

CHAPTER 3

METHODOLOGY

3.0. Introduction

This chapter outlined the research process of the present study with a specific focus on the design and data collection. The chapter is designed to cover the research instrument development and clarify the sampling techniques after defining the population. The section on data collection described how the pilot and final surveys were conducted. The processing of data analysis is also clarified.

3.1. Research Area

This research concentrates on the role of the internal control in Waqf organisations, particularly in Al-Rahma International which is registered as an international non-profit organisation founded in Kuwait. Al-Rahma International is one of the largest Waqf organisations in Kuwait and in the Arabic world and has more than 40 branches around the world. Kuwait is rich in many charitable activities. The State and citizens work hard to support and help all people in need around the world. Regardless of their religion, homeland, gender or colour, they provide relief to areas afflicted by catastrophes, disasters, wars and famines and any other suffering and struggling by providing housing and support to adapt to the current situations.

3.2. Research Design and Method

The key objective of this research is to investigate the role internal controls play in enhancing the accountability in Waqf institutions. The three widely accepted research paradigms are quantitative research, qualitative research, and mixed (quantitative and qualitative) research. This is an exploratory study that embraces a positivistic, deductive approach to the research objectives and assesses the internal control (IC) in Al-Rahma International. It emphasises the measurement and observation to associate with the collection of numerical data and proceed from positivistic assumptions. The quantitative approach is adopted in order to collect more information and knowledge of the Internal Control in Al-Rahma International. This study is a case study because it focuses on one Waqf organization which is Al-Rahma International and it uses the quantitative approach due to the nature of the study area and the methodological effectiveness in evaluating the relationship among variables of interest statistically.

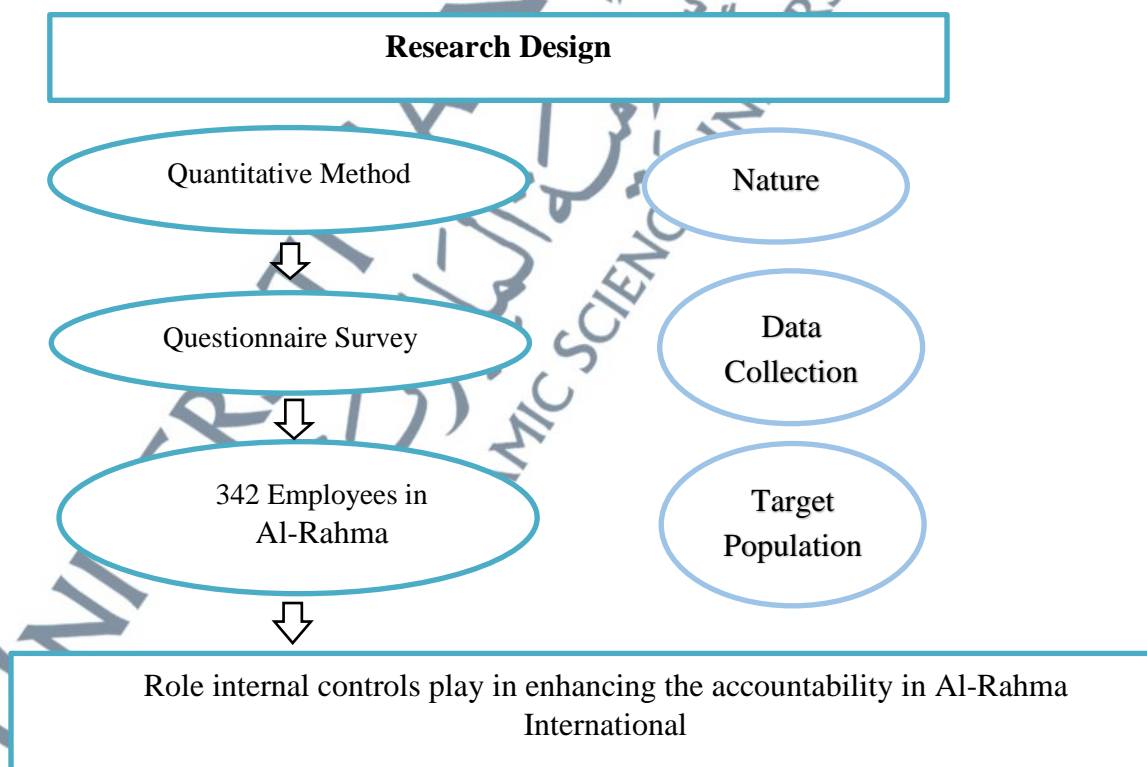


Figure 3.1: The Research Design Model

3.3. Data Collection and Instrumentation

As mentioned above the primary data used in this study was collected via questionnaires. The questionnaires were distributed to all the financial staff, internal auditors, and high managerial staff in all of the 40 branches of Al-Rahma International. Accountants, internal auditors, account managers, and directors involved in the internal control practices like authorising the payment vouchers and signing the checks are selected because they are part of the process of internal controls and preparation of applications and budgets of the various projects/programmes.

3.4. Population and Sampling Method

As mentioned earlier, Al-Rahma International has more than 40 branches around the world. The study population is the employees of Al-Rahma International in Kuwait and other countries. There are more than 2357 employees working in Al-Rahma International, including the staff who work in basic operations of collecting and distribution of the donations which they and the supporting staff such as security, secretary. Since the aim of this study is to explore the internal controls systems in Al-Rahma International, we choose the employees 342 employees at the finance departments and senior managements which is a subset of the population calculated using Slovin's formula. The study used a 5% confidence interval and a 95% confidence level to measure the accuracy and reliability of the data (Ngofa, 2014).

$$n = N / [1 + N (e^2)]$$

$$n = 2,357 / [1 + 2,357(0.05^2)]$$

$$n = 2,357 / 6.8925$$

n= 341.97

Where n = sample size

N = Population size

e = margin of error

The main advantage of the random sampling procedure is that it allows for generalizability of study findings from a subset to larger populations (Creswell, 2009). Using sampling procedures increase the validity, where everyone has a chance of being selected. Table 3.1 shows the overall view of the categories and distribution of the samples. The questionnaires were sent first to the Finance and administration departments regardless the locations which was in total 223 employees and then sent randomly to 119 employees from the general staff category, this to ensure that the respondents are a more aware of the technical terminology and ensure more reliable responses.

Table 3.1: The sample categorise

Location	Finance Dept.	Admin. Dept.	General Staff	Total Number
Kuwait Office	15	32	9	56
Bangladesh	12	9	430	451
Indonesia	11	7	505	523
Djibouti	6	15	244	265
Philippians	9	35	7	51
Cambodia	7	33	60	100
Yemen	6	3	15	24
Gaza	5	4	17	26
Syria	5	4	23	32
Nepal	2	3	7	12
Somalia	5	3	787	790

Albania	2	3	4	3
Bosnia and Hercegovina	1	2	6	2
Austria	4	5	13	22
Total	90	158	2127	2357

3.5. Questionnaire Development

A survey questionnaire was used to collect data from the respondents. The questionnaire contains a general introduction stating the aim of the study and instructions to respondents. The questionnaire is structured into three sections. The first is demographic (age, gender, education, location, position). The second section pertains to internal controls divided into five main parts: control environment, risk assessment, control activities, information and communication, and monitoring which measured using the Likert scale. The third section addresses the accountability practices.

The main language of the questionnaire is English. However, an Arabic copy was distributed among some of Al-Rahma International branches, particularly in Arab countries because these branches communicate formally in Arabic. The first draft was translated to Arabic and then sent to a professional translation institute for proofreading. After that, it was checked again by an Arabic accounting academician who verified the Arabic and English languages to ensure the accuracy of the translation.

Table 3.2: Items Questionnaires of Dependent and Independent Variables

VARIABLES	Dimensions	No. Items in Questionnaires	References
Accountability practices	Performance	8 Items	Ayedh et al. (2018)
	Evaluation	10 Items	
	Reporting	2 Items	
Internal Control Practice	Control Environment	12 Items	Florida Department of Economic Opportunity (2018)
	Risk Assessment	12 Items	

	Control Activities	14 Items	Asiligwa and Rennox (2017) Yakubu et al. (2017)
	Information and Communication	8 Items	
	Monitoring	9 Items	

3.6. Hypothesis

As reported in the Internal Control - Integrated Framework of COSO (1992), the control environment establishes the tone of an organisation and provides the substance for an effective system of internal controls. An effective control system enables management to be apprised of, monitor and manage significant risk. Employees should be adequately trained and supervised with clearly defined job responsibilities and should remain accountable (Keitany, 2000).

The results of previous studies such as WA Morehead (2007) pointed to the positive influence of the control environment on accountability practices. Michino (2011) found a significant impact on the accountability practices of the control environment when investigating the internal control influence on the operational effectiveness of non-government organisations (NGOs) based in Nairobi. Whereas Hermanson (2012) showed a negative relationship of the control environment and accountability practices.

H1: The control environment has a significant impact on the accountability practices in Al-Rahma International.

Risk assessment is a dynamic process in organisations regardless of sector or size. Since every object encounters diverse risks, external or internal, risks must be assessed. Identifying clear objectives is necessary for effective risk assessment. The operations of an organisation can be jeopardised, and objectives not achieved due to uncontrolled

risks. To ensure the effective risk assessment, is by identify the risks, and determining controls required, and how risks should be managed (Keitany, 2000).

Effah and Asante (2011) proved that the risk assessment has positive effects on the accountability practices in non-profit organisations. Uwaoma and A. Ordu (2015) showed that a significant impact of risk assessment on accountability practices.

H2: Risk assessment has a significant impact on the accountability practices in Al-Rahma International.

The control activities of the five internal control components are considered the most important component due to the flow of operations, especially donation management from collecting, managing and distribution. Furthermore, control activities concern procedures and policies for organisations. Several studies focused on internal control practices in religion based on non-profit organisations such as Fonfeder (2003), and Sulaiman et al. (2008). They found that control activities for record keeping were not performed well. However, the control activities had a clear impact on accountability practices.

H3: Control activities have a significant impact the on the accountability practices in Al-Rahma International.

The donors receive appropriate and current information from the company's accounting, information and communication systems to make informed and timely decisions. Internal controls affect operational efficiency. It improves organisational workflows such as planning and budgeting, communication within different cadres of the organisation, financial reporting and compliance to different NGO stakeholders. Michino (2011) proved the existence of the effect of the information and communication on accountability in organisations.

H4: Information and communication have a significant impact on the accountability practices in Al-Rahma International.

The effectiveness of internal controls requires continuous active monitoring mechanisms. Monitoring activities are relevant to all aspects of the internal control components. The ongoing monitoring activities comprise various management and supervision activities to assess and improve the design, execution, and effectiveness of internal controls. Separate evaluations, on the other hand, such as self-assessments and internal audits, are periodic evaluations of internal control components resulting in a formal report on internal controls (Esmailjee, 1983).

Effah (2011) showed that there was active monitoring of accountability practices in the context of financial internal control practice in Kenya. Furthermore, earlier studies on the components of internal controls like control activities, monitoring activities, and control environment classify that the internal control practices affect financial accountability. Additionally, Abraham (2003) and Sloan (2009) concluded that proper practices of internal control can be helpful to the positive accountability rating and increase the donation indirectly.

H5: Monitoring has a significant impact on the accountability practices in Al-Rahma International.

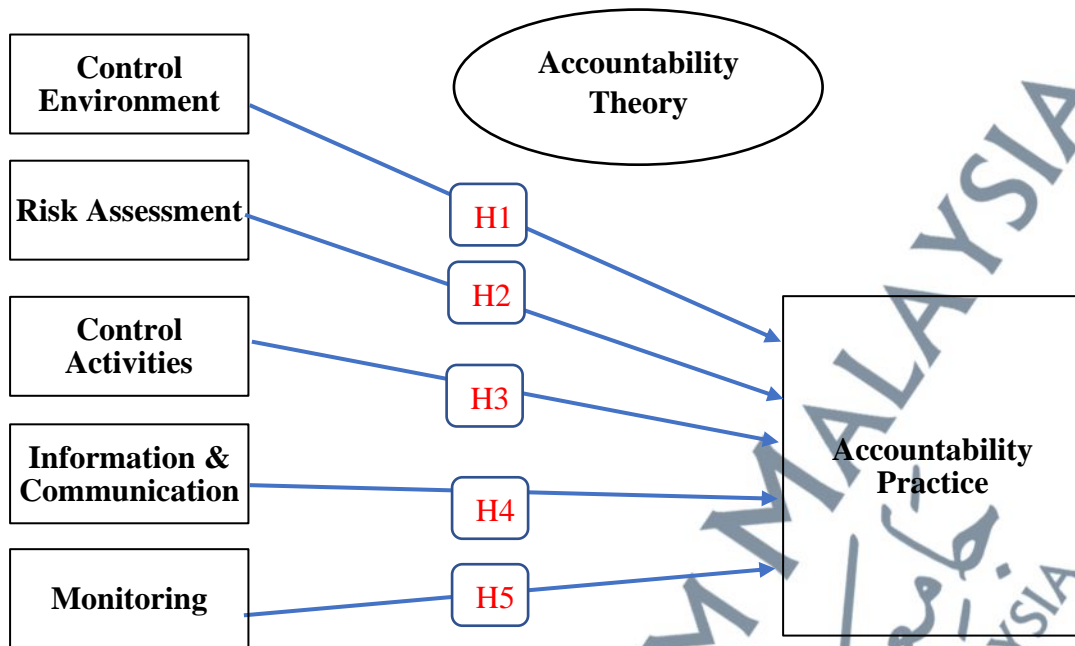


Figure 3.2: The Research Model

3.6.1. Model Development

$$Y = H1 + H2 + H3 + H4 + H5 + U$$

Y = is used effectively and efficiently in Al-Rahma International in Kuwait where effective and efficient utilisation of accountability is considered to be a typical performance indicator in NGO settings.

H1 = Control environment

H2 = Risk assessment

H3 = Control activities

H4 = Information and communication

H5 = Monitoring

U is error term

3.6.2. Variable Measurement

In this study, the components of internal control articulated in COSO framework (i.e., control environment, risk assessment, control activities, information and

communication, and monitoring of internal control system) are used as independent variables. Accountability practice is the dependent variable.

Table 3.3: Variable Definition and Measurement

Dependent variable			
Variable	Description	Measurement	Reference
Accountability Practice	The organisation's practice to discharge their accountability. In terms of measurement of financial performance, evaluation of the non-financial activities and performance, and the reporting level of financial and non-financial information.	It measured by the performance, evaluation and reporting.	Ayedh et al. (2018)
Independent variables			
Control environment	Presence of integrity and the values of ethics, commitment to competence and management to keep to the rules and procedure, human resource practices and organisation structure.	Management philosophy & operational style, Integrity & ethical values, A commitment to competence, participation of board of directors or audit committee, organisational structure, assignment of authority & responsibilities, human resource policies and practices	Florida Department of Economic Opportunity (2018) Asiligwa and Rennox (2017) Yakubu et al. (2017)
Risk assessment	Presence of the risk identification, risk assessment and risk response.	Changes in operating environment, risk mitigation, risk identification, defined and clear objectives, corporate restructuring, level of	Florida Department of Economic Opportunity (2018) Asiligwa and Rennox (2017)

		risk acceptable and maintained	Yakubu et al. (2017)
Control activities	Presence of the rules, policies and procedures to ensure that managers are carried it out appropriately.	Information needs, information control, management communication, upstream communication with outside parties, information timing.	Florida Department of Economic Opportunity (2018) Asiligwa and Rennox (2017) Yakubu et al. (2017)
Information and Communication	Presence of good identification of and proper capturing of pertinent information for internal control policies and procedures.	Approvals, authorisations, verification, performance review, physical control, segregation of duties.	Florida Department of Economic Opportunity (2018) Asiligwa and Rennox (2017) Yakubu et al. (2017)
Monitoring	Presence of regular review of the effectiveness of the whole internal control system.	On- going supervision and evaluation, internal audit, timely reviews, self-assessment.	Florida Department of Economic Opportunity (2018) Asiligwa and Rennox (2017) Yakubu et al. (2017)

3.7. Pilot Study

The pilot test is a process to ensure quality of the research instrument (i.e., survey questionnaire) by confirming the instruction, questions, and scale of items are clearly understood by responded. The survey was pilot tested in regards with the population targeted in this research (i.e., accountants, internal auditors, senior managers, financial managers, etc.). It was essential to ensure the respondents are capable of understanding the items of the questionnaire, and reply properly. Thus, a pilot test was performed to

exclude items or questions that could result in errors in the data collection process. The questionnaire was conducted among 22 respondents, and upon the completion of the questionnaire, some pilot study respondents were requested to express their opinions on the research instrument. The results of the pilot study are as follows:

- a. Consequently, there was no request from the respondents for more clarification. Each of the questionnaire items was comprehensible to the respondents.
- b. Assuring that the instrument was reliable, statistical testing was conducted. The Cronbach's alpha coefficient of 0.8 of was concluded for all measured items except for control environment, which was 0.7 and still considered acceptable Hair et al. (2013).

The measurement instrument covers internal control components stand for the independent variables and accountability practices as the dependent variable. The independent concept comprises five sub-concepts: namely, control environment, risk assessment, control activities, information and communication, and monitoring. Overall, the internal control components include 55 items that together affect the dependent variable (accountability practices) which comprises 20 items.

3.7.1. Reliability Analysis:

There are several coefficients of reliability. The Cronbach's alpha is used frequently to test whether the items are standardised, which is based on the average correlation of items. If the standardisation of items is negative, it depends on the average covariance coefficient and ranges between 0 to 1.

The SPSS 24 output of this study produced a Cronbach's alpha of 0. 0.96 (N=22) for all the IVs (55 items). Thus, the test of reliability on the items under all concepts was run in order to assure that this reliability figure is sturdy and healthy, even though this Cronbach's alpha shows that the reliability is very high.

Table 2 shows the results of overall reliability on each concept including the number of items.

Table 3.4: Reliability Analysis, (N=22, 55 Items)

No.	Concepts	Type	Number of Items	Cronbach's Alpha
1	Control Environment	IV	12	0.75
2	Risk Assessment	IV	12	0.87
3	Control Activities	IV	14	0.85
4	Information and Communication	IV	8	0.89
5	Monitoring	IV	9	0.90
6.	Accountability practice	DV	20	0.96

Preferably, the Cronbach's alpha coefficient of a scale should be above 0.7 (Pallant, 2005). As Table 4.3 shows, the construct "accountability practices" has the highest Cronbach's alpha, as high as 0.96, and the Dependent Construct "control environment" has the lowest Cronbach's alpha, as low as 0.75. As the minimum reliability of the constructs is above 0.7, it can be assumed that all constructs of the instrument produced an acceptable reliability level. Moreover, the overall reliability of the test for 75 items has been established at 0.87 which is an acceptable and very strong internal reliability.

3.8. Data Analysis

The analysis of the collected data has a descriptive for the demographical data of the respondents and the questionnaire's dimensions. The SPSS statistical software provided the basic descriptive results (e.g., frequency, percentage, mean). Next stage of analysis was using the Maximum Likelihood Estimator (MLE) approach of using SPSS software. Maximum Likelihood Estimation is a probabilistic framework for solving the

problem of density estimation (Pallant and Julie, 2010). It involves maximizing a likelihood function in order to find the probability distribution and parameters that best explain the observed data. The MLE analysis is applied to measure the reliability, validity, and structural model used to test the hypotheses of the study. To test the hypotheses of the study, a multiple linear regression analysis was applied. To enrich the understanding of the data, a stepwise analysis method was applied. The stepwise method essentially does multiple regression several times, each time removing the weakest correlated variable, in order to have the most independent variables which explain the distribution of dependent variable best (Pallant and Julie, 2010).

3.9. Conclusion

This chapter presented the methodology of this research and highlighted the research design. The presented research used a quantitative approach where the data collection tool was a questionnaire survey. This study is a case study because it focused on Al-Rahma International Waqf Institution. The chapter also covered the development of the research instrument and the sampling techniques. The section on data collection described how the pilot and final surveys were conducted. This chapter also clarified the processing of data analysis applied.