

**THE EFFECT OF COMPUTERISED ACCOUNTING SYSTEMS ON THE
QUALITY OF FINANCIAL REPORTS OF NON GOVERNMENTAL
ORGANISATIONS IN NAIROBI COUNTY, KENYA**

BY

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DECLARATION

I declare that this is my original work and has not been presented for award of a degree in any other University or any other institution of higher learning for examination purposes.

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DEDICATION

This project is dedicated to my lovely Husband Nathan Kibet Mutai, Sons Ethan Kiprono Mutai and Leevan Kipruto Mutai for their moral support, understanding and perseverance during my study period.

ABSTRACT

The recent development of information technology has had a dramatic influence on accounting information system; computers become smaller, faster, easier to use and less expensive leading to the computerization of accounting system. This study aimed at investigating the effects of computerized accounting systems on financial reports of Non-Governmental Organizations (NGOs) in Nairobi County. The main instrument of data collection was the questionnaires. Quantitative data was analyzed using both descriptive and inferential analysis. Data collected through the open ended questions and analysis of documents was analyzed qualitatively through content analysis. The sample for the study consisted of 100 NGOs operating in Nairobi County; selected through non-proportional quota sampling. The variable factored in the multivariate regression model, Analysis of Variance and Percentages. Data collected was analyzed using descriptive statistics and regression analysis in particular using the Statistical Package for Social Sciences (SPSS) software. The study found out that taking all other independent variables at zero, a unit increase in transparency lead to 0.478 increase in quality of financial reports whereas a unit increase in leadership leads to 0.143 increase in quality of financial reports and a unit increase in computerized accounting systems leads to 0.0915 increase in quality of financial reports of NGOs. This infers that transparency contributes most to quality of financial reports of NGOs followed by leadership then computerized accounting systems. The study recommends that in order to ensure that the NGOs have quality financial reports; they should invest on computerized accounting systems to improve the speed, timeliness, accuracy and relevance of the financial reports of their organizations. The finance management should also follow the legal frameworks that balance the right to disclose against the right of confidentiality. The management should ensure that they have an open recruitment policy for staff based on merit in order to recruit qualified staff to enhance the quality of work in the organizations.

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LIST OF ABBREVIATIONS

CAS	– Computerized Accounting Systems
CAIS	– Computerized Accounting Information Systems
DC(s)	– Developing Countries
FMIS(s)	– Financial Management Information Systems
ID	– Income Diversification
IGA	– Income Generating Activity
NGO(s)	– Non Governmental Organizations
RBV	- Resource Based View
SAP	- Systems Application Programming
SFM	– Strategic Financial Management

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Accounting is an essential part of any business, large or small owners, profit making or not for profit organizations. Many small enterprises do their accounting manually and they are satisfied. Others may be considering using a computerized system, since accounting software is much affordable. Manual and computerized accounting systems perform basically the same processes, the accounting principles and concepts are the same with differences lying in the technicalities of the process. Although computerized accounting system is expensive, its advantages lie on speed and being able to store information.

Non-Governmental Organizations (NGOs) are not-for-profit civil society organizations created with the mission of addressing the under-served aspects of national life and development. Over the last decade there has been a remarkable growth of NGOs in the developing world. Many donors view the NGOs as a better alternative to governmental agencies in getting services and assistance to those in need, especially in countries that are burdened by political favoritism and corruption (Cook, 2003).

According to Kogan (1986), accountability refers to a condition under which a role holder renders account to another so that judgment may be made about the adequacy of performance. Lerner and Tetlock (1999), equate accountability not only to reporting but also to the justification of performance, they continue to describe accountability as the implicit and explicit expectations that anyone may be called

upon to justify one's belief, feelings and actions to others. Computerization saves time on transaction hence leading to quality of financial reporting for instance timely, accurate and reliable information can be generated (Lewis, 1999) Thus necessitating this study.

1.1.1 Computerised Accounting Systems

Computerized accounting system is the application of the computer based software used to input, process, store, and output accounting information. This application is in support of the ever advancing technology that enables firms to use computer programs to perform tasks that were previously done manually. A computerized accounting system therefore involves the computerization of accounting information systems which is established in order to facilitate decision making. These are associated with a numbers of benefits like speed of carrying out routine transactions, timeliness, quick analysis, accuracy and reporting.

According to Larson & Pyle (1988) an accounting system consists of business papers, records, reports and procedures that are used by an organization in recording transactions and reporting their effects. Collins and Collins (1978), underlines that an accounting system is a way of keeping a written record of transactions .Receipts are given for all money that is received by an organization and receipts are asked for every time money is spent. Accountability for non-profit organizations is both a legal and ethical obligation for organizations that use resources received to further their charitable mission, Accountability may encompass a full report of activities as well as justification for the way resources are managed (Gordon et al., 2010).

According to Welsch and Short (1987) an accounting system, regardless of the size of the organization, is designed to collect, process and report periodic financial information about the entity. According to Keating & Frumkin (2003) in most NGOs funds from donors are poorly managed and their accounting systems are in poor order. Many NGOs do not have qualified accountants and have problems preparing accurate and timely financial reports, which is one of the major donor requirements. Ebrahim, (2003) notes that NGOs respond to issues of accountability with both tools and processes. Tools are created by stakeholders that have considerable leverage over an NGO like a donor or a government regulator. Familiar tools are annual reports, financial accounts, performance assessments, quarterly reports, independent evaluations and audits. Schnelder (1989) stresses that the heart of fiscal management in any organization is a good accounting system that is appropriate to that organization. In order to achieve consistent financial accountability it is necessary to establish standards and a system for accounting practices. Keating and Frumkin (2003), state that in order to determine the effectiveness of a financial reporting system, one must understand its objectives.

1.1.2 Quality of Financial Reports

Financial report is a means of portraying financial accountability, in order for an organization to review the financial activities of the past year and make plans for the future it prepares and publishes annual accounts or financial reports Collins and Collins (1978). Saleemi (1981) defined financial reporting as the process of supplying financial information which is reliable, accurate and complete to the various stakeholders for making economic decisions. This is always inform of financial statements such as statement of comprehensive income, statement of

financial position and cash flow statement and other financial annually reports which provide an overview of the company's current financial strength According to Samuel (1991), financial reports are outputs of an accounting system and they are prepared at the end of the year, hence the name final accounts. According to Horne (1998), the financial reports should include a narrative description of the organization's activities and audited financial statements. He argues that these enable the stakeholders to see the organization's performance and the overall financial situation of the organization. Samuel (1991), states that managers and accountants are usually required to defend the results shown in the financial reports as part of the accountability process.

According to Indira (2008), timeliness is an important characteristic of quality financial information. To benefit users, financial information must be presented at the right time otherwise it loses relevance. Relevance is also a characteristic of quality of financial reports. Frankwood indicates that financial information is relevant if it is capable of making a difference in decisions made by helping users to form predictions about the outcomes of the past, present and future events either to confirm or correct prior expectations. Comparability is another characteristic. Frankwood (1999) also stresses that users must be able to compare the financial statements of the enterprise over time in order to identify trends in its financial position and performance. According to Pallai (2007) Understand ability as a quality of financial reporting that enables users to perceive the significance of financial information. He argues that users are assumed to have reasonable knowledge of business and willingness to study and understand the information. This study will Base on Keating and Frumkim (2003) conceptual framework, where Leadership, Transparency and accounting systems are determinants of quality of financial reports.

In Kenya according to the NGO coordination board, it is noted that despite what some think of corruption in government, there is also fraud in the private sector and NGOs are not above corruption. At time cost effectiveness is not prioritised. Many feel that NGOs should be accountable to their beneficiaries while others think that NGOs should be directly answerable to the people they serve. By having quality financial reports that is understandable, relevant and transparent the financial information would be useful.

1.1.3 Effect of Computerised Accounting Systems on the Quality of Financial Reports

Theoretically it is expected that a computerised accounting system would result to a quality financial reports. Through studies done by Carol (2002), it is easy to do accounting functions using computerized accounting systems. Posting transactions to the ledger, the principle of double entry can largely be automated when done through the use of computerized accounting system. Evidence from academic studies suggests that donors respond to accounting information in making their giving decisions (Parsons, 2007; Buchheit and Parsons, 2006). In 2010, Gordon and colleagues outlined five best practice recommendations for annual reports in the non-profit sector completeness, accessibility and transparency in financial reporting, full disclosure and relevance. McBride (2000) stated that managers cannot easily satisfy statutory and donor reporting requirements such as profit and loss account, balance sheet and customized reporting without using computerized accounting systems. With the system in place, this can be done quickly and with less effort. Computerized accounting systems ease auditing and have better access to required information such as cheque numbers, payments, and other transactions which help to reduce the time needed to provide this type of information and documentation during auditing.

According to European Union audit in 2003, it was noted that organizations are not enjoying the benefit of computerization of accounting system as they have continued to be inaccurate due to increased number of interruptions due to system failure or breakdown and un-timeliness with its reliability left in question. In other studies, Computerization saves time on transaction hence leading to quality of financial reporting for instance timely, accurate and reliable information can be generated (Lewis 1999).

1.1.4 Non-Governmental Organizations in Nairobi County, Kenya

Nairobi County is one of the 47 Counties of Kenya. Its capital and only city is Nairobi, which is also Kenya's capital and largest city. Nairobi County was founded in 2013 on the same boundaries as Nairobi Province, after Kenya's 8 provinces were subdivided into 47 counties. NGOs operating in Kenya fall into two categories distinguished by their origins or where they were founded. These are local/indigenous NGOs and the foreign/International NGOs. The local ones are founded locally and employ local staff; they do not have offices outside the country. However, many depend on grants or aid from outside. The International NGOs, on the other hand, are usually branches of NGOs founded outside the country, but with legal registration in Kenya.

Taking into consideration only the registered organisations, the sector grew by about 58 percent in the period between 1997 and 2005. Within the sector, organisations such as NGOs grew by over 400 percent in the period between 1997 and 2006. Since 2001, the sector has been growing at the rate of 400 organizations per year. By August 2009, the Board had cumulatively registered 6,075 organizations in Kenya. By 2009 NGOs in Nairobi County were 1425 and by 2013, the NGO Coordination Board

identified 1574 NGOs with offices in Nairobi County under the sectors of youth, relief, micro-finance, welfare and health.

1.2 Research Problem

As information technologies grow more progressively, the manual accounting systems have become gradually inadequate for decision needs (Brecht and Martin, 1996). Consequently, public and private sector firms in both developing and developed economies view CAIS as a vehicle to ensure effective and efficient information flow in the recording, processing, and analysis of financial data. Effective and efficient information flow enhances managerial decision-making, thereby increasing the firm's ability to achieve corporate and business strategy objectives (Manson, McCartney, and Sherer, 2001).

The experience of advanced countries is that managing complex FMIS projects requires considerable management skill. However, this is typically in short supply in DCs. Top managers may not be computer literate. The consequence is that often the binding constraint when introducing FMISs is not the technical capacity to create them but the capacity to manage them and as Keating & Frumkin (2003) puts it, in most NGOs funds from donors are poorly managed and their accounting systems are in poor order. Many NGOs do not have qualified accountants and have problems preparing accurate and timely financial reports, which is one of the major donor requirements.

Most NGOs in Kenya, are pre occupied with emergencies, diseases, illiteracy and poverty to the extent that investing for the future becomes a luxury, overreliance on external funding is rampant and most NGOs will soon find themselves irrelevant in

other equally important area. Financial information has a direct link with the financial accounting system and is expressed in monetary units.

Locally, a few studies have been done research on the effects of computerized accounting systems on the quality of financial reports which included; Mwaura (2013), the study assessed Financial Accountability on The Performance of Non-Governmental Organizations In Kenya, (Otieno and Oima 2013) studied the implementation of the computerised system in Kisumu County, Kenya.No studies have done the effects of computerized accounting systems on the quality of financial reports of NGOs especially in Nairobi County. Thus this study intended to address the following research question: Does the use of Computerized Accounting System affect the quality of financial reports in NGOs?

1.3 Objective of the Study

To establish the effect of computerized accounting systems on the quality of financial reports of NGOs in Nairobi County.

1.4 Value of the Study

The study findings will enhance NGOs capability to build mechanisms in order to increase the quality of financial reports through computerised accounting systems.

The donor agencies can use the findings of this study to identify what kind of technical support they should provide the NGOs before giving them any funding in order to ensure acceptable quality of financial reports.

The study findings will also assist NGOs in improving their fulfilment to donor requirements and thus improve their capability to attract more funding and ensure their organizational sustainability and thus meet the societal needs.

The study findings will be a basis for further research on the advantages of using computerised accounting systems rather than manual systems in NGOs.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Financial accounting as an organizational function aims at measuring, processing and communication financial information which is crucial for business success as well as organization for effective decision making whether it is a NPO or profit making because they have to report to the stakeholders of the organization through financial reports. However there is inefficient financial reporting due to loss of records, delay in preparation of records and its associated problems. This section reviews literature important to the subject of this study.

2.2 Theoretical Review

This section dealt with the theories that were important to the subject of this study.

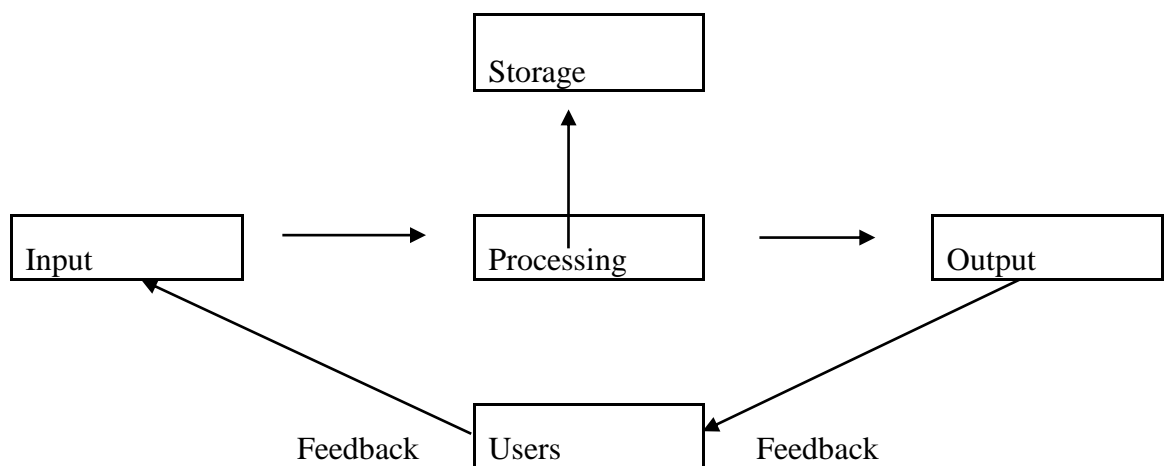
The theories included systems theory, positive accounting theory and resource-based review theory.

2.2.1 Systems Theory

Kaufmann (1966) developed systems to explain historical development as a dynamic process and was more fully developed by biologist Bertalanffy (1968). Bertalanffy argued that everything is interconnected and therefore, we should study the interconnectedness as a means of understanding the world. The systems theory method of analysis involves, first the deconstruction of what is to be explained that is the phenomenon under consideration, secondly, the formulation of explanation that account for the behavior of properties of the component separately and finally the synthesis of these explanations into an aggregate understanding of the whole. General

systems theory like other innovative frameworks of thought passes through phases of ridicule and neglect. It has benefited, however, from the parallel emergence and rise to eminence of cybernetics and information theory. Systems theory is relevant to this study because the methods proposed by the theory is to model complex entities created by multiple interaction of components by abstracting from certain details of structure and component and concentrating on the dynamics that define the characteristics functions, properties and relationships that are internal or external to the system, Computerized Accounting System is a computer based system, which combines accounting principles concepts as well as the concept of information system to record, process, analyze and produce financial information to its users to make economic decisions (Gelinas et al,2005). The illustrative figure below relates the CAS to systems theory since it involves multiple components which interact to generate usable results these are input, processing storage, users and output.

Figure 2.1 A Computerized Accounting System Model



Source: Gelinas et al, 2005

2.2.2 Positive Accounting Theory

Positive accounting theory was developed by Watts and Zimmerman in 1978 and 1986 which seek to predict and explain why managers elect to adopt particular accounting methods in preference to others. Positive theories are concerned with explanation and prediction (what does/ will happen) and are grounded in empirical data (Ryan et al, 2002). Since they are grounded in empirical data, they appear to offer accounting researchers the prospects, the validity of Johnson and Kaplan's (Relevance Lost) criticisms of management accounting practice. This form of research draws on a wide range of theoretical frameworks to address financial management accounting issues. Different research methods and methodologies are not viewed as competing but are rather used together to provide a variety of insights into a wide range of management accounting research questions (Ryan et al 2002).

2.2.3 Resource-Based View Theory

The origin of RBV can be traced back to earlier research, Barney (1991) developed the strategic factor markets and the role of expectations can be seen within resource based framework, Barneys framework proved a solid foundation upon which others might build up, the current dominant view of business strategy resource-based theory or resource-based view (RBV) of firms is based on the concept of economic rent and the view of the company as a collection of capabilities. This view of strategy has a coherence and integrative role that places it well ahead of other mechanisms of strategic decision making (Kay, 2005).

The resource-based view (RBV) offers critical and fundamental insights into why firms with valuable, rare, inimitable, and well organized resources may enjoy superior performance (Barney, 1995). Building on the RBV, Hoopes, Madsen and Walker

(2003) suggest a more expansive discussion of sustained differences among firms and develop a broad theory of competitive heterogeneity. The Resource Based View's lack of clarity regarding its core premise and its lack of any clear boundary impedes fruitful debate. Given the theory's lack of specificity, one can invoke the definition-based or hypothesis-based logic. We can also argue that resources are but one potential source of competitive heterogeneity. Competitive heterogeneity can obtain for reasons other than sticky resources (or capabilities) (Hoopes et al. 2003). Competitive heterogeneity refers to enduring and systematic performance differences among close competitors. The theory is relevant to this study because NGOs need to competitive in their performance in order to achieve their objectives, mission and vision.

2.3 Determinants of Quality Financial Reports

This section discussed the determinants of quality financial reports which included computerized accounting systems, leadership and transparency.

2.3.1 Computerised Accounting Systems

A computerized accounting system involves the computerization of accounting information systems which is established in order to facilitate decision making. These are associated with a numbers of benefits like speed of carrying out routine transactions, timeliness, quick analysis, accuracy and reporting. Effective and efficient information flow enhances managerial decision-making, thereby increasing the firm's ability to achieve corporate and business strategy objectives (Manson, McCartney, and Sherer, 2001). This in turn, may increase the prospects of the firm's survival (Platt and Platt, 2012). This can be evaluated by the procedures, accounting records and tools used (Keating and Frumkin (2003).

2.3.2 Leadership

Leadership is the process of social influence in which one person can enlist the aid and support of others in the accomplishment of a common task. The role of leadership forms the backbone of any improvement strategy. The NGOs board of directors/management committees and management should have leadership skills in order to improve the quality of the financial reports. The leader's role in promoting and developing quality financial reports begins with creating and sustaining a personal and organizational focus on the needs of internal and external needs or users. According to Keating and Frumkins (2003), leadership have three scores as follows board/management committee Independence, board/management Committee Effectiveness and NGO Management Effectiveness. Sloan (2001) said that the financial report is the first source of independent and true communication about performance of company managers.

2.3.3 Transparency

Transparency and accountability mean, making financial statements “user friendly” for those who are not financial specialists but want to be able to read and understand the financial reports. They mean being responsive to those who want to review your financial records by making them easily available. These two leadership qualities are also characterised by holding dialogues on your budget process and other important mission-defining events with the policy board, constituents and beneficiaries. These public events provide assurance that what you plan to do is in accordance with what is needed in the operating domain. According to Boice ((2004) accountability also refers to financial responsibility or operational transparency that requires demonstrating how donations to the organization are used and how effectively the organization is

achieving its goals. Transparency can be measured by the openness, honesty and reliability.

2.4 Empirical Review

This section discussed the empirical review both international and local evidence of studies that had been carried out by other researchers.

2.4.1 International Evidence

Kateeba (2000) did the relationship between governance and quality of financial reports in NGOS in Kosovo, According to the survey done in Kosovo, the group questions dealing the Financial factor, when asked about their financial resources bases on the last financial year, 75% of NGOs declare that ‘foreign donors’ are the only or main financial sources of their projects and activities. The study findings proved that there is a strong relationship between accounting systems and quality of financial reports. It was therefore recommended that NGOs should review their current accounting systems to identify gaps and then put in place steps to fill those gaps

Alshebeil (2010) aimed to identify the role of accounting information systems in achieving competitive advantage for Jordanian commercial banks, and his findings were that there is a statistically significant impact for accounting information systems on achieving the dimensions of competitive advantage by improving the pricing process for banking services, reducing costs of banking services, increasing the speed of provided services, and increasing market share.

Amveko (2011) in which she aimed to identify the impact of computerized accounting information systems on financial reporting in Kampala, the financial reports generated

conform to some of the quality attributes of good financial information. This was emphasized by a positive correlation of response on quality attributes of timeliness and accuracy though it was on a low scale her findings were that that computerized accounting system actually have an influence on the quality of financial reports for publication purposes.

El- Dalabeeh (2012) aimed to identify the role of computerized accounting information systems in reducing the costs of medical services at King Abdullah University Hospital, and his findings were that computerized accounting information systems play an in important role in reducing the costs of medical services at King Abdullah University Hospital compared with non-computerized systems, which usually require bigger costs and do not contribute to reduce the costs of medical services.

2.4.2 Local Evidence

Other studies by Mwasasi et al (2000) on Factors affecting implementation of operational strategies in Non-Governmental Organisations in Kenya, the study examined factors affecting the implementation of operational strategies. It investigated the influence of resource allocation, competitive priorities, information technology and core competences, the findings shows that aligning operational strategies with resource availability enhances success in operational strategy implementation also adoption of information technology increases effective implementation.

Locally, Luther and Boru (2013) studied the Use of Annual Financial Statements by Loan Officers in Kenya, they administered questionnaires which covered lending objectives, sources of information, level of reading of different sections of financial

statements, the study findings were that financial statements are rated as a very important source of information by credit risk analyst however commercial banks do not rely on one source of information. The worry though was lack of concern of social objectives when lending.

Mwaura (2013) did a study to establish the relationship between financial performance of NGOs in Kenya and financial accountability. The study found out that the NGOs that applied financial standards in ensuring accountability of finances in the organizations boosted Donor support which resulted in improved performance.

Another recent study was done by Otieno and Oima (2013) they studied The Effect of Computerised Accounting Systems on Audit Risk Management in Public Enterprises, the study reflected that only 36% of the institutions reported that they had a regular program or equivalent in place while another 24% were in the process of implementation of the computerised system. More than 40% of the participating institutions lacked computerized audit implementation plan.

A Study by Mutiso and Kamau (2013) on the Factors Influencing Complexity in Financial Reports Preparation Evidence from the Banking Sector in Kenya. The objectives included assessing whether the disclosures adoption of international reporting standards regulations and lack of competence by the preparers have contributed to the complexity of the reports, the study found out that the identified variables positively contributed to the complexity of financial reports preparation. Management interference, lack of guidance on interpretations and frequent updates of standards were identified as the main challenges of preparing financial reports.

2.5 Summary of Literature Review

Drawing on resource based view theory, the lack of specificity in the theory, call upon the definition-based or hypothesis-based logic debate additionally the argument that resources are but one potential source of competitive heterogeneity which can obtain for reasons other than sticky resources or capabilities (Hoopes et al., (2003). Competitive heterogeneity refers to enduring and systematic performance differences among close competitors; it is evident that the competition has always been associated with profit making organizations, thus identifying a gap that needs to be addressed among not for profit organizations, in terms of the utilization of the resources.

Computerised accounting systems appear to have significant influence on the quality of financial reports from previous empirical studies, Present review of literature shows that studies in Kenya have only attempted to evaluate the implementation of computerised accounting systems on organisations, other studies related the governance with financial reports, the gap exist in that not sufficient studies has gone to the depth of studying the effects of computerised accounting systems on the quality of financial reports of NGOs.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter described the research methodology that was used to guide the study under the following sub-headings: the research design, target population, sample and sampling design, data collection instruments, data collection and data analysis procedures.

3.2 Research Design

The study applied a descriptive survey research design. Descriptive survey research was defined as scientific method in which information is collected without changing the environment it includes surveys and fact-finding enquiries of different kinds, which seeks to obtain information that discloses existing phenomenon Mugenda (2003). The major purpose of descriptive research design is to describe the state of affairs as it exists at present (Kothari, 2003) this design was successfully used by Kasimbu (2007). The design involved primary research methods for the collection of primary data. The justification for using this design was that it explored the existing status of two or more variables at a given time.

3.3 Target Population

The target population involved all NGOs operating in Nairobi County, Kenya under youth, relief, micro-finance, welfare and health due to the fair representation of NGOs in Nairobi. According to the NGOs Coordination Board there were 1574 NGOs registered to operate in Nairobi County, Kenya as at 2013 under the target population.

3.4 Sample

The sample for the study consisted of 100 NGOs operating in Nairobi County; selected through non-proportional quota sampling which is the non-probabilistic analogue of stratified random sampling methods typically used to assure that smaller groups are adequately represented Mugenda (2003). This method was appropriate since it was less restrictive and satisfactorily met the study objectives. The study population target consisted of the 1574 NGOs based in Nairobi County and operating in the sectors of youth, relief, micro-finance, welfare and health. NGOs operating in these five selected sectors provided a fair representation of NGOs in Nairobi. The study grouped the population into five strata according to the sector of operation, namely, Youth, Micro-Finance, Relief, Welfare and Health, with an aim of interviewing a minimum of 100 NGOs sampled. The respondents were senior finance/accounting.

3.5 Data Collection

This study will use questionnaires for primary data collection. The computerised accounting system data will be obtained through a closed questionnaire. The questionnaire will be divided into two sections. Section A will deal with Dependent variable and the section B will deal with the independent variable namely, Computerised Accounting Systems, Leadership and Transparency.

3.5.1 Data Validity and Reliability

Validity of a questionnaire refers to the extent to which it measures what it claims to measure (Mugenda & Mugenda, 2003). In testing validity, the researcher prepared questionnaires and presented them to the supervisor for scrutiny and suggestions on the relevance, clarity and suitability of the information. The supervisor then made

suggestions which were incorporated into the final draft. Reliability of research instrument refers to the measure of degree to which research instrument yield consistent result or data after repeated trials .To establish the reliability of the research instruments, the researcher administered the questionnaires and pilot tested them using 15 (fifteen) respondents after which the researcher made the necessary corrections to the questionnaires.

3.6 Data Analysis

The data was collected and analysed using both quantitative and qualitative data analysis methods. Quantitative method involved both descriptive and inferential analysis. Descriptive analysis such as frequencies and percentages was used to present quantitative data in form of tables and graphs. Data from questionnaire were then coded and logged in the computer using Statistical Package for Social Science (SPSS V 20.0). This involved coding both open and closed ended items in order to run simple descriptive analyses to get reports on data status. Descriptive statistics involved the use of absolute and relative frequencies, measures of central tendency and dispersion.

3.6.1 Analytical Model

The study also aimed to make use of various inferential statistics. The variables factored in the multivariate regression model. The measures of the independent variables, using the rating/Likert scales will be converted to mean values and then to percentages to permit the application of linear regression model.

The regression equation was of the form: $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon$

Where

Y = Quality of Financial Reports (**QFR**) as measured by Financial Report Information

X1 = Computerised Accounting Systems used (**CAS**)

X2= Leadership (**L**)

X3= Transparency (**T**)

ϵ = Margin of error/Disturbance term

Variable	Indicators	Measure	Scale	Analysis Tool
QFR	Timeliness	Do the financial reports meet timely deadlines?	Likert	
	Understandability	Do the financial reports users understand the reports?	Likert	
	Relevance	Do the reports generated meet the financial obligations?	Likert/Ordinary scale	
	Reliability	Can the reports be used for decision making?	Likert	
CAS	Speed	Does CAS improve speed of financial entry	Likert	Mean
	Timeliness	Does the use of CAS help improving the timeliness of report generation?	Likert	
	Accuracy	Does the use of CAS improve the NGOs account record keeping and retrieval	Likert/Ordinary scale	
	Quality	Does CAS by posting transactions to the ledger and double entry help the quality of data?	Likert	
L	Board/Management Independence-self governing	Is the management and Board self-governing?	Likert	Mean
	Board/Management Effectiveness/adherence	How useful is the management and board?	Likert	

	to policies	Adherence to policies and procedures		
	NGO Management Effectiveness/monitoring transactions	How useful is the NGO management?	Likert	
	Open recruitment policy	Do the NGO have open recruitment policy?	Ordinal scale	
T	Openness	Does the NGO Share program progress?	Ordinary Interval	Mean
	Honesty	Is the NGO honest with operations? Resources?	Ordinary scale	
	Reliability	Is there electronic control of information?	Likert	

Table 3.1 Operationalization of variables

3.6.2 Test of Significance

Statistical significance of the independent variables will be determined by using the F-test. Using the regression Durbin Watson test for autocorrelation of models residuals, t-test for coefficients significances will also be tested

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings. The purpose of the study was to analyze the effects of computerized accounting systems on financial reports of Non-Governmental Organizations in Nairobi County. The researcher made use of frequency tables and figures to present data.

4.2 Data Collection

The data was collected and analyzed using both quantitative and qualitative data analysis methods. Quantitative method involved both descriptive and inferential analysis. Descriptive analysis such as frequencies and percentages was used to present quantitative data in form of tables and graphs. Data from questionnaire were then coded and logged in the computer using Statistical Package for Social Science (SPSS V 20.0). This involved coding both open and closed ended items in order to run simple descriptive analyses to get reports on data status. Descriptive statistics involved the use of absolute and relative frequencies, measures of central tendency and dispersion.

4.3 Response Rate

The researcher targeted a sample of 100 NGOs in Nairobi County out of which 80 responses were obtained. This represented an 80% response rate. This is a reliable response rate for data analysis as Babbie (2002) posited that any response of 50% and above is adequate for analysis.

Table 4.1 Response Rate

	Number	Percentage
Responded	80	80%
Did Not respond	20	20%
<hr/>		
	100	100%

Source: Research Findings

4.4 Data Validity and Reliability

Validity of a questionnaire refers to the extent to which it measures what it claims to measure (Mugenda & Mugenda, 2003). In testing validity, the researcher prepared questionnaires the supervisor then scrutinized and found it valid for data collection. Cronbach Alpha was established for every variable which formed a scale, the overall reliability of all items was 0.8417 this results are reliable as their reliability values exceeded the prescribed threshold of 0.6. Gliem and Gliem (2003) established the Alpha value threshold at 0.6

4.5 Descriptive Statistics

4.5.1 Quality of Financial Reports

The researcher sought to know the NGOs responses on the quality of financial reports, the respondents agreed that the quality of the financial reports are good with the 90% agreeing that the information in the reports are accurate, 89% said the reports helps in accountability 85% said that the reports are timely and relevant whereas 83% said the reports are reliable an average of 80% agreed that the reports are reliable.

Table 4.2 Quality of Financial Reports

	Mean	Percentage
Understandability	4	80%
Reliability	4.13	83%
Financial Accountability	4.44	89%
Accurate Information	4.48	90%
Timeliness	4.23	85%
Relevance	4.23	85%

Source: Research Findings

Figure 4.1 Quality of Financial Reports Indicators



Source: Research Findings

4.5.2 Computerized Accounting System

The researcher further needed to know the effects of computerized accounting systems on the quality of financial reports and thus found out that on average, the respondents agree (mean= 4) that the accounting systems used in the NGOs' are computerized and a mean of (3) are neutral on whether NGOs rely on computerized systems to record data. That translates to 80% respondents that use computerized

accounting systems and only 20% respondents said that they used manual accounting system.

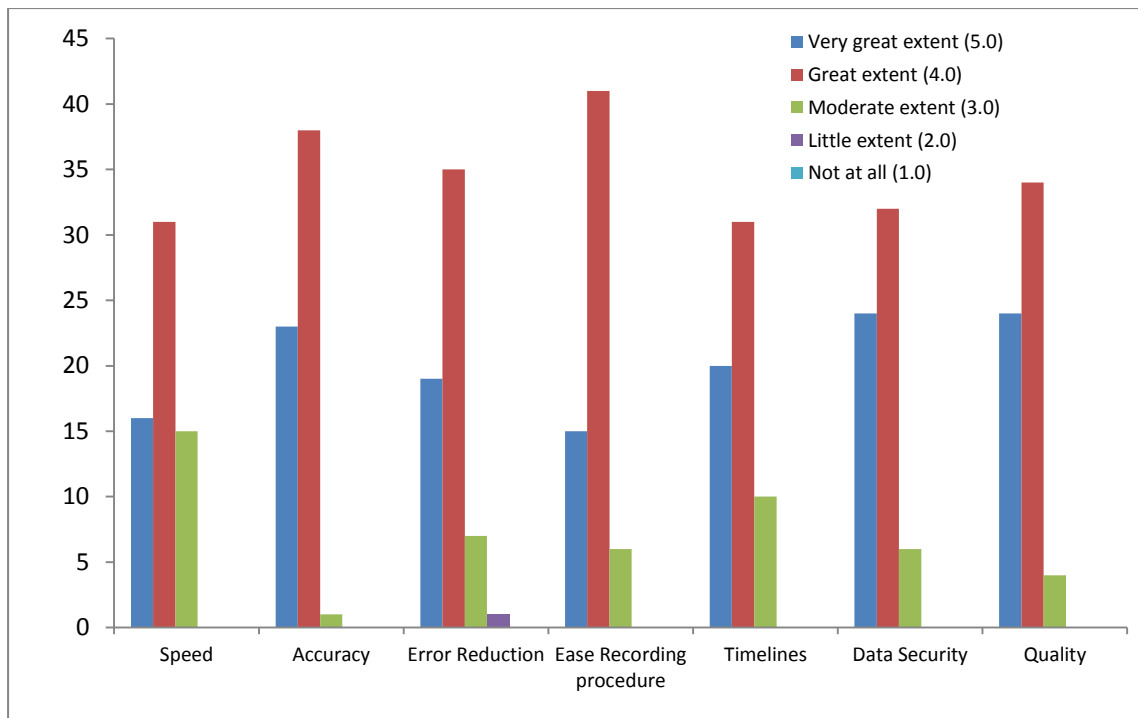
61.3% (49) of the NGOs computerized their systems at most 3 years ago while 15% computerized their systems 4-5years ago and 1.3% 6 and above years ago.

The research sought to know what accounting software packages the NGOS are using and found out that,46% of the NGOs use Quick books , 19% use sage, 10% use excel, 5%, 4% and 3% use Tally, Birthmark and Peachtree respectively.

32% of the NGOs consider the initial cost of installation before choosing accounting software. 22% consider the acceptance by users while 15% consider cost benefit analysis and 15% the availability of workers. Only 8% consider the employees' knowledge of the software, 7% consider the cost of training and 1% considers functionality.

The factors that influence the choice of a computerized accounting system are the need to improve quality of reports (4.3), the need to facilitate financial management (4.2), the positive impact of CAS on the NGO's performance (4.1) and lastly if the accounting system is user friendly (3.9).

Figure 4.2 Computerized Accounting Systems Indicators

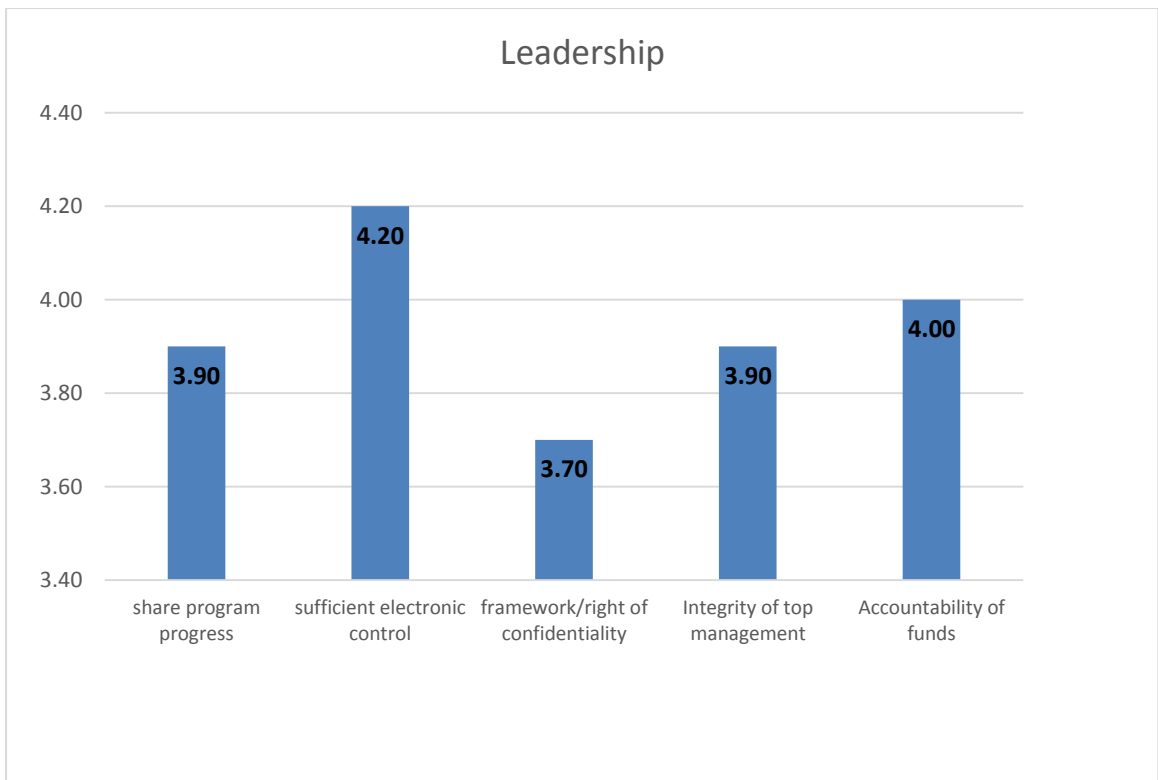


Source: Research Findings

4.5.3 Leadership

The researcher sought to find out if leadership has any influence on the quality of financial reports and the factors under consideration were if the NGO was self-governing, adhered to policies and procedures, monitoring transactions, if the management of NGOs resources was adequate and the open recruitment policy the respondents rated the above in this means of 4.2, 4.1, 4.3, 4.4 and 3.7 respectively as presented in the chart below.

Figure 4.3 Leadership Indicators

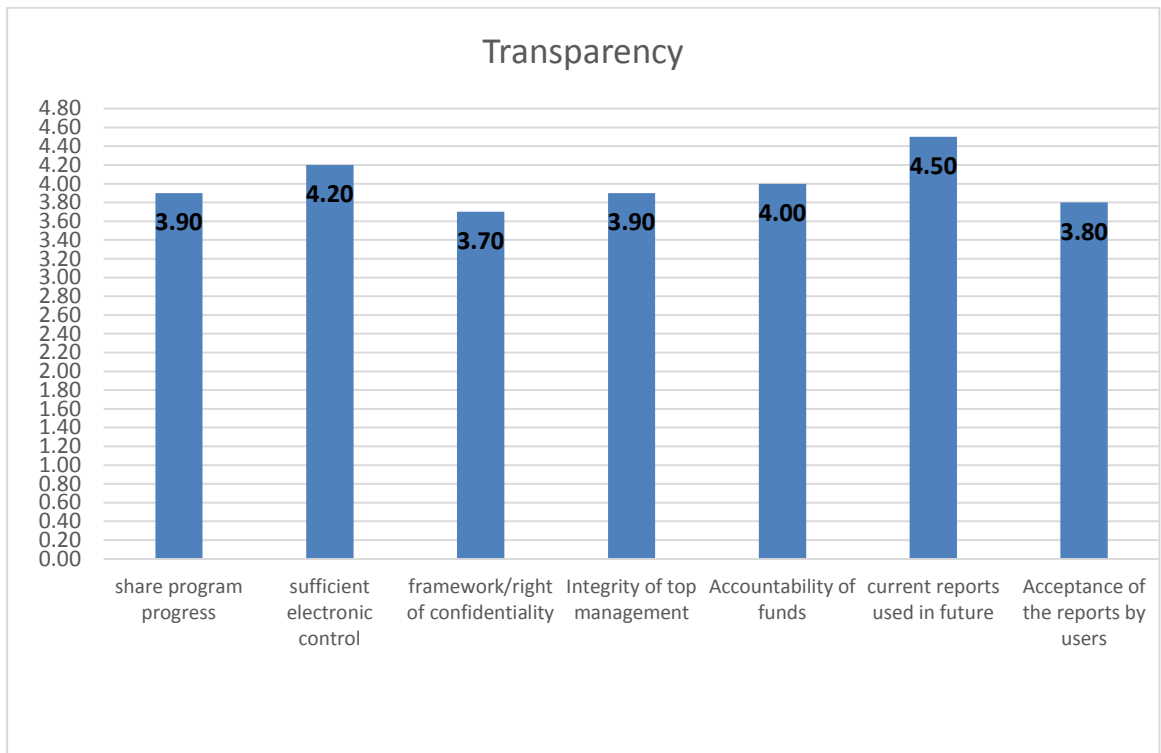


Source: Research Findings

4.5.4 Transparency

The researcher asked respondents the factors that affect transparency which involved, first if the organization share the program progress to its shareholders, if they have sufficient electronic control, the framework/right of confidentiality, Integrity of top management, accountability of funds and current reports value in the future which scored means of 3.9, 4.2, 3.7, 3.9, 4.0, 4.5 and 3.8 respectively as presented in the chart below.

Figure 4.4 Transparency Indicators



Source : Research Findings

4.6 Correlation Analysis

Since $p < 0.05$ then the model is significant. $P = 0.0279$

Table 4.3 Correlation Analysis

Quality Report Y		
	Correlation Coefficient	P- Value
Computerised Accounting System_x1	0.2459	0.0279
leadership_x2	0.4334	0.0001
transparency_x3	0.5863	0

Source: (Research Findings ,2014)

This will allow us to predict the quality of financial reports in any given time provided we have the Computerised Accounting System.

It is clear CAS affects quality of financial reports positively since all coefficients are positive. So the model will be

$$Y=1.627+0.0915X_1+0.143X_2+0.478X_3$$

4.7 Regression Analysis and Hypothesis Test

In order to determine the effects of computerized accounting systems of NGOs in Nairobi County, a model was adopted. This study employed regression analysis where computerized accounting system, leadership and transparency are independent variables and the quality of financial reports is a dependent variable.

Table 4.4 Regression Analysis

Variables	Labels	Quality_Report_Y
Computerised Accounting System_x1		0.0915*
		(0.0484)
leadership_x2		0.143*
		(0.0852)
transparency_x3		0.478***
		(0.109)
Constant	Constant	1.627***
		(0.388)
Observations		80
R-squared		0.3928
Standard errors in parentheses		
*** p<0.01, ** p<0.05, * p<0.1		

Source: Research Findings

4.8 Interpretation of Findings

There is a strong positive relationship between CAS and quality of financial reports since R is positive then it has a positive gradient. The correlation coefficient measures the goodness of fit of the regression equation, which in this study $R^2=0.3928$, showing a strong and positive relationship. The model is also significant since $p<0.05$. $P=0.0279$

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the discussion of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to.

5.2 Summary

The study showed that quality of computerized accounting systems affects the quality of financial reports of the NGOs to a great extent. The aspects of computerized accounting systems affect the quality of reports of the NGOs to a great extent include timeliness, speed, accuracy and quality of package used. It was observed that the quality of the financial reports are good with the 90% agreeing that the information in the reports are accurate, 89% said the reports helps in accountability 85% said that the reports are timely and relevant whereas 83% said the reports are reliable an average of 80% agreed that the reports are reliable.

It was noted also that The factors that influence the choice of a computerized accounting system are the need to improve quality of reports (4.3), the need to facilitate financial management (4.2), the positive impact of CAS on the NGOs performance (4.1) and lastly if the accounting system is user friendly (3.9). This findings agrees with what Amveko (2011) studied in which she aimed to identify the impact of computerized accounting information systems on financial reporting in Kampala, the financial reports generated conform to some of the quality attributes of good financial information. This was emphasized by a positive correlation of response on quality attributes of timeliness and accuracy though it was on a low scale her findings were that that computerized

The three independent variables that were studied, explain 39.28% of the financial sustainability as represented by the adjusted R^2 . The findings presented also shows that taking all other independent variables at zero, a unit increase in computerized accounting systems will lead to a 0.0915 increase in quality of financial reports of nongovernmental organizations; a unit increase in Leadership will lead to a 0.143 increase in quality of financial reports of nongovernmental organizations; a unit increase in income diversification will lead to a 0.478 increase in quality of Financial reports of nongovernmental organizations. This infers that leadership contribute most to quality of financial reports of nongovernmental followed by computerized accounting systems then transparency. At 5% level of significance and 95% level of confidence, computerized accounting systems had a 0.0279 level of significance; Leadership showed a 0.0001 level of significance then transparency had 0.0000, thus most significant.

The researcher found out that the factors that influence affect transparency including if the organization share the program progress to its shareholders, if they have sufficient electronic control, the framework/right of confidentiality, Integrity of top management, accountability of funds and current reports value in the future which scored mean of 4.0 out of the possible 5 which is a good indicator that the NGOs are transparent in their operation which contributes to the quality financial reports.

5.3 Conclusion

The study concludes that computerized accounting systems factoring in its speed, timeliness, accuracy and the possibility of producing quality data affects the quality of financial reports of the NGOs. The drivers for leadership included the board and management independence, effectiveness of both the board and NGO management

and the technical knowhow of the staff enhances the quality of financial reports. The study also deduced that transparency plays a role in enhancing the quality of financial reports. The study finally concludes that transparency contribute most to quality of financial reports of nongovernmental followed by leadership with computerized accounting system contributing the least to the quality of financial report of nongovernmental organizations.

5.4 Recommendations for policy

From the study findings, it was clear that computerized accounting system in terms of its speed, timeliness, accuracy and quality of reports generated affects the quality of financial reports of the NGOs. The study therefore recommends that in order to ensure that the NGOs have quality understandable reports; they should invest in computerized accounting system since it is seen to affect the financial reports to a great extent. The study further recommends that leadership enhance financial reports at the organizations to a great extent, the NGO management should increase leadership effectiveness in both management and board. The study further recommends that the transparency of the NGOs should continue being stable for a better general operation of its activities.

5.5 Limitation of the Study

The study observed three limitations during this research study, the first limitation was seen during data collection, in that the time was quite short to reach all respondents given their geographic locations thus leading to the 80% respondents, secondly it was noted that some questionnaires were not filled since the management did not respond well and since the study adapted the drop and pick method of distributing the questionnaires which relied majorly on the respondents ability to fill

the questions effectively, the researcher had no control over the respondents and lastly is that some NGOs had incorrect records of their locations thus the researcher could not find the NGOs at the location that is indicated by the NGO Coordination board data therefore leading the researcher to go an extra mile of calling the organizations to confirm of their locations thus leading to delays.

5.6 Areas for Further Research

The study recommends three areas for further research; first more research should be done on the effect of computerized accounting systems on the Non-Governmental Organizations in Kenya so as to allow for generalization. Second further research should be done on the extent of adaption of computerized accounting systems by the NGOs in Nairobi County. Third is that more research needs to be done on the advantages of computerized accounting system compared to manual accounting systems on the quality of financial reports in Nairobi County.

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APPENDIX

RESEARCH QUESTIONNAIRE

Dear Respondents, The researcher is a student at The University of Nairobi pursuing Masters of Business Administration. The questionnaire is designed for academic purposes and for partial fulfilment the Award of a Degree in Master of Business Administration. It's only through your response that the work can be completed well. Therefore any information disseminated will be handled with maximum confidentiality. Please spare a few of minutes of your time to answer the following questions, they mostly involve ticking a response in the space provided and a few filling in.

TITLE: Effect of Computerized Accounting Systems on the Quality of Financial Reports of Non-Governmental Organizations in Nairobi County, Kenya

Name of the NGO

SECTION A

Quality of Financial Reports

Use a scale of 1-5 where 1= Strongly Agree and 5 = Strongly Disagree

	1	2	3	4	5
The financial reports produced are clearly understandable by the donors	[]	[]	[]	[]	[]

There is sufficient reliable information on budget	[]	[]	[]	[]	[]
--	-----	-----	-----	-----	-----

implementation

The financial accountability in this NGO can be rated [] [] [] [] []
as adequate

The staff concerned with funds of the NGO are [] [] [] [] []
trustworthy

The NGOs financial reports information is accurate [] [] [] [] []

The NGO's financial reports are understandable. [] [] [] [] []

The NGO's financial reports contain all relevant [] [] [] [] []
material information

The NGO's financial reports produced provide [] [] [] [] []
relevant information to the donors for decision
making & planning

SECTION B

Computerised Accounting System

1. Answer the following questions using a scale of 1-5 where 1= Strongly Agree and 5 = Strongly Disagree

	1	2	3	4	5
The accounting system used in the NGO is computerized	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The NGO relies on computerized system to record data	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. When did the NGO computerise the systems?

- 0-1 year ago
- 2-3 years ago
- 4-5 years ago
- 6 and above years ago

3. What computerized accounting software package is used in this NGO?

- Sage
- Quick Books
- SAP
- Tally
- Peachtree
- Others Specify

4. What factors are considered in choosing the above accounting software? please tick as many as possible

Initial cost of installation []

Cost Benefit Analysis []

Cost of training []

Acceptance by users []

Knowledge of employees []

Adaptability of workers []

Other specify_____

5. To what extent does the organisation use the accounting software package selected above?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Sage	[]	[]	[]	[]	[]
Quick books	[]	[]	[]	[]	[]
SAP	[]	[]	[]	[]	[]
Tally accounting	[]	[]	[]	[]	[]
Peachtree	[]	[]	[]	[]	[]
Other specified above	[]	[]	[]	[]	[]

6. To what extent do you agree that your choice of computerised accounting system was motivated by the following factors?

Use a scale of 1-5 where 1= Strongly Agree and 5 = Strongly Disagree

	1	2	3	4	5
The need to facilitate financial management	[]	[]	[]	[]	[]
The positive impact of CAS on NGOs performance	[]	[]	[]	[]	[]
The need to improve quality of reports	[]	[]	[]	[]	[]
The accounting systems are user friendly	[]	[]	[]	[]	[]

7. Rate the Computerised accounting system that the NGO is using in terms of the below variables

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Speed Improvement	[]	[]	[]	[]	[]
Level of Data Accuracy	[]	[]	[]	[]	[]
Error reduction on the Financial statement	[]	[]	[]	[]	[]
Ease Recording	[]	[]	[]	[]	[]

procedure

Timelines of reports [] [] [] [] []

Data Security [] [] [] [] []

Organization of data [] [] [] [] []

processed

8. In case your organization is using manual accounting system, which factors prevented or are preventing your adoption of computerized accounting systems (CAS)?

Initial Capital []

Cost of training []

Staff expertise in IT []

Maintenance cost []

Security features []

Leadership

9. To what extent do the following financial statement scores rated in your NGO? Use a scale of 1-5 where 1= strongly agree and 5 = Strongly Disagree

1 2 3 4 5

The management and board is self-

governing [] [] [] [] []

The appointing authority of this NGO [] [] [] [] []

always adheres to the established policies and procedures for appointing the Board Of Directors.

This NGO's Committee effectively monitors all the transactions the NGO undertakes [] [] [] [] []

This NGO's Committee is very effective in the management of the NGO resources [] [] [] [] []

This NGO has an open recruitment policy for staff based on merit [] [] [] [] []

Transparency

10. How do you agree with the following driver? Use a scale of 1-5 where 1= strongly agree and 5 = Strongly Disagree

1 2 3 4 5
The managers of the NGO share with stakeholders [] [] [] [] []
program progress reports

There is sufficient control of the transparency of [] [] [] [] []
electronically processed cash receipts data

The NGO follow the legal frameworks that balance [] [] [] [] []
the right to disclose against the right of
confidentiality

The staff in this NGO have faith in the integrity of [] [] [] [] []
the top management

This NGO's staff members properly account for [] [] [] [] []
funds advanced to them

The past and current financial reports are valuable in [] [] [] [] []
creating long-term plans and preparing annual
budgets

The public believes in all the information released by [] [] [] [] []
officers of this NGO

Thank you for your valuable time

APPENDIX II

List of NGOS in Kenya as at 1st July 2014

1. A Global Healthcare Public Foundation
2. Action Aid International Kenya
3. Action Network For The Disabled
4. African Mental Health Foundation
5. African Propoor Tourism Development Centre
6. Agape African Women
7. Al Muntada Development Project
8. Al-Kawthar (The Blessed Development Organization)
9. Bethany Village Africa
10. Children's International Summer Villages, Kenya
11. Christian Aid (UK/1)
12. Christian Reformed World Relief Committee Of Canada
13. Church World Service And Witness
14. Community Organization And Training For Risk Reduction
15. Community Servants
16. Community Urban Rural Education International
17. Community Visions
18. Community Welfare Agency
19. Concern Universal
20. Consolation For Orphans And Vulnerable Children
21. Consortium For National Research
22. Embakasi Community Development Organization
23. Enaitoto Naretu Olmaa Coalition
24. Family Programmes Promotions Services
25. Focussed Mission On Development Organisation
26. Fraternity For Rural And Research
27. Give Us Wings
28. Global Rescue Emergency Disaster Victims
29. Gold Star Kenya
30. Gracious Life Touch International
31. Habitat For Humanity In Kenya
32. Health Management Agency
33. Health Users Alliance
34. Hope Worldwide Kenya
35. Humanitarian Africa Relief Development Organization
36. Hut To Earth International
37. Intrahealth International

38. Islamic Relief Kenya
39. Jawabu Art Centre
40. Jiweze Women Development Programme
41. Joint Epilepsy Foundation
42. Kenya Aids Ngo Consortium
43. Kenya Muslim Charitable Society
44. Kenya Orphans Rural Development
45. Kenya Women And Youth League
46. Kibera Community Self Help Programmes Kenya
47. Maisha Restoration And Rehabilitation Centre
48. Majaso Human Development
49. Medicos Sin Frontiers Spain (MSF Spain)
50. Mennonite Board In Eastern Africa
51. Muslim Aid
52. Najdah Help Foundation
53. Nazarene Compassionate Organisation
54. New Life Mission Kenya
55. Noble Actions International Organisation
56. Orphan Aid – Africa
57. Orphans Development
58. Pathfinder International
59. Poverty Reduction Supportive
60. Resource Institute For Community
61. Rural Aid Kenya
62. Rural Hope Foundation
63. Seeds Of Peace Africa International
64. Senior Women Citizens For Change
65. Shine bean Kenya
66. Slum Empowerment Initiative
67. Slums Information Development And Resource Centre
68. Spigot Institute
69. Sustainable Integrated Herders Institute Network
70. Peace Building, Healing And Reconciliation Programme
71. Winrock International Institute For Agricultural Development
72. Sustainable Project Administration Services
73. Unity for Women Economic and Social Organisation
74. Voice in The Wilderness International
75. Women Federation For World Peace -Kenya
76. Women United Against Difficulty
77. World Concern International

78. World Renew
79. Youth Care And Empowerment
80. Youth Muslim Association

Source: NGO Coordination Board (2013)