

**EMPIRICAL EVIDENCE ON FACTORS DETERMINING LEVEL OF INTERNAL
CONTROLS IMPLEMENTATION AMONG NON PROFIT ORGANIZATION IN
MALAYSIA**

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ABSTRACT

Realizing the importance of internal controls, this study extends the internal control system (ICS) importance debate to third sector of economy, Non Profit Organizations (NPOs). The central argument of this study is that to investigate variables that lead to be factors that influenced the level of internal controls implementation among NPOs in Malaysia by viewing the NPOs annual reports and questionnaire survey on the NPOs implementation of internal controls. Eliminating the weakness or problems identified may improve the control over the NPOs resources, strengthen accountability, improve financial reporting and improve relationship with the NPOs stakeholder, thereby enhancing their desire to continue supporting the NPOs with financial contributions. Development of C-LICI (Charity Level of Internal Control Implementation) model would contribute valuable finding for the development of an ICS framework that could be specifically used by NPOs.

Key Words: *Internal control, Non Profit Organizations.*

1.0 INTRODUCTION

Non Profit Organizations (NPOs) comprise a vast, enormous and growing sector of the national economy, and they vital partner with government in the provision of a wide range of social and human services (Kearns, 1996). As in December 2011, 42,626 parent NPOs were found registered in Malaysia. In dealing with the accountability and accounting, the registered NPOs are required to submit their annual report which stated the accounts of the last financial year together with a balance sheet showing the financial position at the close of the last financial year as means to report annually to the Registry of Society (ROS), and in general for their all interested groups such as the stakeholders, donors and researchers on viewing their activities and particularly on their financial situations, which can either be audited by the NPOs internal auditor or an external auditor. However, ROS only received 23,338 annual reports for the parent NPOs compare to 20,661 annual reports for the previous year. This number is expected to increase as the implementation of Registries of Societies Electronics System (e-ROSES) on 2012.

Implementing and monitoring good internal control system (ICS) will helps to guarantee that NPOs reach their objectives, for example by providing services to the community professionally, while utilising resources efficiently, minimising and reduce the risk of fraud, mismanagement or error (Morehead, 2007). It would contribute NPOs presenting the efforts and accomplishments and help to obtain financial and social support (Torres and Pina, 2003). Internal control principles suggest that ICS is the primary accountability and governance tool an organization can establish and use to provide accountability to its stakeholders as well as to help deter, prevent, and detect fraud and corruption (ACFE, 2004)

NPOs have to be accountable and responsible with all the funds they have obtained from varies and diverse sources. Transparency and accountability would only be achieved if NPO are serious in submitting their annual reports and consistent with its format and structure (Mohd Nasir, Othman, Said and Ghani, 2009). These accountability issues are the effect of weak internal control and management accounting practices in the NPOs operation (Othman, Ali, Omar and Rahman, 2012). Weak internal control over financial reporting also has implications for subsequent donor support (Petrovits, Shakespeare, and Shih, 2011).

Mass media commonly reported high-profile fraud reporting cases and abuses in NPOs increased and have been highlighted. Among common type of frauds are theft of assets, frequently cash (Othman, et al. 2012), abuse of power by the chairman (ROS Annual Report, 2011), and fraud exploitations of financial statements (Greenlee, Fischer, Gordon, and Keating, 2007). Worldwide, various reasons have been offered, such as lack of funding to hire proper qualified professionals especially accountant and auditor engagement, lack of training given to top management and lack of emphasis on proper recording and accounting for contributions received (Othman et al, 2012), resulted NPOs located in developing countries lagging in terms of facilities, expertise and economy.

The consequences of abuses and fraud in NPOs can be severe, such as a shrinking in resources, diminished reputation, loss of tax-exempt status and declining donations (Greenlee et al., 2007).

Making predictions about the future is a challenging proposition. Criticisms of NPOs future direction imply the urge to examine the level of internal control implementation within the organizational context. Thus, it is vital to examine and provide empirical evidence on the factors that influence level of internal control implementation (LICI) among NPOs in Malaysia.

2.0 LITERATURE REVIEW

2.1 *Accountability issues in NPOs*

Accountability is seen as vital for the NPOs in maintaining continuous of the confidence and financial support of the public by giving an account of its charities' activities. However, as with the general definition of accountability, Kreander, Beattie, and McPhail (2009) state the challenge of defining accountability "with the findings of this study, it is clear that charity accountability is complex, nuanced and not fully explained by existing theorisation" (p. 166).

Key problems with accountability in NPOs are due to public trust and the issue of identifying what is an appropriate notion of accountability for NPOs. Eisenberg (2005) highlights "in a sense, nonprofits have nothing to sell but their integrity, if they undermine that, they will be in real danger of losing their soul and the public trust that sustains them" (p.159). Accountability has thus become an increasingly important issue for NPO given the recurring scandals that have plagued the sector, as well as accusations that creative accounting techniques are used to mislead funders (Khumawala and Gordon, 1997). There was evidence in Europe that terrorists may use NPOs as a vehicle to channel funds. This has led to the European Union developing policy steps on counter terrorism and the prevention of financial crime in relation to not-for-profits (European Foundation Centre, 2009).

It is also seen by some within the NPOs, that the altruistic nature of NPO avoids the need for accountability, as NPOs are assumed to act honestly and with integrity (Connolly and Dhanani, 2009). However, Eisenberg (2005) argues the necessity of accountability among NPOs as these organisations are just meant to provide good deeds to society.

2.2 *Internal Control*

2.2.1 *Internal Control and Management*

Internal control is a management tool used to provide reasonable assurance that management's objectives are being achieved. As such, internal control is the responsibility of management. Responsibility for internal control is not only to the boards, but also spreading to the audit committees of boards. According to Sacco and Nagy (2008) government also involved in establishing oversight and actual rule making for internal control and auditing instead of just leaving it to managers and their auditing associations. Kinney (2000) posits that an effective internal control process is essential for

managing information to support management decision processes and to protect an organizations assets. Feng, Li and McVay (2009) suggest that managers with ineffective internal controls relying on erroneous internal management reports when forming guidance less accurate guidance among firms reporting ineffective internal controls. This relation extends that internal control quality has an economically significant effect on internal management reports. However, it is possible that internal control quality has broader implications than what previously documented.

2.2.2 Internal Control Principles

Morehead (2007) states that NPOs operating in a global environment are more susceptible to internal control breaches and suffering more negative consequences of fraud and corruption. As such a preventive control, NPOs have to be alert that their organization size, purpose, location budget, stage of life, and operating environment can, and will impact the effectiveness of their internal control structure. Hence, internal control principles suggest preventive controls should be implemented with detective controls to provide a more complete and effective ICS. NPOs should make a direct relationship between good corporate governance and good internal control and inversely as a detective controls. Other than that, internal control principles recommend NPOs to train their employees in the techniques of ICS regarding the management of the organizations.

2.2.3 Internal Control Framework

Most internal control researches have concentrated on control activities (control environment and monitoring activities) by auditors and their behaviour but less assisted on internal control evaluation. Doyle, Ge, and McVay, (2006) state one problem that NPOs faced is the complexity of internal control process, which influence by time, industry, and different culture. As obstacles faced by NPOs, there were various development of frameworks relate to internal control. Hence, as internal control principles suggest, the strength or maturity of an organization’s internal control system can be displayed in a framework of five stages (Figure 2.1).

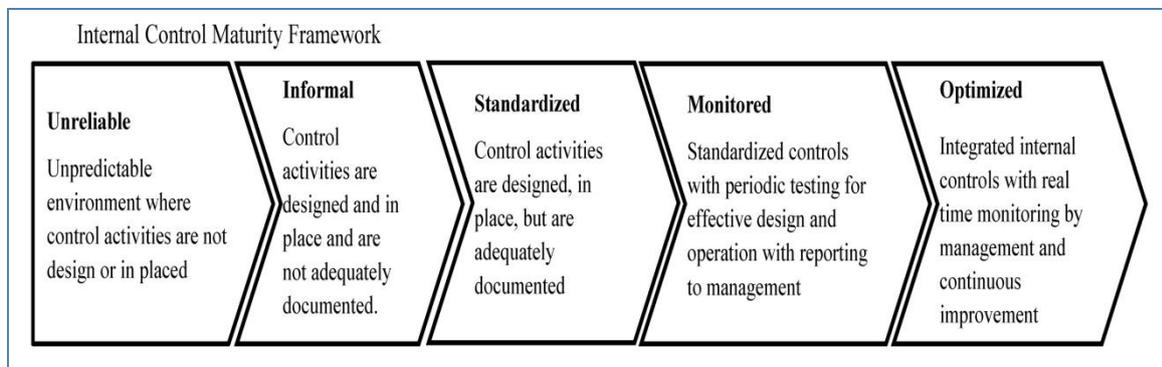


Figure 2.1: Internal Control Maturity Framework

Source: Mattie, Leahy, Riley and Cassidy (2006)

The internal control system become more effective as the organization matures through effective governance, structure, and experience and moves through each stage. In the first stage, the ICS is not reliable because it operates in an unpredictable environment, has not been designed, or is non-existent. In the second stage, controls have been established but are not adequately documented or are non-functional. In the third stage, the ICS is designed and functional but not tested or monitored which may cause stakeholders to incorrectly believe internal controls are securely in place and protecting the organization; if management is not monitoring the ICS, it can eventually fail. In the fourth stage, the ICS is properly designed, functional, and periodically tested for its effectiveness. In the final or “ideal stage”, the ICS is properly designed, functional, and monitored on an ongoing basis for continuous improvement (Mattie et al., 2006)

2.2.4 Internal Control issues in NPOs

NPOs are quite commonly engage with fraud, embezzlement and abuse perpetrated cases due to lack of resources and accountability. Othman et al. (2012) explore the internal functioning problems in 17 NPOs in Malaysia through face-to-face interviews and focus-group discussions with 33 individuals directly and indirectly involved with managing NPOs discussing issues concerning personnel, governance, accounting and financial practices, funding and regulatory systems. Their study compares the issues with neighbouring Singapore and prompted researchers to find out how Singapore’s Charity Commission has tackled these same issues. Singapore’s Charity Commission uses the approach of “facilitating” rather than “punishing” charities. Meanwhile, measuring financial reporting governance and reporting quality via different measures, Yetman (2004) finds that that higher reporting quality is associated with increased governance. The findings of market-based governance measures have a more consistent effect on NPOs reporting quality than regulatory-based measures.

Financial reporting in NPOs is important to monitor their performance in terms of their efficiency and effectiveness in using public resources and to provide information to all relevant interest groups on their economic resources and obligation. In Malaysia, NPOs are required to be registered with ROS and submit their annual reports within a stipulated time period. However, one major concern is regarding the failure of NPO’s annual report submission. Nasir, Othman, Said, and Ghani (2006) determine the current state of financial reporting of NPOs in Malaysia and highlight major issues and problems faced by them in preparing the financial reports. The findings show that NPOs were lack of skilled accounting staff and high staff turnover. These problems may have contributed to the low number of charity organizations submitting the annual reports to the ROS.

2.3.5 *Internal control deficiencies*

This research will validate the internal control principles, particularly as it related to NPOs. Thus it is important to review the literature regarding internal control strengths and weaknesses in order to fulfill the objectives of this study especially to seek variables that useful to be the attributes on determining the LICI among NPOs. Table 2.1 (a) and (b) shows the strengths and weaknesses of ICS components and its measurement adapted from American Institute of Certified Public Accountants (AICPA). This study will then compare the strengths and weaknesses of ICS components with prior literatures hence to narrow down the research gaps and develop a research model that suite to Malaysian context.

Table 2.1 (a): Strengths and Weaknesses of ICS Components

Components	Strengths	Weaknesses	Measurement
Entity Size	Large - has more resources for implementation of ICS and its components	Large organization may be so complex the ICS is hard to implement and monitor; Small organization may not have a strong ICS	Number of employees; size of budgets; number of location
Entity Budget	Large - has more resources for implementation of ICS and its components	Large – may not focus on small details; Small – mat not have resources for staff and training for ICS	Size of budget
Experience and Number of Employees	More employees provide opportunity to have staff assigned to the task of implementing and monitoring the ICS	Fewer employees limit the numbers of staff available for implementing and monitoring the ICS	Number of employees
Entity Governance and Management Philosophy	Strong governance influences control consciousness; Management focus and encouragement towards controls creates corporate environment focused internal controls	Weak governance indicates disinterests in internal control; Lack of management interests or focus on controls may cause employees to not be concerned with internal controls	Is there an organizational awareness of internal control through monitoring, training, handbooks, etc.
Diversity and Complexity of Organization	Large-has more resources for implementation of ICS and its components	The greater diversity and complexity, the greater the risk of failure ICS	Number of employees, size of budget; number of locations
Size of Life (Age and Maturity of Organization)	Older organization are more mature in process system, including the well established ICS	Younger organization are generally less mature in process and system; therefore ICS may not be well established	Age of entity
Industry	Less complex industries mar suffice with less complex ICS	More complex industries need more complex and monitoring of their ICS; the lack of which increases the risk of failure of the ICS	Industry type and purpose

Source: AICPA Statements on Auditing Standards 109 and 110, AICPA, New York, 2006

Table 2.1 (b): Strengths and Weaknesses of ICS Components (Operating Environment)

Components	Strengths	Weaknesses	Measurement
Operating Environment:			
Foreign Operations		The existence of foreign operations increase the risk for internal control failure	Existence of foreign transaction
Legal Environment	A strong legal structure may deter fraud and corruption	A weak or non-existent legal structure increases opportunities for failure ICS	Type/Culture of legal environment
Regulatory Environment	A strong regulatory environment may deter fraud and corruption	A strong regulatory environment may encourage the failure of ICS and existence of fraud, bribery, and corruption	Type/Culture of regulatory environment
Political Culture	A sting active, transparent, and democratic political culture may deter fraud and corruption	A weak, non-transparent, or non-democratic political culture increase the failure of ICS	Type/Culture of political culture
Policies Procedures	Existence of strong P & Ps deters fraud and corruption	Lack to weak P & Ps increase failure of ICS	Existence and monitoring of P & Ps related to internal control
Financial Systems	Existence of string transparent financial systems deters fraud and corruption	Lack of transparent or weak financial systems increase failure of ICS	Existence and monitoring of financial systems related to internal control
Training	Existence of string training programs related to internal controls deters fraud and corruption	Lack or weak training programs related to internal controls increase failure of ICS	Existence and conducting of training programs related to internal control

Source: AICPA Statements on Auditing Standards 109 and 110, AICPA, New York, 2006

Additionally this study will also seek empirical evidence on factors determining LICl among NPOs in Malaysia. Therefore, this study will stream the literatures that focus on internal control.

Audits are an important legal accountability tool used by resource providers such as donors and grantors to assure that resources spent by NPOs in accordance with the resource provider's intentions. Keating, Fischer, Gordon and Greenlee (2003) examine 11,841 NPOs that underwent financial aids audits¹, and the 3,592 audit firms that conducted them, from 1997 to 1999. Overall, compliance with federal regulations appears to be high. The results indicate that smaller NPOs, those that are new to government grants, and those with prior audit findings have a significantly higher rate of adverse audit findings because of high cost hence these NPOs being audited by less experienced auditors. Therefore, this study will focus on organizational size and industry under organizational characteristics as it may influence the audit findings and LICl.

¹ which required by United States government for organizations receiving large amounts of federal financial assistance

Next, Ge and McVay (2005) explore the disclosures of material weaknesses in internal control after the Sarbanes-Oxley Act, focused on sample of 261 companies that disclosed at least one material weakness in internal control in their SEC filings. The result finds that poor internal control is related to an insufficient commitment of resources for accounting controls. Material weaknesses in internal control tend to be related to deficient revenue recognition policies, lack of segregation of duties, and inappropriate account reconciliation. The findings also state that disclosing a material weakness is positively associated with business complexity (multiple segments and foreign currency), negatively associated with firm size (market capitalization), and negatively associated with firm profitability (return on assets). Hence, it is significant for this study to test two attributes which is growth in NPOs (in term of assets) and segments as complexity characteristics that may be influence LICI. Besides, to examine financial characteristics and its influence on LICI, this study will focus on NPOs revenues and expenses either its give surplus or deficit.

Ausbaugh-Skaife, Collins, and Kinney (2007), use internal control deficiency (ICD) disclosures prior to mandate internal control audits to investigate economic factors that expose firms to control failures and managements' incentives to discover and report control problems. The study classified variables from ICD risk exposure (existence) and ICD discover and disclose incentives (detection) and construct 14 variables. The findings also agree that, firms disclosing ICDs have more complex operations, recent organizational changes, greater accounting risk, more auditor resignations and have fewer resources available for internal control. Regarding incentives to discover and report internal control problems, ICD firms have greater prior SEC enforcement actions and financial restatements, are more likely to use a dominant audit firm, and have more concentrated institutional ownership.

Doyle et al., (2006) examine determinants of weaknesses in internal control for 779 firms disclosing material weaknesses in United States of America from August 2002 to August 2005. The findings state that these firms tend to be smaller, younger, financially weaker, more complex, growing rapidly, or undergoing restructuring. Firms with more serious entity-wide control problems are smaller, younger and weaker financially, while firms with less severe, account specific problems are healthy financially but have complex, diversified, and rapidly changing operations. The findings also vary based on the specific reason for the material weakness, consistent with each firm facing their own unique set of internal control challenges. Hence, as organizational age will be test in this study as one of organizational characteristics.

Hoitash and Bedard, (2008) examine the association between corporate governance and disclosures of material weaknesses (MW) in internal control over financial reporting. The findings state that a lower likelihood of disclosing MW is associated with relatively more audit committee members having accounting and supervisory experience, as well as board strength. In addition, the nature of MW varies with the type of experience. The findings also stated that MW disclosure is associated with designating a financial expert without accounting experience, or designating multiple

financial experts. Hence, this study will use board size as one of governance characteristics as its associate with internal control quality.

Meanwhile, Beneish, Billings, and Hodder, (2007) analyze a sample of 330 firms making unaudited disclosures required by Section 302 and 383 firms making audited disclosures required by Section 404 of the Sarbanes-Oxley Act. The findings have implications for the debate about whether to implement a scaled securities regulation system for smaller public companies because material weakness disclosures are more informative for smaller firms that likely have higher pre-disclosure information uncertainty. Therefore, this study add auditors' categories as another attribute under governance characteristics and auditors opinion on NPO's annual report as financial characteristics that may influence LICI.

Another researcher, Petrovits et al., (2009) examine the causes and consequences of internal control deficiencies in the American NPOs sector using a sample of public charities from 1999 to 2003. The study hypothesize that NPOs that are in poor financial health, more complex, smaller, and/or growing rapidly are more probability to disclose an internal control problem. Specifically, the study used several internal control risk factors together with detection variables. The findings suggest that small and/or facing financial distress NPOs report more internal control problems than other organizations. The study also resulted that weak internal controls over financial reporting resulted negative effect on the amount of subsequent public support received.

Previous literatures indicate various variables relate to strengths and weaknesses in internal control implementation. Prior researchers also agreed these variables have same characteristics between each others. Table 2.2 summarizes the variables into four characteristics which is organizational, governance, financial, and complexity as an indicator to examine the LICI.

Table 2.2 Summary of variables from prior literature

	Organizational	Governance	Financial	Complexity
Keating et. al (2003)		Auditee compliance Quality of audit work Auditor selection Frequency of adverse findings		
Ge and McVay (2005)	Firm age	Large auditor	Return on assets Market capitalization Cash from operations Firm's book value	Operating segments Foreign currency
Ausbaugh-Skaife et. al (2006)	Firm size Litigation Industry	Auditor resign Restatement	Inventory % Loss Growth % Shares Distress risk	Merger & Acquisition Foreign sales Restructure Growth
Doyle et. al (2006)	Firm age	Governance score	Market capitalization Aggregate loss Bankruptcy risk	Special purpose entities (SPEs) Segments

			Acquisition Value Extreme sales growth	Foreign transactions Restructuring charge
Hoitash and Bedard (2008)	Litigation	Board Strength Audit committee size Audit meeting BIG 4 Midtier auditor Auditor change	Market capitalization Loss	Segments Foreign Merger Restructure Extreme Growth
Beneish et. al (2009)		Auditor quality Auditor resign Auditor change Audit fees	CLW-company level weaknesses ELOAD-poor earnings quality	Contamination Sec.404 filing status Context-source of disclosure
Petrovits et. al (2009)	Firm size Industry	BIG 6 Risk Regional Specialist	Going Concern risk Surplus	Type A133 Growth

Source: Prior Literatures

With reference to the prior literature and summary of variables (Table 2.2) there are some arguments as follows:

- i. Prior studies less showed attributes for organizational characteristic as its important attributes for determining LICI in NPOs.
- ii. Past studies mostly showed result for financial and complexity characteristics which its suite for profit base organization and less suite for NPOs.
- iii. The effect of mediator (auditors' categories) between organizational characteristic and LICI relationship was less discussed.

In closing the gaps above, there is a need to rearrange the attributes to make it applicable with NPOs and suite with Malaysia environment (regulation and culture). As such, there need to test the direct and indirect influence of the selected variables. Furthermore, prior studies argue that the relationship between independent and dependent variable might be influenced by the existence of mediating variable (auditor categories). These led to the development of a theoretical model (C-LICI) model that examines factors determining LICI among NPOs in Malaysia.

2.4 Development of C-LICI model

Development of C-LICI (Charity Level of Internal Control Implementation) model required thorough review of literature to identify the specific constructs. Considering significant factors, the study reviewed the literature related to accountability and internal control. It was found that gaps in prior studies need the advancement made in the current study. First, this study made an arrangement of attributes (Table 2.3) as it seems essential to make it applicable to Malaysian evidence.

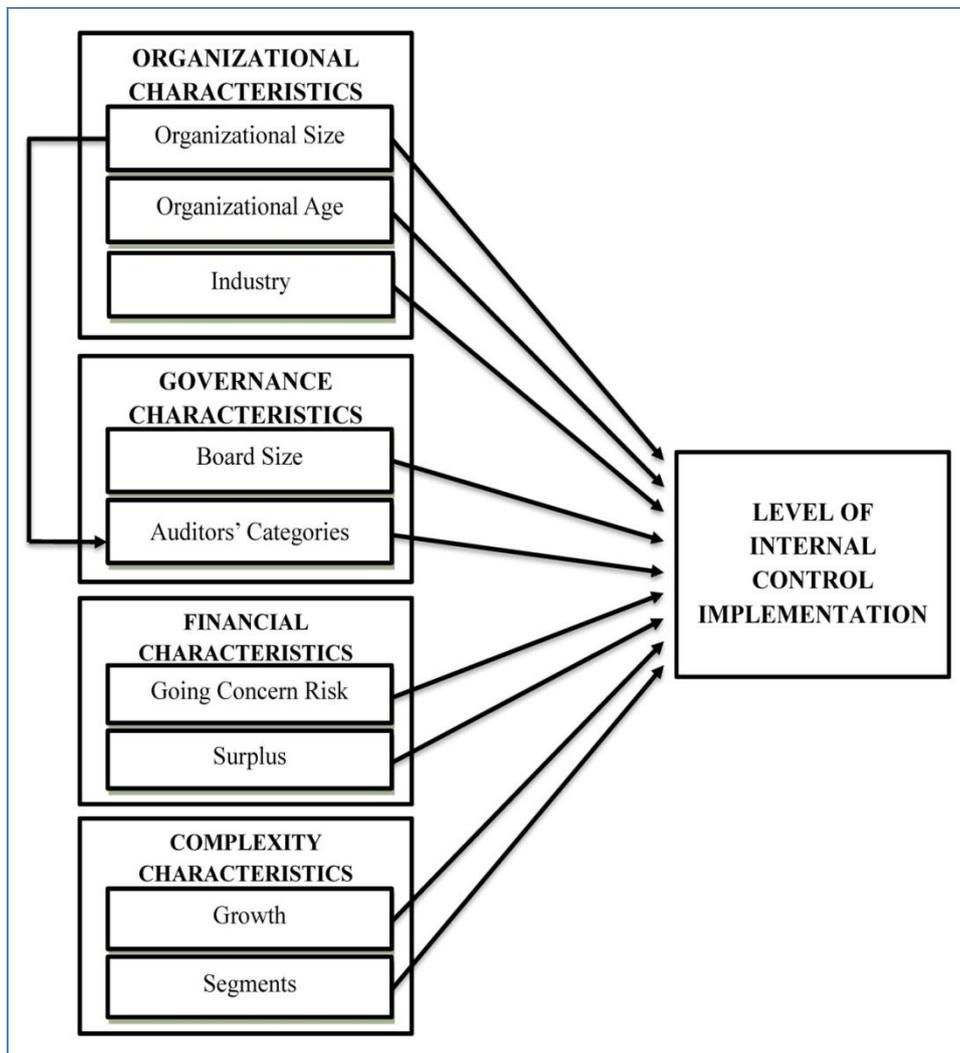
Table 2.3 Propose variables

Organizational Characteristics	Governance Characteristics	Financial Characteristics	Complexity Characteristics
Organizational Size	Board Size	Going Concern Risk	Growth
Organizational Age	Auditors' Categories	Surplus	Segments
Industry			

Source: Develop for this study

These attributes are expected to influence the LICI among NPOs. The direct and indirect relationship between attributes and LICI can be shown on Figure 2.2. The C-LICI model is hope to narrow down the knowledge gaps in the literature.

Figure 2.2 Propose C-LICI model



Source: Develop for this study

2.4.1 Organizational Context

Organizational context refer to organizational characteristics itself. Petrovits et al. (2009) and Ausbaugh-Skaife et al. (2006) agree organizational size had significant influence to internal control. Prior literatures measure organization size by number of employees, total assets, size of budgets and number of locations. Large organization has more resources for implementation of ICS and its components. However, large organization may be so complex, hence the ICS is hard to implement and monitor. Meanwhile, small organization may not have a strong ICS. Therefore, both large and small organization may increase the risk of failure of ICS and existence of fraud and corruption.

Meanwhile, Ge and McVay (2005) and Doyle et al. (2006) use organizational age as variables in their studies as factors that influence internal control implementation. It is synchronize with internal control maturity framework by Mattie et al. (2006), which state that in the last stage (older organization) or "ideal stage" the ICS is properly designed, functional, and monitoring on an ongoing basis for continuous improvement.

AICPA state that industry as one of either strengths or weaknesses of ICS components. For complex industries, it needs more complex and monitoring of their ICS. As such, for less complex industries may suffice with less complex ICS. Therefore, it is significant to test "organizational size", "organizational age", and "industries" as independent variables in this study.

2.4.2 Governance Context

Governance plays important roles in NPOs, particularly board of directors especially in guiding and controlling NPOs than what is common in for-profit firms, as well as maintains the integrity of the organization's social mission (O'Regan and Oster, 2005). NPOs boards help signal compliance with stakeholder interests, communicate with the public, and establish trust-based relationships that can generate additional resources (Klausner and Small, 2005). Studies agree that NPOs board can significantly impact organizational performance, while also having a direct influence on the behaviours of managers and employees within these organizations (Herman and Renz, 2004), hence it will led to efficiency of internal control implementation (Hoitash et al., 2008). Therefore, it is significant to test the attribute "board size" as factors determining the LICI.

Hoitash et al. (2008) investigate the effectiveness of internal control over financial reporting using a unique method of gathering data on corporate governance quality, specifically on audit committee financial expertise; found that board audit committee characteristics are associated with internal control quality. The audit committee not only plays significant monitoring role to assure and guarantee the quality of financial reporting and corporate accountability (Carcello and Neal, 2000), but also serves as an important governance mechanism, because the potential litigation risk and reputation impairment faced by audit committee members ensure that these audit committee members

discharge their responsibilities effectively (Zhang, Jian and Nan Zhou, 2006). As a result, it is essential to test attribute "auditors' categories" for this study.

2.4.3 *Financial Context*

Financial context in this study refer to NPOs financial characteristic. NPOs in poor financial health are less likely to have resources (time and money) to invest in establishing internal control (Petrovits et al., 2009). Therefore, same with Petrovits et al. (2009), this study will use auditor's opinion state as "going concern risk" on NPOs abilities to survive in future. Meanwhile, Krishnan (2005) state the existence of a loss is positively associated with reporting internal control problem in audit change firms. Hence, it is significant to test "surplus" as a measurement if NPOs incur revenues exceed its expenses.

2.4.4 *Complexity Context*

NPOs with diverse operations face challenges instituting internal control across their various initiatives and divisions (Petrovits et al., 2009). As Ashbaugh et al. (2007) posit that organizations with greater complexity and scope of operations are more likely to encounter internal control problems. The complexity of organizations operations, and consequently, the intricacy of its transaction increase as the organizations operates in diverse geographic location, diverse industries or in international markets. In addition, organizations with more complicated transactions likely have greater chance for a disconnection in the financial reporting process, and thus perform material weaknesses (Ge and McVay, 2005). For this study, attributes "growth" as measure by growth in assets, and "segments" as measure by the number of operating segments will be used to capture organization's operating characteristics (complexity characteristics) that are likely to expose them to a greater accounting measurement application risks (Kinney and McDaniel, 1989).

2.4.5 *Auditors' Categories (Mediating Variable)*

Audits are an important legal accountability tool used by stakeholders to ensure that resources spent by NPOs in accordance with the stakeholder's intentions. Larger NPOs with higher total assets, total revenues, total expenses, and federal awards are more likely to hire the dominant audit firms and inversely (Keating et al. 2005). However, large audit firms tend to have larger clients (large organizational size) than smaller audit firms because small clients are constrained to hire a dominant auditors' categories (BIG 4). Hence, for this study, it is significant to study the relationship between organizational size and LICI that may be influence by auditors' categories.

3.0 CONCLUDING REMARKS

NPOs are now suffered consequences if they not accountable in ensuring their primary objective fulfill and filing Annual Returns. NPOs who do not meet these accountabilities will, worst scenario, have their organization deregistered. However, many NPOs are so focused on providing their service, they do not focus on their ICS with the rigor necessary for the deterrence, prevention, and detection of fraud, terrorism and corruption. The lack of internal control among NPOs directly impacts on the credibility and financial viability of NPOs. NPOs are at greater risk of ICS failure. Hence, with summarizing the previous literatures including issues on accountability and internal control in NPOs, this research is intended to seek empirical evidence on factors determining LICI among NPOs in Malaysia. The study tests the C-LICI model regarding the influence of various factors on LICI from four different perspectives; organizational, governance, financial, and complexity. The outcome of the study is expected to narrow down the knowledge gaps by introducing the C-LICI model in evaluating LICI. Therefore, it will contribute to improve the effectiveness and efficiency of internal control implementation hence promotes accountability and transparency, and therefore will attract more donors.

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