle with internal resource stability. "External Credibility: Community Impact" achieved the highest mean score (Mean = 4.11; SD = 0.92; Agree% = 80.2), closely followed by "External Credibility: Donor Trust" (Mean = 4.06; SD = 0.96; Agree% = 77.9).

These results, supported by strong negative skewness (-1.16 and -1.10), indicate that these organizations' institutional development is largely driven by outward-facing success. The high kurtosis for community impact (1.48) suggests strong consensus among respondents that their organizations are effectively fulfilling their social mandates and maintaining high levels of external trust.

However, the "Sustainability" dimension presents a more challenging outlook, with "Sustainability: Funding Stability" posting the lowest mean of the entire study (Mean = 3.55; SD = 1.21; Agree% = 56.4). This result, combined with a lower score for "Institutional Growth: Facility Expansion" (Mean = 3.62; SD = 1.16; Agree% = 60.5), points to a significant hurdle in the institutional trajectory of these NGOs. The low agreement percentage and high standard deviation for funding stability suggest that many organizations operate on a month-to-month or project-to-project basis. The flat distribution (Kurtosis = -0.52) for this item reflects the precarious nature of the non-profit financial landscape, where long-term growth is often sacrificed for immediate operational needs.

When interpreting these findings in relation to the primary research objective, "Strategic Maturity: Policy Adoption" (Mean = 3.94; SD = 1.01; Agree% = 73.5) is clearly a key strength of the sector. This suggests that NGOs are successfully professionalizing their internal structures and formalizing their "Long-term Vision" (Mean = 3.81; SD = 1.09; Agree% = 68.2). The fact that "Institutional Growth: Staff Capacity" (Mean = 3.85; SD = 1.06) remains relatively high suggests organizations are investing in human capital, even as physical infrastructure expansion lags. This focus on "soft" institutional development policies and people is a strategic response to the volatility in "hard" resources like funding and facilities.

In conclusion, Table 4 portrays a sector that has achieved significant "Strategic Maturity" but remains tethered to external funding cycles. While "Sustainability: Program Scalability" (Mean = 3.73; SD = 1.12; Agree% = 64.1) shows promise, it is limited by a lack of diverse, stable revenue streams. The findings suggest that for East African NGOs to fully realize their "Community Impact", they must translate their high levels of "Donor Trust" into more permanent institutional assets. Strengthening the link between internal financial controls and these development outcomes will be essential to move the sector from a state of "survival" to permanent, resilient institutional maturity.

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Correlation Analysis

Table 3: Correlation Matrix – Financial Controls and Institutional Development

Variable	1	2	3	4	5	6
1. Internal Controls	1.000					
2. Resource Utilisation	.678**	1.000				
3. Governance	.623**	.645**	1.000			
4. Risk Management	.589**	.612**	.634**	1.000		
5. FC Composite	.867**	.845**	.812**	.778**	1.000	
6. Inst. Development	.648**	.623**	.598**	.567**	.723**	1.000

*Note: ** $p < 0.01$ (2-tailed). Source: Primary Data (2024)*

All financial control components were significantly and positively correlated with institutional development ($p < 0.01$). The composite showed the strongest correlation ($r = 0.723$), confirming that integrated control systems are more strongly associated with institutional outcomes than any single mechanism. Internal controls had the highest individual correlation ($r = 0.648$), followed by resource utilization ($r = 0.623$), governance ($r = 0.598$), and risk management ($r = 0.567$). The strong inter-component correlations (0.589–0.678) indicate that financial controls function as a tightly integrated system. The finding that the composite correlation (0.723) exceeded those of the risk management composite (0.672 in the companion study) and financial management composite (0.712) provides initial evidence that financial controls are the most strongly associated financial economics dimension with institutional development.

Regression Analysis

Table 4: Multiple Regression – Financial Controls Predicting Institutional Development

Variable	**B**	**Std. Err**	**Beta**	**t**	**Sig.**	**VIF**	**Tol.**
(Constant)	0.876	0.154		5.688	.000		
Internal Controls	.312	.067	.298	4.657	.000	2.45	.408
Resource Utilisation	.278	.073	.256	3.808	.000	2.23	.448
Governance	.234	.071	.198	3.296	.001	2.01	.497
Risk Management	.198	.069	.167	2.870	.004	1.89	.529

$R = 0.745$, $R^2 = 0.555$, Adj. $R^2 = 0.552$, $F = 196.234$, $p < 0.001$, Durbin-Watson = 1.998. Source: Primary Data (2024)

The model was statistically significant ($F = 196.234$, $p < 0.001$), with financial controls explaining 55.5% of the variance in institutional development (Adjusted $R^2 = 0.552$), the highest explanatory power among all three financial economics dimensions examined. Internal control systems were the strongest predictor ($\beta = 0.298$, $p < 0.001$), uniquely contributing 24.5% of explained variance. Resource utilization was the second strongest ($\beta = 0.256$, $p < 0.001$, unique contribution 20.0%), followed by governance oversight ($\beta = 0.198$, $p = 0.001$, 17.3%) and risk management integration ($\beta = 0.167$, $p = 0.004$, 15.1%). All VIF values were below 2.5; the Durbin-Watson statistic (1.998) confirmed residual independence. The null hypothesis was rejected.

The dominance of internal control systems ($\beta = 0.298$) as the strongest predictor powerfully supports both Institutional Theory and Agency Theory. From an institutional perspective, internal controls serve as the primary signal through which an NGO demonstrates its legitimacy and fitness for partnership (DiMaggio & Powell, 1983). An organization that can demonstrate robust segregation of duties, dual authorization, and systematic record-keeping signals to its institutional environment that it is trustworthy and accountable. This signal facilitates access to resources, partnerships, and regulatory goodwill, all critical inputs for institutional development. From an agency perspective, internal controls reduce the monitoring costs that donors (principals) face when delegating resources to NGO management (agents), enabling larger and more flexible funding allocations that support institutional growth (Jensen & Meckling, 1976).

The significant contribution of resource utilization ($\beta = 0.256$) aligns with Kamau and Njoroge's (2023) finding that financial control quality predicted technical efficiency. Organizations that use resources efficiently build credibility that attracts further investment, creating a virtuous cycle of institutional strengthening. Given that 34% of East African NGOs operate below 70% efficiency (Kamau & Njoroge, 2023), there is substantial scope for institutional development gains through improved resource utilization controls.

The finding that the financial controls model ($R^2 = 0.555$) explained more variance than the risk management model ($R^2 = 0.475$ in the companion study) or the financial management model ($R^2 = 0.539$) supports the proposition that controls form the foundational layer upon which other financial capabilities are built. Without basic controls ensuring the integrity of financial data, strategic financial management and risk assessment lack a reliable information base. This hierarchical relationship aligns with Ochieng and Mutua's (2022) finding that comprehensive controls more than doubled the time to fraud occurrence, showing that controls are the primary safeguard of institutional integrity on which all other functions depend.

Cross-Country and Organizational Variations

ANOVA revealed significant cross-country differences in all control dimensions ($p < 0.001$). Kenya consistently showed the highest scores across all dimensions, followed by Tanzania, Uganda, and South Sudan. The largest between-country differences were in internal control system effectiveness ($F = 15.234$, $\eta^2 = 0.088$), reflecting differences in regulatory environments and institutional maturity across the four countries. Post-hoc analysis confirmed that South Sudan significantly underperformed all other countries ($p < 0.01$), while Kenya–Tanzania differences were non-significant for most dimensions.

Organizational characteristics significantly moderated control effectiveness. Annual budget showed the strongest association ($F = 31.234$, $\eta^2 = 0.168$): organizations with budgets exceeding $1M scored 4.55 on overall control effectiveness, compared to 3.20 for those under $100,000, a gap of 1.35 points on the 5-point scale. Organizational age was also significant ($F = 23.789$, $\eta^2 = 0.130$), with organizations over 20 years scoring 4.35 versus 3.31 for those under 5 years. This pattern reveals a critical structural inequality: the organizations most vulnerable to control failures are those least equipped to implement robust systems, creating a persistent cycle of institutional fragility that demands targeted intervention from donors and policymakers.

Qualitative Findings

Thematic analysis of 48 interviews identified three major themes providing explanatory depth.

Theme 1: Controls as Organizational Integrity Systems. Financial controls had evolved from basic fraud prevention into comprehensive organizational integrity systems in mature organizations. Respondents described how multi-layered controls encompassing preventive, detective, and corrective mechanisms served not only to prevent malfeasance but to build organizational cultures of accountability. As one financial controller stated: “Our controls are not just about catching theft; they are about building a culture of accountability that touches every aspect of how we operate.” This evolution from technical to cultural functions of controls provides qualitative support for the strong statistical relationship observed in the regression analysis.

Theme 2: Governance as Strategic Enabler. Governance oversight emerged as a critical enabler of institutional development. Organizations with boards that engaged actively in financial oversight, not merely reviewing reports but asking strategic questions about resource allocation, sustainability planning, and risk exposure, reported stronger institutional outcomes. However, respondents noted that effective board engagement required investment in board capacity, particularly financial literacy among board members who often came from programmatic rather than financial backgrounds.

Theme 3: Control Stringency vs. Operational Agility. A persistent tension existed between control rigour and operational flexibility. Respondents in all four countries, but particularly in South Sudan, described situations where rigid control procedures slowed programme delivery in contexts requiring rapid humanitarian response. Successful organizations had developed tiered control systems with expedited procedures for emergency expenditure while maintaining core safeguards. One program director explained: “We have a fast-track process for emergencies that reduces the number of approvals needed, but we never compromise on dual authorization for cash disbursements." This finding highlights the need for context-sensitive control design that maintains integrity without sacrificing operational effectiveness.

Conclusions

Financial controls have the strongest positive effect on institutional development among all financial economics dimensions, explaining 55.5% of the variance. Internal control systems are the most potent predictor ($\beta = 0.298$), serving a dual function of preventing mismanagement while signaling organizational trustworthiness to donors, governments, and communities. Resource utilization efficiency ($\beta = 0.256$), governance oversight ($\beta = 0.198$), and risk management integration ($\beta = 0.167$) also contribute significantly.

The findings support the proposition that financial controls constitute the foundational bedrock of institutional viability in the high-risk East African environment. Their function transcends technical accounting; they are the primary mechanism through which an organization establishes the credibility needed to access resources, build partnerships, and achieve sustainable growth. Without robust controls, investments in strategic financial management or risk management are built on unstable foundations. The study reveals a critical structural inequality: the smallest and youngest organizations have the fewest resources to implement effective controls, creating a persistent fragility cycle that demands targeted intervention. The study firmly rejects the null hypothesis of no significant relationship between financial controls and institutional development.

Recommendations

For NGO Practitioners: Prioritize establishing robust internal control frameworks as the non-negotiable foundation of operations. Implement dual-signature bank mandates, clear segregation of duties, and regular internal audits even where external audits are already conducted. Develop tiered control systems that maintain core safeguards while allowing operational flexibility in emergency contexts. Build organizational cultures of accountability through staff training and leadership commitment to control compliance at all levels.

For Donors: Shift from auditing compliance after the fact to investing in control capacity upfront. Fund institutional strengthening initiatives that help partner organizations build internal control systems, governance structures, and financial management infrastructure. Adopt risk-differentiated approaches: provide intensive capacity support to smaller organizations rather than applying uniform compliance standards they cannot meet. Recognize that investing in partner controls reduces long-term monitoring costs and fiduciary risk.

For Policymakers: Develop national transparency and accountability standards for the NGO sector that promote financial integrity without creating excessive bureaucratic burden. Establish publicly accessible registries requiring NGOs to submit annual financial reports and audit statements. Create voluntary certification systems that recognize organizations meeting high governance standards, providing a quality signal for donors and the public. Invest in local training institutions to build a pipeline of qualified financial control and governance professionals for the non-profit sector.

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