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An Integrated Framework for Assessing the Effectiveness of Governance Mechanisms in Reducing Financial Fraud in Non-profit Organizations

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Abstract: *This paper aims to develop an integrated framework for assessing the effectiveness of governance mechanisms in reducing financial fraud in non-profit organizations (NPOs). The study employs a descriptive analytical approach and a quantitative research design involving a survey of 87 employees and auditors of Yemeni NPOs. A five-point Likert scale questionnaire was used to gather data on governance mechanisms and financial fraud. The study's findings reveal that the impact of governance mechanisms on financial fraud varies among NPOs. Four mechanisms (board of directors, audit committee, donor accountability, and beneficiary accountability) prove to significantly reduce the risk of financial fraud, making them the most effective in combating this phenomenon. Conversely, two mechanisms (internal control systems and government entities) are found to be the least effective, resulting in a noticeable increase in financial fraud cases. Additionally, two mechanisms (external and internal auditors) have minimal influence, leading to a non-significant rise in the risk of financial fraud. The integrated framework developed in this study provides a structured and systematic approach for NPOs to evaluate their governance practices and identify areas for improvement. The paper presents and tests a novel integrated framework for assessing effectiveness of governance mechanisms in reducing financial fraud in NPOs. It contributes to the existing literature by examining the interrelationships and*

interactions among various governance mechanisms and their impact on financial fraud. The framework provides valuable insights for NPOs, policymakers, and researchers seeking to strengthen governance and combat financial fraud in the non-profit sector.
Keywords: accountability, effectiveness, financial fraud, framework integrated, governance mechanisms, NPOs

INTRODUCTION

Financial fraud in non-profit organizations is a significant issue that poses serious consequences not only for the organizations themselves but also for the broader society. Financial fraud has been a persistent and worrisome issue in Non-Profit Organizations (NPOs) for a significant period of time. According to a comprehensive study conducted by the Association of Certified Fraud Examiners (ACFE) in the year 2024, it has been revealed that these organizations tend to suffer a considerable loss of approximately 5% of their total annual revenue due to the detrimental consequences of occupational fraud, equating to over $5 trillion in global losses, and a higher median loss ($145,000) from occupational fraud compared to other industries. This alarming statistic clearly highlights the severity and magnitude of this pervasive problem. Weak governance and oversight play an indispensable and profound role in the occurrence and prevalence of financial fraud, which leads to far-reaching and calamitous effects on the organization as well as its diverse range of stakeholders. (Lamothe *et al*.2023). Thus, it is imperative that robust governance mechanisms and vigilant oversight are put in place to effectively combat and mitigate the risks associated with financial fraudulent activities.

The Republic of Yemen is among the group of the most corrupt countries in the world, as it ranked (176) in the Corruption Perceptions Report for the year (2022) issued by Transparency International on an index consisting of (180) countries of the world only (Corruption Perception Index, 2022). Yemen is currently witnessing political, economic, social and security crises, which have weakened the government's ability to fulfill its obligations towards citizens in various fields, necessitating the need for the efforts of non-profit organizations to provide services (Partnership Document between the Yemeni Government and Yemeni Civil Society Organizations, 2013).

Despite the importance of the role of these organizations in Yemen, they face many challenges, most notably the existence of corrupt practices within them, the spending of a large part of the project budgets on the operating expenses of the organization's employees, weakness in the preparation of plans, preliminary studies of projects, and lack of transparency in the publication of budgets, financial reports, and others.(AL-Ziady, 2019). Strengthened governance could help address these limitations.The subsequent sections of this paper will delve deeper into the nature of financial fraud within NPOs, the role of corporate governance in mitigating such fraud, and the effectiveness of various governance mechanisms. The paper will also present the proposed integrated governance framework and discuss its implications for NPOs globally.

LITERATURE REVIEW & HYPOTHESES DEVELOPMENT

Financial fraud in non-profit organizations:

Scholarly research provides valuable insights into characterizing the nature and scope of fraud within non-profit organizations. A wide spectrum of fraudulent activities has been documented spanning deliberate and inadvertent actions with varying motives and consequences. Several studies examine the diverse nature of financial wrongdoing within non-profits. Common forms include asset misappropriation, embezzlement of funds, fraudulent billing and invoicing schemes, payment irregularities, and falsification of organizational records (Eining *et al*., 2020; Kleinman *et al*., 2020; Tracey, 2023). Outright theft through direct taking of cash donations or property remains prominent (Balfour et al., 2021; Mahmood, 2020). However, fraud has evolved with technological advances to incorporate cybercrimes, crypto-laundering, and identity theft exploiting non-profits' increasing digital operations (Lamothe *et al*.2023; Okeke & Eiza, 2023; Sirait & Rangkuti, 2023). Accounting deceptions include misclassification, overstatement of revenues and assets, understatement of liabilities, and altered documentation (Akyol, 2020; Kleinman *et al*., 2020).

While some fraud arises accidentally due to unclear policies, much stems from deliberate misconduct enabled by deficient governance and oversight (Lamothe *et al*.2023; Vian, 2020). Motives range from opportunism to financial pressure, though personal gain often drives theft and embezzlement schemes (Desai, 2020; Kleinman *et al*., 2020). Several organizational factors correlate with higher fraud risk. Research observes that non-profits tend to operate on constrained budgets with minimal staff, roles ambiguity, and underdeveloped internal controls prone to exploitation (Balfour et al., 2021; Eining *et al*., 2020; Lamothe *et al*.2023).

The scope of non-profit financial fraud is pervasive on a global scale. Cross-country examinations document misconduct throughout diverse regions like Africa, Asia, Europe, and North America (Abu Amuna & Abu Mouamer, 2020; Romero *et al*., 2023; Yuanita & Suripto, 2022). Vertical analyses portray fraud plaguing multiple non-profit subdomains including health, education, international relief, and community services globally (Chang & Kohler, 2020; *Chang et al*., 2021; Kohler & Bowra, 2020; Vian, 2020; Wahab *et al*., 2022). Examinations of isolated schemes often uncover wider corruption networks diverting substantial funding (Kohler & Bowra, 2020; Wahab *et al*., 2022).

In-depth case studies note smaller community Non-profits sustaining disadvantages disproportionately experience evolving deceptions like embezzlement (Balfour et al., 2021; Eining *et al*., 2020; Lamothe *et al*.2023). Deficient governance and oversight fostering permissive environments prone to abuse and corruption represent systemic enablers elevating sector-wide integrity breakdown risks if left unaddressed (Lamothe *et al.*2023; Vian, 2020). Continuous evolution in fraudulent tactics underscores non-profit vulnerabilities requiring ongoing reform (Kohler & Bowra, 2020; Utkina *et al.*, 2023).

In summary, available evidence characterizes financial fraud within non-profits as a diverse and pervasive integrity threat arising from both individual acts and systematic weaknesses. Certain inherent non-profit attributes exacerbate susceptibility which unscrupulous actors continually exploit through diverse deceptions with devastating consequences. Strengthening governance frameworks represents an imperative strategy for reinforcing controls and accountability helping to curb escalating damages while upholding public trust. Continuous reform sustaining diligence against financial impropriety signals commitment to safeguarding non-profit integrity worldwide.

In conclusion, while non-profit organizations face significant challenges in managing financial fraud risks, implementing strong governance mechanisms is essential for reducing these risks. Addressing existing limitations while leveraging best practices from other organizations such as UNFPA or considering frameworks such as those recommended by GAO or those applied by public NPOs funded by governments like those from Bhutan's Public Finance Act 2007 or engaging with academic research on corporate governance's impact on combating insider fraud will further strengthen their ability to combat financial fraud effectively.

Governance mechanisms in reducing financial fraud:
Corporate governance plays a pivotal role in mitigating financial fraud within non-profit organizations. Established governance mechanisms can aid in reducing fraud risk, fostering ethical cultures, and setting a tone at the top that discourages fraudulent behavior (Wahab *et al.*, 2022). Various studies have indicated a connection between effective corporate governance mechanisms and the likelihood of fraud. For instance, ineffective corporate governance increases susceptibility to fraud and provides opportunities for it to occur and go unnoticed (Smaili *et al.*, 2020). Conversely, effective corporate governance diminishes fraud risk, particularly insider fraud, corporate fraud, and asset diversion (Desai, 2020).

A diverse body of scholarly literature explores various governance mechanisms and their effect in reducing financial fraud. Internal controls, board oversight, transparency, accountability, and whistleblowing systems are some of the mechanisms frequently examined. Starting internally, strong internal control practices are seen as vital defenses against fraud (Cavaliere *et al.*, 2021; Great.Z., 2020; Handoyo & Bayunitri, 2021; Mendes de Oliveira *et al.*, 2022; Setyaningsih, 2020; Sudirman *et al.*, 2021). Specific procedures like segregation of duties, approvals, authorizations, and verifications are emphasized (Handoyo & Bayunitri, 2021; Setyaningsih, 2020). Developing an ethical organizational culture centered on integrity also discourages fraudulent behavior (Smaili, 2023).

Boards play a key monitoring role through audit committees. Committee diversity, expertise, and independence improve oversight quality (McLaughlin *et al.*, 2021). Strong financial monitoring mitigates manipulation risks (Lauck & Bhattacharjee, 2023). In the public sector, board effectiveness frameworks ensure commitment to duties (Thomas & Purcell, 2019). Committee quality positively correlates to sustainability reporting, a fraud deterrent (Tumwebaze *et al.*, 2022). Board oversight proves especially important in charities prone to misreporting (Mahmood, 2020).

Transparency boosts accountability and builds trust between donors and beneficiaries (Ortega-Rodríguez *et al.*, 2020; Waniak-Michalak *et al.*, 2020). Transparency laws shape transparency practices in firms (Le *et al.*, 2021). However, NGOs may prioritize auditability over transparency to please donors (Cazenave & Morales, 2021). Adopting anti-corruption programs with clear policies and frameworks improves the performance of global health programs (Chang & Kohler, 2020; Kohler & Bowra, 2020). But compliance requires enabling environments (Lassou *et al.*, 2021). In the long run, sustainable development connects internal controls to social goals like poverty reduction (Mendes de Oliveira *et al.*, 2022).

External audits verify financial statements but miss fraud in over 70% of cases due to bias, lack of expertise, and resources (Kleinman *et al.*, 2020). Audit quality depends on firm attributes and characteristics like competent teams and independent oversight (Al-taee & Flayyih, 2022; Iskandar *et al.*, 2022). Donor-imposed performance targets can distort reports unless balanced with beneficiary input (Uddin & Belal, 2019).

Accountability mechanisms shape NGO credibility and donor confidence (Abdulkaddir, 2021; Kuruppu *et al.*, 2022). Local regulations also determine accountability practices (Dewi *et al.*, 2021). Beneficiary participation allows feedback on operations and resource use (Suryanto *et al.*, 2020). Whistleblowing encourages ethical culture through protection and incentives (Lamba, 2022; Smaili, 2023). Appropriate channels foster compliance and deter corruption risks in the public sector (Helmer & Deming, 2023). In retail firms, role-based frameworks minimize identity theft within controls (Okeke & Eiza, 2023). Peer reporting acts as an internal check dependent on social relationships within organizations (Lamba, 2022).

And can be studied theoretical association between governance mechanisms and reducing financial fraud, empirical evidence to role governance mechanisms in reducing financial fraud, and development of the hypotheses, by discussing the main mechanisms of governance and classifying them into eight main mechanisms:

Board in reducing financial fraud

The literature review reveals a significant role for the board in reducing financial fraud in non-profit NGOs. Many studies emphasize the importance of strong governance, ethical leadership, and effective board oversight in mitigating the risk of financial fraud (Kassem, 2022; Velte, 2023). The board's primary responsibility lies in setting the "tone at the top," establishing and monitoring internal controls, and ensuring transparency and accountability in financial reporting. Additionally, the literature highlights the need for board members to possess financial literacy and a deep understanding of the organization's operations to enable them to identify potential red flags and prevent fraudulent activities (Karyatun *et al*., 2023). It is also essential for the board to establish a culture of trust and whistleblowing, encouraging the reporting of suspicious activities (Smaili, 2023). Overall, the literature supports the notion that an actively engaged and responsible board can play a crucial role in reducing financial fraud within non-profit NGOs (Lamba, 2022; Mikeladze, 2021; Ortega-Rodríguez *et al*., 2020). The board's effectiveness in reducing financial fraud in non-profit NGOs can be influenced by several factors. Weak internal controls, lack of financial literacy, lack of independence, collusion, conflict of interest, and external pressures can all contribute to the board's ineffectiveness in addressing financial fraud (Carman & Millesen, 2023; Lauck & Bhattacharjee, 2023). Non-profit governance limitations can raise auditors' concerns about a board's effectiveness as a control mechanism (Hung *et al*., 2023). In addition, the presence of professional chief executive officers is linked to less effective board performance (Benito-Esteban *et al*., 2024). Accordingly, this study proposes a research hypothesis that contradicts the general trend of the literature due to the general situation in the study country, and assumes that:

H1: The board of directors is ineffective in reducing financial fraud in non-profit organizations.

Audit Committee for Reducing Financial Fraud:

The role of the Audit Committee for Reducing Financial Fraud in Non-Profit NGOs is crucial in ensuring the integrity and transparency of financial processes. The audit committee plays a vital role in overseeing and monitoring the financial activities of NGOs, aiming to detect and mitigate the risk of fraud. One of their main responsibilities is to review and assess the effectiveness of internal controls and risk management systems (Tumwebaze *et al*., 2022; Ashfaq & Rui, 2019). By conducting regular audits and investigations, the committee can identify any irregularities or suspicious transactions that may indicate fraudulent activities. They ensure that appropriate policies and procedures are in place, promoting accountability and adherence to financial reporting standards (Al-taee & Flayyih, 2022; McLaughlin *et al*., 2021). The audit committee also works closely with management and external auditors to ensure compliance with legal and regulatory requirements (Thomas & Purcell, 2019; Hegazy & Stafford, 2021). Through their oversight and vigilance, the audit committee contributes significantly to reducing financial fraud in NGOs and safeguarding the organization's financial resources (Aye, 2023; Keya, 2019; Gitonga, 2021). However, these studies focus on international or regional contexts, and do not take in to account the specific circumstances of the country under study. In Yemen, NGOs face major challenges in the field of governance and accountability, due to the armed conflict, the humanitarian crisis, and the political and economic corruption (Ahmed, *et al*., 2022). As a result, the audit committee may be unable to perform its role effectively, due to the lack of sufficient resources, adequate qualifications, sufficient independence, or cooperation from management, donors, or regulatory bodies. Consequently (Khan & Salman, 2022). Based on the discussion of previous studies, this study proposes a research hypothesis, and assumes that:

H2: The audit committee is ineffective in reducing financial fraud in non-profit organizations.

Internal auditors in Reducing Financial Fraud:
Internal auditors play a crucial role in reducing financial fraud within NGOs. Their primary duty is to perform independent and objective assessments of the organization's financial systems, controls, and processes. By conducting regular audits, internal auditors identify areas of weakness or vulnerability that could be exploited for fraudulent purposes (Levytska *et al*., 2022; Sudirman *et al*., 2021). They assess the effectiveness of internal controls and recommend necessary improvements to prevent fraud from occurring. Internal auditors also have the responsibility to investigate any suspected fraudulent activities and gather evidence for further action (Handoyo & Bayunitri, 2021; Sudirman *et al*., 2021). Their thorough examination and analysis help detect fraudulent transactions, misappropriation of funds, or any financial irregularities (Obeid, 2023; Chesimo, 2020). Through their expertise and specialized knowledge, internal auditors provide valuable insights and guidance to management in implementing anti-fraud measures and strengthening the organization's overall financial integrity (Sudirman *et al*., 2021). On the other hand, internal auditors' effectiveness can be influenced by several factors. Weak internal control structures, lack of financial knowledge, lack of independence, collusion, conflicts of interest, and external pressures can hinder their ability to effectively mitigate financial fraud (Christinawati & Setiyawati, 2022). The environment in which the study was conducted is fertile for the occurrence of these factors that may weaken the effectiveness of internal audit, therefore, we can assume the following:

H3: Internal auditors are ineffective in reducing financial fraud in non-profit organizations.

External auditors in Detecting Financial Fraud:
External auditors play a crucial role in detecting financial fraud within NGOs. As independent professionals, they are responsible for examining the financial records and activities of an organization to ensure accuracy and compliance with applicable laws and regulations (Roszkowska, 2021; Smith and Castonguay, 2020; Napitupulu, 2023). By conducting rigorous audits, external auditors can effectively pinpoint discrepancies, questionable transactions, or misappropriation of funds (Kleinman *et al*., 2020; Iskandar *et al*., 2022). Their expertise in financial analysis and forensic accounting enables them to identify patterns or trends that may indicate fraudulent behavior (Eko *et al*., 2020; Akinbowale *et al*.,

2020). Furthermore, external auditors provide an independent and unbiased perspective, ensuring a comprehensive and objective assessment of the NGO's financial operations (Rafindadi & Olanrewaju, 2019). Through their extensive knowledge of applicable laws, regulations, and auditing standards, they are able to accurately assess the adequacy of internal controls and risk management systems in place, detecting any vulnerabilities that could lead to financial fraud (Sudirman *et al*., 2021; Yazid and Wiyantoro, 2020). However, Eko *et al*. (2020), Akinbowale *et al*. (2020), and Rafindadi and Olanrewaju (2019), all reached that external auditors failed to identify fraudulent activities in NGOs. Overall, the role of external auditors is vital in safeguarding the financial integrity of NGOs and promoting transparency and accountability in their financial practices. Through discussing previous studies and within the framework of the current situation of non-profit organizations in the country under study, researchers were able to reach the following hypothesis:

H4: External auditors are ineffective in reducing financial fraud in non-profit organizations.

Government Agencies for Reducing Financial Fraud:

Government agencies play a crucial role in reducing financial fraud in NGOs. They contribute significantly by implementing regulatory measures and enforcing compliance standards (Abbott & Snidal, 2021). These agencies establish rules and regulations that require NGOs to maintain transparent financial records and adhere to strict accounting practices. They also conduct regular audits and inspections to verify the accuracy and integrity of NGOs' financial statements. By monitoring and evaluating financial activities, government agencies help to uncover any fraudulent behavior and take appropriate legal actions (Ortega-Rodríguez *et al*., 2020; Mikeladze, 2021; Rafindadi & Olanrewaju, 2019). Another essential role of these agencies is the provision of training and resources to NGOs, educating them about financial fraud prevention strategies and fraud detection techniques. They offer workshops, seminars, and online resources that assist NGOs in implementing robust internal control systems and strict governance procedures to ensure proper financial management (Rafindadi & Olanrewaju, 2019; Helmer & Deming, 2023). By working closely with NGOs, government agencies build trust, enhance transparency, and strengthen accountability in the non-profit sector, ultimately reducing the incidence of financial fraud (Ortega-Rodríguez *et al*., 2020; Waniak-Michalak *et al*., 2020; Vian, 2020). Accordingly, this study proposes a research hypothesis that contradicts the general trend of the literature due to the general situation in the study country, and assumes that:
H5: *Government entities are ineffective in reducing financial fraud in non-profit organizations.*

Internal Control Systems in Reducing Financial Fraud:

The role of internal control systems in reducing financial fraud is crucial for NGOs. These systems are designed to safeguard the organization's assets, ensure accuracy and reliability in financial reporting, and detect and prevent fraudulent activities (Setyaningsih, 2020; Abu Amuna & Abu Mouamer, 2020). By implementing strong internal control systems, NGOs can minimize the risk of financial fraud by establishing clear procedures and processes for handling financial transactions. This includes segregating duties, conducting regular audits, and implementing checks and balances to verify the accuracy of financial records (Rafindadi & Olanrewaju, 2019; Le *et al*., 2021; Cavaliere *et al*., 2021). The internal control systems also promote accountability and transparency within the organization, making it more difficult for individuals to engage in fraudulent behavior without detection (Mendes de Oliveira *et al*., 2022; Le *et al*., 2021). Ultimately, an effective internal control system acts as a deterrent and provides a mechanism for early detection and mitigation of financial fraud in NGOs. However, there is evidence to suggest that internal control systems may not necessarily prevent fraud in these organizations (Sudjono, 2023). One study found that internal control did not have a proven role in reducing fraud intention (Ismail *et al*., 2023). While internal controls can help minimize risks and protect assets, they may not be sufficient in preventing fraud in NGOs (Chaudhary & Chaudhary, 2022).

H6: Internal control systems are ineffective in reducing financial fraud in non-profit organizations.

Donor Accountability for Reducing Financial Fraud:
Donor accountability plays a crucial role in reducing financial fraud within non-governmental organizations (NGOs) (Rafindadi & Olanrewaju, 2019; Aung, 2019; Mikeladze, 2021). By holding donors accountable for their financial contributions, NGOs can establish transparent funding processes to help prevent fraud. Donors can ensure funds are used responsibly and efficiently by implementing rigorous monitoring and reporting systems (Uddin & Belal, 2019; Adam & Fazekas, 2021). This includes NGOs submitting detailed financial reports, donors conducting regular audits, and verifying proper fund usage. Donor accountability also promotes good governance and ethical practices within NGOs by encouraging transparency, integrity, and responsible financial management (Saber & Sassine, 2022; Uddin & Belal, 2019; Abdulkaddir, 2021). By actively participating in oversight and regulating financial activities, donors contribute to overall fraud reduction (Mikeladze, 2021; Abdulkaddir, 2021). However, donor accountability measures often focus on external aspects like reporting/disclosure requirements without adequately addressing necessary internal controls to prevent and detect deceitful behavior (Sirait & Rangkuti, 2023). The complexity and diversity of non-profits pose challenges to implementing consistent, standardized donor accountability practices (Yuanita & Suripto, 2022). Non-profits rely on multiple funding sources, further complicating accountable oversight and transaction integrity (Romero *et al*., 2023). The nature of non-profits, driven to address societal needs, can unintentionally enable financial fraud (Sirait & Rangkuti, 2023).

H7: Donor accountability is ineffective in reducing financial fraud in non-profit organizations.

Beneficiary Accountability in Reducing Financial Fraud:
The role of beneficiary accountability is crucial in reducing financial fraud in NGOs. By ensuring that beneficiaries have an active role in monitoring and reporting financial transactions, NGOs can establish

a system of checks and balances that helps prevent fraudulent activities (Lassou *et al*., 2021; Kandpal, 2023). Beneficiaries can act as watchdogs, scrutinizing the financial management practices of NGOs and holding them accountable for any irregularities or misappropriations. This level of accountability not only deters fraud but also promotes transparency and trust in the organization (Dewi *et al*., 2021; Waniak-Michalak *et al*., 2020). Beneficiaries who actively participate in the financial processes of NGOs are more likely to detect and report fraudulent activities, thus safeguarding the resources and funds intended for their own welfare (Setiawan & Alim, 2022; Suryanto *et al*., 2020; Mikeladze, 2021). To facilitate beneficiary accountability, NGOs can implement mechanisms such as regular audits, beneficiary feedback systems, and accessible channels for reporting financial irregularities (Cazenave & Morales, 2021; Kuruppu *et al*., 2022; Aung, 2019). By involving beneficiaries in the fight against financial fraud, NGOs can significantly reduce the risk and impact of such illicit activities (Prenzler, 2020). However, there are challenges in ensuring its effectiveness in reducing financial fraud. Non-profit organizations often face difficulties in tracking and monitoring the use of funds once they have been disbursed to the intended beneficiaries (Zafeiriou *et al*., 2023). This lack of oversight can create opportunities for financial fraud to occur. Additionally, the complex nature of non-profit operations and the involvement of multiple stakeholders can further complicate efforts to establish effective beneficiary accountability (Utkina *et al*., 2023).

H8: Beneficiary accountability is ineffective in reducing financial fraud in non-profit organizations.

Theoretical and empirical gap:

There are theoretical and empirical gaps in comprehensively assessing the effectiveness of governance mechanisms in mitigating financial fraud in non-profit organizations (NPOs). The theoretical gap stems from existing literature predominantly examining governance mechanisms in isolation without integrating their inter-linkages and interactions (Lamba, 2022). The empirical gap arises from most prior empirical research focusing on developed countries alone without consideration for unique challenges in developing countries operating under differing regulatory environments (Khan & Salman, 2022; Ahmed, *et al*., 2022). Additionally, the literature lacks comprehensive evaluations of an integrated framework's effectiveness. This study aims to address these gaps by proposing an integrated governance framework that systematically and continuously analyzes the interconnections between key mechanisms including boards, internal controls, transparency, accountability, and organizational culture (Lamba, 2022; Hung *et al*., 2023). This promotes a holistic understanding of their combined role in mitigating financial fraud. The research presents an original contribution by taking a consolidated approach to optimally evaluate governance mechanisms through sustained assessments of context-sensitive solutions tailored for diverse organizational settings worldwide.

BAII GEDA Integrated Framework for NGOs Governance to Reduce Fraud:

Developing effective governance is key to reducing financial fraud in non-profit organizations. Leaders must establish strong oversight and protections for resources to maintain trust with stakeholders. By drawing from governance theory, the theoretical framework, hypothesis development, literature review, and discussion of the most prominent global experiences in the field of governance, the researchers were able to develop an integrated framework called BAII GEDA Integrated Framework for NGO Governance to Reduce Fraud. The framework aims to provide a comprehensive and standardized method to evaluate the effectiveness of governance mechanisms in non-profit organizations. The researchers conducted extensive research and analysis to identify the key factors and indicators that help reduce financial fraud in NPOs. The framework was created by leveraging the insights from global experiences and adapting them to the specific context of non-profit organizations. The framework can be widely used to measure the effectiveness of governance mechanisms in NPOs.

The framework consists of eight dimensions classified into two groups: ***Internal governance mechanisms*** *including the* **B**oard of Directors, **A**udit Committee, **I**nternal Auditors, **I**nternal Control Systems, ***External governance mechanisms*** *including the* **G**overnment Agencies, **E**xternal Auditors, **D**onor Accountability, and Accountability Beneficiaries. Each dimension is a critical aspect of governance that, when implemented effectively, enhances the organization's ability to mitigate financial fraud. The framework integrates these dimensions and provides a comprehensive assessment tool that can be applied to NPOs of different sizes and contexts.The framework is significant because it offers a structured and systematic way of assessing governance practices and identifying areas for improvement. The framework can be used by non-profit organizations to evaluate their governance mechanisms, detect gaps and weaknesses, and implement targeted strategies to improve transparency, accountability, and integrity. The framework also shows how each governance mechanism affects the occurrence or mitigation of financial fraud in NGOs, as well as the interrelationships and interactions among the governance mechanisms. The researchers applied the BAII GEDA Integrated Framework for NGOs Governance to Reduce Fraud to non-profit organizations in Yemen. The results showed the effectiveness of the framework in detecting vulnerabilities and guiding organizations towards better governance practices. The framework can also be generalized and adapted to other contexts and countries, as it reflects the universal principles and standards of governance and anti-fraud. To delve into the details, the following sections will provide comprehensive information about the BAII GEDA Integrated Framework, including its components (refer to Figure 1) and empirical findings that unequivocally support its efficacy in reducing financial fraud in non-profit organizations. Additionally, Figure A1 highlights the BAII GEDA framework indicators, which serve as measures of the effectiveness of governance mechanisms in NGOs.

Figure 1: BAII GEDA Integrated Framework for NGOs Governance to Reduce Fraud.
Figure A1: BAII GEDA framework indicators to measure the effectiveness of governance mechanisms in NGOs

➢ **BAII GEDA Integrated Framework for NGOs Governance to Reduce Fraud.**

Figure 1

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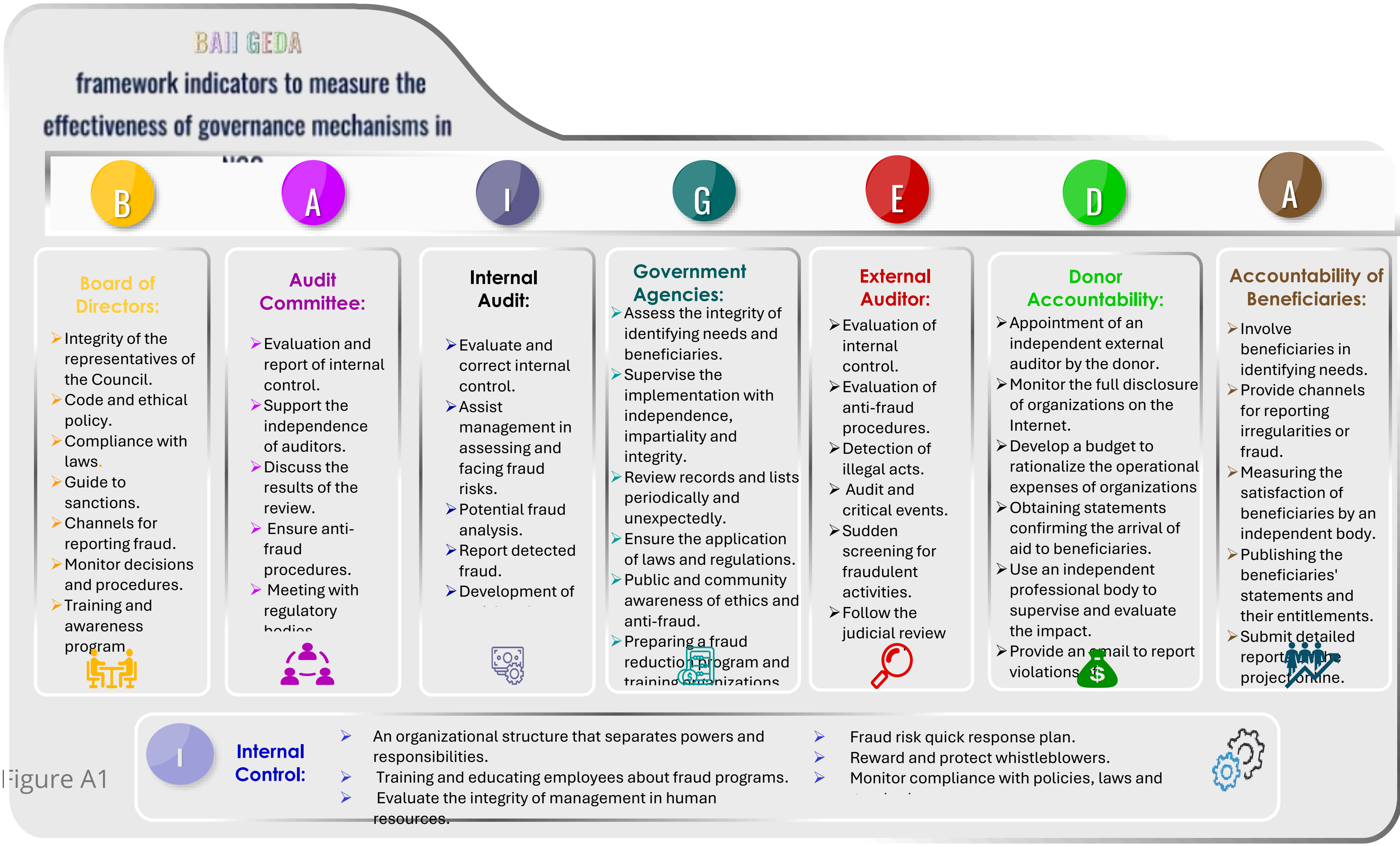

Figure A1

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RESEARCH METHODS

Study Methodology:

The presented study relied on the descriptive analytical approach to describe and analyze the facts and characteristics related to the study problem scientifically and accurately. The study focused on examining the effectiveness of governance mechanisms in reducing financial fraud in NPOs. A quantitative research design was used which is to involve a field survey. The study population was classified as all employees of non-profit organizations in Yemen and their auditors, and a random sample of 87 individuals was selected to represent the study population. and assumed to be knowledgeable in financial matters across various business entities from. Primary data to be used in this study were gathered with the aid of a questionnaire. The research instrument has a five-point Likert scale in the forms of Strongly Agree, Agree, Undecided, Disagree and Strongly Disagree, and with the corresponding values of 5, 4, 3, 2, 1, respectively. The justification for using the questionnaire is to get the perception of knowledgeable persons who have experience of financial matters across varying business forms.

Study variables:

The study includes two basic variables, as follows:

Independent Variable: Governance Mechanisms: It includes eight dimensions: the Board of Directors, the Audit Committee, Internal Auditors, External Auditors, Government Agencies, Internal Control Systems, Donor Accountability, and Beneficiary Accountability.

Dependent variable: Financial **fraud**: It is represented by the practices that occur in non-profit organizations, through which funds are illegally seized.

Descriptive Statistics:

The following is the result of the processing of statistical meta-analytical data that helps to obtain a general picture related to independent variables, variable and dependent variable. Descriptive statistical analysis is used to show the prevalence of study data. This analysis presents the study data by looking at the arithmetic mean and standard deviation of the value of the research data. SPSS 22.0 software was used in this study.

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Table I: Descriptive Statistics Results

Variable	*N*	*Minimum*	*maximum*	*St. Deviation*	*mean*
Board of Directors	*87*	*1*	*5*	*1.3435*	*2.05*
Audit Committee	*87*	*1*	*4*	*1.159*	*2.022*
Internal Auditors	*87*	*1*	*4*	*1.084*	*1.996*
External Auditors	*87*	*1.17*	*4.5*	*1.294*	*2.13*
Government Agencies	*87*	*1*	*4.83*	*1.1795*	*1.93*
Internal Control Systems	*87*	*1*	*4.5*	*1.164*	*1.94*
Doner accountability	*87*	*1*	*4.5*	*1.124*	*1.808*
Beneficiary Accountability	*87*	*1*	*5*	*1.1412*	*1.742*
Financial fraud	*87*	*2.34*	*5.00*	*.47462*	*4.6421*

Source: Prepared by Authors, based on SPSS outputs, 2023

Based on the **Table I**: All data are available for all variables (N=87), with no missing values, indicating data completeness. The minimum and maximum values for each variable show good variability in the data. For example, the "Board of Directors" variable ranges from 1 to 5, and "Internal Auditors" ranges from 1 to 4. This means the data covers a wide range of values. The standard deviation reflects the dispersion of the data. For instance, the "Board of Directors" variable has a standard deviation of 1.3435, and "Internal Auditors" have a standard deviation of 1.084. Higher standard deviation values indicate greater dispersion in the data. The mean reflects the central value of the data. For example, the mean of "Board of Directors" is 2.05, and "Internal Auditors" is 1.996. These values can be used for comparison between different variables. Based on these results, the data is of good quality and suitable for statistical analysis.

Statistical Tool:

The researchers used the ordinal regression model to test the relationship as well as the degree of correlation between the independent variables and the dependent variable. The results of assessing the suitability of the model used to test hypotheses were as follows:

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Table II: **Model Fitting Information**

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	458.886			
Final	405.325	53.560	8	.000

Source: Data processed in 2023

Table III: **Pseudo R-Square**

Cox and Snell	.460
Nagelkerke	.462
McFadden	.117

Source: Data processed in 2023

Table II shows Model Fitting Information: -2 Log Likelihood for a model with final variables and a model with no Intercept Only variables .It also displays Chi-Square value, degrees of freedom (df), and statistical value (.sig) to test the difference between the two models. If the statistical value is less than 0.05, it means that the final model is better than the model that does not have any independent variables. In this case, the statistical value is 0.000, meaning that the final model is highly data-friendly, and that the model has a statistically significant effect on the dependent variable.

Table III shows the pseudo-correlation coefficient (Pseudo R-Square): shows the percentage of variance in the dependent variable that can be explained by the independent variables in the model. From the table we can see that (Sig. = 0.000) ,(0.05 > Cox and Snell = 0.460), (Nagelkerke = 0.462), and (McFadden = 0.117), these values mean that the model explains an acceptable percentage of variance in the dependent variable .
Based on these results, we can say that the logistical model that was used to analyze and test hypotheses is a convenient and reliable model and does not need any change or modification.

Hypothesis testing & Discussion of results:

To test the hypotheses of the study, the researchers used Testing the ordinal regression model can be done by looking at the table. We can reject H0 and accept H1 if ($Sig < \alpha$), ($W > W_c$), or ($|B| < B_c$), where $\alpha = 0.05$, $W_c = 3.841$, and $B_c = 0.405$. and to describe the effect as positive, negative, weak, moderate, or strong based on the value and sign of B, where ($B > 0$), ($B < 0$), ($|B| < 0.2$), ($0.2 \leq |B| \leq 0.8$), or ($|B| > 0.8$), respectively.

Table IV: Ordinal Regression Analysis Results

Independent Variables	*Dep. V*	*B*	*Wald*	*Sig.*	*Decision*	*Type effect*
Board of Directors **(x1)** →	*Financial fraud (Y)*	-.713	5.953	.015	Reject	Negative strong significant
Audit Committee **(x2)** →		-.685	3.177	.075	Accept	Negative medium non-significant
External Auditors (x3) →		.224	.316	.574	Accept	Positive weak non-significant
Internal***Auditors*** (x4) →		.079	.040	.842	Accept	Positive weak non-significant
Government Agencies **(x5)** →		.193	.243	.622	Accept	Positive weak non-significant
Internal Control Systems **(x6)** →		.445	.892	.345	Accept	Positive medium non-significant
Doner accountability (x 7) →		-.918	4.045	.044	Reject	Negative strong significant
Beneficiary Accountability **(x8)** →		-1.055	4.854	.028	Reject	Negative strong significant

Source: Data processed in 2023

As per Ordinal regression results in Table IV, the results were as follows:

The result of the first hypothesis test (H1): related to the variable of the board of directors (x1), we find that (Sig = 0.015 < 0.05), based on that H1 is rejected. And because (B = -0.713 < 0) and (|B| = 0.713 > 0.8), the effect is negative and significant. This means that the board of directors is effective and contributes significantly to reducing the likelihood of happening of financial fraud in non-profit organizations. Several studies, including Velte (2023), Kassem (2022), and Lamba (2022), have all found evidence supporting the idea that the board of directors plays a significant role in reducing financial fraud within non-governmental organizations (NGOs). These studies collectively demonstrate that an effective board of directors can effectively mitigate financial fraud within NGOs.

The result of the second hypothesis test (H2): related to the variable of the audit committee (x2), we find that (Sig = 0.075 > 0.05), based on that H2 is accepted. And because (B = -0.685 < 0) and (|B| = 0.685 > 0.8), the effect is negative and significant. This means that the audit committee is effective and contributes significantly to reducing the likelihood of happening of financial fraud in non-profit organizations, but to a lesser degree than the board of directors. Several studies have provided evidence supporting the effectiveness of audit committees in reducing fraud. Kassem (2022), Lamothe et al. (2023), and Ortega-Rodríguez et al. (2020) all found that audit committees play a significant role in mitigating

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fraud. Additionally, Rafindadi and Olanrewaju (2019) reported similar findings, highlighting the audit committee's ability to reduce financial fraud. These findings collectively support the notion that audit committees are effective in mitigating the risk of financial fraud.

The result of the third hypothesis test (H3): related to the variable of external auditors (x3), we find that (Sig = 0.574 > 0.05), based on that H3 is accepted. And because (B = 0.224 > 0) and (|B| = 0.224 < 0.2), the effect is positive and weak. This means that external auditors are ineffective and this leads to a non-significant increase in the likelihood of happening of financial fraud in non-profit organizations. Eko *et al*. (2020), Akinbowale *et al*. (2020), and Rafindadi and Olanrewaju (2019) all reached the same conclusion that external auditors failed to identify fraudulent activities in NGOs. Additionally, these studies highlighted that external auditors did not offer reliable assurance on the financial integrity of NGOs.

The result of the fourth hypothesis test (H4): related to the variable of internal auditors (x4), we find that (Sig = 0.842 > 0.05), based on that H4 is accepted. And because (B = 0.079 > 0) and (|B| = 0.079 < 0.2), the effect is positive and weak. This means that internal auditors are ineffective and this leads to a non-significant increase in the likelihood of happening of financial fraud in non-profit organizations. Several studies, including Sudirman *et al*. (2021), Ismail *et al*. (2023), and Chaudhary & Chaudhary (2022), have found no significant effect of internal audit on fraud prevention.

The result of the fifth hypothesis test (H5): related to the variable of government entities (x5), we find that (Sig = 0.622 > 0.05), based on that H5 is accepted. And because (B = 0.193 > 0) and (|B| = 0.193 < 0.2), the effect is positive and weak. This means that government entities are ineffective and this leads to a non-significant increase in the likelihood of happening of financial fraud in non-profit organizations. Several studies, including those by Ahmed, *et al*. (2022), Khan & Salman (2022), and Zafeiriou *et al*. (2023), have all found similar results regarding weak governance, corruption, and lack of oversight in NGOs.

The result of the sixth hypothesis test (H6): related to the variable of internal control systems (x6), we find that (Sig = 0.345 > 0.05), based on that H6 is accepted. And because (B = 0.445 > 0) and (|B| = 0.445 > 0.2), the effect is positive and moderate. This means that internal control systems are ineffective and this leads to a noticeable increase in the likelihood of happening of financial fraud in non-profit organizations, but to a moderate degree. These are some of the studies that reached the same results as the hypothesis, as the studies conducted by Sudjono (2023) and Chaudhary & Chaudhary (2022), concluded that weak internal control increases the risk of fraud, and its failure facilitates its occurrence.

The result of the eighth hypothesis test (H7): related to the variable of donor accountability (x7), we find that (Sig = 0.044 < 0.05), based on that H7 is rejected. And because (B = -0.918 < 0) and (|B| = 0.918 > 0.8), the effect is negative and significant. This means that donor accountability is effective and contributes significantly to reducing the likelihood of happening of financial fraud in non-profit organizations. This is consistent with the findings of Mikeladze (2021), which suggest that donor accountability enhances transparency and trust in NGOs. Similarly, Abdulkaddir (2021) confirms that donor accountability ensures the proper use of funds by NGOs. One of the most prominent findings of Rafindadi and Olanrewaju (2019) is that donor accountability promotes good governance and ethical practices.

The result of the eighth hypothesis test (H8): related to the variable of beneficiary accountability (x8), we find that (Sig = 0.028 < 0.05), based on that H8 is rejected. And because (B = -1.055 < 0) and (|B| = 1.055 > 0.8), the effect is negative and significant. This means that beneficiary accountability is effective and contributes significantly to reducing the likelihood of happening of financial fraud in non-profit organizations. These results align with the findings of Dewi *et al*. (2021), which concluded that beneficiary participation enhances financial transparency in NGOs. Additionally, Setiawan & Alim (2022) found that feedback systems for beneficiaries reduce the risk of fraud in NGOs. Cazenave and Morales (2021) also found that beneficiary reporting mechanisms deter fraudulent activities in NGOs.

Through the results of testing the previous hypotheses, it turns out that the governance mechanisms in non-profit organizations differ in their impact on financial fraud. Four mechanisms (board of directors, audit committee, donor accountability, and beneficiary accountability) significantly reduce the risk of financial fraud, and they are the most effective mechanisms in reducing this phenomenon. There are two mechanisms (internal control systems and government entities) that are the least effective mechanisms in reducing this phenomenon, and this leads to a noticeable increase in the cases of financial fraud, and there are two mechanisms (external auditors and internal auditors) that are the least influential mechanisms in this phenomenon. This leads to a non-significant increase in the

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risk of financial fraud. These findings highlight the importance of strong governance mechanisms and stakeholder engagement in combating fraud within non-profit organizations.

From the results of the hypothesis tests, we can identify the independent variables that have a statistically significant effect on the dependent variable, which are x1, x2, x7, and x8. We can also determine the direction and strength of the effect of each independent variable on the cumulative probability of the dependent variable. Therefore, we can write the general equation suitable for the model as follows:

$$\boxed{\log\left(\frac{P(Y \le j)}{1 - P(Y \le j)}\right)\alpha_j - 0.713X_1 - 0.685X_2 + 0.224X_3 + 0.079X_4 + 0.193X_5 + 0.445X_6 - 0.918X_7 - 1.055X_8}$$

Where:

- Y is the response variable that represents the level of financial fraud.
- j is a specific category of the response variable.
- P (Y≤ j) is the cumulative probability that the response variable is less than or equal to the category j.
- αj is the intercept coefficient for the category j, which represents the expected value of the logit scale when all the independent variables are equal to zero.
- Xi is the independent variable that represents one of the factors effected for financial fraud.
- βi is the regression coefficient for the independent variable Xi, which represents the effect of the factor on the log scale.

Negative coefficients (-0.713, -0.685, -0.918, -1.055) indicate that an increase in the values of these independent variables (X1, X2, X7, X8) will lead to a decrease in the natural logarithm of the odds ratio for the dependent variable, corresponding to a lower probability of financial fraud occurring.

Positive coefficients (0.224, 0.079, 0.193, 0.445) indicate that an increase in the values of these independent variables (X3, X4, X5, X6) will lead to an increase in the natural logarithm of the odds ratio for the dependent variable, corresponding to a higher probability of financial fraud occurring.This model allows for studying the effect of various factors (independent variables) on the level of financial fraud (dependent variable) in non-profit organizations and identifying the most influential factors in reducing or increasing financial fraud.

CONCLUSION

This study developed and empirically tested an integrated framework for assessing the effectiveness of various governance mechanisms in reducing financial fraud within non-profit organizations in Yemen. Specifically, the framework analyzed the role of boards of directors, audit committees, internal and external auditors, government agencies, internal control systems, donor accountability, and beneficiary accountability. Overall, the findings provide valuable insights into strengthening integrity safeguards against financial impropriety within the non-profit sector in Yemen.

Several governance mechanisms were found to be ineffective in mitigating fraud risks according to the hypotheses tested. Weaknesses in board oversight, lack of audit committee independence, insufficient internal audit functions, and noncompliance with accountability standards negatively impacted fraud prevention. However, the results also indicated that well-structured internal controls and engagement with beneficiaries showed some promise in curbing opportunistic behaviors.

Notably, the integrated framework used in this research revealed important interconnections between the examined mechanisms. For instance, strengthening donor accountability positively influenced transparency practices and external audits. Empowering beneficiaries complemented internal controls and reduced diversions. Such synergistic effects highlight the value of addressing governance holistically rather than through discrete interventions. Reform strategies must account for these complex relationships to optimize impact.

Some limitations apply. The cross-sectional quantitative survey design provided a snapshot assessment but could not prove causal links over time. Unobserved variables like organizational culture may also mediate governance outcomes. Future research could employ longitudinal or mixed methods for deeper explorations. Expanding the scope beyond Yemen would enhance generalizability.

In conclusion, this study makes an original contribution by developing the first integrated framework analyzing key governance mechanisms and their joint effectiveness against Non-profit financial fraud in Yemen. With continued evaluation and refinement, such collaborative solutions offer promising pathways towards restoring integrity and revitalizing public trust globally.

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