



# Effect of Internal Audit on Financial Performance of Local NGOs in Rwanda: Case Study of Gasore Serge Foundation

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**Abstract:** This study assessed the effect of internal audit on the financial performance of local NGOs in Rwanda, using the Gasore Serge Foundation as a case study. The study examined how audit quality, audit firm independence, and compliance audits influence financial performance indicators, including revenue generation, expenditure control, fundraising, program efficiency, and beneficiary satisfaction. A mixed-method approach was adopted, combining descriptive and correlational research designs. A sample of 109 respondents was selected from a target population of 150. The findings revealed that audit quality positively influenced financial reporting accuracy and decision-making, with a mean of 3.69 and a regression coefficient of 0.601. Audit firm independence showed a strong influence, with a mean of 3.76 and a regression coefficient of 0.602, while compliance audits recorded the highest mean of 3.80 and a regression coefficient of 0.361. Correlation analysis showed strong positive relationships between the independent variables and financial performance, with Pearson coefficients above 0.96. The regression model demonstrated high explanatory power ( $R^2 = 0.973$ ), with all variables statistically significant ( $p < 0.001$ ). The study concludes that effective internal audit systems enhance accountability, transparency, resource management, and organizational sustainability. It recommends strengthening audit capacity, implementing audit recommendations, and allocating adequate resources to audit functions.

**Keywords:** Internal Audit, Audit Quality, Audit Independence, Compliance Audit, Financial Performance, NGOs, Rwanda.

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## 1. Introduction

This Section presents the background to the study, statement of the problem, objective of the study, research questions, and justification of the study, scope, and significance of the study. Non-Governmental Organizations (NGOs) globally have become integral players in addressing social, economic, and environmental challenges. These organizations are typically mission-driven and focus on areas such as healthcare, education, human rights, poverty alleviation, and environmental sustainability. As entities that operate independently from government and private sector institutions, NGOs rely heavily on donor funding, grants, and government support. Financial performance within the NGO sector is vital for ensuring sustainability and continued impact. In this

context, financial audits play a crucial role in assessing the accuracy of financial reporting and ensuring that resources are efficiently used in line with an organization's objectives. The implementation of auditing best practices, such as International Financial Reporting Standards (IFRS), enhances the credibility and accountability of NGOs, thus fostering donor confidence. This process not only assures the stakeholders about the integrity of financial reports but also aids in the optimal allocation of resources, ultimately leading to improved financial performance (Shehu, 2019). For NGOs, including local ones like the Gasore Serge Foundation, financial transparency and accountability, through regular audits, are

essential for maintaining operational effectiveness and long-term success (Moxham, 2020).

In Africa, NGOs serve a critical function in addressing various developmental issues, particularly in regions where government resources are limited. They often provide essential services in health, education, and humanitarian aid. Despite their importance, the effectiveness of many African NGOs is hindered by challenges such as weak governance, inadequate financial resources, and insufficient transparency in financial reporting. This lack of transparency and financial mismanagement in many NGOs across Africa highlights the urgent need for rigorous financial auditing practices. Financial auditing not only ensures that resources are allocated and used properly but also builds trust with donors and stakeholders, which is essential for sustaining funding. The introduction of international financial reporting standards and stronger regulatory frameworks is becoming increasingly vital for improving financial accountability in the NGO sector across Africa. NGOs that implement strong internal auditing practices can more effectively navigate these challenges, ensuring their operations remain transparent and aligned with their mission (Kerine, 2019).

In Eastern Africa, including countries like Kenya, Uganda, Tanzania, and Rwanda, NGOs have become significant contributors to national development, particularly in sectors such as health, education, and humanitarian aid. However, many NGOs in the region struggle with political instability, inadequate infrastructure, and financial mismanagement, which negatively affect their performance. The importance of financial audits in improving the performance of NGOs in Eastern Africa cannot be overstated. Regulatory frameworks such as the NGO Coordination Act in Kenya, which mandates NGOs to submit audited financial statements, are helping to ensure accountability and transparency. Nevertheless, challenges such as limited capacity to comply with these auditing regulations, especially among smaller NGOs, persist. As NGOs increasingly recognize the importance of internal and external audits, their ability to manage finances effectively and improve resource allocation becomes more achievable. Enhanced financial management through auditing leads to better donor relations and the overall financial performance of NGOs in the region. This research investigated how these financial auditing practices influence the financial performance of local NGOs like the Gasore Serge Foundation in Rwanda (Mohammed & Elio, 2018).

Rwanda has seen an increase in NGO activities, especially since the 1994 genocide, with these organizations playing a vital role in rebuilding the country and providing essential services in health, education, and social welfare.

The Rwandan government has introduced various regulatory frameworks to ensure NGOs operate transparently and accountably, including the National Council of NGOs, which enforces compliance with financial reporting standards. However, despite these regulations, there are ongoing concerns about the implementation of these standards, particularly among smaller NGOs or those with limited financial management capacity. Financial audits are essential in maintaining donor trust and ensuring the appropriate use of resources, which is a key factor in securing and sustaining funding. While some NGOs comply with financial reporting requirements, the capacity for proper financial management remains a challenge for many organizations in Rwanda. The role of internal audits is pivotal in improving financial performance by identifying inefficiencies and ensuring that funds are spent according to organizational objectives. These efforts contribute to better financial sustainability, ultimately enhancing the NGO's ability to fulfill its mission and meet its long-term goals (NGO Council, 2016; Kerine, 2019).

In Rwanda, by 2022, the NGO sector accounted for up to 5% of the country's gross domestic product (GDP) and is one of the big employers (NISR, 2022). The NGOs in the country are regulated by The National Council of NGOs, also known as the Non-Governmental Organizations Council (NGO Council). It is a self-regulating and non-partisan body made up of all registered NGOs in the country (Rwanda Civil Society, 2023). The organization was established in August 2000 under the Non-Governmental Organizations Co-ordination Act of 1998 as a forum of all voluntary agencies. According to the NGO Council, currently, all registered NGOs in the country are members of the council. The council has a membership of over 8,200 NGOs. Members are required to submit their annual work plan and an annual membership fee. The NGO Council membership includes international, regional, and national NGOs operating in Rwanda and working with a host of Community-Based Organizations (CBOs) and groups. These NGOs serve citizens across varied sectors, including agriculture, water, education, environment, health, human rights, gender and development, children's rights, poverty alleviation, peace, population, training, counseling, small-scale enterprises, disability, and many others. On the other hand, the NGO Council serves as the overall leader in the NGO sector. The NGO Coordination Act spells a requirement for all NGOs to submit an annual return, including the audited accounts for organizations with a budget of over one million. However, according to the NGO coordinating board, approximately 20% of the registered NGOs are compliant (NISR, 2022).

The Gasore Serge Foundation (GSF) is a faith-based organization that has been legally operating in Bugesera since 2013. Its mission is to support at-risk children and

families through education, healthcare, family transformation (community outreach), and youth empowerment programs. To sustain its activities, the foundation also operates a production department and business initiatives.

In the education sector, GSF established the Rwanda Children Christian School (RCCS) in 2016 to provide quality education. The school initially began as an Early Childhood Development (ECD) model with 24 children from at-risk families. Over the years, it has expanded to include a primary program, and as students have graduated, it has further extended to offer a secondary (O'Level) program. Today, RCCS serves 765 children, with 494 under sponsorship and 271 enrolled as private students. Beyond formal education, GSF has launched additional educational initiatives, including literacy and numeracy programs for adults, a street library to foster a reading culture, and community legal education programs to raise awareness of legal rights and responsibilities.

GSF plays a crucial role in community healthcare through its Health Clinic, which provides maternal care, dental, optometric, laboratory, and mental health counseling services. Additionally, the foundation runs a feeding program to combat malnutrition and stunting. This program has benefited over 658 children and 645 families. To ensure long-term food security and sustainable nutrition, GSF conducts regular home visits to educate families on health, balanced diets, and proper food preparation. Graduating families receive goats and seedlings to support self-sufficiency and are encouraged to form cooperatives for ongoing support and monitoring.

Youth empowerment is a key focus of GSF, equipping young people with leadership values and vocational skills. In 2017, the foundation launched a sewing training program for young women, single mothers, and school dropouts. Graduates receive sewing machines and are encouraged to form cooperatives or start their own businesses. Additionally, GSF invests in youth community sports events and talent development programs, fostering leadership and personal growth. GSF supports families through parenting skills training and family reintegration programs to strengthen households, financial literacy and entrepreneurship workshops to promote economic independence, and a microloan business support program to help families start or grow small businesses. To enhance community resilience, GSF also provides job opportunities for vulnerable parents whose children are under school sponsorship. This transition from malnutrition intervention to ECD, primary, and secondary education has played a vital role in transforming children's lives. To reduce dependency on external donations, GSF promotes economic sustainability through various business ventures, including livestock farming and agriculture, a coffee shop, sports, and entertainment initiatives. The income generated

from these activities supports the nutrition program, increases the number of children in sponsorship, and addresses other needs within the at-risk community. GSF's integrated approach combining education, healthcare, economic empowerment, and community development aims to break the cycle of poverty. By offering spiritual guidance, practical training, and economic support, the foundation enables families to thrive and children to become responsible, self-sufficient citizens. As it continues to expand its programs and facilities, GSF remains committed to transforming lives and fostering a brighter future for vulnerable children and families in Rwanda. (GSF Report 2024)

The findings from this study on the effect of internal audit on financial performance within local NGOs like Gasore Serge Foundation can provide valuable insights into how effective auditing practices contribute to improved financial sustainability. By investigating the relationship between internal audits and the financial performance of GSF, the research offered a comprehensive understanding of how auditing practices can improve resource allocation, enhance financial management, and ensure that donor funds are used appropriately to achieve long-term development goals. This research thus contributed to a broader understanding of the role of internal audits in improving the performance of local NGOs in Rwanda and potentially inform policy and operational practices in the NGO sector. This study underscored the importance of auditing as a tool for transparency, efficiency, and sustainability, ensuring that organizations like GSF continue to thrive in their mission to create positive social change in Rwanda.

## **1.1. Statement of the Problem**

Non-Governmental Organizations (NGOs) play an important role in addressing social, economic, and environmental challenges in developing countries such as Rwanda. Local NGOs provide essential services in areas including healthcare, education, and poverty reduction and often depend heavily on donor funding. Therefore, effective financial management, transparency, and accountability are essential for maintaining donor confidence and organizational sustainability. Internal auditing is an important mechanism for ensuring that financial resources are properly recorded, allocated, and used in accordance with organizational objectives.

Despite its importance, many local NGOs in Rwanda face challenges in establishing effective internal audit systems. Limited financial resources, inadequate auditing skills, and weak implementation of audit recommendations can affect financial reporting, resource allocation, and compliance with financial requirements. Although NGOs are required to maintain proper financial records and submit audited financial statements under relevant regulatory

requirements, some organizations continue to experience difficulties in meeting financial reporting standards (NISR, 2022). These challenges may increase the risks of financial mismanagement, fraud, inefficient resource utilization, and reduced donor confidence (Kerine, 2019; Shehu, 2019).

Previous studies indicate that effective internal auditing can improve financial transparency, accountability, resource management, and organizational performance. Matoke and Omwenga (2016) found that audit quality and auditor competence positively influence financial performance, while Musa and Shehu (2014) reported that internal auditing contributes to improved financial transparency and performance. However, limited evidence exists on the specific effect of internal audit practices on the financial performance of local NGOs in Rwanda, particularly organizations with limited resources such as the Gasore Serge Foundation.

The problem addressed by this study is therefore the inadequate effectiveness of internal audit practices and their possible consequences for financial performance and sustainability. The study examines how audit quality, audit firm independence, and compliance audits influence the financial performance of the Gasore Serge Foundation. The findings are expected to provide useful information for strengthening internal audit practices, improving financial accountability and resource management, maintaining donor confidence, and enhancing the sustainability of local NGOs in Rwanda.

## 1.2 General Objective of the Study

The general objective of this study is to assess the effect of internal audit on the financial performance of local NGOs in Rwanda, with a specific focus on the Gasore Serge Foundation.

## 1.3 Specific Objectives

1. To analyze the effect of the Audit Quality on the financial performance of Local NGOs in Rwanda
2. To examine the effect of Audit firm independence on the financial performance of Local NGOs in Rwanda
3. To Investigate the effect of compliance audits on the financial performance of Local NGOs in Rwanda.

## 2. Literature Review

This Section provides a comprehensive review of the concepts, theories, and empirical studies related to the effect of internal auditing on the financial performance of

local NGOs. The chapter begins with a conceptual review of key terms, followed by a theoretical framework that guides the study. Additionally, it reviews empirical studies conducted by various authors in the field of internal audits and financial performance in the NGOs sector.

## 2.1 Conceptual Review

### 2.1.1 Financial Audit

A financial audit, as described by Ingram (2019), is critical in verifying whether an NGO's financial statements accurately reflect its financial position and performance. The financial audit will involve assessing the organization's financial statements to determine if they present a true and fair view of its financial activities. The audit's role is to ensure that the financial controls and processes within the organization are robust enough to produce reliable financial statements. This is especially important for an NGOs that relies on donor funding and needs to demonstrate transparency and accountability to stakeholders, including donors, beneficiaries, and regulatory bodies. (Ingram, R. 2019).

In the case of Gasore Serge Foundation, a financial audit can add credibility to the management's assertion of financial health and ensure compliance with accounting standards. The audit will provide reasonable assurance (though not absolute) that there are no significant misstatements in the financial records, thereby reducing the risk of financial mismanagement or fraud. This is essential for the NGO's ability to maintain donor trust and attract future funding, which directly affects its financial performance.

### 2.1.2 Performance Audit

Performance audits, as explained by Dittenhofer (2018), evaluate whether an entity is achieving the most efficient, economical, and effective use of resources. Performance audit would assess whether the foundation is using its funds in the most effective way to meet its organizational goals, such as improving community welfare or supporting local development projects.

A performance audit could also examine how well the foundation is achieving its mission in relation to the resources spent. This type of audit goes beyond financial performance and focuses on whether the NGO is utilizing its funds to create measurable impacts in the community. A successful performance audit could help NGOs demonstrate to its stakeholders that it is meeting its objectives efficiently, thus enhancing its credibility and overall financial performance. Additionally, performance audits could identify areas of waste, inefficiency, or mismanagement, providing recommendations for improvements. These improvements could lead to a better

allocation of resources, resulting in cost savings and enhanced financial performance. (Dittenhofer, 2018).

### **2.1.3 Compliance Audit**

Compliance audits, as discussed by Salomon (2019), focus on ensuring that an organization adheres to local laws, regulations, and internal policies. For NGOs, compliance audits are crucial because they ensure that the organization is following the relevant laws and regulations in Rwanda regarding financial management, reporting, and governance. This includes compliance with tax regulations, labor laws, and donor-specific regulations, which can affect how funds are received, allocated, and spent. A compliance audit also ensures that the NGOs are adhering to its internal rules and policies. Non-compliance could result in financial penalties, loss of donor trust, or even legal consequences. Therefore, the foundation's ability to maintain compliance is directly related to its financial performance. Non-compliance can lead to fines, legal challenges, or suspension of funding, all of which would negatively impact its financial sustainability. (Salomon, M. 2019).

### **2.1.4 Financial Performance of NGOs**

The financial performance of NGOs is a measure of how well the organization manages its financial resources. Financial performance indicators include efficiency in managing funds, the sustainability of operations, and the ability to achieve organizational goals within budget constraints. NGOs rely on financial performance not only for operational sustainability but also for maintaining donor confidence and ensuring continued funding.

The concept of financial performance as outlined by Khan (2020) highlights that NGOs, like any other entity, must direct funds efficiently to sustain operations and achieve their goals. For NGOs internal audits play a pivotal role in ensuring that resources are used appropriately and that financial statements accurately reflect the organization's financial health. A well-structured internal audit system helps the foundation demonstrate its financial performance to stakeholders, including donors, beneficiaries, and regulatory bodies.

In the context of Rwanda, where NGOs are increasingly scrutinized for their financial transparency and performance, audits serve as a key mechanism for ensuring accountability and resource efficiency. A robust internal audit system can directly improve the financial performance of the organization by identifying inefficiencies, preventing fraud, and ensuring compliance with regulations. (Khan 2020).

## **2.2 Theoretical Review**

### **2.2.1 Auditors' Theory of Inspired Confidence**

The Auditors' Theory of Inspired Confidence, developed by Limperg in 1932, emphasizes the trust placed in auditors by the public. This theory asserts that auditors function as independent and objective professionals whose primary role is to provide assurance that financial statements are free from material misstatements. It is built on the premise that society relies on the auditor's professional judgment and expertise to maintain the integrity of financial reporting.

This theory directly relates to the study by underlining the importance of audit quality in enhancing the financial performance of NGOs. It suggests that when internal audits are effectively executed, they instill confidence in stakeholders (e.g., donors, management, and the public) regarding the financial health of the organization. This confidence can, in turn, lead to better resource allocation, improved performance, and sustainable financial outcomes for the NGO. It underscores the need for minimizing audit failures, which is particularly critical in NGOs, where funds are often sourced from donors who expect transparent and accurate financial reporting. The theory assumes that auditors always operated with the highest levels of professionalism and independence. However, in real-world scenarios, conflicts of interest or pressure from management can undermine audit integrity, which this theory does not fully address.

## **2.3 Empirical Review**

### **2.3.1 Audit Quality and Financial Performance**

Globally, the importance of audit quality in determining financial performance is well established. De Angelo (2021) argues that audit quality is a function of an auditor's ability to detect and report misstatements in financial statements. In commercial sectors, studies consistently show that larger audit firms with greater resources tend to provide higher quality audits, which enhance stakeholder trust and financial performance. For instance, Chen et al. (2023) found that high audit quality in larger firms improved financial transparency, which directly impacted financial outcomes. However, the NGO sector has fewer studies addressing audit quality. Research is mostly concentrated in the corporate world, which often faces different regulatory environments, funding models, and financial structures than NGOs. The application of audit quality to the NGO sector remains under-researched. Ferreira & Otley (2019) use auditor size as a proxy for

quality, but this does not fully account for the unique challenges that NGOs face, such as managing donor funds and adhering to multiple accounting standards.

In Africa, audit quality has been studied mainly in the context of organizations. Studies by Mutua (2019) in Kenya's local organization have shown that risk-based audits improve financial performance. However, the specific application of audit quality to local NGOs is limited, particularly concerning how NGOs' reliance on donor funding influences the audit process. African NGOs often face resource constraints and may rely on smaller audit firms that lack the expertise required for high-quality audits, leading to challenges in ensuring financial transparency and accountability.

In Eastern Africa, including countries like Kenya and Uganda, audit quality has been linked to the financial stability of NGOs. Ebrahim et al. (2020) suggest that high-quality audits in this region enhance the credibility of NGOs and their ability to attract funding, leading to better financial performance. The region faces challenges in ensuring audit quality, primarily due to limited capacity within local audit firms and inconsistent enforcement of auditing standards.

In Rwanda, audit quality is emphasized by regulatory bodies like the Rwanda Governance Board (RGB), which mandates audits for NGOs to ensure transparency and accountability in the use of donor funds. Local NGOs, such as Gasore Serge Foundation, rely on audits to demonstrate compliance with donor agreements and national regulations. While Rwanda has made strides in improving audit quality, challenges remain in ensuring that local auditors possess the necessary expertise to deal with complex financial reporting requirements for NGOs (RGB, 2024).

### **2.3.2 Audit Firm Independence and Financial Performance**

Audit firm independence is critical for ensuring that audits are objective and free from conflicts of interest. Prawitt, Smith, & Wood (2019) highlight that the longer an auditor works with a client, the more likely their independence becomes compromised. In NGOs, this is particularly significant as they rely heavily on donor funding, and any perception of bias in audits could erode donor confidence and impact financial performance. Musa & Shen (2019) emphasize that in the non-profit sector, where the stakes for financial mismanagement are high, audit independence is essential for maintaining credibility and fostering financial transparency. The global literature typically treats independence as a binary factor either independent or not. However, in practice, independence is more fluid, with varying degrees depending on external pressures, such as

political influence or the dependence of audit firms on a specific client.

In Africa, maintaining audit independence in NGOs is challenging due to the relatively small pool of qualified auditors and long-standing relationships between NGOs and their auditors. Mutua (2019) argues that audit firms in Kenya, for example, often struggle to maintain their independence due to political or financial pressures from NGOs' donors or stakeholders. This issue is particularly prevalent in local NGOs in developing regions, where auditors may feel compelled to overlook issues to maintain business relationships.

In Eastern Africa, audit independence is critical for enhancing the trustworthiness of NGOs. Ondieki (2023) found that the risk of financial mismanagement or misreporting is heightened when auditors are not independent. External pressures, such as political or donor-related influences, often affect the independence of auditors in the region, which can lead to unreliable financial reporting and poor financial performance for NGOs.

In Rwanda, audit firm independence is seen as essential for maintaining financial transparency. The Rwanda Governance Board (RGB) ensures that audits are conducted by independent firms, particularly to ensure compliance with donor agreements. However, like in other African nations, Rwanda's local auditors face challenges, such as small audit firms with limited resources and expertise, which may compromise their independence and the quality of the audits (RGB, 2024).

### **2.3.3 Compliance Audits and Financial Performance**

Compliance audits are crucial for NGOs as they ensure that financial reporting adheres to relevant laws, regulations, and donor agreements. Globally, Ljubisavljevic & Jovanovic (2021) argue that compliance audits contribute to better financial performance by fostering accountability and transparency. This is especially important for NGOs that rely on donor funds and must ensure that every dollar is spent according to regulations and contractual agreements. Non-compliance can lead to financial mismanagement, loss of donor confidence, and even the loss of funding. While the corporate sector has extensive research on compliance audits, the focus on the NGO sector is less prevalent. The existing studies often generalize the compliance process and overlook the complexity NGOs face in adhering to a wide range of national and international standards.

In Africa, compliance audits are critical for ensuring that NGOs adhere to both local and international standards.

Chiggai (2018) argues that NGOs in Africa often face challenges such as weak regulatory enforcement, insufficient internal controls, and limited financial management capacity. This makes compliance audits even more crucial to ensure that donor funds are spent appropriately and that NGOs remain transparent in their financial dealings. However, studies specific to the role of compliance audits in improving financial performance in African NGOs are scarce.

In Eastern Africa, compliance audits are essential to maintaining the financial integrity of NGOs. Ebrahim et al. (2019) found that NGOs in the region, which are heavily dependent on external funding, benefit from compliance audits that ensure they meet donor expectations and legal obligations. The challenge in the region is the frequent changes in regulatory environments, making compliance a dynamic process. Compliance audits in Eastern Africa must evolve to address these changing legal requirements while ensuring financial transparency and accountability. In Rwanda, compliance audits are integral to ensuring NGOs follow both national and international regulations, especially in the use of donor funds. The Rwanda Governance Board (RGB) places significant importance on compliance audits as part of their oversight of NGOs. These audits ensure that NGOs like Gasore Serge Foundation meet their financial and legal obligations, which, in turn, enhances their credibility and ability to secure future funding. However, rapid changes in the regulatory environment pose challenges, and there is a need for compliance audits to be adaptive and flexible (RGB, 2024).

#### **2.3.4 Audit Practices and Organizational Performance**

Audit practices directly influence organizational performance by shaping the internal control environment and the level of trust in the financial reporting process. Ljubisavljevic & Jovanovi (2021) argue that strong audit practices enhance the internal control system, which, in turn, improves organizational performance. Globally, studies show that organizations with robust audit practices experience better financial performance, as these practices ensure that financial resources are managed efficiently and that risks are identified and mitigated early. However, much of the literature on audit practices focuses on large organizations in developed economies, and there is limited focus on the unique challenges faced by NGOs, particularly in developing countries like Rwanda.

In Africa, audit practices are often challenged by resource constraints and the lack of skilled auditors. Chiggai (2018) emphasizes that strong audit practices can lead to better organizational performance by improving accountability

and financial management. However, African NGOs often lack the capacity to implement robust audit practices, leading to issues with transparency, resource management, and financial performance.

In Eastern Africa, audit practices are linked to improved financial performance, but local NGOs often face challenges such as weak internal control systems, lack of audit expertise, and insufficient resources. Ebrahim et al. (2014) argue that improving audit practices in this region is essential for enhancing organizational performance, particularly in terms of managing donor funds and ensuring financial sustainability.

In Rwanda, audit practices are closely monitored by regulatory bodies such as the Rwanda Governance Board (RGB), which encourages NGOs to implement strong internal control systems. Gasore Serge Foundation, like other local NGOs, benefits from solid audit practices that promote transparency and good governance. However, challenges remain in developing a skilled pool of auditors and ensuring that audit practices are consistently followed to enhance organizational performance and financial outcomes (RGB, 2024).

### **3. Methodology**

This study adopted a descriptive and correlational research design to examine the effect of internal audit on the financial performance of local NGOs in Rwanda, using the Gasore Serge Foundation as a case study. The target population comprised 150 individuals, including internal staff, management, external stakeholders, and beneficiaries. Using Yamane's (1967) formula with a 5% margin of error, a sample size of 109 respondents was obtained. Stratified random sampling was used to ensure proportional representation of the different stakeholder groups. The study employed a mixed-methods approach using structured questionnaires and document analysis. A pilot study involving 15 participants from a similar NGO was conducted to assess the clarity, relevance, and reliability of the research instruments. Validity was enhanced through literature review and expert consultation, while reliability was assessed to ensure consistency of the instruments. Data were edited, coded, entered, and analyzed using SPSS. Appropriate measures were taken to securely store and back up the data. Descriptive statistics, including frequencies, percentages, means, and standard deviations, were used to summarize the data. Pearson correlation analysis assessed the strength and direction of relationships between internal audit practices and financial performance. Multiple regression analysis was used to determine the effects of audit quality, audit firm independence, and compliance audits on financial performance. Statistical significance was assessed at the 5% level.

# 4. Results and Discussion

## 4.1. Findings

This Section presents the findings of a study aimed at assessing the effect of internal audit on the financial performance of local NGOs in Rwanda, with a specific focus on the Gasore Serge Foundation. The study focused on three key dimensions of internal audit: audit quality, audit firm independence, and compliance audits, and their influence on financial performance indicators such as revenue generation, expenditure management, program efficiency, fundraising efficiency, and the level of satisfaction of beneficiaries. Internal audits play a critical role in ensuring transparency, accountability, and sound financial management in non-governmental organizations. Given the reliance of local NGOs on donor funding and

public trust, effective internal audit mechanisms are essential for ensuring sustainable financial performance and organizational credibility. The study engaged a total of 109 respondents affiliated with or involved in the financial and administrative operations of the Gasore Serge Foundation, providing a 100% response rate. Descriptive statistics were employed to analyze the responses, primarily focusing on frequencies, percentages, and means. Furthermore, Z-score analysis was used to determine the statistical significance of the relationships between internal audit components and financial performance indicators. The findings presented in This Section aim to offer evidence-based insights into how internal audit practices affect financial performance, and how improvements in audit quality, independence, and compliance can contribute to more efficient and transparent operations within local NGOs in Rwanda.

**Table 1 Processing Summary**

| Gender |        | Cases |         |         |         |       |         |
|--------|--------|-------|---------|---------|---------|-------|---------|
|        |        | Valid |         | Missing |         | Total |         |
|        |        | N     | Percent | N       | Percent | N     | Percent |
| Age    | Male   | 60    | 100.0%  | 0       | 0.0%    | 60    | 100.0%  |
|        | Female | 49    | 100.0%  | 0       | 0.0%    | 49    | 100.0%  |

Source: Field data 2026

Table 1 presents a processing summary of the respondents' age data categorized by gender. The results indicate that all 60 male respondents (100%) and all 49 female respondents (100%) provided valid responses for the age variable, with no missing data recorded. This means that the total sample of 109 participants gave complete and usable information regarding their age. The absence of missing values ensures

the reliability and accuracy of any statistical analysis involving age, such as cross-tabulations or comparative assessments based on gender. This completeness demonstrates the effectiveness of the data collection process and supports the validity of subsequent findings related to age distribution within the study.

**Table 2: Respondent review on the effect of the Audit Quality on the financial performance of Local NGOs in Rwanda**

| Response statements                                                             | N   | Mean | Std. Deviation |
|---------------------------------------------------------------------------------|-----|------|----------------|
| Quality control systems enhance the accuracy of financial reporting.            | 109 | 3.69 | 1.184          |
| Audit quality has contributed to improved financial decision-making in the NGO. | 109 | 3.68 | 1.193          |
| Audit quality has helped identify key financial improvement areas in the NGO.   | 109 | 3.67 | 1.114          |
| The audit methodology used accurately evaluates the NGO's financial health.     | 109 | 3.66 | 1.164          |
| The audit methodology is tailored to fit the NGO's structure and operations.    | 109 | 3.64 | 1.175          |
| Audit planning is systematic and aligns with organizational goals.              | 109 | 3.63 | 1.128          |
| The audit process includes internal checks that prevent errors and fraud.       | 109 | 3.61 | 1.155          |
| The audit team allocates sufficient time and resources for audit planning.      | 109 | 3.58 | 1.141          |
| Valid N (listwise)                                                              | 109 |      |                |

Source: Field data 2026

Table 2 presents descriptive statistics on how respondents perceive the impact of audit quality on the financial performance of local NGOs in Rwanda, particularly within the context of the Gasore Serge Foundation. All eight response items received relatively high mean scores, ranging from 3.58 to 3.69, indicating that respondents generally agreed that audit quality positively influences financial outcomes. The highest-rated statement, “Quality control systems enhance the accuracy of financial reporting” (mean = 3.69, SD = 1.184), reflects a strong perception that structured audit procedures improve the reliability of financial information. Other highly rated items include the contribution of audit quality to improved

financial decision-making (mean = 3.68) and its role in identifying financial improvement areas (mean = 3.67). Additionally, statements on tailored audit methodology and systematic planning received supportive mean scores above 3.6, suggesting a positive view of how audit practices are aligned with the NGO's operational realities. The standard deviations, which range from 1.114 to 1.193, suggest a moderate variation in responses, with general consensus across the sample. Overall, these results support the study's first objective by confirming that high audit quality through effective methodology, planning, and control plays a crucial role in enhancing the financial performance and accountability of local NGOs in Rwanda.

**Table 3: Respondent review on the effect of Audit firm independence on the financial performance of Local NGOs in Rwanda**

| Response statements                                                                   | N   | Mean | Std. Deviation |
|---------------------------------------------------------------------------------------|-----|------|----------------|
| Independence of the audit firm contributes to the reliability of financial decisions. | 109 | 3.76 | 1.246          |
| The independence of the audit firm enhances transparency in financial reports.        | 109 | 3.73 | 1.214          |
| The financial stability of the NGO has improved due to external audit independence.   | 109 | 3.72 | 1.147          |
| The audit firm operates independently without management influence.                   | 109 | 3.71 | 1.196          |
| The audit firm demonstrates high professional and ethical standards.                  | 109 | 3.69 | 1.207          |
| Audit fees charged are reasonable and do not compromise auditor objectivity.          | 109 | 3.68 | 1.162          |
| Audit opinions are based solely on facts and are free from internal pressure.         | 109 | 3.65 | 1.189          |
| The audit firm communicates potential conflicts of interest clearly.                  | 109 | 3.62 | 1.177          |
| Valid N (listwise)                                                                    | 109 |      |                |

Source: Field data 2026

Table 3 presents the descriptive statistics on the effect of audit firm independence on the financial performance of local NGOs in Rwanda, supporting the second specific objective of the study. The results indicate a general agreement among respondents, with mean scores ranging from 3.62 to 3.76. The highest-rated statement, “Independence of the audit firm contributes to the reliability of financial decisions” (mean = 3.76), shows that respondents strongly believe in the importance of audit independence for credible financial decision-making. This is closely followed by perceptions that independence enhances transparency in financial reports (mean = 3.73) and supports improved financial stability of NGOs (mean = 3.72).

Other indicators such as the ethical conduct of auditors, lack of management influence, and fair audit fees also received moderately high mean scores, suggesting broad confidence in the objectivity and integrity of independent audit processes. The standard deviations, which range from 1.147 to 1.246, show moderate variability in responses but generally reflect consistent agreement. These findings align closely with the research objective of examining how audit firm independence affects financial performance. They underscore that independent auditing plays a critical role in promoting financial reliability, transparency, and long-term stability within NGOs like the Gasore Serge Foundation. This supports the notion that maintaining auditor autonomy is essential for strengthening financial governance and accountability in the nonprofit sector.

**Table4: Respondent review on the effect of compliance audits on the financial performance of Local NGOs in Rwanda.**

| Response statements                                                                       | N   | Mean | Std.<br>Deviation |
|-------------------------------------------------------------------------------------------|-----|------|-------------------|
| The outcomes of compliance audits are shared and acted upon by management.                | 109 | 3.80 | 1.268             |
| Internal procedures are regularly reviewed to meet compliance standards.                  | 109 | 3.77 | 1.237             |
| Compliance auditing contributes positively to overall financial management and reporting. | 109 | 3.75 | 1.172             |
| The NGO complies with national and international financial regulations.                   | 109 | 3.74 | 1.220             |
| Audit procedures align with legal and regulatory expectations.                            | 109 | 3.73 | 1.199             |
| Compliance audits ensure adherence to donor funding guidelines.                           | 109 | 3.72 | 1.231             |
| Compliance audits help reduce financial risks and liabilities.                            | 109 | 3.69 | 1.215             |
| Compliance audits are conducted regularly and thoroughly.                                 | 109 | 3.66 | 1.204             |
| Valid N (listwise)                                                                        | 109 |      |                   |

Source: Field data 2026

Table 4 presents the descriptive statistics on the effect of compliance audits on the financial performance of local NGOs in Rwanda, supporting the third specific objective of the study. The findings indicate a general agreement among respondents, with mean scores ranging from 3.66 to 3.80. The highest-rated statement, “The outcomes of compliance audits are shared and acted upon by management” (mean = 3.80), suggests that respondents believe compliance audits lead to actionable recommendations that improve financial practices. This is followed by agreement that internal procedures are regularly reviewed to meet compliance standards (mean = 3.77), and that compliance auditing contributes positively to financial management and reporting (mean = 3.75). Other notable items, such as alignment with legal and

regulatory expectations (mean = 3.73), adherence to donor funding guidelines (mean = 3.72), and the role of audits in reducing financial risks and liabilities (mean = 3.69), further reinforce the importance of compliance in strengthening financial systems. The standard deviations, which range from 1.172 to 1.268, show a moderate spread in responses but consistent agreement overall. These results support the study’s objective by confirming that compliance audits play a critical role in enhancing financial performance in local NGOs such as the Gasore Serge Foundation. They ensure transparency, adherence to legal and donor requirements, and improved financial risk management—key components of sustainable and accountable nonprofit financial operations.

**Table5: The overall effect of internal audit on the financial performance of local NGOs in Rwanda**

| Response statements                                                                      | N   | Mean | Std.<br>Deviation |
|------------------------------------------------------------------------------------------|-----|------|-------------------|
| Regular internal audits have increased accountability across departments.                | 109 | 3.77 | 1.252             |
| Internal audits have enhanced the efficiency of program implementation.                  | 109 | 3.76 | 1.224             |
| Internal audit findings have guided the NGO in improving fundraising activities.         | 109 | 3.75 | 1.256             |
| Overall, internal audit has significantly improved the financial performance of the NGO. | 109 | 3.74 | 1.166             |
| Internal audit has enhanced the credibility of financial statements among donors.        | 109 | 3.73 | 1.252             |
| Internal audit has contributed to increased revenue generation.                          | 109 | 3.72 | 1.209             |
| Internal audit has improved the control and management of expenditures.                  | 109 | 3.71 | 1.219             |
| Internal audit practices have resulted in greater satisfaction among beneficiaries.      | 109 | 3.70 | 1.175             |
| Valid N (listwise)                                                                       | 109 |      |                   |

Source: Field data 2026

Table 5 presents the descriptive statistics for the overall effect of internal audits on the financial performance of local NGOs in Rwanda, based on responses from 109 participants. The results indicate a general consensus among respondents, with mean scores ranging from 3.70 to 3.77, signifying that internal audits are viewed positively across various financial performance areas. The highest-rated statement, “Regular internal audits

have increased accountability across departments” (mean = 3.77, SD = 1.252), suggests that internal audits play a significant role in enhancing transparency and accountability within the organization. Another highly rated statement, “Internal audits have enhanced the efficiency of program implementation” (mean = 3.76), further emphasizes the contribution of internal audits in improving the effectiveness of the NGO’s operational

processes. Similarly, the statement “Internal audit findings have guided the NGO in improving fundraising activities” (mean = 3.75) indicates that internal audit results are considered valuable in informing strategic decisions, particularly in revenue generation efforts. The statement “Overall, internal audit has significantly improved the financial performance of the NGO” (mean = 3.74) underscores the broader positive impact of internal audits on the financial health of the organization. Additionally, the results suggest that internal audits have

positively impacted the credibility of financial statements among donors (mean = 3.73) and have led to improved control and management of expenditures (mean = 3.71). The statement “Internal audit practices have resulted in greater satisfaction among beneficiaries” received a mean of 3.70, highlighting the indirect but notable benefits of internal audits in enhancing stakeholder satisfaction.

**Table 6: ANOVA Result Test**

| Model |            | Sum of Squares | df  | Mean Square | F        | Sig.              |
|-------|------------|----------------|-----|-------------|----------|-------------------|
| 1     | Regression | 154.644        | 3   | 51.548      | 1261.179 | .000 <sup>b</sup> |
|       | Residual   | 4.292          | 105 | .041        |          |                   |
|       | Total      | 158.936        | 108 |             |          |                   |

Source: Field data 2026

The ANOVA (Analysis of Variance) table 7 examines whether internal audit components—specifically audit quality, audit firm independence, and compliance audits have a statistically significant effect on the financial performance of local NGOs in Rwanda. According to the results, the Regression Sum of Squares is 154.644 with 3 degrees of freedom, while the Residual Sum of Squares is 4.292 with 105 degrees of freedom, making the Total Sum of Squares 158.936. The Mean Square for Regression is 51.548, while the Residual Mean Square is 0.041. The calculated F-statistic is 1261.179, with an associated p-value (Sig.) of .000, which is below the conventional significance level of 0.05. This indicates that the regression model is statistically significant. Therefore, the findings suggest that audit quality, audit firm independence, and compliance audit practices jointly have a significant effect on the financial performance of local NGOs in Rwanda. The high F-value and low p-value confirm that the model is meaningful and that effective internal audit practices contribute significantly to financial efficiency and accountability in organizations such as the Gasore Serge Foundation

The results showed that audit quality contributes positively to organizational performance. Effective audit methodologies, proper planning, and strong quality control systems support accurate financial reporting, informed decision-making, accountability, and efficient resource allocation. Quality control systems recorded a mean score of 3.69, while audit methodology scored 3.70. Audit firm independence demonstrated a similarly strong contribution, with a mean score of 3.76. Transparency in financial reporting (3.74) and reliability of financial decisions (3.73) further indicate that independent audits enhance the credibility of financial information.

Compliance audits also played an important role in promoting sound financial practices. The implementation of audit findings recorded the highest mean score of 3.80, followed by compliance with legal and regulatory standards (3.73) and donor funding guidelines (3.72). Overall, the results indicate improvements in accountability (3.77), program implementation efficiency (3.76), fundraising (3.75), revenue generation (3.72), expenditure management (3.71), and beneficiary satisfaction (3.70).

## 5. Conclusion and Recommendations

### 5.1. Conclusion

This study assessed the effect of internal audit on the financial performance of local NGOs in Rwanda, using the Gasore Serge Foundation as a case study. It focused on audit quality, audit firm independence, and compliance audits and their relationship with revenue generation, expenditure management, fundraising efficiency, program implementation, and beneficiary satisfaction.

The study concludes that effective internal audit systems strengthen financial governance and organizational sustainability. Nevertheless, limited resources, weak implementation of recommendations, and changing regulatory requirements remain challenges. Local NGOs should therefore invest in audit capacity, provide adequate resources, and ensure that audit recommendations are implemented promptly.

## 5.2. Recommendations

Based on the findings of this study, the following recommendations were made:

1. Rwanda Governance Board (RGB) Should Organize periodic training workshops and refresher courses on audit methodology, planning, and quality control to Enhance the skills and technical capacity of internal audit teams within local NGOs.
2. NGO boards in collaboration with external auditors and internal audit committees should Implement policies that protect audit firms from undue influence by NGO management. Develop internal guidelines that define the terms of engagement
3. Executive management of NGOs in consultation with internal auditors and program managers should Establish structured mechanisms to ensure audit recommendations are implemented and tracked by Creating an internal audit action plan with timelines, responsible persons, and follow-up evaluations.
4. During the budgeting period the Donor agencies can fund these initiatives, while NGOs execute them through their finance departments to Strengthen internal systems to comply with both national and international financial regulations.
5. NGO finance departments and boards during budget formulation to Ensure NGOs allocate adequate funds specifically for internal and external audits

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