Analyzing and Evaluating Internal Control System at the Finance Department in UNRWA Headquarter, Gaza Strip

A Graduation Project
Presented to the
Faculty of Commerce
The Islamic University of Gaza

By
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Supervisor's name
Mr. Salah Shubair

Date
August 2011
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Deduction

To our Parent, who scarify for our benefits, and make us what we are now

To our Brothers and Sister, who we grew to gather

To our Professors and Lecturer, who gave us their knowledge and experience.

To our Friends, who support us all the time.

To our Lovely country PALESTINE.

To our Fellow student, who will together build the country.

To our Palestinian martyrs, who scarify themselves for holy land.
Abstract

This study aims to analyze and evaluate the degree of effectiveness of the internal control system at the finance department (Accounts Division, Budget Division and Treasury) in United Nations Relief and work Agency (UNRWA) Head Quarter, Gaza.

This organization provides basic humanitarian services to populations over 4.4 million Palestinian refugees living in Jordan, Syria, Lebanon, West Bank and Gaza Strip.

In order to achieve the objective of this study a questionnaire was drafted for primary data collection needed to test the research hypothesis and to achieve research objectives. And then distributed to the employees of the finance department, thirty questionnaires were received.

The SPSS has been used for data analysis, where as a number of statistical test have been made, such as frequencies.

The study have revealed the number of findings and results, to analyze and evaluate the internal control system in the finance department at UNRWA as it aims to explore strings and weakness in the internal control system, analyze and evaluate to ensure that their internal control system do the task that it was designed to achieve.

The research comes to many results, the most important of which that the internal control system at the finance department is generally effective and able to control its activities and operation and comply with rules and regulations.

This study has resulted in making a number of recommendations, the most important of which are more efforts should be paid to develop and enhance the components and tools of internal control system on UNRWA’s activities to increase the level of effectiveness and efficiency. And UNRWA should strengthen and support a developed system for its staff based on sound recruitment and appointment in addition to effective compliance with UNRWA rules and regulations.
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General Framework of the research

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1.1 Introduction

**Internal control:**

Internal accounting controls govern financial system. Management is responsible for developing and maintaining effective internal control. Internal controls provide quality assurance and keep an eye on weaknesses in operation. This allows stopping problems before they start and keeping operations running smoothly. The analysis, implementation and design go side by side with a system of control. Accounting controls provide feedback for the system, making sure that everything is working correctly. Without methods of monitoring procedures, system’s effectiveness cannot be determined.

Internal controls have existed from ancient times. In Hellenistic Egypt there was a dual administration, with one set of bureaucrats charged with collecting taxes and another with supervising them. In the Republic of China, the Control Yuan, one of the five branches of government, is an investigatory agency that monitors the other branches of government.

In accounting and auditing, internal control is defined as a process affected by an organization’s structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives. It is a means by which an organization’s resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources.

At the organizational level, internal control objectives relate to the reliability of financial reporting, and timely feedback on the achievement of operational or strategic goals. At the specific transaction level, internal control refers to the actions taken to achieve a specific objective. Internal Control procedures are all the methods for implementing environmental controls, risk assessment, monitoring and information communication. Control procedures help to train your personnel so that everyone works the same way.

Internal accounting control in activities is to strengthen internal accounting supervision, self-regulation and self-restraint of the internal mechanism, which will help to ensure true and reliable accounting Information, protecting the safety and integrity of organization assets, ensure the efficient Management, and ultimately achieve their objectives.
Internal controls are a system’s capability to prevent or detect material data processing errors or fraud and provide for correction on a timely basis.

**About UNRWA**

UNRWA, the United Nations Relief and Works Agency for Palestine refugees in the Near East, was established by the UN General Assembly on 8 December 1949. It was created to respond to the dire humanitarian needs of about 800,000 Palestine refugees who fled to Gaza Strip, West Bank, Jordan, Lebanon and Syria from the fighting in Palestine during 1947 and 1948.

Over nearly six decades, the Agency has grown into one of the largest United Nations programs, employing more than 27,000 staff members to provide services to 4.4 million refugees. Its purpose is to contribute to the human development of Palestine refugees in its five fields of operation until a just solution is found for the refugee issue.

UNRWA is a global advocate for the protection and care of Palestine refugees. In circumstances of humanitarian crisis and armed conflict, the Agency’s emergency interventions – as well as its presence – serve as tangible symbols of the international community’s concern, helping to create a stable environment.

Through its education program, UNRWA provides primary education, secondary schools in Lebanon, and vocational and technical training.

A network of 127 UNRWA clinics offers free basic health care and the Agency also pays for hospitalization and provides environmental health services in refugee camps. UNRWA’s relief and social services arm provides social safety net assistance to the poorest refugees as well as a development program to help the poor help themselves.

Refugee entrepreneurs are assisted by a micro-credit program that has grown into one of the largest and most successful in the region.

In addition to its regular operations, UNRWA has repeatedly provided emergency food aid, medical care, shelter and protection to refugees caught in the outbreaks of conflict that have buffeted the region over the past six decades.
1.2 Statement of the problem:

Internal control system means different things to different people. This causes confusion among many types of professionals. Resulting miscommunication and different expectations cause problems within an organization.

There are many obstacles that limit the application of internal control system and these limits may either raised in the management and employees relationship or in the document, record and audit procedures.

The problem of this study arises from the analysis and evaluation for the internal control system for the Finance department at UNRWA, and it can be summarized in the following point:

1. Is there a formal prescription of the framework and accountability for internal control?
2. Is the control environment poor or strong in most condition?
3. Does the management consult with its auditor for new accounting issue?
4. Are entity objective broad and communicated to the employees and management?

1.3 Objectives

1.3.1 Main objective Objectives:

This research aims to explore strengths and weaknesses in the internal control system in the finance department at UNRWA, analyze and evaluate to ensure that their internal control system do the task that it was designed to achieve.

1.3.2 Specific objectives

The specific objectives of the project are:

Designing an internal control system which comprises police, practices and procedures employed by the organization to achieve the following objectives:

- Objective 1: Identify the means, methods, techniques and factors that can be used when the UNRWA apply its own internal control system that will contributes in
success and effectiveness to achieve the overall objectives and goal for this organization.

- **Objective 2**: To ensure the accuracy and reliability of accounting records and information.
- **Objective 3**: To safeguard the assets of the organization.
- **Objective 4**: To identify problems and weaknesses if any that appears when the UNRWA applies their internal control system.
- **Objective 5**: To promote the efficiency and effectiveness in the organization’s operation.
- **Objective 6**: To ensure that this internal control system is used to prevent and detecting error and fraud.

**1.4 Significance of the project**

Internal control over financial reporting has always been a major area in the governance of any organization, and its importance has been magnified in recent years. This is reason that encourages the researchers to choose this topic, Also they decided to apply the research on UNRWA as it is the largest not-for-profit organization working in Gaza Strip, with many professionals and qualified staff.

The importance of the study is the stem from the importance of the internal control to prevent errors and irregularities from occurring. If they occur, internal control will help to ensure they are detected in a timely manner. Also the role of the internal control system is to preserve the assets of the organization, and to measure the efficiency and effectiveness of the organization’s operation in general.

**1.5 Scope and limitations of the project**

There are four limitations defined that may face the researchers during doing their study and they have to try minimize the effect these limitations to be able to achieve the objectives of this study:

First, in this study the researcher may face some problem that may hinder the research process concerning limitation of recourses and information as not all information are easily accessible.
Second, time restriction that the researchers will face, this study must be completed within two months, which mean that they have to work hard to collect data, analyze these data and reach the targeted objectives within a short period.

Third, the researchers select UNRWA to be the case study for their research, but they will face problem in applying the research topic on all division of UNRWA because of its size and the amount of data so they select specific department of UNRWA which is finance to facilitate the research process.

Fourth, the researchers will use questioner as research methodology, so the researchers may face a lack of response from the population which will be the employees of UNRWA at finance department to answer the questioner, this will hinder the researcher to collect sufficient data which may mislead the researchers.

1.6 Methodology

The researchers choose the research to be applied on UNRWA, so this will be a case study research. Also the researchers choose to follow a descriptive analytical approach to conduct this study.

Sources of information:

- Secondary data: books, articles, websites, other studies and references.
- Primary data: through a questionnaires that will be prepared and distributed to the population under consideration.

1.6.1 Overview of the current state of the art

Internal control system is an interconnected web of policies, procedures, attitudes and actions that work together to achieve the desired results. All types of entities - businesses, nonprofit organizations and government - are often required to produce financial statements for third parties. These entities seek to produce reliable financial reports, and to do that it requires a reliable system of control, as the management of the firm is the responsibility for designing the firm’s internal control.

Advances in technology and data analysis have led to the development of numerous tools which can automatically evaluate the effectiveness of internal controls. Used along with
continuous auditing, continuous controls monitoring provides assurance on financial information flowing through the organization processes.

1.6.2 Related works

**First:** Arabic studies:

1. Aiash, Yuosf (2005): “Evaluating the effectiveness of UNRWA’s internal control system in controlling UNRWA’s activates in Gaza and the level of its compliance with international accounting standards of audit”

   This study aims to evaluate the effectiveness of the internal control system to strengthen the control on the activities of the UNRWA in Gaza Strip, and the ability of this system the meet the international audit standards. Also, evaluate the ability of this system to achieve the financial and administrative goals the effective internal control.

   This study revealed that, the internal control system at UNRWA is relatively effective and the financial and accounting records are presented fairly and objectively to the extent that it can be reliable in planning and control.

   The study recommends exerting more efforts to improve the elements, tools and procedures of internal control so that it can improve its efficiency.

2. Badawi, Abed Elsalam (2011): "The Impact of the Structure of the Internal Control System In Accordance With the COSO Framework to Achieve the Control Objectives (a Case of NGOs in Gaza Strip)"

   This study aims at identifying “The Impact of the Structure of the Internal Control System In Accordance With the COSO Framework to Achieve the Control Objectives in NGOs in Gaza Strip “and to what extent has developed, as well as the analysis of the COSO framework of the internal control.

   The study showed that the NGOs working in the Gaza Strip pay a great attention to the internal control systems. Moreover, it showed that these NGOs consider –in different positive degrees- the importance of the elements of the internal control system in achieving the goals of control which are represented in achieving effectiveness and efficiency of
operational activities, and the credibility of financial reporting, and strengthen compliance with regulations, rules and laws.

The study included a number of recommendations. One of the most important recommendations was the need for the Palestinian NGOs to adopt the internal control system in accordance with the concept of COSO.

Moreover, the Palestinian NGOs should pay attention to the implementation of COSO five elements efficiently and follow-up the future developments on the control systems. Moreover, these recommendations suggest paying a greater attention to these systems through continuous assessment which increase their efficiency and effectiveness.

3. Sharaf, Jihad (2005): The impact of financial control over the continuity of funding for the civil society Institutions, case Study: NGOs in Gaza strip.

This research aimed to study the existence degree of a relationship between the financial Control and the finance continuity for the civil society organizations (COSO) in Gaza Strip. Also it aimed to determine the influence degree of the control components, the internal control systems, accounting systems and control tools on the financial position of this organization, in addition to determining the role of auditing & monitoring institutions on the financial position. This is going to be through analyzing & evaluating the monitoring and financial positions for (COSO) in Gaza strip. In addition to highlighting weak and strong aspects of those controlling procedures in the light of the scientific principles, and indicating the influence on the financial aspect. Such influence is a vital factor and a tool for the sustainability of those (COSO) which depend on donations and contribution that are obtained from internal or external donors. The researcher achieve some results from this study one of the results is that there is a real relationship between the financial monitoring and the finance for those organizations, as the monitoring with its components, tools, systems and its institutions contributes effectively in safeguarding the continuity of its finance. In conclusion, the research raised some recommendations that strengthen and support the financial control at the (COSO) in Gaza strip. This will increase the degree of trust from the donors point views which safeguard the continuation of the needed finance to continue in serving the civil Palestinian society that is in a bad need for those services which supports its position to face the challenges.
Second: Foreign studies:


   This study focuses on the application of an embedded model approach to understand the development of financial control systems in NGOs. This is illustrated by a historical case study of a single NGO which, in turn, has implications for the understanding and design of accounting control systems across the nonprofit sector.

   The findings have implications for the development of appropriate accounting systems in other NGOs. Conflicts may arise if boards and managers do not understand the extent to which the influence of accounting is intertwined in the whole organizational culture and structure and if they fail to recognize that accounting cannot be seen in isolation as a control system. This has specific consequences on the call for increased accountability by NGOs. If all that is meant is the provision of financial reports, present accounting systems may suffice. The study addressed that an accounting system can operate in an NGO and yet not function as a control mechanism or as a mechanism to provide accountability. In an organization that values informal relationships, voluntary participation and “niceness”, the idea of accountability is somewhat alien. Although the need is acknowledged, it is necessary to ensure that an organization’s culture incorporates accountability as a positive value. It is important to train managers so that they can be more professional in their duties. It is necessary for the managers of an NGO, whether volunteers or employees, to work together to define, and refine, the various objectives of the organization, to devise plans for their achievement and to develop measures by which success can be indicated.


   This study talked about the methods which strengthen internal oversight in the organizations and its importance, especially in preventing and detecting errors, fraud and mismanagement. The study identified the basic standards of internal control in the designing and reviewing the performance standards indicators. The supervision of the top management on the operational performance of the agencies and all levels, control over the processing of data and information, separation of authorities and delegation, to verify the reliability and accuracy of transaction records. The study summarized that the possibility of
fraud continue to exist, and that the strong internal control system does not guarantee the commitment of individuals on the established regulatory procedures. The effectiveness of the internal control system is the responsibility of management, therefore if there was not active participation of management and all levels, the internal control system would not be effective.
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   2.1.1 Control Concept
   2.1.2 Definitions of Control
   2.1.3 The Importance of Control
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2.1 Control System

2.1.1 Control Concept

Control is the most visible function of management. One of the most responsibilities of the managers is controlling the use of organizational resources. Practicing manager always search for ways to control outcomes produced by subordinates. Quality control is popular as an explanation of German and Japanese pre-eminence as successful global competitors. Managers are particularly sensitive to the need for control as they seek to manage the production or operations core of their organization.

2.1.2 Definitions of control:

There are many definitions for control and these are some of these definitions:

“Control is the process of regulating organization activities so that actual performance conforms to expect organizational standards and goals”. (Bartol, 2005)

“Control can be defined as the process of monitoring and adjusting organizational activities in such away so to facilitate accomplishment of organizational”. (Pearce, 2007)

“Control is the process of monitoring activities to ensure that they are being accomplished and correcting any significant deviation”. (Culter, 2010)

“Operational control require production manager to monitor production performance by comparing require with detailed plans and schedules”. (Ebirt, 2010)

From these definitions it can be summarized and defined as:” control: management function that regulate the organization activities and performance to be sure that these activities meet the organizational goals and standards”.

2.1.3 The Importance of Control

The continuous flow of information about the organization keeps the long range of planning on the right track. It helps in taking corrective actions in future if the performance is not up to the mark.

The control function helps organization management in various ways. It guides the management in achieving pre-determined goals. The control process also ensures the
efficiency of various functions. The shortcoming in various fields is also reported for taking corrective measures. Control provides basis for future action. It also enables management to avoid repetition of past mistakes. Whenever there is deviation between standard and actual performance the control helps in deciding the future course of action. A decision about follow-up action is also facilitated. Decentralization of authority is necessary in big enterprises. The management cannot delegate authority without ensuring proper control. The targets or goals of various departments are used as a control technique. Control helps in coordination of activities through unity of action. Every manager will try to coordinate the activities of his subordinates in order to achieve departmental goals. Similarly the chief executive also coordinates the functioning of various departments. The control acts as a check on the performance and proper results are achieved only when activities are coordinated.

The control system helps in improving organizational efficiency. Various control devices act as motivators to managers. The performance of every person is regularly monitored and any deficiency if present is corrected at the earliest. Controls put psychological pressure on persons in the organization. Everybody knows that his performance is regularly evaluated and he will try to improve upon his previous work. The rewards and punishments are also linked with performance. The employees will always be under pressure to improve upon their work. Since performance measurement is one of the important tools of control, it ensures that every person tries to maximize his contribution.

2.1.4 Types of control:

1. Feed forward Control:

Feed forward control focuses on the regulation of inputs (human, material, and financial resources that flow into the organization) to ensure that they meet the standards necessary for the transformation process.

Feed forward controls are desirable because they allow management to prevent problems rather than having to cure them later. Unfortunately, these controls require timely and accurate information that is often difficult to develop. Feed forward control also is sometimes
called preliminary control, precontrol, preventive control, or steering control. However, some authors use term “steering control” as separate types of control. These types of controls are designed to detect deviation of some standard or goal to allow correction to be made before a particular sequence of actions is completed.

At operating level feed forward control usual means control via the careful selection of input or the development of policies and procedures to head of anticipation problem.

2. Concurrent control:

Concurrent control takes place while an activity is in progress. It involves the regulation of ongoing activities that are part of transformation process to ensure that they conform to organizational standards. Concurrent control is designed to ensure that employee work activities produce the correct results. Concurrent control also called implies control.

Since concurrent control involves regulating ongoing tasks, it requires a thorough understanding of the specific tasks involved and their relationship to the desired and product

Concurrent control sometimes is called screening or yes-no control, because it often involves checkpoints at which determinations are made about whether to continue progress, take corrective action, or stop work altogether on products or services.

When the manager is directly oversee the action of employee, the manager can concurrently monitor their action and correct problems as they occurred. (Robbins and coulter, 2007)

3. Feedback control:

This type of control focuses on the outputs of the organization after transformation is complete. Sometimes called post action or output control, fulfills a number of important functions. For one thing, it often is used when feed forward and concurrent controls are not feasible or are too costly.

Sometimes, feedback is the only viable type of control available. Moreover, feedback has two advantages over feed forward and concurrent control. First, feedback provides managers with meaningful information on how effective its planning effort was. If feedback
indicates little variance between standard and actual performance, this is evidence that planning was generally on target.

If the deviation is great, a manager can use this information when formulating new plans to make them more effective.

Second, feedback control can enhance employees’ motivation the major drawback of this type of control is that, the time the manager has the information and if there is significant problem the damage is already done. But for many activities, feedback control fulfills a number of important functions.

4. Multiple control:

Feed forward, concurrent, and feedback control methods are not mutually exclusive. Rather, they usually are combined into an multiple control systems. Managers design control systems to define standards of performance and acquire information feedback at strategic control points.

2.1.5 Characteristics of an effective control system:

Effective control systems have certain characteristics. For a control system to be effective, it must be:

1. Accurate. Information on performance must be accurate. Evaluating the accuracy of the information they receive is one of the most important control tasks that managers face. Effective control systems provide actual information that's useful, reliable, valid, and consistent.

2. Timely. Control system are designed to provide data on the state of a given production cycle, Information must be collected, routed, and evaluated quickly if action is to be taken in time to produce improvements.

3. Objective and Comprehensible. The information in a control system should be understandable and be seen as objective by the individuals who use it. A difficult-to understand control system will cause unnecessary mistakes and confusion or frustration among employees.
4. **Focused on Strategic Control Points.** The control system should be focused on those areas where deviations from the standards are most likely to take place or where deviations would lead to the greatest harm.

5. **Economically Realistic.** The cost of implementing a control system should be less than, or at most equal to the benefits derived from the control system. Effective control systems answer questions such as, “How much does it cost? “What will it save? “Or “What are the returns on the investment? “In short, comparison of the costs to the benefits ensures that the benefits of controls outweigh the costs.

6. **Organizational Realistic.** The control system has to be compatible with organizational realities and all standards for performance must be realistic.

7. **Coordinated with the Organization’s Work Flow.** Control information needs to be coordinated with the flow of work through the organization for two reasons: (1) each step in the work process may affect the success or failure of the entire operation, (2) the control information must get to all the people who need to receive it.

8. **Flexible.** Controls must have flexibility built into them so that the organizations can react quickly to overcome adverse changes or to take advantage of new opportunities.

9. **Prescriptive and Operational.** Control systems ought to indicate, upon the detection of the deviation from standards, what corrective action should be taken.

10. **Accepted by Organization Members.** For a control system to be accepted by organization members, the controls must be related to meaningful and accepted goals.

11. **A focus on critical points.** For example, controls are applied where failure cannot be tolerated or where costs cannot exceed a certain amount. The critical points include all the areas of an organization’s operations that directly affect the success of its key operations.

**2.1.6 The organizational control objective:**

Control can be defined narrowly as the process a manager takes to assure that actual performance conforms to the organization’s plan, or more broadly as anything that regulates the process or activity of an organization. The following content follows the general
interpretation by defining control as monitoring performance against a plan and then making adjustments either in the plan or in operations as necessary.

The six major purposes of controls are as follows:

- Controls make plans effective. Managers need to measure progress, offer feedback, and direct their teams if they want to succeed.
- Controls make sure that organizational activities are consistent. Policies and procedures help ensure that efforts are integrated.
- Controls make organizations effective. Organizations need controls in place if they want to achieve and accomplish their objectives.
- Controls make organizations efficient. Efficiency probably depends more on controls than any other management function.
- Controls provide feedback on project status. Not only do they measure progress, but controls also provide feedback to participants as well. Feedback influences behavior and is an essential ingredient in the control process.
- Controls aid in decision making. The ultimate purpose of controls is to help managers make better decisions. Controls make managers aware of problems and give them information that is necessary for decision making.

Many people assert that as the nature of organizations has changed so must the nature of management controls. New forms of organizations, such as self-organizing organizations, self-managed teams, and network organizations, allow organizations to be more responsive and adaptable in today’s rapidly changing world. These forms also cultivate empowerment among employees, much more so than the hierarchical organizations of the past.

2.1.7 The Organizational Control Process:

The control process involves carefully collecting information about a system, process, person, or group of people in order to make necessary decisions about each. Managers set up control systems that consist of four key steps:

1. Establish standards to measure performance. Within an organization’s overall strategic plan, managers define goals for organizational departments in specific, operational terms that include standards of performance to compare with organizational activities.
2. Measure actual performance. Most organizations prepare formal reports of performance measurements that manager's review regularly. These measurements should be related to the standards set in the first step of the control process. For example, if sales growth is a target, the organization should have a means of gathering and reporting sales data.

3. Compare performance with the standards. This step compares actual activities to performance standards. When managers read computer reports or walk through their plants, they identify whether actual performance meets, exceeds, or falls short of standards. Typically, performance reports simplify such comparison by placing the performance standards for the reporting period alongside the actual performance for the same period and by computing the variance—that is, the difference between each actual amount and the associated standard.

4. Take corrective actions. When performance deviates from standards, managers must determine what changes, if any, are necessary and how to apply them. In the productivity and quality-centered environment, workers and managers are often empowered to evaluate their own work. After the evaluator determines the cause or causes of deviation, he or she can take the fourth step—corrective action. The most effective course may be prescribed by policies or may be best left up to employees' judgment and initiative.

These steps must be repeated periodically until the organizational goal is achieved.

2.1.8 Organizational Control Techniques:

Control techniques provide managers with the type and amount of information they need to measure and monitor performance. The information from various controls must be tailored to a specific management level, department, unit, or operation.

To ensure complete and consistent information, organizations often use standardized documents such as financial, status, and project reports. Each area within an organization, however, uses its own specific control techniques, described in the following sections.
Financial controls

After the organization has strategies in place to reach its goals, funds are set aside for the necessary resources and labor. As money is spent, statements are updated to reflect how much was spent, how it was spent, and what it obtained. Managers use these financial statements, such as an income statement or balance sheet, to monitor the progress of programs and plans. Financial statements provide management with information to monitor financial resources and activities. The income statement shows the results of the organization’s operations over a period of time, such as revenues, expenses, and profit or loss. The balance sheet shows what the organization is worth (assets) at a single point in time, and the extent to which those assets were financed through debt (liabilities) or owner's investment (equity). Financial audits, or formal investigations, are regularly conducted to ensure that financial management practices follow generally accepted procedures, policies, laws, and ethical guidelines. Audits may be conducted internally or externally. Financial ratio analysis examines the relationship between specific figures on the financial statements and helps explain the significance of those figures:

- Liquidity ratios measure an organization's ability to generate cash.
- Profitability ratios measure an organization's ability to generate profits.
- Debt ratios measure an organization’s ability to pay its debts.
- Activity ratios measure an organization's efficiency in operations and use of assets.

In addition, financial responsibility centers require managers to account for a unit’s progress toward financial goals within the scope of their influences. A manager’s goals and responsibilities may focus on unit profits, costs, revenues, or investments.

Budget controls

A budget depicts how much an organization expects to spend (expenses) and earn (revenues) over a time period. Amounts are categorized according to the type of business activity or account, such as telephone costs or sales of catalogs. Budgets not only help managers plan their finances, but also help them keep track of their overall spending.
A budget, in reality, is both a planning tool and a control mechanism. Budget development processes vary among organizations according to who does the budgeting and how the financial resources are allocated. Some budget development methods are as follows:

1. **Top-down budgeting.** Managers prepare the budget and send it to subordinates.
2. **Bottom-up budgeting.** Figures come from the lower levels and are adjusted and coordinated as they move up the hierarchy.
3. **Zero-based budgeting.** Managers develop each new budget by justifying the projected allocation against its contribution to departmental or organizational goals.

### 2.2 Internal control System Concepts:

#### 2.2.1 Definition of Internal control:

There are numerous definitions of internal control; most of them have been drafted by professional accountants’ organizations.

This is the case for the definition of internal control provided by the French Institute of Chartered Accountants: “internal control is the set of security measures which contribute to the control of a company. Its aim is to ensure, on the one hand, the security and safeguard of assets and the quality of information, on the other hand, the application of instructions given by Senior Management, and to encourage improvements in performance. It is evidenced through the organization, methods and procedures for each of the company’s activities, so as to ensure the continuity of that company”. (AMF report)

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) says that Internal control is broadly defined as a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations. (COSO website).

So, we can see there is no single definition of internal control. Another broad definition of internal control can be expressed as: “A system of controls and checks instituted by various
levels of management that are independent and are integrated into the financial and non-financial activities and operations of a business to ensure that the business operations are conducted efficiently and aspects of the business are reliably reported to ensure management decision making is well based and that relevant laws and regulations are complied with”. (Lynford, 2007)

Internal control is defined in the UK Auditing Guideline "internal control" as :”The whole system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records. The individual components of an internal control system are known as 'control' or 'internal control'”. (Coopers and Lybrand, 2008)

The New York state office of the state Comptroller (2004) defined internal control as “the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives and mission.”

Lander defined internal control as a process designed by, or under the supervision of, the company’s principle executive and principle financial officers and implemented by the company’s board of directors, management and other personnel to provide reasonable for reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. (Hurt, 2010).

From the above mentioned definitions we can summarize these definitions by:

Internal control system is: a system of objectives and controls designed to provide for the safeguarding of assets and the reliability of financial records. Or internal control system is a formalized system intended to provide reasonable assurance that the objectives of a program as a whole are met, e.g. financial control, quality control or process control.
2.2.2 The importance of the internal control system:

An organization’s internal control system has a key role in the management of risks that are significant to the fulfillment of its business objectives. A sound system of internal control contributes to safeguarding the shareholders’ investment and the organization’s assets.

Internal control facilitate the effectiveness and efficiency of operations, helps ensure the reliability and external reporting and assist compliance with laws and regulations.

Effective financial controls, including the maintenance of proper accounting records, are an important element of internal control. They contribute to safeguarding of assets, including the prevention and detection of fraud.

An organization’s objectives, its internal design and the environment in which it operates are continually evolving and, as a result, the risks it faces are continually changing. A sound system of internal control therefore depends on a thorough and regular evaluation of the nature and extent of the risks to which the organization is exposed.

2.2.3 Internal control components:

The COSO report identifies five components of internal control that have an impact on an organization’s ability to achieve the internal control objectives.

1. Control environment:

   The core of any organization is its people and the environment in which they operate. They are the engine that drives the entity and the foundation on which everything rests.

   Control environment factors include the integrity, ethical values and competence of the entity’s people; management’s philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the top management.

2. Risk assessment:

   The entity must be aware of and deal with the risks it faces. It must set objectives, integrated with the sales, production, marketing, financial and other activities, so that the organization is operating in concert. It also must establish mechanisms to identify analyze
and manage the related risks; every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed.

3. Control activities:

Control policies and procedures must be established and executed to help ensure that the actions identified by management, necessary to address risks to achievement of the entity’s objectives, are effectively carried out; Control activities are the policies and procedures that help ensure management directives are carried out.

They help ensure that necessary actions are taken to address risks to achievement of the entity’s objectives. Control activities occur throughout the organization, at all levels and in all functions.

They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

4. Information and communication:

Surrounding these activities are information and communication systems. These enable the entity’s people to capture and exchange the information needed to conduct, manage and control its operations; pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the entity. They deal not only with internally generated data, but also information about external events, activities and conditions necessary to informed decision-making and external reporting. Effective communication also must occur in a broader sense, flowing down, across and up the organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must
have a means of communicating significant information upstream. There also needs to be effective communication with external parties, such as customers, suppliers, regulators and other parties.

5. Monitoring:

The entire process must be monitored, and modifications made as necessary.

In this way, the system can react dynamically, changing as conditions warrant. Internal control systems need to be monitored—a process that assesses the quality of the system’s performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board.

The ongoing review of the organization’s daily activities and transactions to determine whether controls are effective in ensuring that operations work as intended. Monitoring responsibilities and duties for:

- **Staff** – Monitors own work to ensure it is being done properly; correct the errors they identify; detect problems with existing control activities; and report changes in their immediate internal and external environments.

- **Supervisors** – Monitoring focus should be on ensuring that control activities are functioning properly; the unit is accomplishing its goals; the unit’s control environment is appropriate; communication is open and sufficient; and risks and opportunities are identified and properly addressed.

- **Middle Management** – Monitoring responsibilities should cover the review of how well controls are functioning in multiple units within an organization, and how well the supervisors are performing monitoring in the respective units. These managers’ focus should be similar to that of supervisors, but extended to cover all the units for which they are responsible.

- **Executive Management** – Focus is on major divisions of the organization with more emphasis on monitoring the organization’s achievement of its goals. Executive
management monitor for the existence of risks and opportunities in either the internal or external environment.

2.2.4 Internal Control Objectives:

Internal control of accounting and financial reporting is intended to ensure that:

- Accounting and financial information complies with applicable rules;
- The instructions and guidelines given by senior management or the Management Board on the strength of this information are properly implemented;
- The organization’s assets are safeguarded;
- Fraud and accounting and financial reporting problems can be detected or prevented as far as possible;
  ➢ The information disseminated and used internally for the purposes of monitoring and control is reliable, insofar as it is used in the preparation and processing of published accounting and financial information;

2.2.5 Roles and Responsibilities:

Everyone in an organization has responsibility for internal control.

➢ Management

The chief executive officer is ultimately responsible and should assume “ownership” of the system. More than any other individual, the chief executive sets the “tone at the top” that affects integrity and ethics and other factors of a positive control environment. In large not-for-profit organizations, the comptroller fulfills this duty by providing leadership and direction to senior managers and reviewing the way they’re controlling the organization. Senior managers, in turn, assign responsibility for establishment of more specific internal control policies and procedures to personnel responsible for the unit's functions. Of particular significance are financial officers and their staffs, whose control activities cut across, as well as up and down, the operating and other units of an entity.
Internal Auditors

Internal auditors play an important role in evaluating the effectiveness of control systems, and contribute to ongoing effectiveness. Because of organizational position and authority in an entity, an internal audit function often plays a significant monitoring role.

Other Personnel

Internal control is, to some degree, the responsibility of everyone in an organization and therefore should be an explicit or implicit part of everyone’s job description. Virtually all employees produce information used in the internal control system or take other actions needed to effect control. Also, all personnel should be responsible for communicating upward problems in operations, noncompliance with the code of conduct, or other policy violations or illegal actions.

A number of external parties often contribute to achievement of an entity’s objectives. External auditors, bringing an independent and objective view, contribute directly through the financial statement audit and indirectly by providing information useful to management and the board in carrying out their responsibilities. External parties, however, are not responsible for, nor are they a part of, the entity’s internal control system.

2.2.6 Limitations Inherent in Internal control

However well-conceived and applied the internal control system might be, it cannot provide absolute guarantee that the organization’s objectives will be met.

The likelihood of meeting these objectives does not depend solely on the will of the organization. There are in fact limitations which are inherent in any internal control system. These limitations are due to several factors, notably to the uncertainties in the outside world, to the exercise of people’s judgment or to problem areas that can arise as a result of human failure or of a simple error. Accounting and internal control systems cannot provide management with conclusive evidence that objectives are reached because of inherent limitations. Such limitations include:

Management’s usual requirement that the cost of an internal control does not exceed the expected benefits to be derived; most internal controls tend to be directed at routine
transactions rather than non-routine transactions; the potential for human error due to carelessness, distraction, mistakes of judgment and the misunderstanding of instruction; the possibility of circumvention of internal controls through the collusion of a member of management or an employee with parties outside or inside the entity; the possibility that a person responsible for exercising an internal control could abuse that responsibility, for example, a member of management overriding an internal control; and the possibility that procedures may become inadequate due to changes in conditions, and compliance with procedures may deteriorate.

In addition, when implementing controls, it is important to bear in mind the cost / benefit relationship and not to develop internal control systems which are unnecessarily costly, even if it means accepting a certain degree of risk.
Chapter 3

The Internal Control System in the Finance Department at UNRWA

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3.1 Introduction

In this chapter the researchers take about the organization they do the research about which is the UNRWA, and then the researchers explain and analyze UNRWA’s internal control system.

3.2 UNRWA Mission and Vision

3.2.1 Establishment of UNRWA

The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) was established under General Assembly resolution 302(IV) of 8 December 1949 and became operational on 1 May 1950. Its mandate is to respond to the needs of Palestine refugees until a durable and just solution is found to the refugee issue. It is now one of the largest United Nations programmes, supporting a population of 4.67 million Palestine refugees under its mandate, with over 29,500 staff. Since its establishment, the Agency has delivered its services in times of relative calm in the Middle East, and in times of hostilities. It has fed, housed and clothed tens of thousands of fleeing refugees and at the same time educated and given health care to hundreds of thousands of young refugees. UNRWA is unique in terms of its long-standing commitment to one group of refugees and its contributions to the welfare and human development of four generations of Palestine refugees. Originally envisaged as a temporary organization, the Agency has gradually adjusted its programmes to meet the changing needs of the refugees. Today, UNRWA is the main provider of basic services - education, health, relief and social services - to over 4.4 million registered Palestine refugees in the Middle East. (UNRWA Website. 2011)

3.2.2 UNRWA Mission:

UNRWA’s mission is to “help Palestine refugees achieve their full potential in human development under the difficult circumstances in which they live”. The Agency fulfills this mission by providing a variety of essential services within the framework of international standards to Palestine refugees in the Gaza Strip, the West Bank, Jordan, Lebanon and the Syrian Arab Republic. Among United Nations agencies, UNRWA is unique in delivering services directly, and as such is similar in character to a public service organization.
UNRWA’s mandate -which derives from the General Assembly and has evolved over time in response to developments in the operational context- extends at present to providing education, health, relief and social services, microfinance and emergency assistance to refugees, infrastructure and camp improvement within refugee camps, and refugee protection. (UNRWA Financial Report, 2010)

UNRWA works against a backdrop of significant trends and pressures. These affect UNRWA’s ability to realize its objectives and present challenges to which the Agency’s Medium Term Strategy for the period 2010-2015 (MTS) seeks to respond. The factors include the absence of a peaceful solution to the Israeli-Palestinian conflict, ongoing denial of refugees’ rights and recurrent armed conflict in some UNRWA locations, the policies and contributions of UNRWA’s donor countries and changes taking place within the refugee population itself.

The refugee population has changed since the time of UNRWA’s genesis. In 1950, there were approximately 750,000 Palestine refugees. Their number has increased by more than six times to 4.67 million in 2008, with an average annual growth rate of three per cent (though this is abating). In the past 20 years the refugee population has nearly doubled. Use of key UNRWA services has increased as a result. Population density and overcrowding in refugee camps is amongst the highest in the world. Critical demographic shifts are also apparent. The refugee population is predominantly made up of young people. More than 56 per cent of refugees were under 25 years of age in 2000. In addition, only 30 per cent of refugees now live within refugee camps.

3.2.3 UNRWA’s Objectives

UNRWA aimed to provide the main needs and wants for the Palestinian refugee, which includes education, direct health and social services. UNRWA spends 54% of its balance for education, 21% for health care program, 17% for social services and 8% for operational services. (UNRWA Financial Report 2010)

3.2.4 Headquarters and fields office

UNRWA’s field operations are handled by five separate fields office located in Amman (Jordan), Beirut (Lebanon), Damascus (Syria), East Jerusalem (West Bank), and Gaza City
The five fields in which UNRWA operates share similarities, but are also distinctive. In Jordan and the Syrian Arab Republic most refugees enjoy rights similar to local populations and mostly stable social conditions which afford them greater opportunities for human development. In Lebanon, in spite of considerable efforts by the government, the rights of refugees continue to be limited, reflecting the complex political situation of the country.

Widespread devastation from Israel’s military operation in December 2008 – January 2009 followed a period of protracted crisis in the Gaza Strip. Constant, low level violence and restrictions on movement characterize the West Bank. Over time these contextual factors have led to differences in the circumstances in which refugees find themselves, and determine what UNRWA can achieve and what must be the focus of UNRWA’s resources and effort.

3.2.5 Activities of the United Nations Relief and Works Agency

UNRWA operations are almost wholly funded through voluntary contributions from Member States and other entities. The constraints posed by the unpredictability of funding over the medium term are ameliorated to a certain extent by the readiness of some of the Agency’s major donors to provide unearmarked funds to the UNRWA regular budget. The Agency’s 10 largest donors, who together provide over 80 per cent of its current cash income, are, in descending order as per 30 June 2004: the United States of America, the European Commission, the United Kingdom of Great Britain and Northern Ireland, Sweden, Norway, the Netherlands, Italy, Denmark, Canada and Germany.

Throughout its 54 years of providing humanitarian and human development services in the area, the Agency has demonstrated a capacity to adapt and enhance its programmes as required to cope with developments in the region and stands ready to continue doing so in accordance with the mandate it receives from the General Assembly.

UNRWA provides education, health, relief and social services to eligible refugees among the 4.8 million registered Palestine refugees in its five fields of operations: Jordan, Lebanon, the Syrian Arab Republic, the West Bank and Gaza Strip. Some 1.4 million refugees,
around one third of the total, live in 58 recognized camps, and UNRWA’s services are located in or near these camps where there are large concentrations of refugees.

Unlike other United Nations organizations which work through local authorities or executing agencies, UNRWA provides its services directly to Palestine refugees. It plans and carries out its own activities and projects, and builds and administers facilities such as schools and clinics. The Agency currently operates or sponsors over 900 installations with some 28,000 staff throughout its area of operations. Because UNRWA services such as education and health care are the type of services normally provided within the public sector, the Agency cooperates closely with governmental authorities in the area of operations, who also provide some services to Palestine refugees.

- **Education**

  Education is UNRWA’s largest area of activity accounting for half its regular budget and two-thirds of its staff.

  In the 2005/2006 school year, UNRWA is providing basic, free education to 485,471 young Palestine refugees in 658 elementary and preparatory schools throughout its area of operations and in five secondary schools in Lebanon.

  Eight vocational and technical training centers with 5,431 places equip young refugees with marketable skills and a teacher training programme ensures sufficient qualified teachers for Agency schools.

- **Health**

  UNRWA ensures access to health care for about 1.3 million Palestinian refugees through its 125 primary health care centers in West Bank, Gaza, Jordan, Lebanon, and Syria, as well as its 63-bed hospital in Qalqilia in the West Bank.

  UNRWA strongly focuses on the prevention of diseases in the 58 refugee camps in the region in an environment-friendly way through the provision of safe drinking water, hygiene and sanitation, sewage and solid waste management, and control of insects and rodents. The UNRWA’s health care system is one of the most cost-effective in the region.
 Relief and Social Services

UNRWA supports Palestine refugee families unable to meet their own basic needs and helps promote the self-reliance of the refugee community through community social development.

Direct material and financial assistance, including food is provided to the poorest eligible refugee families undergoing special hardship to ease their immediate plight.

 Microfinance and Microenterprise Department

Alleviate poverty, create employment, support economic development, and income generating opportunities by providing working capital and investment financing to Palestinian microentrepreneurs and small businesses.

 Emergency Aid

UNRWA has provided emergency assistance to Palestine refugees and to their neighbors many times in its nearly 56 years of activity.

The Agency also regularly provides tents, blankets and food to refugees in the harsh winter weather which often affects the region.

Since September 2000, UNRWA has been providing emergency assistance to the thousands of refugees affected by the ongoing conflict in the West Bank and Gaza.

 Special Programmes

UNRWA also undertakes special projects and programme activities in response to identified needs or to support broader political and socio-economic developments.

3.2.6 UNRWA Organizational structure:

UNRWA is a subsidiary organization of the United Nation. The Agency’s chief officer, the Commissioner-General, is appointed by the UN Security-General after consultation with UNRWA’s Advisory Commission and is the only head of a United Nation body to report directly to the General Assembly. The Advisory Commission meets annually to review
Agency activities. It’s membership consist of Australia, Belgium, Canada, Denmark, Egypt, France, Germany, Italy, Japan, Jordan, Lebanon, Netherlands, Norway, Saudi Arabia, Spain, Sweden, Switzerland, Syria, Turkey, the United Kingdom and the United States. The EC, league of Arab States and Palestine Liberation Organization attends as Observers.

3.3 The finance department in UNRWA HQ, Gaza

3.3.1 Introduction

The department of finance, located at the Gaza headquarters, is responsible for all the financial operations and function in the operational UN work fields (Lebanon, Syria, Jordan, West Bank, Gaza Strip). The department is headed by the Comptroller (Director), who is accountable to the Commissioner-General and mandated to provide the necessary reports of the financial activities and the budget review of the biennium planned years (Activities executed summary and the Biennium Budget Review).

3.3.2 The department structure

The department consist of the accounts Division, the Budget Division, the Treasury Division.

The finance structure of finance department is as follows:

Comptroller

1. Chief Budget Division (CBD).
2. Chief Accounts Division (CAD).
3. Treasurer.
4. Provident fund Secretariat and Supply Chief (PVC) - At Amman Head Quarters.

1. CBD
   a. Deputy CBD.
   b. Head Standards and Staff Costs Budget Section (HSSBS).
   c. Head Programmes and Projects Budget Section (HPPBS).

Under the CBD they have deputy CBD, and then they have HSSBS, and HPPBS. Under the HSSBS, they have two assistants, Assistant Head Staff Costs Budget, and Assistant Head Standards Budget. Under each assistant they have one senior finance assistant and two finance assistants. The same goes for the HPPBS; they have two Assistants to HPPBS, where everyone is concerned with projects and the other with programmes. Under Projects they have one senior
finance assistant and two finance assistants. The other Assistant HPPBS has only one finance assistant.

2. **CAD**
   a. Deputy CAD.
   b. Head General Accounting Section.
   c. Head Payment Section.
   d. Head Payroll Section.

   They have deputy CAD then they have Head General Accounting section and Head Payment Section. Under each Head they have only one assistant each, and under each assistant they have one senior finance assistant and two finance assistant, also they have Head Payroll Unit and assistant Head Payroll unit.

3. **Treasurer**

   There is no assistant or deputy, but the cashier works as deputy or assistant. And there is two finance assistant in the cashier office.

   The next chart will show the structure of Finance Department in UNRWA HQ, Gaza.
3.3.3 The department functions

The cores of the department are as follows:

a. Preparing and controlling the budget.

b. Maintaining and publishing accounts.

c. Receiving, safeguarding and disbursing all monies.

d. Procuring and controlling the inventory of supplies.

e. Ensuring that sufficient internal controls are in place at all times in all Agency operations.

And besides of these financial activities the managerial activities, the controlling and the internal control activity, will be discussed in the next section of the research, as they are the main measurement of the efficiency and effectiveness from errors and frauds, specially the organization's finance depends on the donation and the contribution of developed countries.

3.3.4 UNRWA financial resources

UNRWA contributions constituted by donors, charitable organizations and developed countries, which considered only sources of financing for UNRWA. These contributions attended in the form of voluntary contributions (cash and in kind), UNRWA supplied with aids annually, according to the terms of the budget provided by UNRWA for two years. UNRWA sometimes receives some resources in the form of kind aids such as: Flour, rice, clothing and others. UNRWA is trying to find direct funding from donors for some special projects, where they are writing reports separately

UNRWA faces a big problem in the financial deficit, because UNRWA heavily depends on voluntary contributions, specially, when the number of Palestinian refugees increases, so the funding bases in UNRWA face significant pressure. As a result, UNRWA has begun to suffer from permanent financial deficit since 1993. While part of this deficit problem is linked to a population increase, but there are other important indicators established from the inability to manage the financial situation of UNRWA effectively, because of lake of investment in the development, and remains the system of preparing budgets and plans without change. (UNRWA Budget Programme 2010-2011)
3.4 The internal control system in the finance department

3.4.1 Internal control tool

UNRWA by its nature has its unique internal control tool and instrument that keep UNRWA its governance structure in way to achieve the objective that UNRWA was establish for. There are many tools that have been incorporated in its structure which have been protecting UNRWA from fraud and corruption. In a study conducted by local community group regarding the confidence that the stakeholder have, it was found on the top of all UN organization, international NGOs, and other bodies working in the Palestinian Occupied Territories.

The tools used by UNRWA are many. We are going to expose them one by one to verify to what extent these instrument and tools have benefited UNRWA in attaining its overall goals and through relive and create job opportunities for the Palestine Refugee in the five area of operation.

3.4.2 UNRWA Rules, Regulation and Polices

UNRWA has set a number of rules and regulation related to the goal of existence of UNRWA itself. We cannot tackle all of these rules and regulation but will try to shade some light on the related issues. For example, UNRWA is a humanitarian organization based in the Palestinian refugee’s area of operation to mitigate the plight of refugees resulted from the immigration by force in 1948 and 1967. UNRWA provides food, health, education and other humanitarian programmes that help Palestinian to struggle with their difficult life. UNRWA is not apolitical party or engaged to any political campaign, rather it’s an organization came to treat the results of political question of Palestine.

UNRWA and its staff member are committed themselves to the general humanitarian ethics that ensure credibility and transparency of function done by UNRWA. UNRWA staff member are requested to adhere goals themselves to the general ethics set by UN general assembly. Staff member are required to achieve the goal of UNRWA for Palestinian at the end of the day and not for the benefit for any other party. The main stakeholder is the Palestinian refugees.
Apart from what mentioned above, there are many policies that protect UNRWA from getting corrupted and move smoothly in achieving its goals. These policies have to do with personnel structure, financial fund raising, human resource, administrative structure and other institution bodies.

Those policies are so necessary to achieve transparency that ensures the confidence the stakeholder have in UNRWA. To apply the policies and rules, UNRWA has established some instruction and measures that can evaluate what is planned with what will be achieved through different methodology and approaches. We will focus here in financial instrument as they belong to the financial management of budget and expenditure and to see what extent these instruction have been helping UNRWA in achieving the needed internal control.

3.4.3 **Budget Technical Instructions (BTIs)**

The budget technical instructions are the instruction related to the budget function in the finance department. It illustrates the general standard, rules, criteria, milestones and norms that Budget Division should set and follow in order to achieve the goals of the budget plans allocated and that should take place for the benefit of Palestine refugees at the end of the day.

The BTIs are concerned with every single aspect of the budget process. It involves all items affiliated to the goal of UNRWA, i.e. provide health, education and relief services for Palestine refugees.

There are BTIs that are concerned with staff cost; local and international; BTIs deal with procurement of medical, educational and relief supplies.

BTIs that tackle the construction of premises, BTIs that talk about the recurrent cost and non-recurrent cost and a BTI treats the issue programme support cost which is very unique one in dealing with donor-funded project.

Generally speaking without having BTIs the budget process will be mislead as BTIs represent the guidelines that should be followed to achieve the general and the certain goals.
3.4.4 Financial Technical Instructions (FTIs)

These are the instruction dealing with all accounting and auditing issues. It treats the issue of expenditure, recording transaction and more. It show the whole process of closing accounts to be shown at the end of the day, the financial position of the UNRWA there are many of these instruction that sort any distribute between staff member in how to sort out all kinds of appealing issues related to accounts. It’s like the final judge that all staff member working in accounting department should go back to as a reference.

The most important FTIs are ones that deal with the reporting on a transparency basis that makes the life of internal and external auditors very easy. Also, financial reports fall under this category where they should meet donor’s requirements.

3.4.5 Key performance indicator (KPIs)

The KPIs are like indicators to measure the performance of every single aspect in UNRWA. It has not only to do with finance. Rather, every single unit, center and section attached to the main programmes in UNRWA have its own indicators that measure the performance of person, activity, unit, programme and every small type of expenditure; as like the bottom location away from headquarters.

KPIs give a measurement of how the process of every single aspect in UNRWA goes on. It shows the implementation process and percentage in comparison with milestone set before. It gives the directors, the managers, the accountants, the comptroller and the people concerned a general idea and certain view on how things changes; should we get an intervention; any deviation from the basic allocation, are on track, and so and so forth.

3.4.6 Financial management system (FMS)

It is the financial system that was incorporated in UNRWA in year 2002 which include all modules needed to carry on the accounting budgetary and all other financial aspects of an organization. We have a budget module, human resources module, Managerial accounting module, Assets module and others.

These modules are connected to each other in a way ensuring a flow of information and data with high quality it is an on-line system that staff member can see all changes adjustments and reflections of transaction live.
The staff member in procurement department can check how much budget allocated for a certain item while at the same time the head of international sections can see how much spent on a travel and others can see live what the actual free balances how much soft commitment, how much hard commitment and so forth. It gives a clear picture of how expenditure goes against the budget allocated the result tell you if the objectives have been achieved or not it tells you if there is a prolong pending issues that should be investigated and necessary actions should take place immediately.

There are much to talk about the FMS, but it lacks some requirements that needed by stakeholders; lack in some kind of reporting slowness, regular disconnections and other minor issues.

3.4.7 Hold/Ignore Tool in the FMS

Hold function means that nobody can spend more beyond its allocation of fund ignore function achieve the inverse objective; i.e. permits incurring over expenditures over what was allocated for a certain purpose. It is amazing tool that prevent any programme, any person in UNRWA to deviate from what was planned unless different decision taken place to adjust allotment based on the continuous assessment of requirements.

3.4.8 Budget estimate sheet (BES)

It is the original sheet that based on it, all people, programmes, activates and small units should prepare before going ahead with their implementation. In fact, this item should come under BTIs as it is part of the budget process. However, the BES represents a milestone that all should refer to during the implementation of any type of activity. It is the criteria that should not be violated in respect of regular budget.

3.4.9 Reporting

UNRWA has different type of reports start from daily through monthly and annual reports to biennial reports. These reports are made based on FTIs and BTIs and upon request of the stakeholders of UNRWA including the major stakeholder; Donors.

These kinds of report enhance the transparency of UNRWA and increase the confidence of the stakeholders in UNRWA which is a marketing tool to develop the fund raising for UNRWA.
The periodic are based on either, type of expenditure or type of activity/programme. Normally, reports are prepared based on comparison between the original allotment, by looking at BES in respect of regular budget, and at project proposal approved by donor, and the actual expenditure incurred through the period span of the activity. Such report should insure that there is no violation for the project proposal and agreement signed by with the donors.

There are other different ad-hoc reports that requested based on emergency request for a certain purpose; such report are prepared the resources allocation committee, for the Emergency Appeal Task Force, Donor Meeting and other bodies.

### 3.4.10 Internal and external auditor

The main objective of the auditors function is to insure that all BTIs, FTIs and other instructions and milestones are on track. There are periodic auditing bi-yearly and yearly auditing located by the UN. These results are submitted to comptroller and the UN assembly to insure that UNRWA is committed to overall criteria and standard set by UN.

UNRWA always shows very high commitment to such standard.

### 3.4.11 Enterprise Resource Programme (ERP)

Due to the lack and inefficiency mentioned above in the FMS, UNRWA has decided to go for a new system to adjust its pitfall and gaps found in the current FMS system therefore, they decide to go for the enterprise resource programme which will enhance the efficiency, effectiveness, credibility and coherent systematic approach to the overall policies, rules and regulation.

The main objective of ERP is to reflect those policies in an automated system that can tell from the first sight what have been achieved in respect of the new goals set by UN and UNRWA.

ERP will be tried in year 2011 to connect those goals through the FIPS (Field Implementation Programmes) set by each field of operation. This new system is under process and UNRWA is now in a transitional period from the current system FMS to ERP. What UNRWA is doing now is upgrading the current system to meet those goals automatically.
Chapter 4

Methodology (The Practical Framework)

4.1 Introduction
4.2 Research Design
4.3 Research Methodology
  4.3.1 Data Collection Methodology
  4.3.2 Data Analysis Methodology
4.4 Population and Sample Size
4.5 Questionnaire Content
  4.5.1 Pilot Study
4.6 Validity of the Research
4.7 Content Validity of the Questionnaire
4.8 Statistical Validity of the Questionnaire
4.9 Criterion Related Validity
  4.9.1 Internal Consistency
  4.9.2 Structure Validity of the Questionnaire
4.10 Reliability of the Research
  4.10.1 Half Split Method
  4.10.2 Cronbach’s Alpha Coefficient
4.1 Introduction

This chapter describes the methodology that will be used in this research. The adopted methodology to accomplish this study uses the following techniques: the information about research design, research population, questionnaire design, statistical data analysis, content validity and pilot study.

4.2 Research Design

The first phase of the research thesis proposal included identifying and defining the problems and establishment objective of the study and development research plan.

The second phase of the research includes a summary of the literature review.

The third phase of the research included a field questionnaire which was conducted about Analyzing and Evaluating Internal Control System at the Finance Department in UNRWA Headquarter, Gaza Strip.

The fourth phase of the research focused on the modification of the questionnaire design, through distributing the questionnaire to pilot study, The purpose of the pilot study was to test and prove that the questionnaire questions are clear to be answered in a way that help to achieve the target of the study.

The fifth phase of the research focused on distributing questionnaire.

This questionnaire was used to collect the required data in order to achieve the research objective.

The sixth phase of the research was data analysis and discussion. Statistical Package for the Social Sciences, (SPSS) was used to perform the required analysis.

The final phase includes the conclusion and recommendations.

Thirty five questionnaires were distributed to the research population and thirty questionnaires are received.
4.3 Research methodology

4.3.1 Data collection methodology:

In order to collect the needed data for this research, we use secondary sources in collecting data such as books, journals, statistics and web pages. In addition to preliminary resources that not available in secondary resources through distributing questionnaire on studied population in order to get their opinions about the Internal Control System in the finance department at UNRWA HQ, Gaza.

4.3.2 Data analysis Methodology:

Research methodology depends on the analysis of data on the uses of descriptive analysis, which depends on the use of SPSS.

4.4 Population and sample size:

Research population involve 35 employees and managers in the department of finance (Accounts division, Budget division and treasury) in the UNRWA HQ, a thirty five questionnaires were distributed to the research population and thirty are received, and the following tables illustrate the properties of the sample:

1. Gender:

Table No.1 show that 73.3% from the population are males, and 26.7% are females.

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>22</td>
<td>73.3</td>
</tr>
<tr>
<td>Female</td>
<td>8</td>
<td>26.7</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>
2. **Age:**

Table No.2 show that 3.3% from the sample ages “less than 30 years”, and 36.7% from the sample ages between “30 to 40 years”, and 30% from the sample ages between “41 to 50 years”, and 30% from the sample ages “more than 50 years”.

<table>
<thead>
<tr>
<th>Age</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 30</td>
<td>1</td>
<td>3.3</td>
</tr>
<tr>
<td>30 to 40 years</td>
<td>11</td>
<td>36.7</td>
</tr>
<tr>
<td>41 to 50 years</td>
<td>9</td>
<td>30</td>
</tr>
<tr>
<td>More than 50 years</td>
<td>9</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

3. **Qualifications:**

Table No.3 show that 3.3% from the sample have “Diploma”, 76.6% from the sample have “Bachelor Degree”, and 20% from the sample have “Master Degree”.

<table>
<thead>
<tr>
<th>Qualifications</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>High School</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Diploma</td>
<td>1</td>
<td>3.3</td>
</tr>
<tr>
<td>Bachelor Degree</td>
<td>23</td>
<td>76.7</td>
</tr>
<tr>
<td>Master Degree</td>
<td>6</td>
<td>20</td>
</tr>
<tr>
<td>PhD</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
4. **Years of Experience:**

Table No.4 show that 3.3% from the sample's experience years “From 4 to 6 years”, 6.7% have “from 7 to 10 years of experience”, 30% have “from 10 to 15 years of experience”, and 60% have “more than 15 years of experience”.

<table>
<thead>
<tr>
<th>Years of Experience</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>From 1 to 3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>From 4 to 6</td>
<td>1</td>
<td>3.3</td>
</tr>
<tr>
<td>From 7 to 10</td>
<td>2</td>
<td>6.7</td>
</tr>
<tr>
<td>From 10 to 15</td>
<td>9</td>
<td>30</td>
</tr>
<tr>
<td>More than 15</td>
<td>18</td>
<td>60</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>30</td>
<td>100</td>
</tr>
</tbody>
</table>
5. Specialization:

Table No.5 Show that 60% from the sample are specialized in “Accounting”, 26.7% from the sample are specialized in “Administration”, 10% from the sample are specialized in “Economics”, and 3.3% of the sample size is specialized in “others”.

<table>
<thead>
<tr>
<th>Specialization</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting</td>
<td>18</td>
<td>60</td>
</tr>
<tr>
<td>Administration</td>
<td>8</td>
<td>26.7</td>
</tr>
<tr>
<td>Economics</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Bank Finance</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>others</td>
<td>1</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

6. Currently working at:

Table No.6 shows that 56.7% of the sample is working at “Accounts Division”, 33.3% of the sample is working at “Budget Division”, and 10% of the sample is working at “Treasury”.

<table>
<thead>
<tr>
<th>Division</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Division</td>
<td>17</td>
<td>56.7</td>
</tr>
<tr>
<td>Budget Division</td>
<td>10</td>
<td>33.3</td>
</tr>
<tr>
<td>Treasury</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
4.5 Questionnaire content:

The questionnaire was provided with a covering letter explaining the purpose of the study, the way of responding, the aim of research and the security of information in order to encourage a high response. The questionnaire included multiple choice questions: which is used widely in the questionnaires, the variety in these questions aims first to meet the research objectives, and to collect all the necessary data that can support the discussion, results and recommendations in the research. The sections in the questionnaire will verify the objectives of this research:

a. First field: policies and procedures consist of 10 questions.
b. Second field: financial system consists of 10 questions.
c. Third field: information system security consists of 10 questions.
d. Fourth field: other indicators consist of 12 questions.

And all questions follow lekart scale as the following:

<table>
<thead>
<tr>
<th>Level</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scale</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>
4.5.1 Pilot study:

A pilot study for the questionnaire was conducted before collecting the results of the sample. It provides a trial run for the questionnaire, which involves testing the wording of the questions, identifying ambiguous questions, testing the techniques that used to collect data, and measuring the effectiveness of standard invitation of response.

4.6 Validity of the research:

We can define the validity of an instrument as a determination of the extent to which the instrument actually reflects the abstract content being examined. “Validity refers to the degree to which an instrument measures what it is supposed to be measured”.

High validity is the absence of systematic errors in the measuring instrument. When an instrument is valid; it truly reflects the concept it is supposed to measure.

Achieving good validity required the care in the research design and sample selection.

4.7 Content Validity of the Questionnaire:

Content validity test was concluded by consulting two group of export. The first was requested to evaluate and identify whether the question agreed with the scope of the item and the extent these items reflect the concept of the research problem. The other was requested to evaluate the instrument used is valid statistically and that the questionnaire was designed well enough to provide relation and tests between variables. The two groups of exports did agree that the questionnaire was valid and suitable enough to measure the concept of interest with some amendments.

4.8 Statistical Validity of the Questionnaire.

To insure the validity of the questionnaire, two statistical tests should be applied. The first test is Criterion- related validity test (person test) which measures the correlation coefficient between each item in field and the whole field. The second test is structure validity test (person test) that used to test the validity of the questionnaire structure by testing the validity of each field and the validity of the whole questionnaire. It measures the correlation coefficient between each one field and all fields of the questionnaire that have the same level of similar scale.
4.9 Criterion Related Validity

4.9.1 Internal Consistency:

The internal consistency of the questionnaire by a scouting sample which consist of thirty questionnaires, through measuring the correlation coefficient between each paragraph in one field and the whole field. Tables No, (7- 10) shows the correlation coefficient and T-value for each field items. As shown in the table the p-value are less than 0.05 or 0.01, so the correlation coefficient of this field are significant at alpha = 0.01 or alpha = 0.05, so it can be said that the paragraphs of this field are consistent and valid to be measure what it was set for.

Table No.7

The correlation coefficient between each question in the field and the whole field

<table>
<thead>
<tr>
<th>No.</th>
<th>Questions</th>
<th>Pearson coefficient</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Does the organization have an up-to-date accounting policies and procedures manual?</td>
<td>0.672</td>
<td>0.000</td>
</tr>
<tr>
<td>2.</td>
<td>Have personnel policies maintained and distributed to all personnel?</td>
<td>0.656</td>
<td>0.000</td>
</tr>
<tr>
<td>3.</td>
<td>Is the organization have an organizational chart that clearly defines lines of authority and responsibility?</td>
<td>0.471</td>
<td>0.015</td>
</tr>
<tr>
<td>4.</td>
<td>Does the finance department have a written departmental administrative manual?</td>
<td>0.422</td>
<td>0.019</td>
</tr>
<tr>
<td>5.</td>
<td>Do the organization officials give a high priority to its internal control structure?</td>
<td>0.625</td>
<td>0.000</td>
</tr>
<tr>
<td>6.</td>
<td>Do the governing body and other entity officials emphasize meeting the budget and other financial operational goals?</td>
<td>0.578</td>
<td>0.000</td>
</tr>
<tr>
<td>7.</td>
<td>Does management take appropriate follow-up actions for identified problems or weaknesses in internal control?</td>
<td>0.573</td>
<td>0.000</td>
</tr>
<tr>
<td>8.</td>
<td>Management personals are involved adequately in designing and approving accounting system procedures.</td>
<td>0.554</td>
<td>0.000</td>
</tr>
<tr>
<td>9.</td>
<td>Are officials and supervisors required to suggest measures to correct weaknesses or inadequacies?</td>
<td>0.574</td>
<td>0.000</td>
</tr>
<tr>
<td>10.</td>
<td>Do officials and supervisors review evaluations with employees?</td>
<td>0.523</td>
<td>0.000</td>
</tr>
</tbody>
</table>
### Table No.8
**The correlation coefficient between each question in the field and the whole field**

#### Financial system

<table>
<thead>
<tr>
<th>No.</th>
<th>Questions</th>
<th>Pearson coefficient</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Is there chart of accounts in the finance department?</td>
<td>0.798</td>
<td>0.000</td>
</tr>
<tr>
<td>2.</td>
<td>Are persons authorized to approve expenditures clearly identified?</td>
<td>0.792</td>
<td>0.000</td>
</tr>
<tr>
<td>3.</td>
<td>Has the organization's disbursement approval policy been communicated to all appropriate staff?</td>
<td>0.658</td>
<td>0.000</td>
</tr>
<tr>
<td>4.</td>
<td>Does the organization have competitive bidding policies for its purchases?</td>
<td>0.843</td>
<td>0.000</td>
</tr>
<tr>
<td>5.</td>
<td>Are all purchase requisitions reviewed by a senior officials to ensure reasonableness and appropriate delivery address?</td>
<td>0.731</td>
<td>0.000</td>
</tr>
<tr>
<td>6.</td>
<td>Are all purchases and requisitions of goods and services reconciled to the monthly ledger?</td>
<td>0.728</td>
<td>0.000</td>
</tr>
<tr>
<td>7.</td>
<td>Are budgets submitted to administrators in accordance with an established time schedule?</td>
<td>0.751</td>
<td>0.000</td>
</tr>
<tr>
<td>8.</td>
<td>Are interim financial reports prepared to compare the actual results to prior results and current budget?</td>
<td>0.654</td>
<td>0.000</td>
</tr>
<tr>
<td>9.</td>
<td>Are financial and statistical reports prepared for the management on a timely basis and frequently enough to be used?</td>
<td>0.849</td>
<td>0.000</td>
</tr>
<tr>
<td>10.</td>
<td>Do all financial reporting requirements always meet your satisfaction and expectation?</td>
<td>0.701</td>
<td>0.000</td>
</tr>
</tbody>
</table>

### Table No.9
**The correlation coefficient between each question in the field and the whole field**

#### Information system security

<table>
<thead>
<tr>
<th>No.</th>
<th>Questions</th>
<th>Pearson coefficient</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Is sensitive information protected by password?</td>
<td>0.577</td>
<td>0.000</td>
</tr>
<tr>
<td>2.</td>
<td>Are back-up disks maintained of all critical information?</td>
<td>0.556</td>
<td>0.000</td>
</tr>
<tr>
<td>3.</td>
<td>Is access to data and program files restricted to authorized personnel?</td>
<td>0.570</td>
<td>0.000</td>
</tr>
<tr>
<td>4.</td>
<td>Are computer applications logged-off when the user is away from the terminal or PC?</td>
<td>0.621</td>
<td>0.000</td>
</tr>
<tr>
<td>5.</td>
<td>Is the need for password security reinforced to organization staff?</td>
<td>0.564</td>
<td>0.000</td>
</tr>
<tr>
<td>6.</td>
<td>Does more than one person have access to every screen or software application in the organization?</td>
<td>0.507</td>
<td>0.000</td>
</tr>
<tr>
<td>7.</td>
<td>Does the application program prohibit users from logging into the application on other work station at the same time with the same user ID?</td>
<td>0.591</td>
<td>0.000</td>
</tr>
<tr>
<td>8.</td>
<td>Are employees passwords shared with others including the employee's supervisor?</td>
<td>0.539</td>
<td>0.0001</td>
</tr>
</tbody>
</table>
Analyzing and Evaluating Internal Control System at the Finance Department in UNRWA

Maha Saymeh, Enas Bakheet

9. Is computer log maintained to determine who recorded a transaction, based on an employee's login name? 0.633 0.000
10. Is there a policy to control the risks from Internet usage? 0.576 0.000

Table No.10
The correlation coefficient between each question in the field and the whole field

<table>
<thead>
<tr>
<th>No.</th>
<th>Questions</th>
<th>Pearson coefficient</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Are all employees trained for appropriate response to emergency situations?</td>
<td>0.382</td>
<td>0.022</td>
</tr>
<tr>
<td>2.</td>
<td>Does the internal control system in the organization detect errors and frauds?</td>
<td>0.579</td>
<td>0.000</td>
</tr>
<tr>
<td>3.</td>
<td>Are current job descriptions on file for each employee in the organization?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Are the authorization, processing, check signing, recording and other functions clearly segregated?</td>
<td>0.614</td>
<td>0.000</td>
</tr>
<tr>
<td>5.</td>
<td>Does the accounting system captures information necessary to identify the function for which each expense is incurred or to allocate expense incurred among appropriate functions?</td>
<td>0.588</td>
<td>0.000</td>
</tr>
<tr>
<td>6.</td>
<td>Are all staff time records reviewed and authorized by an appropriate senior official?</td>
<td>0.439</td>
<td>0.003</td>
</tr>
<tr>
<td>7.</td>
<td>Are reported overtime hours verified for reasonableness and proper pre-approval?</td>
<td>0.574</td>
<td>0.000</td>
</tr>
<tr>
<td>8.</td>
<td>Is labor distribution and vacation/sick accrual reports reviewed for reasonableness each pay period by a senior official?</td>
<td>0.645</td>
<td>0.000</td>
</tr>
<tr>
<td>9.</td>
<td>Is employee performance reviewed and documented on a regular basis?</td>
<td>0.631</td>
<td>0.000</td>
</tr>
<tr>
<td>10.</td>
<td>Are unusual trends or discrepancies in organization accounts identified and reconciled monthly?</td>
<td>0.502</td>
<td>0.001</td>
</tr>
<tr>
<td>11.</td>
<td>Are missing numbers in sequences of numerically controlled documents identified and investigated immediately?</td>
<td>0.453</td>
<td>0.002</td>
</tr>
<tr>
<td>12.</td>
<td>Is there an internal auditor in the organization?</td>
<td>0.602</td>
<td>0.000</td>
</tr>
</tbody>
</table>

4.9.2 Structure Validity of the Questionnaire

Structure validity of the questionnaire is the second statistical test that used to test the validity of the questionnaire structure by testing the validity of each field and the validity of the whole questionnaire. It measures the correlation coefficient between one field and all the field of the questionnaire that have the same level of liker scale.
As shown in table No.11, the significant values are less than 0.05 or 0.01, so the correlation coefficient of all fields are valid to be measured what it was set for to achieve the main goals of the study.

<table>
<thead>
<tr>
<th>No</th>
<th>Section</th>
<th>Pearson correlation</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>policies and procedures</td>
<td>0.663</td>
<td>0.000</td>
</tr>
<tr>
<td>2.</td>
<td>Financial system</td>
<td>0.773</td>
<td>0.000</td>
</tr>
<tr>
<td>3.</td>
<td>Information system security</td>
<td>0.778</td>
<td>0.000</td>
</tr>
<tr>
<td>4.</td>
<td>other indicator</td>
<td>0.833</td>
<td>0.000</td>
</tr>
</tbody>
</table>

### 4.10 Reliability of the Research

To measure the reliability can be achieved by using Cornbrach Alpha coefficient and Half Split Method through the SPSS.

#### 4.10.1 Half Split Method

This method depends on finding Person correlation coefficient between the means of odd rank questions of each field of the questionnaire. Then, correcting the Person correlation coefficient can be done by using Spearman Brown correlation coefficient (consistency coefficient) is computed according to the following equation:

\[
\text{Consistency coefficient} = \frac{2r}{r+1}, \quad \text{where } r \text{ is the Person correlation coefficient.}
\]

The normal range of correlation coefficient \(\frac{2r}{r+1}\) is between 0 and +1 as shown in Table No.12, all corrected correlation coefficients values are between 0.8321 and 0.8603 and the general reliability for all items equal 0.8505, and the significance (\(\alpha\)) is less than 0.05 so all corrected correlation coefficients are significant at \(\alpha = 0.05\). It can be said that according to the Half Split Method the dispute cases group are reliable.
Table No.12

**Half Split Coefficient Method**

<table>
<thead>
<tr>
<th>Section</th>
<th>Person correlation</th>
<th>Spearman Brown coefficient</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Policies and Procedures</td>
<td>0.7548</td>
<td>0.8603</td>
<td>0.000</td>
</tr>
<tr>
<td>2. Financial System</td>
<td>0.7255</td>
<td>0.8409</td>
<td>0.000</td>
</tr>
<tr>
<td>3. Information System Security</td>
<td>0.7755</td>
<td>0.8736</td>
<td>0.000</td>
</tr>
<tr>
<td>4. Other Indicators</td>
<td>0.7125</td>
<td>0.8321</td>
<td>0.000</td>
</tr>
<tr>
<td>5. All sections</td>
<td>0.7399</td>
<td>0.8505</td>
<td>0.000</td>
</tr>
</tbody>
</table>

4.10.2 Cornbrach’s Alpha Coefficient

This method is used to measure the reliability of the questionnaire between each field and the mean of the whole fields of the questionnaire. The normal range of Cronbach’s coefficient alpha value between 0 and +1, and the higher the values reflects a higher degree of internal consistency. As shown in Table No.13 the cronbach’s Alpha coefficient was calculated for all fields. The results were in the range from 0.8674 and 0.8952, and the general reliability for all items equal 0.8854. This range is considered high; the results ensure the reliability of the questionnaire.

Table No.13

**Cronbach’s Alpha for reliability**

<table>
<thead>
<tr>
<th>Section</th>
<th>Number of Items</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Policies and Procedures</td>
<td>10</td>
<td>0.8848</td>
</tr>
<tr>
<td>2. Financial System</td>
<td>10</td>
<td>0.8674</td>
</tr>
<tr>
<td>3. Information System Security</td>
<td>10</td>
<td>0.8952</td>
</tr>
<tr>
<td>4. Other Indicators</td>
<td>12</td>
<td>0.8758</td>
</tr>
<tr>
<td>5. All sections</td>
<td>42</td>
<td>0.8854</td>
</tr>
</tbody>
</table>
Chapter 5

Data Analysis and Discussion

5.1 Shapiro-Wilk Test

5.2 Discussion and interpretation of each section’s item
   5.2.1 Policies and Procedures
   5.2.2 Financial System
   5.2.3 Information System
   5.2.4 Other Indicators

5.3 Research Hypothesis
5.1 Shapiro-Wilk Test

Shapiro-Wilk test was used to identify if the data follow normal distribution or not, this test is considered necessary in case testing hypothesis as most parametric test stipulate data to be normality distrusted and this test used when the sample size is less than 50.

Results as shown in Table No.14, clarifies that the calculated p-value is greater than the significant level which is equal 0.05 (p-value > 0.05), this in turn denotes that data follows normal distribution, and so parametric test must be used.

<table>
<thead>
<tr>
<th>Section</th>
<th>Number of Items</th>
<th>Statistic</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Policies and Procedures</td>
<td>10</td>
<td>0.945</td>
<td>0.242</td>
</tr>
<tr>
<td>2. Financial System</td>
<td>10</td>
<td>0.676</td>
<td>0.451</td>
</tr>
<tr>
<td>3. Information System Security</td>
<td>10</td>
<td>0.892</td>
<td>0.682</td>
</tr>
<tr>
<td>4. Other Indicators</td>
<td>12</td>
<td>0.689</td>
<td>0.502</td>
</tr>
<tr>
<td>5. All sections</td>
<td>42</td>
<td>0.641</td>
<td>0.843</td>
</tr>
</tbody>
</table>

5.2 Discussion and interpretation of each section’s item:

In the following tables the researchers used one sample t test to test if the opinion of the respondent in the content of the sentences are positive (weight mean greater than 60% and p-value less than 0.05), or the opinion of the respondent in the content of the sentences are neutral (p-value greater than 0.05), or the opinion of the respondent in the content of the sentences are negative (weight mean less than 60% and p-value greater than 0.05).

The research depends on the research’s problem study through the following section.

5.2.1 Policies and Procedures

Table No.15 which illustrated that the respondents agree that:

1. In item No.(1) the weight mean equal “83.33%” and the p-value equal"0.000"which is less than 0.05 , this means  (organization have an up-to-date accounting policies and procedures)
2. In item No.(2) the weight mean equal “86.00%” and the p-value equal"0.000"which is less than 0.05 , this means  (personnel policies maintained and distributed to all personnel)
3. In item No.(3) the weight mean equal “86.67%” and the p-value equal”0.000” which is less than 0.05 , this means (organization have an organizational chart that clearly defines lines of authority and responsibility)

4. In item No.(4) the weight mean equal “76.00%” and the p-value equal”0.000” which is less than 0.05 , this means (the finance department have a written departmental administrative manual)

5. In item No.(5) the weight mean equal “80.00%” and the p-value equal”0.000” which is less than 0.05 , this means (the organization officials give a high priority to its internal control structure)

6. In item No.(6) the weight mean equal “85.33%” and the p-value equal”0.000” which is less than 0.05 , this means (the governing body and other entity officials emphasize meeting the budget and other financial operational goals)

7. In item No.(7) the weight mean equal “80.67%” and the p-value equal”0.000” which is less than 0.05 , this means (the management take appropriate follow-up actions for identified problems or weaknesses in internal control)

8. In item No.(8) the weight mean equal “76.00%” and the p-value equal”0.000” which is less than 0.05 , this means (the management personals are involved adequately in designing and approving accounting system procedures)

9. In item No.(9) the weight mean equal “74.00%” and the p-value equal”0.000” which is less than 0.05 , this means (the officials and supervisors required to suggest measures to correct weaknesses or inadequacies)

10. In item No.(10) the weight mean equal “74.00%” and the p-value equal”0.000” which is less than 0.05 , this means (the officials and supervisors review evaluations with employees)

For General, the results for all items of the field show that the average mean equal 4.01 and the weight mean equal 80.20 % which is greater than”60%” and the value of T-test equal 7.27 which is greater than the critical value which is equal 2.05 and the p-value equal 0.000 which is less than 0.05, this means there is a strong relation between the internal control system and the policies & procedures which is as component of internal control (control environment).
Table No. 15

<table>
<thead>
<tr>
<th>No.</th>
<th>Questions</th>
<th>Mean</th>
<th>Standard deviation</th>
<th>Weigh mean</th>
<th>T-value</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Does the organization have an up-to-date accounting policies and procedures manual?</td>
<td>4.17</td>
<td>.913</td>
<td>83.33</td>
<td>7.00</td>
<td>0.000</td>
</tr>
<tr>
<td>2.</td>
<td>Have personnel policies maintained and distributed to all personnel?</td>
<td>4.30</td>
<td>.651</td>
<td>86.00</td>
<td>10.93</td>
<td>0.000</td>
</tr>
<tr>
<td>3.</td>
<td>Is the organization have an organizational chart that clearly defines lines of authority and responsibility?</td>
<td>4.33</td>
<td>.711</td>
<td>86.67</td>
<td>10.27</td>
<td>0.000</td>
</tr>
<tr>
<td>4.</td>
<td>Does the finance department have a written departmental administrative manual?</td>
<td>3.80</td>
<td>.961</td>
<td>76.00</td>
<td>4.56</td>
<td>0.000</td>
</tr>
<tr>
<td>5.</td>
<td>Do the organization officials give a high priority to its internal control structure?</td>
<td>4.00</td>
<td>.788</td>
<td>80.00</td>
<td>6.95</td>
<td>0.000</td>
</tr>
<tr>
<td>6.</td>
<td>Do the governing body and other entity officials emphasize meeting the budget and other financial operational goals?</td>
<td>4.27</td>
<td>.740</td>
<td>85.33</td>
<td>9.38</td>
<td>0.000</td>
</tr>
<tr>
<td>7.</td>
<td>Does management take appropriate follow-up actions for identified problems or weaknesses in internal control?</td>
<td>4.03</td>
<td>.765</td>
<td>80.67</td>
<td>7.40</td>
<td>0.000</td>
</tr>
<tr>
<td>8.</td>
<td>Management personal are involved adequately in designing and approving accounting system procedures.</td>
<td>3.80</td>
<td>.761</td>
<td>76.00</td>
<td>5.76</td>
<td>0.000</td>
</tr>
<tr>
<td>9.</td>
<td>Are officials and supervisors required to suggest measures to correct weaknesses or inadequacies?</td>
<td>3.70</td>
<td>.651</td>
<td>74.00</td>
<td>5.89</td>
<td>0.000</td>
</tr>
<tr>
<td>10.</td>
<td>Do officials and supervisors review evaluations with employees?</td>
<td>3.70</td>
<td>.837</td>
<td>74.00</td>
<td>4.58</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td>4.01</td>
<td>.78</td>
<td>80.20</td>
<td>7.27</td>
<td>0.000</td>
</tr>
</tbody>
</table>

5.2.2 Financial System

Table No. 16 which illustrated that the respondents agree that:

1. In item No.(1) the weight mean equal “96.00 %” and the p-value equal”0.000” which is less than 0.05 , this means ( there is chart of accounts in the department)
2. In item No.(2) the weight mean equal “94.00 %” and the p-value equal”0.000” which is less than 0.05 , this means (persons are authorized to approve expenditures clearly identified)
3. In item No.(3) the weight mean equal “80.00%” and the p-value equal "0.000" which is less than 0.05, this means (the organization’s disbursement approval policy been communicated to all appropriate staff)

4. In item No.(4) the weight mean equal “82.67 %” and the p-value equal "0.000" which is less than 0.05, this means (the organization have competitive bidding policies for its purchases)

5. In item No.(5) the weight mean equal “82.67%” and the p-value equal "0.000" which is less than 0.05, this means (all purchase requisitions reviewed by a senior officials to ensure reasonableness and appropriate delivery address)

6. In item No.(6) the weight mean equal “76 %” and the p-value equal "0.000" which is less than 0.05, this means (all purchases and requisitions of goods and services reconciled to the monthly ledger)

7. In item No.(7) the weight mean equal “86 %” and the p-value equal "0.000" which is less than 0.05, this means (budgets are submitted to administrators in accordance with an established time schedule)

8. In item No.(8) the weight mean equal “82.67 %"and the p-value equal "0.000" which is less than 0.05, this means (the interim financial reports prepared to compare the actual results to prior results and current budget)

9. In item No.(9) the weight mean equal “83.33 %” and the p-value equal "0.000" which is less than 0.05, this means (the financial and statistical reports prepared for the management on a timely basis and frequently enough to be used)

10. In item No.(10) the weight mean equal “68 %” and the p-value equal "0.003" which is less than 0.05, this means (all financial reporting requirements always meet your satisfaction and expectation)

For General, the results for all items of the field show that the average mean equal 4.16 and the weight mean equal 83.13 % which is greater than “60%” and the value of T-test equal 11.32 which is greater than the critical value which is equal 2.05 and the p-value equal 0.000 which is less than 0.05, this means there is an effective internal control in the organization and in the finance department with strong and effective financial system in all the financial operations.
Table No. 16

Financial system

<table>
<thead>
<tr>
<th>No.</th>
<th>Questions</th>
<th>Mean</th>
<th>Standard deviation</th>
<th>Weigh mean</th>
<th>T-value</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Is there chart of accounts in the department?</td>
<td>4.80</td>
<td>.407</td>
<td>96.00</td>
<td>24.233</td>
<td>0.000</td>
</tr>
<tr>
<td>2.</td>
<td>Are persons authorized to approve expenditures clearly identified?</td>
<td>4.70</td>
<td>.466</td>
<td>94.00</td>
<td>19.977</td>
<td>0.000</td>
</tr>
<tr>
<td>3.</td>
<td>Has the organization’s disbursement approval policy been communicated to all appropriate staff?</td>
<td>4.00</td>
<td>.743</td>
<td>80.00</td>
<td>7.374</td>
<td>0.000</td>
</tr>
<tr>
<td>4.</td>
<td>Does the organization have competitive bidding policies for its purchases?</td>
<td>4.13</td>
<td>.571</td>
<td>82.67</td>
<td>10.865</td>
<td>0.000</td>
</tr>
<tr>
<td>5.</td>
<td>Are all purchase requisitions reviewed by a senior officials to ensure reasonableness and appropriate delivery address?</td>
<td>4.13</td>
<td>.629</td>
<td>82.67</td>
<td>9.872</td>
<td>0.000</td>
</tr>
<tr>
<td>6.</td>
<td>Are all purchases and requisitions of goods and services reconciled to the monthly ledger?</td>
<td>3.80</td>
<td>.664</td>
<td>76.00</td>
<td>6.595</td>
<td>0.000</td>
</tr>
<tr>
<td>7.</td>
<td>Are budgets submitted to administrators in accordance with an established time schedule?</td>
<td>4.30</td>
<td>.596</td>
<td>86.00</td>
<td>11.948</td>
<td>0.000</td>
</tr>
<tr>
<td>8.</td>
<td>Are interim financial reports prepared to compare the actual results to prior results and current budget?</td>
<td>4.13</td>
<td>.629</td>
<td>82.67</td>
<td>9.872</td>
<td>0.000</td>
</tr>
<tr>
<td>9.</td>
<td>Are financial and statistical reports prepared for the management on a timely basis and frequently enough to be used?</td>
<td>4.17</td>
<td>.648</td>
<td>83.33</td>
<td>9.866</td>
<td>0.000</td>
</tr>
<tr>
<td>10.</td>
<td>Do all financial reporting requirements always meet your satisfaction and expectation?</td>
<td>3.40</td>
<td>.855</td>
<td>68.00</td>
<td>2.562</td>
<td>0.003</td>
</tr>
</tbody>
</table>

Average

| 4.16 | .62 | 83.13 | 11.32 | 0.000 |

5.2.3 Information system security

Table No. 17 Which illustrated that the respondents agree that:

1. In item No.(1) the weight mean equal “94.00 %” and the p-value equal”0.000”which is less than 0.05 , this means (sensitive information protected by password)
2. In item No.(2) the weight mean equal “84.67 %” and the p-value equal”0.000”which is less than 0.05 , this means (back-up disks maintained of all critical information)
3. In item No.(3) the weight mean equal “88.00 %” and the p-value equal”0.000”which is less than 0.05 , this means (Is access to data and program files restricted to authorized personnel)
4. In item No.(4) the weight mean equal “73.33%” and the p-value equal”0.000”which is less than 0.05 , this means (computer applications logged-off when the user is away from the terminal or PC)
5. In item No.(5) the weight mean equal “92 %” and the p-value equal"0.000”which is less than 0.05 , this means (the need for password security reinforced to organization staff)

6. In item No.(6) the weight mean equal “70.67%” and the p-value equal"0.001”which is less than 0.05 , this means (more than one person have access to every screen or software application in the organization)

7. In item No.(7) the weight mean equal “66 %” and the p-value equal"0.0216”which is greater than 0.05 , this means (application program prohibit users from logging into the application on other work station at the same time with the same user ID)

8. In item No.(8) the weight mean equal “44 %” and the p-value equal"0.331”which is greater than 0.05 , this means (employees passwords shared with others including the employee's supervisor)

9. In item No.(9) the weight mean equal “90.67%” and the p-value equal"0.331”which is less than 0.05 , this means (computer log maintained to determine who recorded a transaction, based on an employee's login name)

10. In item No.(10) the weight mean equal “68.67%” and the p-value equal"0.000”which is less than 0.05 , this means (there a policy to control the risks from Internet usage)

For General, the results for all items of the field show that the average mean equal 3.91 and the weight mean equal 78.20% which is greater than”60%”and the value of T-test equal 7.06 which is greater than the critical value which is equal 2.05 and the P-value equal 0.002 which is less than 0.05, this means there is an effective internal control if there is a strong and effective information system that provide a high quality information and detect the errors and fraud.
Table No. 17

<table>
<thead>
<tr>
<th>No.</th>
<th>Questions</th>
<th>Mean</th>
<th>Standard deviation</th>
<th>Weigh mean</th>
<th>T-value</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Is sensitive information protected by password?</td>
<td>4.70</td>
<td>.535</td>
<td>94.00</td>
<td>17.40</td>
<td>0.000</td>
</tr>
<tr>
<td>2.</td>
<td>Are back-up disks maintained of all critical information?</td>
<td>4.23</td>
<td>.774</td>
<td>84.67</td>
<td>8.73</td>
<td>0.000</td>
</tr>
<tr>
<td>3.</td>
<td>Is access to data and program files restricted to authorized personnel?</td>
<td>4.40</td>
<td>.621</td>
<td>88.00</td>
<td>12.34</td>
<td>0.000</td>
</tr>
<tr>
<td>4.</td>
<td>Are computer applications logged-off when the user is away from the terminal or PC?</td>
<td>3.67</td>
<td>.994</td>
<td>73.33</td>
<td>3.67</td>
<td>0.000</td>
</tr>
<tr>
<td>5.</td>
<td>Is the need for password security reinforced to organization staff?</td>
<td>4.60</td>
<td>.675</td>
<td>92.00</td>
<td>12.99</td>
<td>0.000</td>
</tr>
<tr>
<td>6.</td>
<td>Does more than one person have access to every screen or software application in the organization?</td>
<td>3.53</td>
<td>1.432</td>
<td>70.67</td>
<td>2.04</td>
<td>0.001</td>
</tr>
<tr>
<td>7.</td>
<td>Does the application program prohibit users from logging into the application on other work station at the same time with the same user ID?</td>
<td>3.30</td>
<td>1.368</td>
<td>66.00</td>
<td>1.20</td>
<td>0.0216</td>
</tr>
<tr>
<td>8.</td>
<td>Are employees passwords shared with others including the employee’s supervisor?</td>
<td>2.20</td>
<td>.961</td>
<td>44.00</td>
<td>-4.56</td>
<td>0.331</td>
</tr>
<tr>
<td>9.</td>
<td>Is computer log maintained to determine who recorded a transaction, based on an employee’s login name?</td>
<td>4.53</td>
<td>.819</td>
<td>90.67</td>
<td>10.25</td>
<td>0.000</td>
</tr>
<tr>
<td>10.</td>
<td>Is there a policy to control the risks from Internet usage?</td>
<td>3.93</td>
<td>.785</td>
<td>78.67</td>
<td>6.51</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td>3.91</td>
<td>.90</td>
<td>78.20</td>
<td>7.06</td>
<td>0.002</td>
</tr>
</tbody>
</table>

5.2.4 Other indicators

Table No.18 which illustrated that the respondents agree that:

1. In item No.(1) the weight mean equal “64.67% “ and the p-value equal “.214”which is greater than 0.05 , this means that (all employees trained for appropriate response to emergency situations)

2. In item No.(2) the weight mean equal “ 80.67%” and the p-value equal”0.000”which is less than 0.05 , this means (the internal control system in the organization detect errors and frauds)

3. In item No.(3) the weight mean equal “ 86.00%” and the p-value equal”0.000”which is less than 0.05 , this means (there is current job descriptions on file for each employee in the organization)
4. In item No.(4) the weight mean equal “86.00%” and the p-value equal”0.000” which is less than 0.05 , this means (the authorization, processing, check signing, recording and bank reconciliation functions clearly segregated)

5. In item No.(5) the weight mean equal “85.33% “ and the p-value equal “0.000” which is less than 0.05 , this means (the accounting system captures information necessary to identify the function for which each expense is incurred or to allocate expense incurred among appropriate functions)

6. In item No.(6) the weight mean equal “72.67%” and the p-value equal “0.000” which is less than 0.05 , this means (all staff time records reviewed and authorized by an appropriate senior official)

7. In item No.(7) the weight mean equal “76.67%” and the p-value equal”0.000” which is less than 0.05 , this means (reported overtime hours are verified for reasonableness and proper pre-approval)

8. In item No.(8) the weight mean equal “79.33%” and the p-value equal”0.000” which is less than 0.05 , this means (the labors distribution and vacation/sick accrual reports reviewed for reasonableness each pay period by a senior official)

9. In item No.(9) the weight mean equal “80.00%” and the p-value equal “0.000” which is less than 0.05 , this means (employees performance reviewed and documented on a regular basis)

10. In item No.(10) the weight mean equal “78.67% “ and the p-value equal”0.000” which is less than 0.05 , this means (the unusual trends or discrepancies in organization accounts identified and reconciled monthly)

11. In item No. (11) the weight mean equal “74.67%” and the p-value equal”0.000” which is less than 0.05 , this means (the missing numbers in sequences of numerically controlled documents identified and investigated immediately)

12. In item No.(12) the weight mean equal “86.67%” and the p-value equal”0.000” which is less than 0.05 , this means (there is an internal auditor in the organization)

For General, the result for all items of the field show that the average mean equal 3.96 and the weight mean equal 79.28% which is greater than”60%” and the value of T-test equal 6.64 which is greater than the critical value which is equal 2.05 and the p-value equal 0.000 which is less than 0.05 , this mean there is factors that build a strong and
An effective internal control system for example the employees skills and knowledge in the policies and procedures of the organization.

Table 18
Other indicators

<table>
<thead>
<tr>
<th>No.</th>
<th>Questions</th>
<th>Mean</th>
<th>Standard deviation</th>
<th>Weigh mean</th>
<th>T-value</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Are all employees trained for appropriate response to emergency situations?</td>
<td>3.23</td>
<td>1.006</td>
<td>64.67</td>
<td>1.270</td>
<td>.214</td>
</tr>
<tr>
<td>2.</td>
<td>Does the internal control system in the organization detect errors and frauds?</td>
<td>4.03</td>
<td>.718</td>
<td>80.67</td>
<td>7.878</td>
<td>.000</td>
</tr>
<tr>
<td>3.</td>
<td>Are current job descriptions on file for each employee in the organization?</td>
<td>4.30</td>
<td>.651</td>
<td>86.00</td>
<td>10.933</td>
<td>.000</td>
</tr>
<tr>
<td>4.</td>
<td>Are the authorization, processing, check signing, recording and bank reconciliation functions clearly segregated?</td>
<td>4.30</td>
<td>.702</td>
<td>86.00</td>
<td>10.140</td>
<td>.000</td>
</tr>
<tr>
<td>5.</td>
<td>Does the accounting system captures information necessary to identify the function for which each expense is incurred or to allocate expense incurred among appropriate functions?</td>
<td>4.27</td>
<td>.944</td>
<td>85.33</td>
<td>7.346</td>
<td>.000</td>
</tr>
<tr>
<td>6.</td>
<td>Are all staff time records reviewed and authorized by an appropriate senior official?</td>
<td>3.63</td>
<td>1.129</td>
<td>72.67</td>
<td>3.072</td>
<td>.005</td>
</tr>
<tr>
<td>7.</td>
<td>Are reported overtime hours verified for reasonableness and proper pre-approval?</td>
<td>3.83</td>
<td>.834</td>
<td>76.67</td>
<td>5.473</td>
<td>.000</td>
</tr>
<tr>
<td>8.</td>
<td>Is labor distribution and vacation/sick accrual reports reviewed for reasonableness each pay period by a senior official?</td>
<td>3.97</td>
<td>.718</td>
<td>79.33</td>
<td>7.370</td>
<td>.000</td>
</tr>
<tr>
<td>9.</td>
<td>Is employee performance reviewed and documented on a regular basis?</td>
<td>4.00</td>
<td>1.017</td>
<td>80.00</td>
<td>5.385</td>
<td>.000</td>
</tr>
<tr>
<td>10.</td>
<td>Are unusual trends or discrepancies in organization accounts identified and reconciled monthly?</td>
<td>3.93</td>
<td>.640</td>
<td>78.67</td>
<td>7.992</td>
<td>.000</td>
</tr>
<tr>
<td>11.</td>
<td>Are missing numbers in sequences of numerically controlled documents identified and investigated immediately?</td>
<td>3.73</td>
<td>.740</td>
<td>74.67</td>
<td>5.430</td>
<td>.000</td>
</tr>
<tr>
<td>12.</td>
<td>Is there an internal auditor in the organization?</td>
<td>4.33</td>
<td>.994</td>
<td>86.67</td>
<td>7.345</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td>3.96</td>
<td>.84</td>
<td>79.28</td>
<td>6.64</td>
<td>.02</td>
</tr>
</tbody>
</table>
5.3 Research hypothesis

- The first hypothesis: There is an effective internal control system in the finance department at UNRWA at significance level $\alpha = 0.05$

To test the hypothesis we use the Pearson correlation between the internal control system components and the degree to which the internal control system can be considered to be effective, and the results shown in the table No.19 which illustrate that the $p$-value equal .02 which is less than 0.05, and the Pearson correlation is equal 0.327 which is greater than the critical value which is equal 0.396 that mean There is an effective internal control system in the finance department at significant level $\alpha = 0.05$.

Table No.19

<table>
<thead>
<tr>
<th>Section</th>
<th>Statistic</th>
<th>Effective Internal Control System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective Internal Control System</td>
<td>Pearson correlation</td>
<td>0.327</td>
</tr>
<tr>
<td></td>
<td>$p$-value</td>
<td>0.020</td>
</tr>
<tr>
<td></td>
<td>$N$</td>
<td>30</td>
</tr>
</tbody>
</table>

Critical value of $r$ at significance level 0.05 and df equal 28 equal 0.396

- The second hypothesis: There is a relationship between the effective internal control system and the quality of the provided information which helps the financial users at significant level $\alpha = 0.05$.

To test the hypothesis we use the Pearson correlation between the effective internal control system and the quality of the provided information which helps the financial users, and the results shown in the table No.20 which illustrate that the $p$-value equal .016 which is less than 0.05, and the Pearson correlation is equal 0.417 which is greater than the critical value which is equal 0.396 that mean There is a relationship between the effective internal control system and the quality of the provided information which helps the financial users at significant level $\alpha = 0.05$. 
Analyzing and Evaluating Internal Control System at the Finance Department in UNRWA

Maha Saymeh, Enas Bakheet

**Table No. 20**

**Correlation between effective internal control system and the quality of provided information which help financial users**

<table>
<thead>
<tr>
<th>Section</th>
<th>Statistic</th>
<th>Effective Internal Control System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of Provided Information</td>
<td>Pearson correlation</td>
<td>0.417</td>
</tr>
<tr>
<td></td>
<td>p-value</td>
<td>0.016</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>30</td>
</tr>
</tbody>
</table>

Critical value of $r$ at significance level 0.05 and df equal 28 equal 0.396

- The third hypothesis: There is relationship between the effective system and detecting errors and frauds at significance level alpha=0.05

To test the hypothesis we use the Pearson correlation between the effective internal control system and the quality of the provided information which helps the financial users, and the results shown in the table No.21 which illustrate that the p-value equal .004 which is less than 0.05, and the Pearson correlation is equal 0.483 which is greater than the critical value which is equal 0.396 that mean There is a relationship between the effective internal control system and detecting errors and frauds at significance level alpha=0.05.

**Table No.21**

**Correlation between effective internal control system and detecting errors and frauds**

<table>
<thead>
<tr>
<th>Section</th>
<th>Statistic</th>
<th>Effective Internal Control System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Detecting Errors and Frauds</td>
<td>Pearson correlation</td>
<td>0.483</td>
</tr>
<tr>
<td></td>
<td>p-value</td>
<td>0.004</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>30</td>
</tr>
</tbody>
</table>

Critical value of $r$ at significance level 0.05 and df equal 28 equal 0.396
Chapter 6

Results and Recommendations

6.1 Results

6.2 Recommendations
6.1 Results

After analyzing the data and testing the research hypothesis using different statistical analysis, the researchers conclude that:

1. There is an effective internal control system in the finance department at UNRWA. although there is some limitations resulted from restriction of the Financial Management System (FMS), the internal control system facilitate its operations by enabling it to respond appropriately to operational financial compliance and other risks to achieve the organizations objectives. This includes the safeguarding of assets from inappropriate use or from loss and frauds.

2. The effective internal control system helps to achieve high quality of internal and external reporting. This requires maintenance of proper records and processes that generate a flow of timely, relevant and reliable information.

3. The effective internal control system complies with applicable laws and regulation, and also with internal policies with respect to the conduct of operations.

4. UNRWA’s internal control system encourages the efficiency in using its recourses and encouraging staff to be in compliance with applicable laws and regulations.

6.2 Recommendations

1. More efforts should be paid to develop and enhance the components and tools of internal control system on UNRWA’s activities to increase the level of effectiveness and efficiency.

2. UNRWA should strengthen and support a developed system for its staff based on sound recruitment and appointment in addition to effective compliance with UNRWA rules and regulations.

3. Strengthening trust level in the effectiveness of internal control system environment through taking actions and measures against favoritism and lack of transparency among some of the decision makers if any.

4. Internal control procedures over financial management are documented. Documented internal control procedures should include some practical means for lower level
employees to report instances of management override of controls that could be indicative of fraud.

5. Financial managers, with the assistance of internal control auditors, or equivalent personal as needed, should periodically evaluate relevant internal control procedures to satisfy themselves that those procedures
   - Are adequately designed to achieve their intended purpose
   - Have acutely been implemented
   - Continue to function as designed

6. The financial Management System (FMS) should be reviewed and updated, to overcome the limitation that restrict the effectiveness of internal control system, and other problems resulting from that. It lacks some requirements that needed by stakeholder, lack in some kind of reporting, slowness, regular disconnections and other minor issues.

7. The information system should be updated and developed or acquired using a structured system development approach and should completely tested prior to implementation.

8. Passwords and physical security should be in place for programs, databases and data files. And for more security passwords should not be shared with other employees.

9. Financial and statistical reports prepared for the management on a timely basis and frequently enough to be used for evaluating the internal control system.

10. Upon completion of any evaluation of internal control procedures the financial managers should determine what specific actions are corrective action plan with an appropriate timetable should be adopted. There should be follow-up on the corrective action plan to ensure that it has been fully implemented on a timely basis.
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• UNRWA Documents, Financial Regulations.

• UNRWA Documents, Report of the Secretary-General on strengthening the management capacity of the UNRWA. (1 February 2011).
Appendix
This questionnaire is part of a study, (Analyzing and Evaluating Internal Control System at the Finance Department in UNRWA Headquarter, Gaza Strip), to complete the requirements for obtaining the Bachelor degree in the faculty of accounting from the Islamic university-Gaza.

Also, this is for evaluating the internal control in the finance department in UNRWA, HQ Gaza, and it's role in detecting errors and frauds to prevent them from happening and avoid, in case if any, them in the future.

The collected information is just only used for the Scientific Researches and studies purposes.

We are gratefully thankful for your cooperation and support

With all respect
Researchers
Maha R. Saymeh
Enas N. Bakheet
General Information

1. Gender
   - Male
   - Female

2. Age
   - Less than 30
   - 30 to 40
   - 41 to 50
   - more than 50

3. Degree
   - High school
   - Diploma
   - Bachelor Degree
   - Master Degree
   - PhD

4. Years of experience
   - 1 to 3 years
   - 4 to 6 years
   - 6 to 10 years
   - 10 to 15 years
   - more than 15 years

5. Specialization
   - Accounting
   - Administration
   - Economics
   - Bank finance
   - others

6. Currently working at
   - Accounts Division
   - Budget Division
   - Treasury
**Internal Control Questionnaire**

### 1. Policies and procedures

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Does the organization have an up-to-date accounting policies and procedures manual?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Have personnel policies maintained and distributed to all personnel?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Is the organization have an organizational chart that clearly defines lines of authority and responsibility?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Does the finance department have a written departmental administrative manual?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Do the organization officials give a high priority to its internal control structure?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Do the governing body and other entity officials emphasize meeting the budget and other financial operational goals?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Does management take appropriate follow-up actions for identified problems or weaknesses in internal control?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Management personals are involved adequately in designing and approving accounting system procedures.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>Are officials and supervisors required to suggest measures to correct weaknesses or inadequacies?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>Do officials and supervisors review evaluations with employees?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 2. Financial system

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Is there chart of accounts in the department?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Are persons authorized to approve expenditures clearly identified?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Has the organization's disbursement approval policy been communicated to all appropriate staff?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Does the organization have competitive bidding policies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
for its purchases?

5. Are all purchase requisitions reviewed by a senior officials to ensure reasonableness and appropriate delivery address?

6. Are all purchases and requisitions of goods and services reconciled to the monthly ledger?

7. Are budgets submitted to administrators in accordance with an established time schedule?

8. Are interim financial reports prepared to compare the actual results to prior results and current budget?

9. Are financial and statistical reports prepared for the management on a timely basis and frequently enough to be used?

10. Do all financial reporting requirements always meet your satisfaction and expectation?

### 3. Information system security

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Is sensitive information protected by password?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Are back-up disks maintained of all critical information?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Is access to data and program files restricted to authorized personnel?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Are computer applications logged-off when the user is away from the terminal or PC?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Is the need for password security reinforced to organization staff?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Does more than one person have access to every screen or software application in the organization?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Does the application program prohibit users from logging into the application on other work station at the same time with the same user ID?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Are employees passwords shared with others including the employee's supervisor?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>Is computer log maintained to determine who recorded a transaction, based on an employee's login name?</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>Is there a policy to control the risks from Internet</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
1. Are all employees trained for appropriate response to emergency situations?

2. Does the internal control system in the organization detect errors and frauds?

3. Are current job descriptions on file for each employee in the organization?

4. Are the authorization, processing, check signing, recording and bank reconciliation functions clearly segregated?

5. Does the accounting system capture information necessary to identify the function for which each expense is incurred or to allocate expense incurred among appropriate functions?

6. Are all staff time records reviewed and authorized by an appropriate senior official?

7. Are reported overtime hours verified for reasonableness and proper pre-approval?

8. Is labor distribution and vacation/sick accrual reports reviewed for reasonableness each pay period by a senior official?

9. Is employee performance reviewed and documented on a regular basis?

10. Are unusual trends or discrepancies in organization accounts identified and reconciled monthly?

11. Are missing numbers in sequences of numerically controlled documents identified and investigated immediately?

12. Is there an internal auditor in the organization?

Any Notes/Recommendations: