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**INFLUENCE OF CORPORATE GOVERNANCE ON THE LEVEL OF
COMPLIANCE TO PROJECT INTERNAL CONTROLS IN UNDP
FUNDED PROJECTS**
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INFLUENCE OF CORPORATE GOVERNANCE ON THE LEVEL OF COMPLIANCE TO PROJECT INTERNAL CONTROLS IN UNDP FUNDED PROJECTS

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Abstract

Purpose: The purpose of this study was to determine the influence of corporate governance on the level of compliance to project internal controls in UNDP funded projects

Methodology: The study adopted a correlation survey research design. A questionnaire and an interview schedule were the main data collection tools. The preferred statistical tool for quantitative data analysis was Statistical Package for Social Sciences (SPSS) computer software. Qualitative data was analysed using content analysis. The study utilized descriptive and regression analysis to determine the relationship between factors contributing to adherence of internal controls and mechanisms and level of compliance to project internal controls in UNDP funded projects. The population of this study was all the 28 UNDP-Kenya staffs

Results: The study findings indicated that the UNDP maintains proper governance system which in turn boosts her adherence to her Project Internal Controls mechanisms.

Policy recommendation: The study recommended that Corporate Governance should also be keenly observed while managing NGOs.

Keywords: corporate governance level of compliance, UNDP funded projects

1.0 Introduction

The role of UNDP has been to enhance the social welfare of the citizens of the world (UNDP, 2008). To enhance the social welfare of citizens in the world, UNDP engages in social activities ranging from peace, education, human rights, health and economic activities geared at improving the economic status and reducing the poverty levels in various parts of the world. To achieve its mandate, UNDP solicits for funds and voluntary contributions from member states. UNDP then channels these funds to NGOs for the implementation of activities at the grass root level. (Longhurst, 2006).

UNDP has been instrumental in the reintegration of citizens in war torn countries such as Somalia, Sudan, Bosnia, Cambodia, Liberia, and Rwanda among others. Specifically, UNDP has been at the forefront of offering economic and social assistance to warring communities, the reintegration of ex combatants back into the community and the building of capacity among

groups that advocate for peace (UNDP, 2000). UNDP has also been at the forefront of facilitating the achievement of Millennium development goals. The specific goals that UNDP has championed are eradicating extreme hunger and poverty, achievement of universal primary education, promotion of gender equality and empowerment of women, reduction of child mortality rates, improvement of maternal health, combating HIV/AIDS, Malaria and other diseases, environmental sustainability efforts, and development of a global partnership for development (McCartney and Brokop, 2011).

Project Internal controls are the activities and processes which have been put in place to ensure that the financial and non-financial resources of an organization are properly managed and that operational procedures are adhered to (Chartered Institute of Public Finance and Accountancy, 2010). Therefore, the adherence to project internal controls is crucial for the proper management of financial and non-financial resources (Deloitte, 2012). The management of financial and non-financial resources earmarked for UNDP activities has presented a special problem for UNDP. The allocation and use of funds to programs has been met with various operational challenges. On top of these challenges is the compliance with project internal controls challenge which is evident in any large institutions. Due to the large size of the UNDP operations, management of operations challenges has necessitated the putting in place standards of conduct, an antifraud policy and ethics of office. However, the problem of weak compliance due to agency issues has led to non optimal outcomes in some instances. In other case, programs that have complied with standards have achieved the intended results. Scholars of management have identified three main areas which can contribute to the level of compliance with project internal controls. These include organization culture, corporate governance and human resource management practices. The appropriateness of organization culture may impact significantly on whether the staff complies with project internal controls. The presence of effective corporate governance measures may also influence the level of compliance with project internal controls.

Nissan Sustainability Report (2011) notes that ideally, effective corporate governance is based on three fundamentals: compliance should be founded on high ethical standards for all staff, enhancement of the robustness of information security and an effective , well thought out and suitable risk management system. The three corner stone's lead to improved compliance to internal controls

1.2 Problem statement

The role of UNDP in alleviating suffering and enhancing the social welfare of citizens all over the world cannot be overemphasized. However, while some programs initiated by UNDP meet with success, others fail to achieve their intended objectives. The difference in success may be influenced by the level for adherence to project internal controls. The root determinant of adherence to project internal controls is the management practices and the culture associated with an organization. Poor management of the various programs and projects funded by the UNDP lead to non-adherence of internal controls and mechanisms set in order to successfully implement such projects and Programs. This in turn may lead to the collapse of such projects. The problem of poor management of the UNDP funded projects and programs which lead to poor implementation of such projects and programs can affect various parties. First, the communities which in most cases benefit a lot from such projects may end not benefitting at all. Secondly the donor(s) of the project may lose their confidence with the implementers of the project and thus they may decide to withhold the funds.

Keulder and Benz (2011) developed practical guide from the financial management of NGOs but failed to address the factors contributing to adherence of internal controls and mechanisms in UNDP funded programs. This forms the research gap. The study is not aware of the existence of study influence of corporate governance on the level of compliance to project internal controls in UNDP funded projects. It is for this reason that this study attempts to assess the factors that influence corporate governance on the level of compliance to project internal controls in UNDP funded projects

1.3 Research Objective

To establish whether corporate governance influences the level of compliance to project internal controls in UNDP funded projects

2.0 LITERATURE REVIEW

2.1 Empirical Review

Magnusson (2010) attempted to link corporate governance, internal control and compliance information technology related environments. The author concluded that Corporate Governance crucial in directing and controlling organizations since it gives a assurance on the transparency, accountability and control of the organization processes and activities to the various stakeholders.

Family Mart (2011) notes that corporate governance measures in the form of regular board meetings which are held once a month to deliberate and conclude on crucial issues which affect the organization business operations, and also to execute supervisory duties may significantly influence the level of compliance to project internal controls. In addition, the establishment of a Risk Management & Compliance Committee for coordinating risk management systems and ensuring adherence to internal controls is a welcome move which may leads to higher level of compliance. Nissan Sustainability Report (2011) notes that ideally, effective corporate governance is based on three fundamentals: compliance should be founded on high ethical standards for all staff, enhancement of the robustness of information security and an effective, well thought out and suitable risk management system. The three corner stone lead to improved compliance to internal controls.

2.2 Conceptual Framework

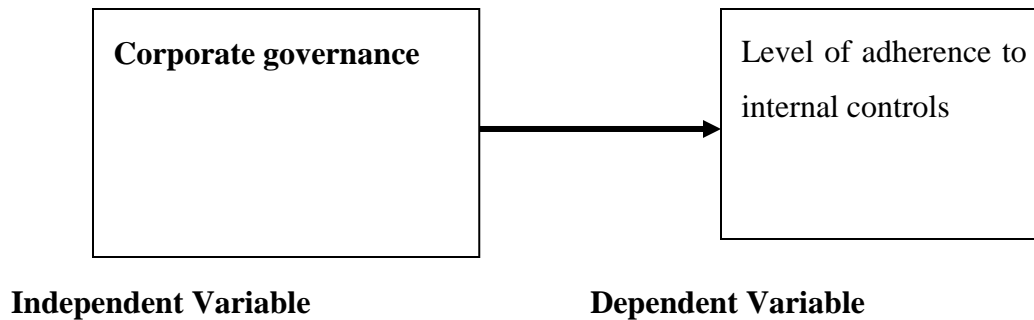


Figure 1 *Conceptual Framework*

3.0 METHODOLOGY

The study adopted a correlation survey research design. A questionnaire and an interview schedule were the main data collection tools. The preferred statistical tool for quantitative data analysis was Statistical Package for Social Sciences (SPSS) computer software. Qualitative data was analysed using content analysis. The study utilized descriptive and regression analysis to determine the relationship between factors contributing to adherence of internal controls and mechanisms and level of compliance to project internal controls in UNDP funded projects. The population of this study was all the 28 UNDP-Kenya staffs.

4.0 RESULTS FINDINGS

4.1 Descriptive for the Respondents

4.1.1 Gender of the Respondents

The study sought to establish the gender of the respondents. The findings are presented in figure 2 below. As illustrated in figure 2, the findings revealed that majority (54%) of the respondents were male while 46% of the respondents were female.

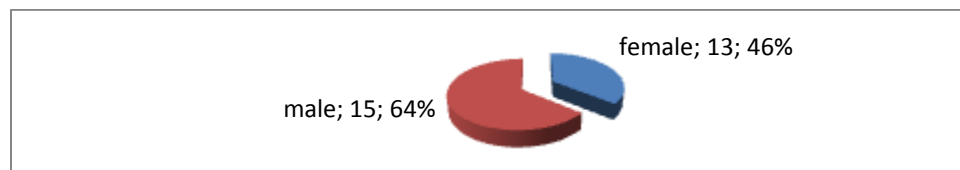


Figure 2: *Gender of the Respondents*

4.1.2 Level of Education

The study sought to establish the Level of Education of the respondents. The findings are presented in figure 3 below. As illustrated in figure 3, the findings revealed that majority 85% of the respondents were university graduates while 15% of the respondents were post graduates. Finally, 5% of the respondents had gone up to collage level. The findings imply that UNDP employs assessment tools for academic checks while recruiting her staff.

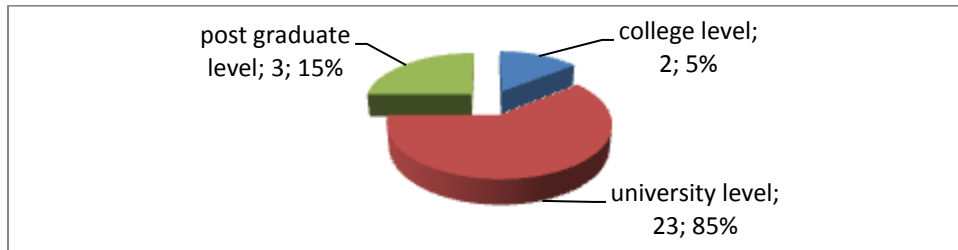


Figure 3: Level of Education

4.1.2 Number of Years at UNDP

The study sought to establish the number of years worked at UNDP. The findings are presented in figure 4 below. As illustrated in figure 4, the findings revealed that majority 22% of the respondents indicated that they had worked at the UNDP for a period less than 10years while 53% of the respondents indicated that they had worked for the UNDP for a period between 10 and 15 years. While 15% has worked for between 16 and 20 years. Finally, 10% of the respondents indicated that they had worked in the UNDP for a period over 20 years. The finding simply that the respondents had been at the UNDP for a remarkable period of time thus one can assume that they possess a considerable amount of information about UNDP.

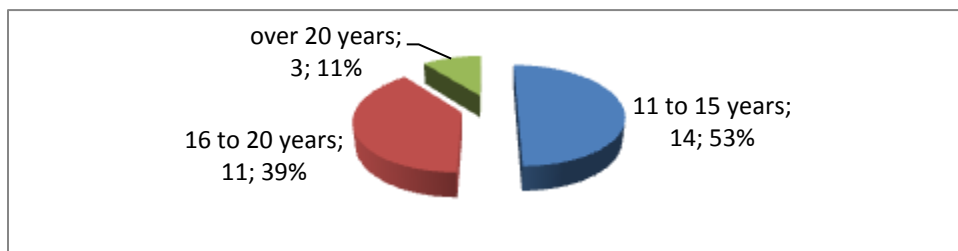


Figure 4: Number of Years at UNDP

4.1.2 Perception of Respondents on Adherence to Internal Controls and Mechanisms

The study sought to establish the perception of respondents on adherence to internal controls and mechanisms. The findings are presented in figure 5 below. As illustrated in figure 5, the findings revealed that majority 68% of the respondents indicated that UNDP adheres to internal controls

and mechanisms in its funded programs. However, 32% indicated that UNDP does not adhere to internal controls and mechanisms in its funded programs.

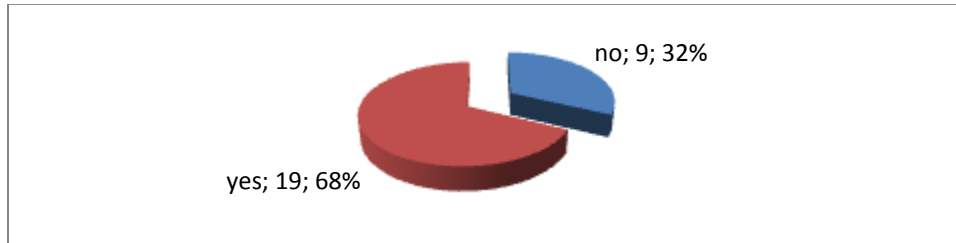


Figure 5: Perception of Respondents

4.2 Compliance to Project Internal Controls in UNDP Funded Projects

4. 2.1 Level of Compliance to Project Internal Controls in UNDP Funded Projects

The study sought to establish the level of compliance to project internal controls in UNDP funded projects. The results are presented on table 1 below. As illustrated in table 4.1, majority 61% of the respondents agreed and another 11% of the respondents strongly agreed bringing to a total of 72% of those who agreed with the statement that UNDP always finishes her programme and projects within their work plan. Meanwhile, 7% of the respondents disagreed, while 21% of the respondents neither agreed nor disagreed with the statement.

In addition, a majority 57% of the respondents agreed with the statement that UNDP's staff members are guided by standards of conduct that are prescribed in the UN Charter which they all observe. Besides, 11% of the respondents strongly agreed to the statement totalling to 68% of those who agreed. Meanwhile, 32% of the respondents neither agreed nor disagreed with the statement.

A majority 50% of the respondents agreed with the statement that Project Managers at the UNDP always make comprehensive reports of proceedings and reports of events. Besides, 29% of the respondents strongly agreed with the statement bringing to a total of 79% of those who agreed. Meanwhile, 7% of the respondents disagreed. However, 14% neither agreed nor disagreed with the statement.

Finally, majority 43% of the respondents agreed with the statement that managers at UNDP must ensure that all staff members take the mandatory Ethics Training which increases their compliance to the set Internal controls. In concurrence, 25% strongly agreed thus making a total 68% of those who agreed with the statement. Meanwhile, 25% of the respondents neither agreed nor disagreed while 7% of the respondents disagreed with the statement.

Table 1: Level of Compliance

Statement	% strongly disagree	% disagree	% neutral	% agree	% strongly agree
UNDP always finishes her programs and projects within their work plan.	0%	7%	21%	61%	11%
UNDP's staff members are guided by standards of conduct that are prescribed in the UN Charter which they all observe.	0%	0%	32%	57%	11%
Project Managers at the UNDP always make comprehensive reports of proceedings and reports of events.	0%	7%	14%	50%	29%
Managers at UNDP must ensure that all staff members take the mandatory Ethics Training which increases their compliance to the set Internal controls.	0%	7%	25%	43%	25%

4.3 Corporate Governance and the Level of Compliance to Project Internal Controls in UNDP Funded Projects.

The study sought to establish whether corporate governance influences the level of compliance to project internal controls in UNDP funded projects. The results are presented on table 4.10 below. As illustrated in table 2, majority 71% of the respondents disagreed and another 7% of the respondents strongly disagreed bringing to a total of 78% of those who disagreed with the statement that lack of proper budgeting lead to non-compliance to project internal controls in UNDP funded projects. Meanwhile, 7% of the respondents agreed, a further 14% strongly agreed, thus making a total of 21% of those who agreed with the statement.

In addition, majority 57% of the respondents disagreed and another 14% of the respondents strongly disagreed bringing to a total of 71% of those who disagreed with the statement that Lack of accountability in governance practices lead to non-compliance to project internal controls in

UNDP funded projects. Meanwhile, 11% of the respondents agreed while 11% neither agreed nor disagreed with the statement.

A majority (71%) of the respondents disagreed with the statement that lack of proper reporting lead to non-compliance to project internal controls in UNDP funded projects. Besides, 11% of the respondents strongly disagreed with the statement bringing to a total of 82% of those who disagreed. Meanwhile, 7% of the respondents agreed, and 11% strongly disagreed thus 18% of the respondents disagreed.

Furthermore, majority (57%) of the respondents disagreed with the statement that lack of transparency lead to non-compliance to project internal controls in UNDP funded projects. In the same line, 11% of the respondents strongly disagreed with the statement thus a total of 68% disagreed with the statement. Meanwhile, 18% of the respondents agreed and 4% strongly agreed while 11% of the respondents neither agreed nor disagreed with the statement.

Finally, majority 71% of the respondents disagreed with the statement that failure to adhere to service delivery charter lead to non-compliance to project internal controls in UNDP funded projects. In concurrence, 18% strongly disagreed thus making a total 89% of those who disagreed with the statement. However, 4% of the respondents agreed and 7% strongly agreed thus a total of 11% of the respondents agreed with the statement.

Table 1: Corporate Governance

	%				%
	strongly disagree	% disagree	% neutral	% agree	strongly agree
Lack of proper budgeting lead to non-compliance to project internal controls in UNDP funded projects.	7%	71%	0%	7%	14%
Lack of accountability in governance practices lead to non-compliance to project internal controls in UNDP funded projects.	14%	57%	11%	18%	0%
Lack of proper reporting lead to non-compliance to project internal controls in UNDP funded projects.	11%	71%	0%	7%	11%
Lack of transparency lead to non-compliance to project internal controls in UNDP funded	11%	57%	11%	18%	4%

projects.

Failure to adhere to service delivery charter lead 18% 71% 0% 4% 7%
to non-compliance to project internal controls in
UNDP funded projects.

4.3 Regression for Corporate Governance and Performance

Regression analysis was conducted to empirically determine whether corporate governance was a significant determinant of level of compliance to project internal controls in UNDP funded projects. Regression results in table 3 indicate that the goodness of fit for the regression between corporate governance and level of compliance. An R squared of 0.290 indicates that 29% of the variances in the level of compliance are explained by the variances in the corporate governance.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.538 ^a	.290	.261	.35926

a. Predictors: (Constant), corporate governance

Anova statistics indicate that the overall model was significant. This was supported by an F statistic of 10.188 and p value of 0.004. The reported probability was less than the conventional probability of 0.05 (5%) significance level.

Table 4: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.315	1	1.315	10.188	.004 ^a
	Residual	3.227	25	.129		
	Total	4.542	26			

a. Predictors: (Constant), corporate governance

b. Dependent Variable: level compliance

The relationship between corporate governance and level compliance is positive and significant ($b_1=0.278$, p value 0.004). The findings imply that corporate governance practices have a significant effect on compliance with project internal controls.

Table 52: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	3.223	.220		14.675	.000
corporate governance	.278	.087	.538	3.192	.004

a. Dependent Variable: level compliance

5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

The objective of the study was to determine the influence of corporate governance on the level of compliance to project internal controls in UNDP funded projects. The findings of the study revealed that corporate governance affects the level of compliance to project internal controls in UNDP funded projects. This is evidenced by the majority of the respondents who indicated that they disagreed and strongly disagreed with the following statements; lack of proper budgeting lead to non-compliance to project internal controls in UNDP funded projects, lack of accountability in governance practices lead to non-compliance to project internal controls in UNDP funded projects, lack of proper reporting lead to non-compliance to project internal controls in UNDP funded projects, lack of transparency lead to non-compliance to project internal controls in UNDP funded projects and failure to adhere to service delivery charter lead to non-compliance to project internal controls in UNDP funded projects. This exhibits that UNDP has maintained a proper corporate governance system. This is also supported by a positive and significant regression analysis between the environmental characteristics and performances.

5.2 Conclusion

The objective of the study was to establish whether corporate governance influences the level of compliance to project internal controls in UNDP funded projects. Following the study results it was possible to conclude that UNDP maintains proper governance system which in turn boosts her adherence to her Project Internal Controls mechanisms.

5.3 Recommendations of the Study

Following the study results, it was also recommended that Corporate Governance should also be keenly observed while managing NGOs. Practices such as proper budgeting, accountability in governance practices, transparency and proper service delivery should be emphasized since such practices do boost proper governance and build on trust which is key for positive performance of NGOs and compliance to project internal control mechanisms.

5.4 Areas for Further Research

The study recommends that further investigation be done on the impact of the UNDP programs on poverty eradication and the community at large.

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