

**THE EFFECTS OF FINANCIAL ACCOUNTABILITY ON THE EFFICIENCY
OF NON-GOVERMENTAL ORGANISATIONS IN GOVERNANCE SECTOR
IN NAIROBI COUNTY**

BY

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT
OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF
MASTER OF SCIENCE IN FINANCE, SCHOOL OF BUSINESS,
UNIVERSITY OF NAIROBI**

OCTOBER 2014

DECLARATION

I, the undersigned declare that this research project is my original work and has not been presented for a degree in any other university

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This research project has been submitted for examination with my approval as a university supervisor

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ACKNOWLEDGEMENT

I thank the Almighty God for this far that He has taken me! My sincere appreciation goes to my supervisor Dr. Josiah Aduda without whom this research project would not be. I am equally greatly indebted to my classmates and members of my family whose support and encouragement was amazing. I once again thank all including the categories not mentioned above, who contributed to the completion of this deserving piece of work. God bless you.

DEDICATION

I dedicate this research project to my family and many friends. A special feeling of gratitude to my loving husband, Paul Ndungu whose words of encouragement and push for tenacity ring in my ears and also for his financial support. To my parents who taught me that even the largest task can be accomplished if it is done one step at a time.

ABSTRACT

Financial accountability has been one of the most problematic and prevalent issues for business worldwide for a long time; however, there has been much more attention and research dedicated to the topic after the scandals such as Enron, WorldCom and others. Increase in financial misappropriation and number of corporate scandals had an important impact on understanding and analyzing financial accountability and in turn on audit of the same and its regulation. Poor economic management and governance by African Governments has resulted in donors shifting their attention and increasing funding to NGOs from the early 1990s. However, the NGOs are faced by many fraud and corruption scandals and individuals abusing disaster relief and donations with effect of financial accountability on efficiency remaining unknown. This study therefore sought to bridge this gap by investigating the effect of financial accountability on the efficiency of non-governmental organizations in Nairobi County. The research adopted a descriptive design. The population consisted of all NGOs registered with NGO Coordination Board in governance sector that were located in Nairobi County from which a random sample of 72 NGOs in governance sector. Data was obtained from primary data using structured questionnaire using the Likert measurement scale. Data collected was sorted, classified, coded and analyzed using Data Envelopment Analysis (DEA) to measure the efficiency of NGOs and analyzed using SPSS version 21. Likert scale was highly used to measure the variables. The study found that financial accountability has positive and significant effect on efficiency of nongovernmental organizations in governance sector in Nairobi County. Additionally, the study found that individually and combined, financial accountability, staff experience and organization of NGOs have positive effect on NGO efficiency. NGOs with flat hierarchy were found to have better flow of information which promotes financial accountability and consequently efficiency of the NGOs. The study also found that NGOs using high percentage of their income from donor sources are less efficient than those using income from other sources. The study recommends formulation of policies by the relevant regulatory bodies to ensure that the NGOs enhance accountability for improved efficiency.

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ABBREVIATIONS AND ACRONYMS

CBO	Community Based Organizations
CEO	Chief Executive Officer
DEA	Data Envelopment Analysis
GoK	Government of Kenya
NGOs	Non Governmental Organization
NFPs	Not for Profit
PWC	Price water House Coopers
VFM	Value for Money

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Financial accountability is the management of the finances of an organization in order to achieve the financial objectives of the organization. It results from holding an individual accountable for effectively performing a financial activity, such as a key control procedure within a financial transaction process. It broadly embraces two aspects, namely: Financial planning which is a plan to ensure that enough funding is available at the right time to meet the needs of the organization for short, medium or long-term capital and financial control which seeks to assess whether the plan put forward meets the objectives of the organization in question (Tooley and Hooks, 2009).

Accountability is the obligation owed by anyone occupying a position of trust or responsibility to provide appropriate response to all stakeholders, for action carried out and/or performance achieved in the discharge of his duties. Accountability is an obligation because it goes as a corollary to the responsibility and authority to perform assigned duties. It' is therefore a necessity, whether or not formally requested (Asobie, 1991).

Intensified interest in NGO accountability is due to insufficient government oversight on NGOs; absence of the direct voter or stakeholder dynamics of the public and private sectors; increasing number of NGOs; increasing size, assets and influence of NGOs; increasing reliance on NGOs for delivery of necessary aspects of civil society

and social programs; increasing media coverage and public scrutiny resulting from NGO scandals; shift from funding via governments toward direct funding of NGOs; belief that increased accountability fosters public trust in the NGO sector; belief that increased accountability will result in enhanced NGO efficiency and effectiveness; belief that voluntary self-regulation will prevent unnecessary or burdensome government oversight; and a belief that accountability is inherently “the right thing to do” (Edwards and Hulme, 1994).

Although recent case studies and other empirical work in form knowledge of accountability processes, such studies are limited in number and scope. We know even less about what differentiates NGOs that implement accountability practices from those that do not. In addition, NGO accountability remains under-conceptualized, with existing conceptualizations of accountability limited largely to legal or operational matters and limited in comparative context

1.1.1 Financial Accountability

Financial accountability is the requirement to provide information to parties both inside and outside the organization. It is the process of identifying, measuring and communicating economic information to permit informed and rational decisions to be made. Accountability refers to the final responsibility for the success or failures of an organization (Viswesvaran, 2006). This final responsibility is usually with the governing body, which delegates this function to the Chief Executive. Accountability is a key requirement of good governance. Not only governmental institutions but also the private sector and civil society organizations must be accountable to the public and to their institutional stakeholders. An organization or an institution is accountable

to those who will be affected by its decisions or actions. Since NGOs get most of their funding from donors, accountability for NGOs is usually to the donors, the beneficiaries, the employees and other stakeholders (Wells, 2003).

Financial accountability includes financial reporting and analysis, the nature, frequency and purpose of financial reporting, auditing, analysis and interpretation of financial performance; Working capital accountability non-financial and financial considerations in asset acquisition, quantitative techniques for capital project evaluation, investment hurdle rate determination and handling risk and uncertainty in this context; financial structure accountability- financial leverage or gearing, accounting to lenders, knowledge of sources and uses of finance, non-financial and financial considerations in financial structure decisions and non-financial and financial considerations in profit distribution decisions; Financial planning and control- financial objectives and targets, cost-volume profit analysis, pricing, financial budgeting and control, and accountability responsibility centers; Financial advice- internal and external sources and types of financial advice and use of public accounting services; Financial accountability- expertise informal and formal education, training and experience in financial accountability, relevant qualifications, and overall financial accountability expertise (Kanyinga and Mitullah, 2007).

Financial accountability gives NGOs legitimacy and credibility, contributes to their reputation and adds to their sustainability. Good financial accountability limits fraud and mismanagement (Viswesvaran, 2006). It also empowers beneficiaries and other stakeholders since information is power. Nairobi being the capital city of Kenya has the largest population hence financial accountability plays the key role in ensuring the success of the various NGOs all over Nairobi.

Well-defined financial accountability structure serves as the foundation for establishing effective financial processes. Accountability is officially delegated from a governance group, such as the Regents, or from an individual having delegated authority to a specific individual. An individual accountable for the successful completion of a key control procedure may, as policy allows, assign the responsibility, but not the accountability, for completing the procedure to another qualified individual (Lin, Hwang and Becker, 2003).

Financial accountability tells you what policies your board should adopt or has adopted to meet their responsibility for ensuring that the organization they govern is financially sound. They would then hold those who manage the organization accountable for implementing these policies. Policy areas covered: finances, budgets, asset protection and major risks (Lee, Ali and Kandasamy, 2008). Kingoro and Bujra (2009) noted that financial accountability has been one of the most problematic and prevalent issues for business worldwide for a long time. Increase in financial misappropriation and number of corporate scandals has an important impact on understanding and analyzing financial accountability and in turn on audit of the same and its regulation. Since NGOs get most of their funding from donors, accountability for NGOs is usually to the donors, the beneficiaries, the employees and other stakeholders (Wells, 2003).

1.1.2 Efficiency of NGOs

NGOs are widely believed to be more efficient than official aid agencies in delivering foreign aid to the poor and needy in recipient countries. NGOs spend relatively more on charitable activities since they are less concerned with collecting private donations through fundraising efforts (Nunnenkamp and Ohler, 2010). Not-for-profit organizations often have difficulty staying focused on the mission and measuring performance due to multiple and, at times, conflicting objectives as members and donors of these organizations often have far more diverse interests than shareholders in for-profit organizations. This means that development of systems and measure to evaluate performance in not-for-profits can be a challenging process (Epstein and Buhovac, 2009).

Efficiency is when an organization is producing at its maximum in relation to its input. Because of its specific characteristics, when it comes to estimating efficiency in a non-profit association, a number of complications appear and one of them is to set goals that are possible to follow up (Coelli, Rao and Battese, 2005). If non-profit organizations justify their existence on the grounds of efficiency alone, they may lose out in the end (Anheier, 2000). Frumkin and Andre-Clark (2000) state that non-profits have too many constraints attached to their market behaviour to compete with for-profit organizations in the same market. They have disadvantages in their ability to raise capital, to introduce incentive schemes, and face the additional penalty of loss of legitimacy and decline in volunteer input. Frumkin and Andre-Clark concluded that economizing alone will not help non-profit organizations it may only serve as vehicle to extinction or transformation.

Efficiency of NGOs has become a subject to an extensive research and a hot debate. On one-hand foundations, donors and the general public are concerned about the way NGOs spend their money and want to ensure that they do it in the most cost effective manner. Efficiency of NGOs is important because many NGOs are not exposed to the competitive environment that characterizes the for-profit sector. Competition imposes efficiency on commercial companies since less efficient companies will eventually, either be forced to improve, or will disappear. On the other hand NGOs that provide free, or highly subsidized services, have to compete for funding, but not for clients. Thus, inefficient NGOs will provide less (or lower quality) services, but their clients may not know it or will not have any other option. Since the market mechanism that enforces efficiency does not exist for NGOs, foundations and donors are rightfully concerned (Malki, 2008).

1.1.3 Financial Accountability and Efficiency of NGOs

The increasing attention devoted to NGO accountability has increased the pressure for NGOs to “perform” relative to each other. Different initiatives have been tried to develop standards to assess NGO effectiveness and efficiency, sustainability and accountability. However, there is a lack of systematic comparisons across time and among organizations. Perhaps the most systematic, objectively quantifiable and abundant measure available out there to compare the efficiency and accountability of organizations is their level of “financial accountability.” This measure of accountability is based on the assumption that accountable organizations devote the greater part of their donations to their promised missions. Another assumption is that the 80/20 ratio model to allocate financial resources, derived from practices in the corporate world (80% of resources for projects and 20% for administration), seems to be the most appropriate model for setting a standard to compare organizations. The

logic is that efficiency in using funds means that an organization is more accountable to its donors (Charity, 2007).

A vital measure to evaluate the quantitative parameters of accountability and efficiency is the financial statements of organizations. These statements provide the stakeholders with an insight on the financial situation of the organization and facilitate better planning and monitoring of activities. With soliciting and using the donor funds comes the responsibility of being able to justify and provide clarity on the usage of funds and also plan for effective utilization of the limited resources. Therefore transparency is an essential condition for accountability. NGOs are striving to gain the confidence of their donors and internally create a committed organization. Many NGOs are proactively deciding what more can they inform their stakeholders. The disclosures in the financial statements are better and if any person from anywhere in the world is able to understand the financial statements then the objectives of transparency are achieved (Lewis, 2009).

1.1.4 NGOs in Governance sector in Nairobi County

Traditionally, Kenyans lived in communities characterized by strong patterns of social ties and relations. People came together to promote mutual interests, pool resources, express ideas and participate in the governance of their communities as the communal structures afforded them the vehicles to do so. These structures included ethnic and kinship groups, such as families, clans and lineages, as well as councils of elders and age groups (Kanyinga and Mitullah, 2007).

Associational life is still deeply rooted in Kenya. It forms the basis on which Harambee (self-help) initiatives thrive. The term civil society, however, is relatively recent and is often associated with quests for social transformation and the realization of social justice. From the early 1920s until 1963, civil society organizations (NGOs) played a prominent role in the struggle for independence. From the time of independence until the late 1970s, many NGOs worked closely with the government to complement its service delivery efforts (International Center for NFP Law, 2013).

However, the 1980s and 1990s were characterized by new dynamics: as western donors made economic support to the Government conditional on good governance and democratization, NGOs began to demand a multi-party system. NGOs also became more vocal on national political issues such as constitutional reform and good governance. Indeed, NGOs contributed immensely towards the transition (in 2002) from authoritarian to democratic rule through their efforts to advance political rights and freedoms as well to broaden the democratic process (International Center for NFP Law, 2013).

Since 1963, the beginning of Kenya's history as an independent country, the government of Kenya has encouraged the development of indigenous NFPs, locally called community based organizations (CBOs). Kenya's first president, Jomo Kenyatta called on local groups to pull together to achieve what they could on their own, promising that the government would supplement local efforts. Today in Kenya, both local, community based self-help groups and foreign based NGOs still exist. Both are registered with the government (Brass, 2010).

NGOs in Nairobi and in Kenya at large gather its membership from international, regional and national NGOs operating in Kenya and working with a host of CBOs and groups. These NGOs are active in a cross section of sectors including: agriculture, water, education, environment, health, human rights, gender and development, children's rights, poverty alleviation, peace, population, training, counselling, small scale enterprises, disability and many others. NGOs in Kenya are regulated by the NGO Council which provides overall leadership to the NGO sector. It champions the key values of probity, transparency, accountability, justice and good governance. It enhances the self-regulation of its members, and assists them to realize their potential in improving services that improve the socio-economical status of Kenyan society in pursuit of sustainable development (NGO bureau, 2014).

1.2 Research Problem

Financial accountability has been one of the most problematic and prevalent issues for business worldwide for a long time; however, there has been much more attention and research dedicated to the topic after the scandals such as Enron, WorldCom and others. The 5th Global Economic Crime Survey performed by PwC (2009) reports that fraud remains a pervasive business risk and almost every firm is subject to occupational fraud in their daily business, leading to huge losses for business and society. Increase in financial misappropriation and number of corporate scandals had an important impact on understanding and analyzing financial accountability and in turn on audit of the same and its regulation.

Poor economic management and governance by African Governments resulted in donors shifting their attention and increasing funding to NGOs from the early 1990s (Rose, 2007). Increased disbursements through NGOs led to the mushrooming of NGOs, who in turn used local community organizations as their entry point for development work at the grassroots. This resulted in proliferation of organizations in the development space; however the growth has been sluggish due to the mismanagement of funds in the NGOs institutions which has led to donors shying away. With many fraud and corruption scandals and individuals abusing disaster relief, donations have subsequently slowed for many organizations. If this funding was to dry up, it would likely mean that the NGOs would no longer be fiscally viable and would cease to operate (Cruz, 2003).

The overall National Development objectives of the NGOs among others include: accelerated economic growth and rising productivity of all sectors, equitable distribution of national income, alleviation of poverty, enhanced agricultural productivity and improved rural urban balance (GoK, 2009). For these goals to be realized all factors of production including NGOs performance must closely be coordinated to optimally harness on their complementary role. NGOs financial impropriety in the country continues to grow with consequential negative effect on NGO earnings, loss to public and investor confidence as well as underperformance (Porter and Gowthorpe, 2004).

There has been growth in financial misappropriation cases among NGOs indicating the need for research on approaches that can better enable auditors and investigators to detect and prevent potential misappropriation in NGOs. This study aimed at providing an understanding to the non-governmental organizations of the financial malpractices in the financial process and its resultant impact on the delivering of services to the general population by finding out the effects of financial accountability on the performance of non-governmental organizations in Nairobi County. As proved in literature review, there is lack of non-governmental sector financial accountability within NGO's which often leads to poor service delivery. This study therefore sought to answer the following question; are the NGOs in the governance sector in Nairobi county financially accountable and has this accountability affected their efficiency?

1.3 Objective of the Study

1.3.1 Main Objective

To establish the effect of financial accountability on the efficiency of non-governmental organizations in governance sector in Nairobi County

1.3.2 Specific Objectives

1. To establish the effect of staff experience on the efficiency of NGOs.
2. To establish the effect of organization structure on the efficiency of NGOs.
3. To establish the effect of donor dependency on the efficiency of NGOs.
4. To establish the effect of transparency and accountability on the efficiency of NGOs.

1.4 Value of the study

The study draws importance in the way it provides new knowledge in the field of finance and accounting, as it provides diversity in the many possible effective ways of financial control mechanisms, highlighting the cogency of adopting this form of operation. The study findings can help NGOs to enhance capacity to build mechanisms in order to increase the quality of financial reports.

The study findings have generated knowledge for the donors about why local NGOs fail to comply with donor requirements. This can help the donors to identify what kind offer technical support they should provide the NGOs before giving them any funding in order to ensure acceptable quality of financial reports.

The study findings can also help NGOs in improving their compliance to donor requirements and thus improve their capability to attract more funding and ensure their organizational sustainability. The results of this study are also of valuable to researchers and scholars, as it forms the basis for further research. The study is a source of reference material for future researchers on other related topics; it can also help other academicians who undertake the same topic in their studies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents review of literature on the effect of financial accountability on the performance of NGOs. The sources of literature included books, journals and other published articles. This chapter identified the research gaps that existed between what other researchers had done and what this study aimed to tackle.

2.2 Theoretical Review

The study was anchored by Resource Mobilization Theory, Fraud Theory also known as Differential Association theory and Agency Theory, which is related to financial accountability and efficiency.

2.2.1 Resource mobilization theory

According to resource mobilization theory, it is the NGO role to harnessing the disaffected energies, attracting money and supporters, capturing the media's attention, forging alliances with those in power, and creating an organizational structure. The theory recognizes that resources required by NGOs in the form of 'money' are the most important one. Without this resource NGOs cannot activate the other resources in the agency / community. In the market oriented economy like Kenya, it is the monetary resource, which determines the expansion or contraction of other resources. This theory assumes that without such resources, social movements cannot be effective and further that dissent alone is not enough to engender any social change (Kendall 2006).

Mobilization is the process of forming crowds, groups, associations, and organizations for the pursuit of collective goals (Oberschall, 1969). Organizations do not spontaneously emerge but require the mobilization of resources. Resource mobilization is a sociological theory that forms part of the study of social movements. It stresses the ability of movement's members to acquire resources and to mobilize people towards the furtherance of their goals. Kendall (2006) In contrast to the traditional collective behaviour paradigm that views social movements as deviant aberrations, resource mobilization--which emerged in the 1970s--views social movements as formed by rational social institutions and social actors taking political action (Buechler 1999).

This theory is based on the assumptions that individuals are rational. Also, it views social movements as a goal-oriented activity. Thus, following rational choice theory, individuals are viewed as weighing the costs and benefits of movement participation and deciding to act only if benefits outweigh costs. When movement goals take the form of public goods, the free rider dilemma has to be taken into consideration. Organization is more important than acquisition of resources, or than resources themselves. Organization focuses on interactions between social movement organizations (SMOs) and other organizations (other SMOs, businesses, governments, etc.).

Resource mobilization theory states that the entrepreneurial model blends economics and organization theory to account for collective action. It argues that grievances are not enough to lead to the creation of a movement, and instead that access to and control over resources is the most important factor. This model states that the flow or

resources from and towards the group can be best explained by the laws of supply and demand, and that individual or group involvement (or lack thereof) is accounted for by rational choice theory (Kendall, 2006).

Critics point out that resource mobilization theory fails to explain social movement communities. The political version of RMT focuses on the political struggle instead of economic factors. Critics have argued that it fails to account for social change brought about by groups with limited resources and that it marginalizes the role of grievances, identity and culture as well as many macro-sociological issues (Kendall, 2006).

2.2.2 Fraud Theory/Differential Association Theory

The theory explains the circumstances and the motives that lead to one committing fraud and hence enlightening on the ways of preventing fraud. According to Alatas (1990) the problem of fraud is trans-systemic that is, it is there in all systems- feudalism, capitalism, communism, and socialism. It affects all classes of society, all state organizations, monarchies and republics; all situations in war and peace; all age groups; both sexes and times; ancient, mediaeval and modern.

Fraud is one of the top concerns for corporate executives. During the recent years many organizations have faced corporate scandals due to fraud, making the executives face the consequences of large fines and prison time (Ernst & Young 2009). The term, fraud, can also be defined as the misrepresentation of facts, purpose of persuading another party to act in a way that causes injury or damage to that party. The factors that push an ordinary person to commit fraud include opportunity, motivation and rationalization (Harrison et al 2011).

If a person has all the three ingredients, motivation, opportunity and rationalization, a high possibility to commit fraud exists (Harrison et al 2011). From these three factors, motivation and opportunity are something the organization can have an effect on. These two are directly influenced by the corporate environment and further more by management. The opportunity can arise by the lack of control and security within the company.

The motivation, or pressure can be created by demands of higher earnings, or it can also arise from the top of the company. A tone that places an inappropriate emphasis on financial results or stock price may send the message that cutting corners is acceptable. (Ernst & Young 2009). Rationalization is more of a psychological factor, which arises from within the individual person. By rationalizing the fraudulent behaviour, the person committing the fraud assures him or herself that it is acceptable to be doing so, to give an example, a person could rationalize stealing money, as “I have always worked so hard, therefore I deserve it”, this way a person makes the act feel as if it was justified. (Harrison et al. 2011).

The common types of corporate fraud are misappropriation of assets, fraudulent financial reporting and corruption. From these the first one mentioned is the most common one. Asset misappropriation accounts for 88.7% of the incidents reported, corruption 27.4% and fraudulent financial reporting accounted for 10.3% of incidents, which was the least frequent form of occupational fraud (Ernst & Young 2009). Adeoti (1996) approached the issue from the prevention point of view, stated that the cheapest and best approach to the prevention of fraud is precaution. Cherrington (1981) as quoted by Adeoti suggested a three-pronged attack on employees' fraud,

namely:-Elimination of pressure to commit fraud -Elimination of opportunities to commit fraud and -Increasing personal integrity.

There are two most common types of fraud impacting financial statements which are; misappropriation of assets: employees stealing money and covering it up by making wrong entries to bookkeeping and fraudulent financial reporting: managers making false and misleading entries to the financial statements, making the company to appear better than in reality. Even though fraudulent financial reporting seems to be the least frequent form of fraud, it is by far the most expensive, in terms of both money and long-term damage (Harrison et al., 2011).

Overstating revenues or incorrectly recognizing revenues are one of the most common types of fraud on financial statements. The schemes include: recording gross revenue, instead of net; recording revenues of other companies when acting as a “middleman”; recording sales that have not happened; recording future sales in the current period and; recording sales of products that are out on consignment. The red flags in these kinds of situations are: increased revenues, without a corresponding increase in cash flow; unusual or highly complex transactions, especially ones closed near the end of a financial period; in receivables the unusual expansion of days’ sales; or high revenue growth when competitors are experiencing weak sales (Ernst & Young 2009)

One other common type of financial statement fraud is understating expenses. This leads to higher operating income and overall net income. The schemes in these kinds of cases include: reporting cost of goods sold as a non-operating expense so it does not negatively affect gross margin; capitalizing operating expenses, so recording them

as assets instead of as expenses; and some expenses are left out recording, or they are recorded in the wrong period. Red flags related to these can be: unusual increase in income, unexpected increase in assets or allowances for sales returns, warranty claims, and others that are shrinking in percentage terms or are otherwise out of line with the companies from the same industry (Ernst & Young 2009).

Improper asset valuation is also a type of fraud used. The schemes used are manipulating reserves, changing the useful lives of assets, not making a write down when needed, and manipulating the fair value of assets. The red flags related to these include: repeating negative cash flows, but reporting of earnings; noticeable decrease in customer demand and increasing business failure in the industry or the economy; or estimates on assets, liabilities, revenues and expenses are based on subjective subjects and high uncertainties (Ernst & Young 2009).

Some other schemes related to fraudulent financial reporting include smoothing of revenues, so overestimating liabilities during “good” periods, and storing away funds for future use; reporting information improperly, especially when it comes to issues related to “party” –transactions and loans to management; or executing highly complex transactions(Ernst & Young 2009). Financial management must analyze the conditions leading to fraud so as to take appropriate policy and procedural measures to control or prevent its occurrence. Such measures may include regulations, relationships, attitudes, and awareness needed to minimize opportunities and help individuals resist the temptation to engage in such criminal acts. Thus Okafor (1986) argues that fraud is a matter of the individual, choosing to cash in when the opportunity arises. Alashi (1994) in his own case opined that fraud occurs when intent

and opportunity exist.

2.2.3 Agency Theory

The theory is associated with Fama and Jenson (1983). It assumes that there exist conflict between the board and the managers. Therefore, it is the board's task to supervise the self-interested behaviour of management in order to secure stockholder interests. Agency theory implies that since board members interests are aligned with those of stockholders, they will be acting primarily for the benefit of shareholders. For such situation to take place, certain incentives must be provided to board members (usually stock ownership). Moreover, board members should be kept distant from management; there can be no 'insiders'. Insiders are typically those with significant ties to management, such as former or current executives of the organization.

In NGOs, agency theory propositions might be explained by adherence to mission or purpose. Legally, NGOs are responsible to fulfil a duty of obedience, which effectively means that the directors are in charge of ensuring that the organization realizes its public responsibility as revealed in its organizational mission (Sasso 2003). The boards prevent the organization from getting involved in activities outside their bylaws or statutes. Therefore, the boards should not be concerned purely about financial performance, but primarily about complying with the social rationale for the organization's existence. The board makes strategic decisions for the future, but it should also be aware of the historical precedence of the organization and its reason for being.

Within the work of Chait (1991), agency theory contextual dimension mirrors the board's function as a supervisory. This dimension stresses the significance of honouring historical precedence in mission direction of the organization. The board is expected to analyze all aspects of the context of the organization's operating environment in order to successfully link decision making to organizational mission. The contextual dimension is just one element of the supervising function proposed by agency theory for corporate governance, yet in the case of the NGO boards it is the unique function within this theoretical framework

2.3 Determinants of Efficiency in NGOs in Governance Sector

Efficiency is attained when an organization is producing at its maximum in relation to its input (Coelli, Rao and Battese, 2005). NGOs efficiency can be measured both in quantity and in quality. Epstein and Warren (2011) state that NGOs need to provide important information to donors, about the organization's efficiency of spending valuable resources, costs incurred, revenue growth, and how financially successful the organization is with its various programs.

Epstein and Warren (2011) explain that firstly an NGOs must be administratively efficient that is it must keep a check on its administration expenses and ensure that these are kept at an all time low. The percentage of revenues the organization spends on administrative expenses must be low. On the other hand, an NFP must be programme efficient meaning that it spends a big percentage of its revenues on programme expenses. They further state that an efficient NFP must keep the donor dependency ratio in check thus ensuring that the organization is able to survive for long period of time without depending on donor funds.

For an NGO to be efficient it must have proper organizational structures for it to be able to carry out its core business (Molomo and Somolekae, 1999). Lektorweand Mpabanga (2007) explains that to be efficient NGOs must have well experienced personnel who are able to manage daily affairs and plain effectively and monitor their projects and programs. NGOs face financial constraints and depend on volunteers to carry out many of their tasks. Further, for an NGO to be efficient it must ensure that there is transparency and accountability in managing all its operations.

2.4 Empirical Review

There have been prior studies conducted which aimed at examining the effects of financial accountability on the performance of non-governmental organizations in Kenya. This study fits into the framework of these studies and contributes to extant literature. For the purposes of this study, it is useful to categorize them in relation to their concept, scope, approach and findings.

Lee and Ali (2008) conducted a study on the relationship between financial accountability and financial performance and concluded that there is a strong positive relationship between financial accountability and financial performance. The reasons given explaining the findings were that financial accountability improved financial performance; the goal of financial accountability was to improve performance, not to place blame and deliver punishments. The study noted that systems of budget reporting had been established with the accounting for NGO expenditures and the provision of information on performance for use by implementers, managers and

politicians. The mismanagement and embezzlement of funds by the officials of the non-governmental organizations had contributed to poor NGOs performance.

Koornhof and Du Plessis (2000) took an empirical approach to assessing the usefulness of the annual report as a mechanism of accountability. They analyzed the annual report of Chief Constable for 22 years and found out that for the annual report to be the principal means by which an authority is held to account, it must contain improved measures of efficiency. Kanyinga and Mitullah (2007) surveyed three user groups to find out what they wanted in financial reports. Their study showed that the inclusion of performance information (five or ten year trend) was desirable and would shed more light on the performance of NGO sector organizations.

Moyes and Hasan (1996) also echoed this view when they used the content analysis technique to analyse 18 government agencies annual report. Their study revealed that the disclosure for accountability in terms of evidence of reporting to stakeholders on performance purposes appeared to be lacking. The above results were also supported by Ones and Viswesvaran (1996) when they verified that performance information in addition to financial statements was of more importance. According to Borman (1991) poor quality of financial reports greatly diminishes the quality of NGOs. Quality information is one that is readable, reliable, comparable, consistent, complete, timely, decision-useful, accessible and cost effective. The integrity of the nonprofit sector is served best if NGOs are accountable.

Jones (2009) also conducted a study on how financial accountability can be effective and concluded that action should be taken upon institutions, which render inadequate financial accountability. There may be a functioning financial system, but due to information asymmetries or social polarization, the outcomes may still be biased against the poor. The wide range of cost estimates itself hints at an insufficient level of financial accountability in these programs, while also provoking the important question of what society is receiving as a return on its substantial investment in the regions.

Baron et al (2007) also in their study concluded that, effective financial accountability to non-governmental organizations requires that NGO staff support their departments through their actions, advice and information. The study also found that effective and useful financial accountability measures must be unambiguous, either monotonically increasing or decreasing measures of either costs or benefits. Further, Batley (2006) concluded that the non-governmental organizations financial process should be thoroughly documented to ensure financial accountability. Moyes et al., (2006) further found that financial reports must exhibit certain qualities that make them useful to the stakeholders and these include relevance, reliability, understandability and timeliness. The operators who actually deliver financials to people might not do so in the proper way if left to their own devices, therefore non-governmental organizations must design a system to compel their proper behavior or force them to account for improper behaviour.

Bosch(2002) in his study concluded that formulators and overseers of policy are “principals” who delegate the task of actual implementation of policy to subordinates, or “agents.” Principals and their agents are assumed to have more or less diverse, even divergent preferences and goals for policy implementation. At the extreme, some rational-choice theorists contend that agents will tend to “shirk” the implementation work, “subvert” the policy goals of their principals in order to further the agents’ own purposes, and even “steal” whatever program resources they can. To solve this “agency problem,” the designers and overseers of policy need to operate a financial accountability system that will mitigate the supposed tendency of subordinates to shirk, subvert, and steal. The “agency problem” is essentially a financial accountability problem.

Australian Accounting Research Foundation (1990) found to ensure efficiency and accountability, it was important for financial reports to be relevant. Financial reports must have value in terms in making and evaluating decisions about the allocation of scarce resources and in assessing the rendering of accountability by the providers. The reports must also be reliable because users use them for decision making. Reliability means that information is reasonably free from error and bias and faithfully represents what it purports to represent. Understand ability is the ability of users to understand the financial reports. This will depend in part on their own capabilities and in part on the way in which the information is displayed. Timeliness of financial reports is very crucial because reports which are relevant and reliable may be rendered irrelevant if there is undue delay in presenting them.

2.5 Summary of Literature Review

Many researchers have examined the relationship between variety of financial accountability mechanisms and firm performance. Based on the empirical studies gathered there have been opposing findings on the relationship between financial accountability and NGO efficiency. However, various scholars conclude that financial accountability has an influence on organization efficiency.

Following the above literature review, it is evident that the above authors and writers do not close the gap between the financial accountability and efficiency of the NGO sector. Further, most of the literature about the study variables is for the public sector and still in the developed world. Therefore, this study provided findings that tend to confirm this literature and to some extent to close the gap between the study variables

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This study aimed at establishing the effect of financial accountability on the efficiency of NGOs. This chapter has explained the methodology that was employed in conducting the study and specifically includes the research design, target population, sample size and sampling design, data collection methods, data analysis procedures and data validity and reliability.

3.2 Research Design

The research adopted a descriptive research design in order to determine the effect of financial accountability on efficiency of NGOs in Nairobi. The descriptive analysis enables the researcher to describe the relevant aspects of the phenomena under consideration and provide detailed information about each relevant variable.

3.3 Population of the Study

The population consisted of all NGOs registered with NGO Coordination Board in governance sector that were located in Nairobi County. The selection of Nairobi County was because the researcher had determined from Obiro (2006) that it had a comparatively high number of NGOs operating in close proximity which are inclusive of local and international NGOs working in governance sectors. According to the NGO board (2013), a total of 251 NGOs in governance sector are located in Nairobi County.

3.4 Sample Size and Sampling Technique

3.4.1 Sample Size

The sample size for the study was 72 NGOs in the governance sector in Nairobi county as determined using the formula below as recommended by Israel (1992):

$$n = \frac{N}{1 + N(e)^2}$$

Where: n = Sample size

N= Population size

e= Desired Confidence Level i.e. (0.1 for 90%; 0.05 for 95% etc)

The researcher targeted a confidence level of 90±5%. In order to achieve this, a minimum of 72 questionnaires were administered during the survey.

3.4.2 Sampling Techniques

The research was conducted using random sampling techniques, namely the simple random sampling. This was mainly because there was a listing of the population of interest and an equal chance for each unit in the population to be selected.

3.5 Data Collection Technique

The study relied on primary data that was collected through administration of a structured questionnaire using the Likert measurement scale. The questionnaire was divided into 3 sections. Section A pursued information on the organization background. Section B pursued information on financial accountability that was

relevant to this study. Lastly, section C pursued information on the organization's efficiency. A sample of the questionnaire is on appendix I.

3.6 Data Analysis Technique

Analysis of data was done in order to answer the research question of this study. Data collected was sorted, classified and coded then tabulated for ease of analysis. The data was summarized and categorized according to common themes. The SPSS (version 21) computer software aided the analysis as it was more users friendly and most appropriate for analysis of management related attitudinal responses (Newton and Jeonghun, 2010). Descriptive statistics was employed to analyze the data. The mean score for each attribute was calculated and the standard deviation used to interpret the respondents deviation from the mean. The results were presented on frequency distribution tables, pie charts and bar charts. Here the interest was focused on frequency of occurrence across attributes of measures.

3.6.1 Measurement of Variables

In this study, the measurement of variables was done individually. This study had four main independent variable and one dependent variable. The independent variable were financial accountability level, staff experience, organization structure and donor financing ratio while the dependent variable was efficiency of NGO. For all variables, the researcher used a 5 point Likert scale in which the respondents were asked to choose alternative responses ranging from “strongly disagree to “strongly agree”.

a) Financial Accountability

Accountability, the independent variable, was measured in respect of its sub components namely: transparency and disclosure. Disclosures were measured based on financial statements and reports. Financial statements were examined as to their presence and the extent to which the qualitative characteristics of financial reports such as relevancy, understandability, reliability and timeliness were exhibited. Transparency was measured in respect of openness, correct internal control systems in place and formal procedures being followed like procurement procedures, accounting processes and payment procedures.

b) Efficiency

Data Envelopment Analysis (DEA) was used to measure the efficiency of NGOs. Bumbokuri (2013) used DEA to evaluate the efficiency of World Vision Ghana's educational projects. The two inputs he used in the study was the number of staff and the vehicles per project. Whereas the outputs used were the completion rate of students and the pass rate.

Efficiency = weighted sum of outputs/weighted sum of inputs

Where:

Inputs = number of staff per NGO, value of equipment and training materials purchased.

Output = number of people trained on governance

3.6.2 Regression Analysis

To determine the correlation between financial accountability and efficiency of NGOs in Governance Sector in Nairobi County the following linear regression analysis model borrowed from Kawira (2012) was used.

$$EFF_i = \beta_0 + \beta_1(X_1) + \beta_2(X_2) + \beta_3(X_3) + \beta_4(X_4) + \varepsilon$$

Where ;

EFF_i = Efficiency

β_0 = Constant Performance with zero financial accountability.

1 - 4 = Coefficient of Variation

X_1 = Financial Accountability

X_2 = Staffs experience

X_3 = Organization structure

X_4 = Donor dependency ratio

ε = Other factors

The data was entered into the Statistical Package for Social Sciences (SPSS) and analyzed using descriptive, correlation and regression analyses. The correlation coefficients from the regression showed the effect (whether positive or negative) of the independent variables on the dependent variable.

3.7 Data Reliability and Validity

Data reliable was maintained by having respondents who were senior in the respective organizations. The researcher also tracked the consistency of information provided and where the information was contradicting, clarification was sought hence further improving the degree of accuracy. In addition, the questionnaire was simple and with senior managers being the targeted respondents the data provided was more accurate. Most of the questions were closed ended therefore data collected was easy to analyze.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. Data analysis and presentation of the results was done based on the objective of the study which was to establish the effects of financial accountability on the efficiency of non-governmental organizations in governance sector in Nairobi County. The data was gathered exclusively from questionnaire as the research instrument. To enhance analysis of qualitative data, five point Likert scale was used.

4.2 Data Collection

The study relied on primary data that was collected through administration of a structured questionnaire using the Likert measurement scale. The questionnaires consisted statements in which the respondents were required to agree or disagree with relating to financial accountability, level of NGOs financial disclosures and organization efficiency. The respondents were also required to provide responses of their position, level of experience and organization structure. Data was collected by interview methods where the respondents filled the questionnaires together with the researcher or representatives.

4.3 Response Rate

The study targeted to sample 72 respondents out of which all the 72 questionnaire were filled representing a response rate of 100%. This commendable response rate was attributed to the approach used in data collection where the researcher administered the questionnaires through interviews, thoroughly explained the use of the information and assured the respondents of confidentiality in use of the provided information.

4.4 Data Reliability and Validity

Data reliability and validity were key concern during data collection. Data reliability and validity was maintained by having respondents who were senior in the respective organizations. The researcher also tracked the consistency of information provided and where the information was contradicting, clarification was sought hence further improving the degree of accuracy. In addition, the questionnaire was simple and pretesting of the same was done before actual data collection.

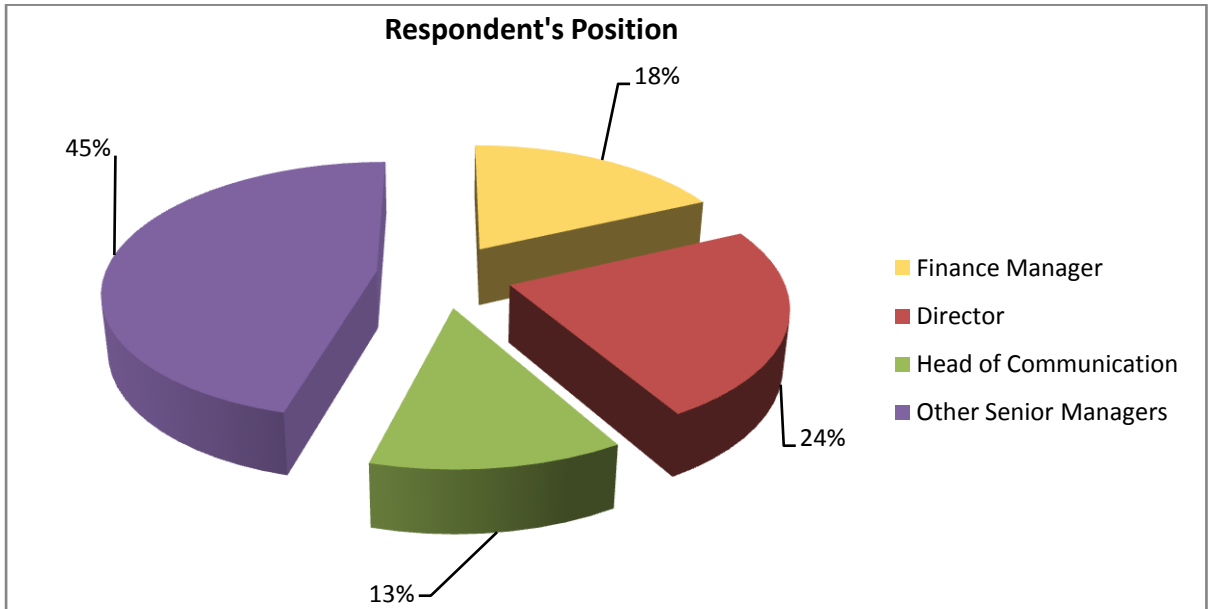
4.5 Descriptive Statistics

4.5.1 Position of the Respondents

This question sought to determine the respondents' position in the NGOs, with an aim of determining the credibility and reliability of information given. The findings are shown in figure 4.1 below. As shown in the figure below, majority of the respondents were other senior manager (other than finance managers, directors and communication managers), 24% were the NGO directors, 18% finance managers and 13% communication managers. This implies that the data used in this study was

obtained from top management and hence it was credible and to be relied upon to make conclusions.

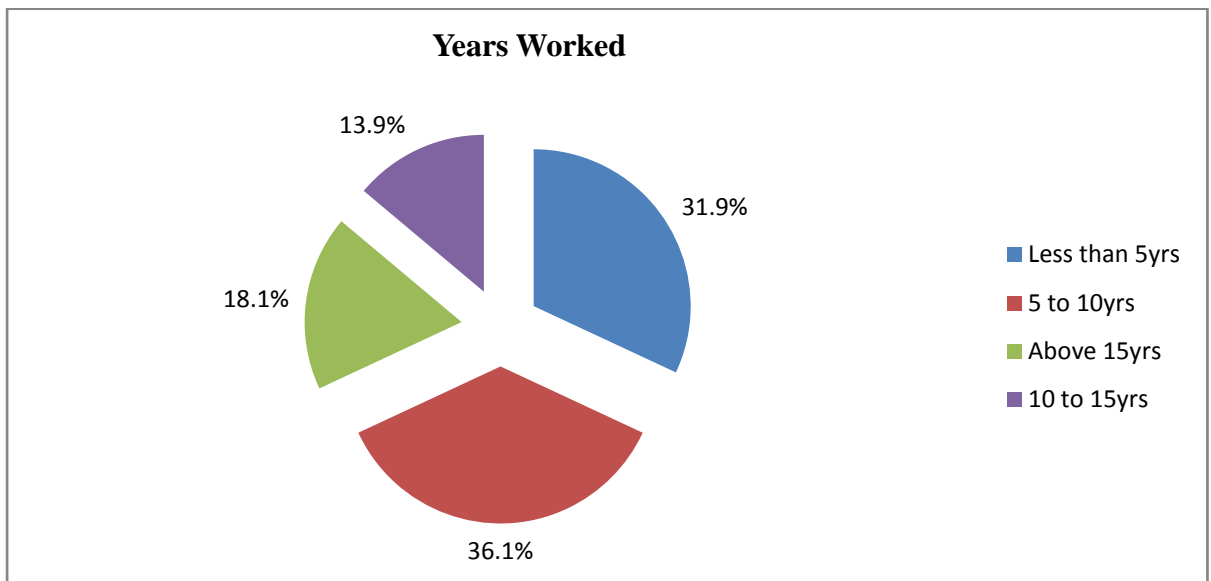
Figure 4.1: Respondent's Position



4.5.2 Years Worked

As shown in figure 4.2 below, majority of the respondents at 36.1% had worked for 5 to 10 years, 31.9% for less than 5 years, 18.1% over 15 years and 13.9% for 10 to 15 years.

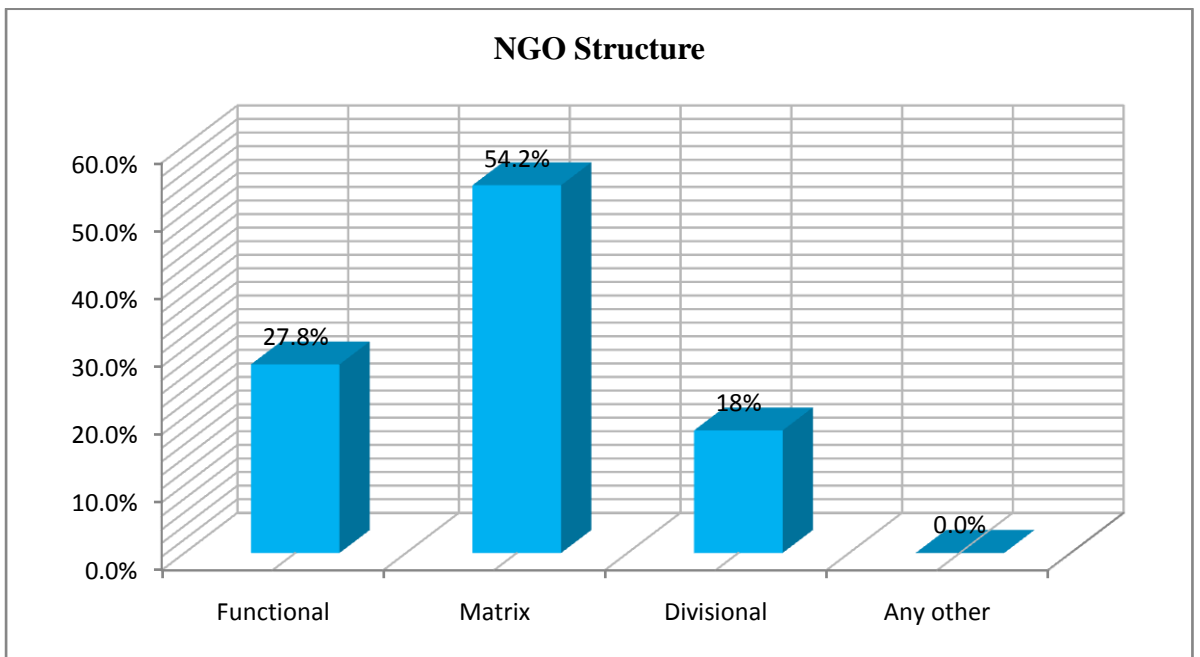
Figure 4.2: Years Worked



4.5.3 Organizational Structure

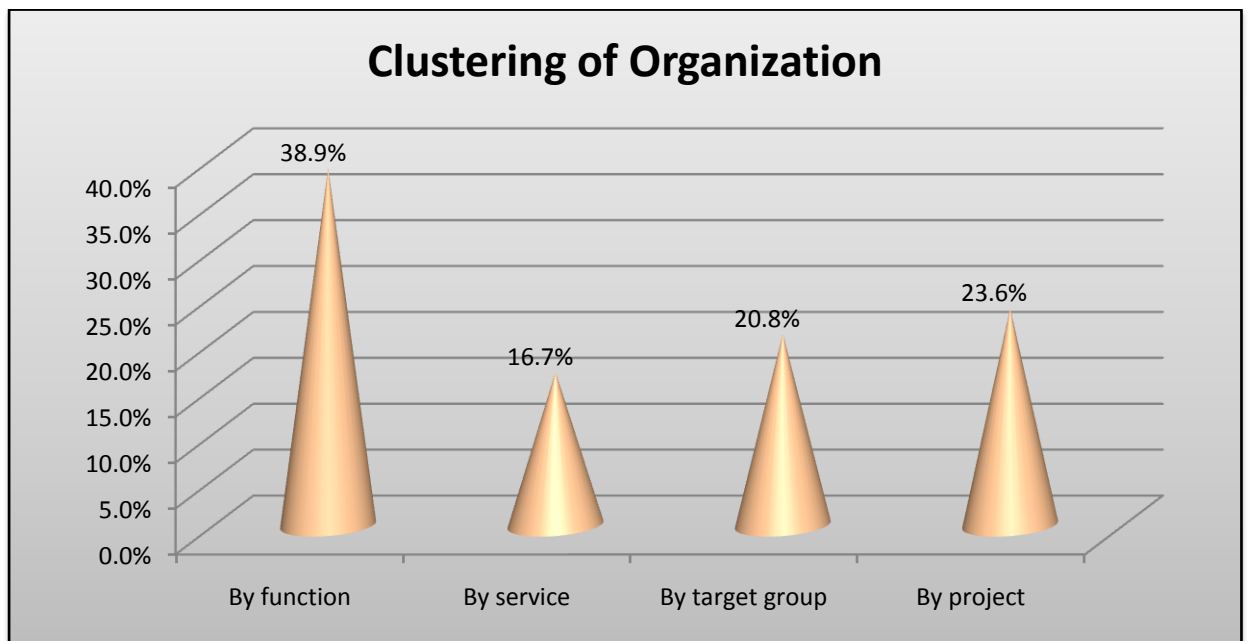
The organization structure affects the level of NGO efficiency and perceived transparency level. Molomo and Somolekae (1999) found that for an NGO to be efficient it must have proper organizational structures for it to be able to carry out its core business. As shown in figure 4.3 below, 54.2% of the respondents had matrix organization structure, 27.8% functional structure and 18 % divisional structure.

Figure 4.3: Organization Structure



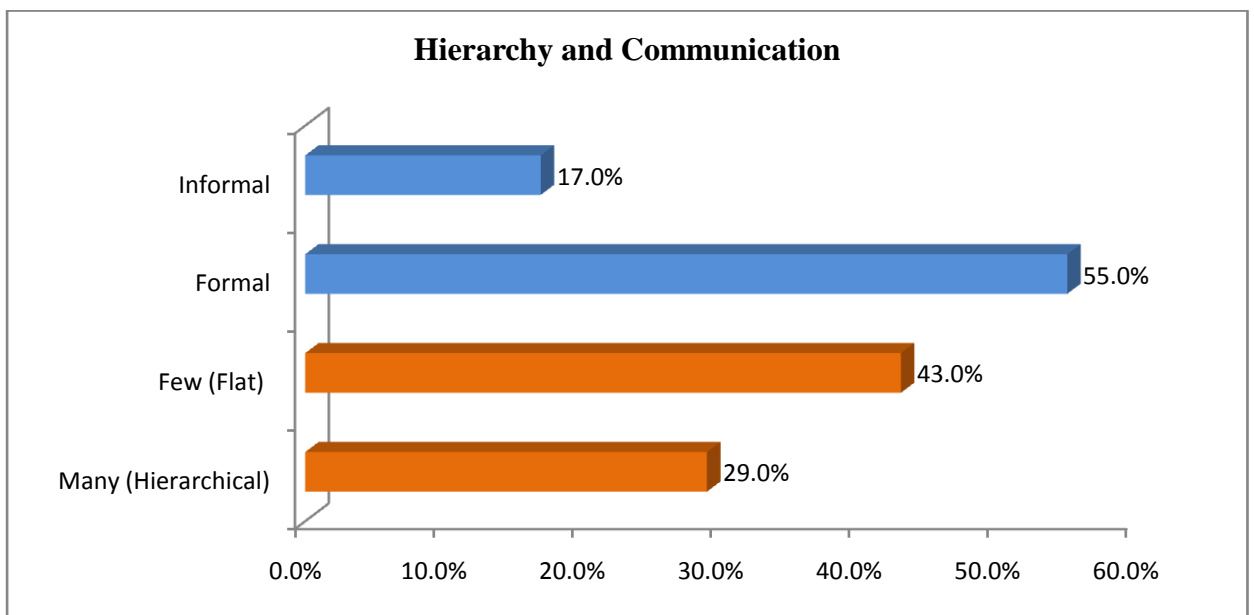
As shown in figure 4.4 below, 38.9% of the NGOs were clustered by function, 23.6% by project, 20.8% by target group and 16.7% by service. This indicates the differences in organization structure of various NGOs with majority of them being clustered according to function.

Figure 4.4: NGO clustering



As shown in figure 4.4 below, 43% of the NGOs had flat hierarchy with few levels and 29% had long hierarchy. On communication between the hierarchies, 55% had long formal communication between the hierarchies while 17% had informal flow of communication. NGOs with flat hierarchy promoted information flow which is vital for accountability and efficiency.

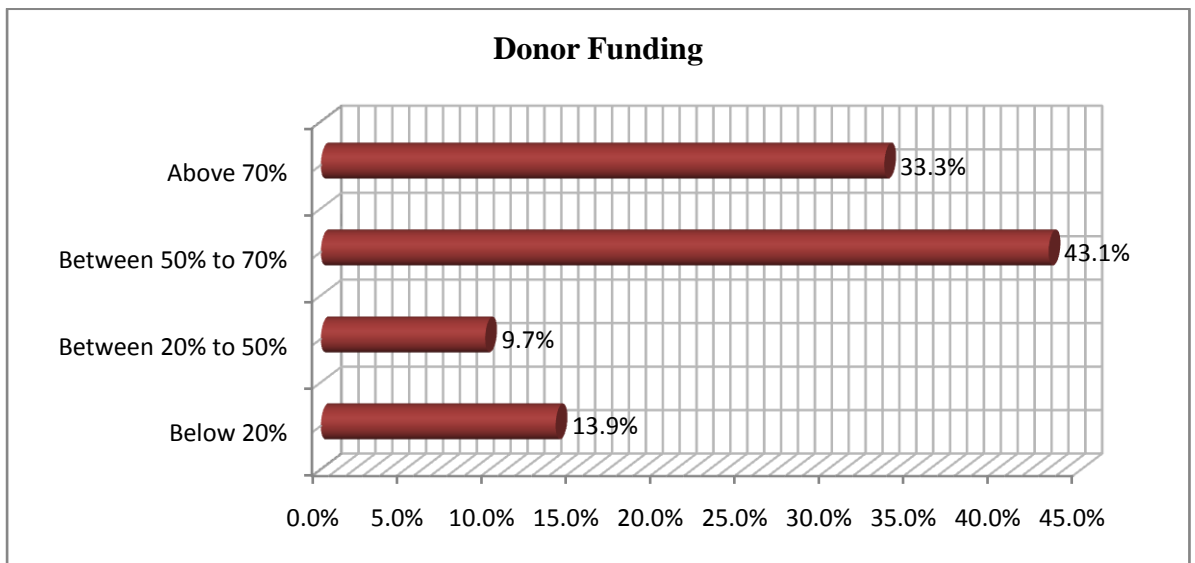
Figure 4.5: NGOs hierarchy and communication method



4.5.4 Dependency on Donor's funding

The level of NGO accountability and disclosures highly depends on the source of financing. Wells (2003) indicate that soliciting and using the donor funds come with the responsibility of being able to justify and provide clarity on the usage of funds and also plan for effective utilization of the limited resources. Since NGOs get most of their funding from donors, they have to ensure accountability to the donors. As shown in figure 4.6 below, majority of NGOs at 43.1% was using 50% to 70% from donor funding, 33.3% over 70%, and 9.7%, 20% to 50% and 13.9% below 20%. Therefore, 76.4% of the NGOs had their over 50% of income from donor funding.

Figure 4.6: Donor Funding



4.5.5 Financial Accountability

Financial accountability was measured by a likert scale where 1 was strongly disagree, 2, disagree, 3, not sure, 4, agree and 5 strongly agree. The results are presented in table 4.1 and figure 4.7 below. As it can be seen in the table below, on average respondents agree that in their NGOs, there was full and accurate reporting on organization affairs with a mean of 3.8056 and standard deviation of 0.9495. Also the responds agreed the NGO management sought professional advisors with a mean of 4.4444 and a standard deviation of 1.2059; and that organization stakeholder participates in budgetary process with a mean of 4.3333 and standard deviation of 1.2271. On average, the respondents disagreed that there was openness in order to enhance public confidence in organizations with a mean of 2.1250 and standard deviation of 0.3474, and that proposals were analyzed and debated by all stakeholders with a mean of 2.0556 and standard deviation of 0.5162.

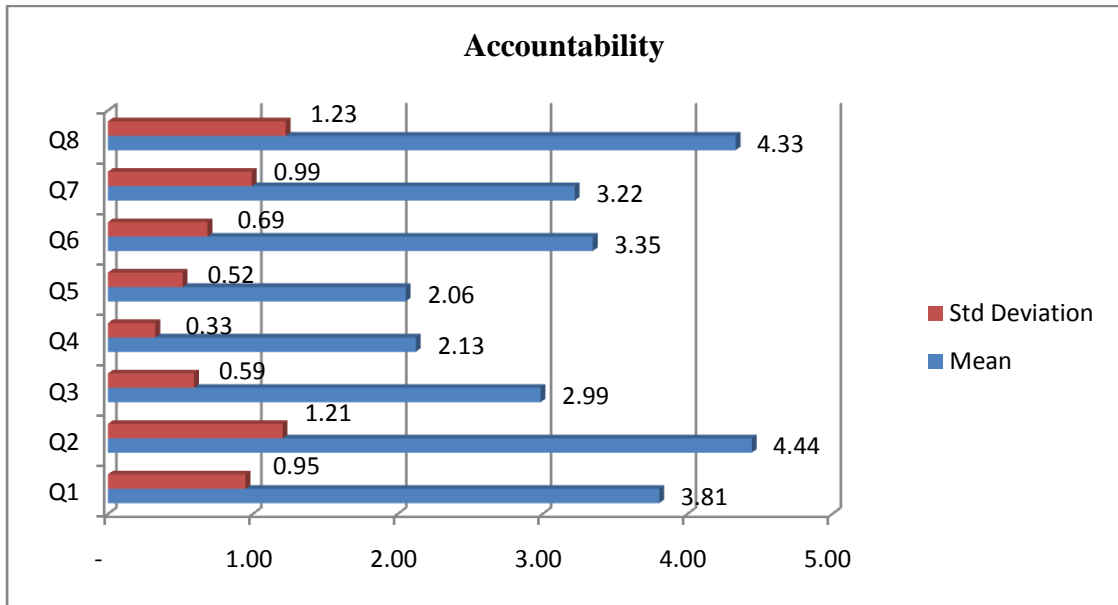
Table 4.1: Organization Accountability

Factor		Mean	Std Deviation	Rating
There is full and accurate reporting on the organization affairs to the stakeholders.	Q1	3.8056	0.9495	Agree
When appropriate, management seeks counsel and guidance from professional advisors.	Q2	4.4444	1.2059	Agree
Books of accounts and financial statements are audited periodically	Q3	2.9861	0.5943	Not sure
There is openness in order to enhance public confidence in your organization.	Q4	2.1250	0.3274	Disagree
Proposals are analyzed and debated vigorously by all stakeholders before they are approved and implemented.	Q5	2.0556	0.5162	Disagree
Organizations' meetings are conducted in a manner that encourages open communication and participation.	Q6	3.3472	0.6875	Not sure
Management meets the information needs of the stakeholders on a regular basis.	Q7	3.2222	0.9929	Not sure
Stakeholders of the organization participate in budgetary process.	Q8	4.3333	1.2271	Agree

As shown in figure 4.7 below, the best rated variable was that where appropriate management sought professional advice with a mean of 4.44, followed by stakeholders' participation in budgetary process with a mean of 4.33. The least rated

were presence of openness so as to enhance public confidence and proposal were analyzed and debated to enhance public confidence with a mean of 2.1 and 2.06. The two variables rated least are key indicators of accountability and hence, accountability among NGOs remains inadequate.

Figure 4.7: Accountability



4.5.6 Disclosures

The results on respondent NGOs levels of disclosures are shown in table 4.2 below. As shown in the table, respondents strongly agreed that financial statements and management reports were produced at the end of every financial period with a mean of 4.5139 and standard deviation of 1.2558. The responds also agree that stakeholders were given a chance to assess the extent to which their needs are taken into account with a mean of 4.3333 and standard deviation of 1.2271; financial statements were timely with a mean of 3.7361 and standard deviation of 1.2271; source documents were being prepared to facilitate book keeping with a mean of 3.8333 and standard deviation of 0.9500; financial transactions were recorded immediately with a mean of 3.6806 and standard deviation of 0.8119; and organization had financial accounting

and reporting guidelines with a mean of 3.5694 and standard deviation of 0.5728.

On average, the respondents disagreed that financial statements and reports are prepared and presented following internationally accepted accounting principles and practices with a mean of 2.1250 and standard deviation of 0.3274.

Table 4.2: Financial Disclosure

	Mean	Standard Deviation	Overall Rating
Financial statements and management reports are produced at the end of every financial period	4.5139	1.2558	Strongly Agree
Stakeholders are given a chance to assess the extent to which their needs are taken into account in a particular proposed or approved budget.	4.3333	1.2271	Agree
Source documents (receipts, invoices, vouchers etc) are prepared to facilitate record keeping.	3.8333	0.9500	Agree
Financial statements and management reports are timely and reliable.	3.7361	0.8106	Agree
Financial transactions are recorded immediately they occur.	3.6806	0.8119	Agree
Your organization has financial accounting and reporting guidelines that are always adhered to.	3.5694	0.5728	Agree
Financial statements and management reports are relevant to the decision making and planning.	3.4306	0.8529	Not sure
A budget is produced and followed every financial period.	3.2222	0.9929	Not sure
Explanatory notes accompany every set of financial statements released by your organization	2.9861	0.5943	Not sure
Financial statements and reports are prepared and presented following internationally accepted accounting principles and practices.	2.1250	0.3274	Disagree

4.5.7 Organization Efficiency

The efficiency measures inputs results are shown in table 4.3 below. On average, respondents agreed that staff (direct and indirect) salaries contributed to over 50% of programme budget with a mean of 3.8333 and standard deviation of 1.0382. The respondents were not sure whether programme equipments constituted over 50% of programme budget with a mean of 3.2083 and standard deviation of 0.6395. The respondents strongly disagreed that training materials for programmes constituted to over 50% of budget.

Table 4.3: Programme Inputs

	Mean	Standard Deviation
Programme equipment constitute over 50% of the programme budget	3.2083	0.6395
Training materials e.g. Charts, pens, Notepads etc make up for over 50% of programme budget	1.3194	0.3616
Programme staff (direct and indirect) salaries and benefits make up for over 50% of programme budget	3.8333	1.0382

As shown in table 4.4 below on outputs, the respondents agree that the number of people trained in the last three years had increased with a mean of 3.9722 and standard deviation of 0.9227.

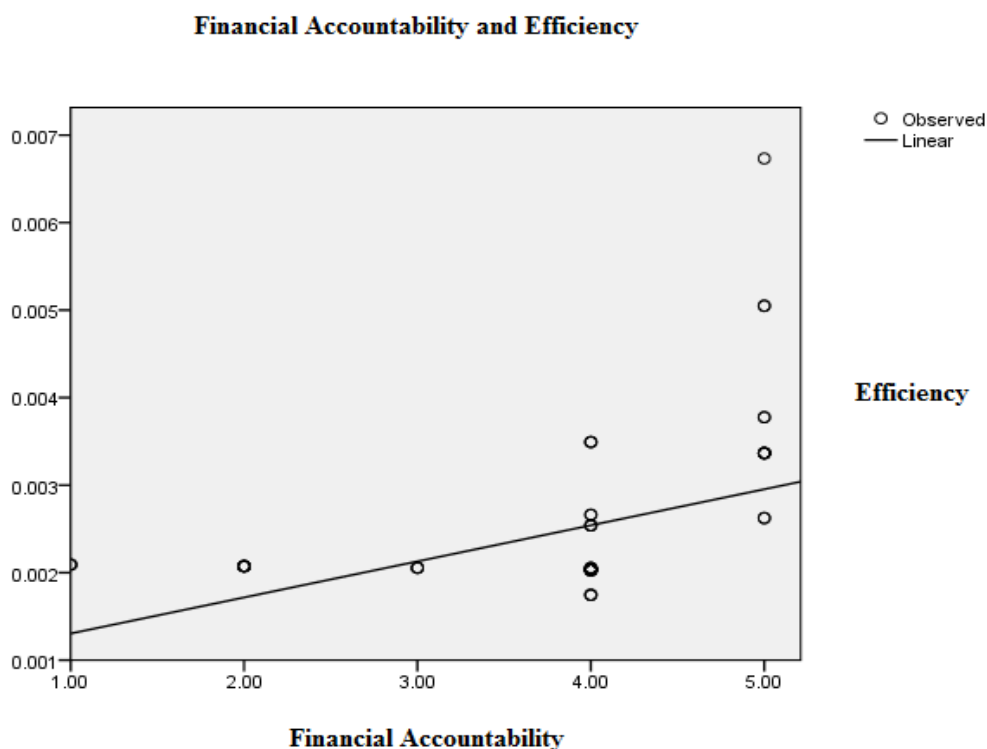
Table 4.4: Programme Outputs

Items	Mean	Standard Deviation
The number of people trained has increased over the past three years	3.9722	0.9227

4.6 Correlation Analysis

As shown in figure 4.8 below, financial accountability is positively correlated to efficiency since increase in rating for accountability leads to increase in efficiency level. The relationship between financial accountability was also found to be linear as it can be seen from the scatter diagram below. Also as shown in table 4.5 below, there is positive relationship between efficiency and accountability as shown by Spearman coefficient of correlation (R) of 0.47.

Figure 4.8: Financial Accountability and Efficiency Scatter Diagram



4.7 Regression Analysis

4.7.1 Effect of Financial Accountability on Efficiency

The regression results of the relationship between financial accountability and efficiency are shown in table 4.5 below. The table shows a positive relationship between efficiency and accountability as shown by Spearman coefficient of correlation (R) of 0.47. The Spearman coefficient of determination is 0.22 implying that financial accountability can account for 22% of the changes in efficiency of NGOs. The ANOVA results indicate a p value of 0.0000 which is less than 5% and hence implying that the relationship between accountability and efficiency is significant at 95% confidence level. From the coefficient results, the model developed is $Y=0.0009+0.0004X_1$ where Y is efficiency and X1 is financial accountability

score.

Table 4.5: Accountability and Efficiency Regression Results

Model Summary					
R	R Square	Adjusted R Square	Std. Error of the Estimate		
0.4701	0.2210	0.2098	0.0008		
Model ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.00001	1	0.0000	19.854	0.000
Residual	0.00004	70	0.0000		
Total	0.00005	71			
Model Coefficients					
Unstandardized Coefficients		Std. Error	Standardized Coefficients	t	Sig.
(Constant)	0.0009	0.0004		2.4370	0.0174
Accountability	0.0004	0.0001	0.4701	4.4559	0.000

a. Dependent Variable: Efficiency, Independent: Accountability

4.7.2 Effect of Staff Experience on Efficiency

As shown in table 4.6 below, staff experience is positively related to efficiency as shown by Spearman coefficient of correlation of 0.55. The Coefficient of determination of 0.30 implies that staff experience accounts for 30% of efficiency. The ANOVA results show a p value of 0.0000 which implies that the relationship is significant. The coefficients obtained are also positive since their corresponding p values are less than 0.005.

Table 4.6: Staff Experience and Efficiency Regression Results

Model Summary					
	R	R Square	Adjusted R Square	Std. Error of the Estimate	
	0.5520	0.3047	0.2948	0.0007	

Model ANOVA					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.00002	1	0.0000	30.6800	0.0000
Residual	0.00004	70	0.0000		
Total	0.00005	71			

Model Coefficients					
	Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig.
(Constant)	0.0033	0.0002		19.1694	0.0000
Staff Experience	0.0001	0.0000	0.5520	5.5390	0.0000

a. Dependent Variable: Efficiency, Independent: Staff Efficiency

4.7.3 Effect of Organization Structure on Efficiency

As shown in the table below, organization structure has effect on efficiency of NGOs as shown by Spearman coefficient of correlation of 0.46. The relationship is also significant at 95% as shown by p value of 0.0000.

Table 4.7: Organization Structure and Efficiency Regression Results**Model Summary**

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.4643	0.2156	0.2044	0.0008

Model ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.0000	1	0.0000	19.2377	0.0000
Residual	0.0000	70	0.0000		
Total	0.0001	71			

Model Coefficients

	Unstandardized Coefficients	Std. Error	Standardized Coefficients	T	Sig.
(Constant)	0.0032	0.0002		16.4680	0.000
Organization Structure	0.0003	0.0001	0.4643	4.3861	0.000

a. Dependent Variable: Efficiency, Independent: Organization Structure

4.7.4 Effect of Donor Funding on Efficiency

Amount of donor used by NGO has negative impact on efficiency as shown by Spearman coefficient of correlation of -0.52. The relationship is significant as shown by p value of 0.000.

Table 4.8: Donor Funding and Efficiency Regression Results

Model Summary					
R	R Square	Adjusted R Square	Std. Error of the Estimate		
-0.5227	0.2732	0.2628	0.0007		

Model ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.0005	1	0.000147	26.3097	0.000
Residual	0.0000	70	0.00059		
Total	0.0005	71			

Model Coefficients					
	Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig.
(Constant)	0.0038	0.0003		13.7862	0.000
Donor Funding	- 0.0005	0.0001	-0.5227	-5.129	0.000

4.7.5 Overall Analytical Model Regression Analysis

As shown table 4.9 below, there is positive relationship between efficiency, accountability, and staff experience and organization structure but with negative effect on donors funding. The model Spearman coefficient of correlation (R) obtained was 0.7853. The Spearman coefficient of determination is 0.61 implying that independent variables included in the model could account for 61% of the changes in efficiency of NGOs. The ANOVA results indicate a p value of 0.0000 which is less than 5% and imply that the model is significant at 95% confidence level. From the coefficient results, the model developed is $Y=0.0026+0.0002X_1+0.0001X_2+0.0002X_3-0.0001X_4$ where Y is efficiency and X_1 is financial accountability, X_2 is staff experience, X_3 is organization structure and X_4 donors funding ratio.

Table 4.9: Overall Model and Regression Results

Model Summary					
	R	R Square	Adjusted R Square	Std. Error of the Estimate	
	0.7853	0.6143	0.3033	0.0007	

Model ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.0000	4	0.0000	8.72	0.000
Residual	0.0000	67	0.0000		
Total	0.0001	71			

Model Coefficients					
	Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig.
(Constant)	0.0026	0.0007		3.9304	0.0002
Financial Accountability	0.0002	0.0001	0.1910	1.4532	0.0008
Staff Experience	0.0001	0.0001	0.4931	1.7002	0.0237
Organization structure	0.0002	0.0002	0.2351	0.9968	0.0325
Donor dependency ratio	-0.0001	0.0002	-0.1717	0.8845	0.0037

a. Dependent Variable: Efficiency

4.8 Summary and Interpretation of the Findings.

The study sought to establish the effect of financial accountability on the efficiency of non-governmental organizations in governance sector in Nairobi County. The study established a positive relationship between efficiency and accountability as with spearman coefficient of correlation of 0.47. The spearman coefficient of determination was 0.22 implying that financial accountability could account for 22% of the changes in efficiency of NGOs. The ANOVA results indicate a p value of 0.0000 which was less than 5% and hence implying that the relationship between accountability and efficiency was significant at 95% confidence level. Internationally, the findings agree with those of Lee and Ali (2008) who found a strong positive relationship between financial accountability and financial performance. Locally, Mbugua (2013) established a significant relationship between financial performance of NGOs in Kenya and financial accountability.

Staff experience was found to be positively related to efficiency as shown by spearman coefficient of correlation of 0.55. The Coefficient of determination of 0.30 implies that staff experience accounts for 30% of efficiency. The ANOVA results showed a p value of 0.0000 which implied that the relationship was significant. The findings relate to those of Baron et al (2007) who found that, effective financial accountability to non-governmental organizations required that NGO staff support their departments through having experienced personnel, giving advice and information. Organization structure was also found to have effect on efficiency of NGOs as shown by spearman coefficient of correlation of 0.46. The relationship is also significant at 95% as shown by p value of 0.0000. This was specifically the case where NGOs with flat hierarchy were found to better information flow and

consequently increased efficiency. Therefore, reduction of NGO hierarchy would lead to efficiency.

Ratio of donor financing was found to have negative effect on NGO efficiency as shown by spearman coefficient of correlation of -0.52. The negative relationship could be explained by the fact that NGOs whose main source of funding is from donors, the NGOs may not be keen on ensuring efficiency if the mechanisms of evaluating performance is not in place or not adequate. In such a situation, efficiency would be more to NGOs that have to generate their income to continue accomplishing their mission. The relationship is significant as shown by p value of 0.000. The finding is contrary to that of Mbugua (2013) who found that the NGOs that applied financial standards in ensuring accountability of finances in the organizations boosted Donor support which resulted in improved performance.

The analytical model incorporating staff experience and organization structure as control variables also established a positive relationship between efficiency, accountability, staff experience and organization structure but with negative effect on donors funding. The model spearman coefficient of correlation was 0.7853. The Spearman coefficient of determination was 0.61 implying that independent variables included in the model could account for 61% of the changes in efficiency of NGOs. The ANOVA results indicate a p value of 0.0000 which is less than 5% and implied that the model was significant at 95% confidence level. From the coefficient results, the model developed by the study was $Y = 0.0026 + 0.0002X_1 + 0.0001X_2 + 0.0002X_3 - 0.0001X_4$ where Y is efficiency and X_1 is financial accountability, X_2 is

staff experience, X_3 is organization structure and X_4 donors funding ratio.

Financial accountability was measured by a likert scale where 1 was strongly disagree, 2, disagree, 3, not sure, 4, agree and 5 strongly agree. On average respondents agreed that in their NGOs, there was full and accurate reporting on organization affairs with a mean of 3.8056 and standard deviation of 0.9495. Also the responds agreed the NGO management sought professional advisors with a mean of 4.4444 and a standard deviation of 1.2059; and that organization stakeholder participates in budgetary process with a mean of 4.3333 and standard deviation of 1.2271. On average, the respondents disagreed that there was openness in order to enhance public confidence in organizations with a mean of 2.1250 and standard deviation of 0.3474, and that proposals were analyzed and debated by all stakeholders with a mean of 2.0556 and standard deviation of 0.5162. The disagreement on openness implies that financial accountability remains low on studied NGOs.

On NGOs disclosures level, respondents strongly agreed that financial statements and management reports were produced at the end of every financial period with a mean of 4.5139 and standard deviation of 1.2558. The responds also agreed that stakeholders were given a chance to assess the extent to which their needs are taken into account with a mean of 4.3333 and standard deviation of 1.2271; financial statements were timely with a mean of 3.7361 and standard deviation of 1.2271; source documents were being prepared to facilitate book keeping with a mean Of 3.8333 and standard deviation of 0.9500; financial transactions were recorded immediately with a mean of 3.6806 and standard deviation of 0.8119; and organization has financial accounting and reporting guidelines with a mean of 3.5694

and standard deviation of 0.5728. On average, the respondents disagreed that financial statements and reports were being prepared and presented following internationally accepted accounting principles and practices with a mean of 2.1250 and standard deviation of 0.3274.

Majority of the study respondents were other senior manager (other than finance managers, directors and communication managers), 24% were the NGO directors, 18% finance managers and 13% communication managers. This implied that the data used in this study was obtained from top management and hence it was credible and to be relied upon to make conclusions. Also, majority of the respondents at 36.1% had worked for 5 to 10 years, 31.9% for less than 5 years, 18.1% over 15 years and 13.9% for 10 to 15 years.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The study sought to establish the effect of financial accountability on the efficiency of non-governmental organizations in governance sector in Nairobi County. Data was collected using questionnaires and five point likert scale used to measure the qualitative data. The study found that financial accountability has positive and significant effect on efficiency with spearman coefficient of correlation of 0.47. Staff experience was also found to have positive relationship with efficiency with spearman coefficient of correlation of 0.55. Organization structure was also found to have effect on efficiency of NGOs where NGOs with flat hierarchy were found to better information flow and consequently increased efficiency. Ratio of donor financing however was found to have negative effect on NGO efficiency with spearman coefficient of correlation of -0.52.

The analytical model incorporating staff experience and organization structure as control variables also established a positive relationship between efficiency, accountability, staff experience and organization structure but with negative effect on donors funding. The model spearman coefficient of correlation was 0.7853, the relationship was significant at 95% confidence level. From the coefficient results, the model developed by the study was $Y = 0.0026 + 0.0002X1 + 0.0001X2 + 0.0002X3 - 0.0001X4$ where Y is efficiency and X1 is financial accountability, X2 is staff experience, X3 is organization structure and X4 donors funding ratio.

On average respondents agreed that in their NGOs, there was full and accurate reporting on organization affairs with a mean of 3.8056 and standard deviation of 0.9495. Also the respondents agreed the NGO management sought professional advisors with a mean of 4.4444 and a standard deviation of 1.2059; and that organization stakeholder participated in budgetary process with a mean of 4.3333 and standard deviation of 1.2271. On NGOs disclosures level, respondents strongly agreed that financial statements and management reports were produced at the end of every financial period with a mean of 4.5139 and standard deviation of 1.2558.

5.2 Conclusions

Based on the empirical findings, the study concludes that financial accountability has positive and significant effect on efficiency of nongovernmental organizations in governance sector in Nairobi County. This is because appropriate financial accountability limits fraud and mismanagement of funds and hence promoting efficiency. This is not outstanding the fact that financial accountability empowers beneficiaries and other stakeholders and makes achievement of future project achievement easier.

Further, the study concludes that individually and combined, financial accountability, staff experience and organization of NGOs have positive effect on NGO efficiency. Tasks are performed by staffs and therefore having experienced staffs will imply that the tasks are achieved in an easier manner. In addition, NGOs with flat hierarchy have better flow of information which promotes financial accountability and consequently efficiency of the NGOs due to the smooth flow of information between various levels of organization.

The study also concludes that NGOs using high percentage of their income from donor sources are less efficient than those using income from other sources. This is due to the fact that the organizations don't need to operate efficiently to generate resources required for their survival. Whereas using more donor funds have also been found by other studies to lead to efficiency due to donor monitoring, the effectiveness in donor monitoring may vary between donors.

The study further concludes openness in order to enhance public confidence in studied NGOs and involvement of all stakeholders on proposals remains low. However, financial statements and management reports were produced at the end of every financial period and stakeholders are chance to assess the extent to which their needs are taken into account with a mean of. The study also concludes that source documents NGOs studied prepared source documents to facilitate book keeping and that financial transactions are recorded immediately.

5.3 Policy Recommendations

From the findings, the study has numerous recommendations for policy formulations. First, financial accountability lead to NGO efficiency and hence measures to ensure NGOs remains as accountable as possible to be put in place. Therefore, policies should be formulated by the relevant regulatory bodies to ensure that the NGOs can account for all the spending and independent checks to be done by the respective regulators to ensure the same is complied to.

The study also recommends that the NGOs to be required to give details of their revenues, spending and controls in place to ensure that the organizations can account for all their spending. Accountability requires that the organization comply with all applicable laws and ethical standards; adhere to the organization's mission; create and adhere to conflict of interest, ethics, personnel and accounting policies; protect the rights of members; prepare and file its annual financial report with the NGOs coordination board and appropriate state regulatory authorities and make the report available to all members of the board and any member of the public who requests it. Stringent measures should be put in place to ensure that the NGOs comply with the set rules and reports filled are accurate.

The study also recommends that NGOs to adopt flat organization structure to enhance communication and improve efficiency. This will ensure that all the parties in the organization are aware of the operations of the NGO and promote transparency. Flat structure will also ensure that when accountability issues arise, they are promptly addressed.

Staff training and retention should also be encouraged to improve efficiency. This can be done by ensuring regular organization climate survey by independent entity and implementation of annual staff appraisal program and attempts to identify training gaps made. Finally, donor financing should be discouraged and where the NGOs is to use more of donor financing, monitoring should be done to ensure efficiency. NGOs using other sources of finance will force the management to ensure highest efficiency of operations to attract financing.

5.4 Limitations to the study

The study financed a number of challenges which required the researcher to come up with methods to counter the same and which may be of importance consideration for future research. First, most of the study variables were qualitative in nature which were hard to measure. The researcher had to use Likert scale to measure the variables and to enable analysis.

Secondly, the variables used were qualitative in nature and hence subjective in nature and could not be verified. The variables given were more dealing with measuring the organizations position but subjecting the same to the respondent rating and hence capturing opinions as opposed to factual position. The researcher had to reconfirm the responses given where the same was contradicting which took a lot of time.

Thirdly, obtaining data for the study was not easy as most respondents had busy schedules and the researcher had to use various techniques to ensure that the information was obtained on time. Some respondents were not ready to share confidential information regarding the NGOs. However, the researcher assured the respondents and thoroughly explained the use of the information provided.

Finally, to determine efficiency of the NGOs, the only inputs and outputs used related to training on NGOs. However, not all NGOs that have trainings as the main activities implying that an NGO may have been given a less efficiency rating whereas it could not be the case. Further the study was done on limited time and at one point in time. The NGOs studied were only in Nairobi County and may not be representative of all NGOs in Kenya.

5.5 Area For Further Research

The study investigated the effects of financial accountability on the efficiency of non-governmental organizations in Nairobi County. However, Nairobi County NGOs may not be representative of all NGOs in Kenya. Hence the study recommends further study on the effect of financial accountability on efficiency of NGOs in Kenya and other segments not only the governance segment.

Further research should be done on the effect of financial accountability on efficiency of NGOs but using broader inputs and outputs to determine efficiency. The inputs and outputs should consist of all projects undertaken by the NGO over a certain period of time. Each input and output should be measured separately using the variables that are highly related to the project. For example, if project is about training, training hours and costs should be included and the outputs to be number of people trained and skills gained by the trainees.

Further research is also recommended to be done using longitudinal approach to obtain accountability and efficiency data over years. This will ensure that the data is obtained using less efforts and will ensure that the researcher is able to fit into respondents schedule since there will be much pressure on time. Longitudinal approach will also ensure that accountability levels and efficiency are captured on periodic basis since capturing the same on historical basis is hard.

Finally, similar study is recommended to determine the effects of financial accountability on the efficiency of non-governmental organizations in Nairobi County but using more objective variables. To measure financial accountability, the

study can use measures like the amount that could not be accounted for in a month or amount lost through fraud or penalties by regulators due to non compliance or donor funds lost due to lack of financial accountability. The measures can be used collectively and a composite score obtained.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

SECTION A: ORGANIZATION BACKGROUND

Q1.NGO Name (Optional)

Q2.Position of Respondent

SECTION B: FINANCIAL ACCOUNTABILITY

Please indicate your level of agreement with the following statements using

a) TRANSPARENCY

No	item	Strongly Disagree 1	Disagree 2	Not sure 3	Agree 4	Strong ly Agree 5
Q3	There is full and accurate reporting on the organization affairs to the stakeholders.					
Q4	When appropriate, management seeks counsel and guidance from professional advisors.					
Q5	Books of accounts and financial statements are audited periodically					
Q6	There is openness in order to enhance public confidence in your					

No	item	Strongly Disagree 1	Disagree 2	Not sure 3	Agree 4	Strong ly Agree 5
	organization.					
Q7	Proposals are analyzed and debated vigorously by all stakeholders before they are approved and implemented.					
Q8	Organizations' meetings are conducted in a manner that encourages open communication and participation.					
Q9	Management meets the information needs of the stakeholders on a regular basis.					
Q10	Stakeholders of the organization participate in budgetary process.					

b) DISCLOSURE

No	Item	Strongly Disagree 1	Disagree 2	Not sure 3	Agree 4	Strongly Agree 5
Q11	Financial transactions are recorded immediately they occur.					
Q12	Source documents (receipts, invoices, vouchers etc) are prepared to facilitate record keeping.					
Q13	A budget is produced and followed every financial period.					
Q14	Financial statements and management reports are produced at the end of every financial period					
Q15	Financial statements and management reports are timely and reliable.					
Q16	Financial statements and management reports are relevant to the decision making and planning.					
Q17	Explanatory notes accompany every set of					

No	Item	Strongly Disagree 1	Disagree 2	Not sure 3	Agree 4	Strongly Agree 5
	financial statements released by your organization					
Q18	Stakeholders are given a chance to assess the extent to which their needs are taken into account in a particular proposed or approved budget.					
Q19	Your organization has financial accounting and reporting guidelines that are always adhered to.					
Q20	Financial statements and reports are prepared and presented following internationally accepted accounting principles and practices.					

Experience of staffs(Please Tick where appropriate)

Q21. How many years have you worked in an NGO sector?

a) Less than 5yrs []

b) 5 to 10yrs []

d) 10 to 15yrs []

c) Above 15yrs []

Organization Structure (Please Tick where appropriate)

Q22.Can you characterize your organizational structure?

a)Functional []

c)Matrix []

b)Divisional []

d) Any other []

Q23.In what way are individual positions, units and so on clustered within your organization unit?

a)By Function[]

c) By service []

b)By target group[]

d) By project []

Q24.How many levels of hierarchy are there in your organization?

a)Many (Hierarchical)[]

b)Few (Flat) []

Q25.How does the communication work in this hierarchy?

a)Formal[]

b) Informal []

Donor Dependency Ratio (Please tick where appropriate)

Q26. Given the overall income for your organization, what percentage constitute donor funding?

a) Below 20% []

b) Between 20% to 50% []

c) Between 50% to 70% []

d) Above 70% []

SECTION C: ORGANISATION'S EFFICIENCY

Inputs

Please indicate the trend in the last three years of the following using the following rating:

1. Strongly Disagree 2. Disagree 3. Not Sure 4. Agree 5. Strongly Agree

No	Items	1	2	3	4	5
Q27	Programme equipment constitute over 50% of the programme budget					
Q28	Training materials e.g. Charts, pens, Notepads etc make up for over 50% of programme budget					
Q29	Programme staff (direct and indirect) salaries and benefits make up for over 50% of programme budget					

Output

Please indicate the trend in the last three years of the following using the following rating

1. Strongly Disagree 2. Disagree 3. Not Sure 4. Agree 5. Strongly Agree

No	Items	1	2	3	4	5
Q30	The number of people trained has increased over the past three years					

APPENDIX II: SAMPLED NON GOVERNMENTAL ORGANIZATIONS

1. Abalekwa Development Organization
2. Abashiele Nende Ababukha Support Services
3. Academy For Educational Development - Kenya
4. Action For Ethical Leadership
5. Advocacy For Community Development And Education
6. Africa 2000 Network (Kenya)
7. Africa Community Development Organization
8. Africa Peace Forum
9. Africa Rural Link
10. Africa Solutions
11. African Centre For Rights And Governance
12. African Centre For Women Information And Communication Technology
13. African Community Development Foundation
14. African Community Development Organisation
15. African Council Of Religious Leaders
16. African Financial And Technical Assistance
17. African Foundation For Civil Society Organization
18. American Friends Service Committee
19. "Arid Land Development Focus, Kenya
20. Aridlife Development Agency
21. Arise And Help International
22. Article 19: Global Campaign For Free Expression
23. Association Of African Women For Research And Development
24. Association Of Former Kenya Ambassadors And Senior Diplomats
25. Bahati Centre
26. Bessa Integrated Development Programme
27. Bio Right And Soil

- Conservation
28. Boma Welfare Organization
29. Catholic Fund For Overseas
Development
30. Centers For International
Programs - Kenya
31. Co-Operative League Of The
United States Of America
32. Coordinated Humanitarian And
Development Services
33. Corruption Watch International
34. Crisis Assessment And
Recovery Centre
35. Critical Incidents Frontiers -
Africa
36. Cultural Video Foundation
37. Daraja-Civic Initiatives Forum
38. Debora International Kenya
39. Development Empowering
Programme
40. Development Enhancement
Programme-Kenya
41. Kenya Foundation For Youth
& Women Programmes
42. Kenya Foundation For Youth
And Women Programme
43. Kenya Human Rights
Commission
44. Kenya National Council Of
Traditional Practices
45. Kenya Orphans Support
Organization
46. Kenya Philanthropic
International Network
47. Kenya Poverty Elimination
Networks
48. Kenya Poverty Reduction
Volunteers
49. Kenya Programmes Of Disabled
Persons
50. Kenya Slum Youths
Development Organization
51. Kenya Small Scale Industrial
Development Programme
52. Merti Development
Organization
53. Meru Youth And Women
Empowerment Programme
54. Metra Micro Finance Kenya
55. Mobile Education For Life

- International
56. Mon Kibaimwa Development Programme
57. Mothers Rural Care For Aids Orphans
58. Women And Youth In African Development
59. Women Awareness And Development Initiative
60. Women Without Borders - Kenya
61. Women Youth And Children Development Organization
62. Women's Research Centre And Development Institute
63. Young Volunteers Forum
64. Youth Alive! Kenya
65. Youth Alliance For Leadership And Development In Africa - Yalda (K)
66. Youth Conciousness Development And Programme - Kenya
67. Youth Impact Network International
68. Youth Initiatives-Kenya
69. Youth Partnership For Development
70. Youth Peace Alliance
71. Youth, Governance And Environmental Programme
72. Zion Counselling And Education Support Centre International