FACTORS AFFECTING FINANCIAL REPORTING OF COMMUNITY BASED ORGANIZATIONS IN KISUMU COUNTY, KENYA

BY

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DECLARATION

DECLARATION

I hereby declare that this research project is my original work and has not been submitted for examination in this University or elsewhere for an award of any other degree or diploma.

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APPROVAL

This research project report has been submitted for examination with my approval as the University Supervisor:

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May God bless you all.

DEDICATION

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ABSTRACT

Financial reporting by Community Based Organizations (CBOs) has become an issue of global concern; because of their local operations CBOs do not use standards in their operations. The financial reporting of the CBOs do not result into relevant and reliable information to donors and this affect timely fund disbursements and activities' implementation. Previous studies have focus on larger Non Profit Organizations but limited reference to CBOs financial reporting relevance and reliability. Given the importance of financial reporting, there is limited information relating to governance, accounting and accounting systems, on relevance and reliability in the context of CBOs. The purpose of the study was therefore to analyze factors affecting financial reporting of CBOs in Kisumu County, Kenya. Specifically, the study sought to establish the effect of governance, analyze effect of accountability and establish the effect of accounting systems on financial reporting in the CBOs. The study was anchored on the contingency theory. The study employed correlational research design targeting 55 CBOs Accounting Officers and 8 management and monitoring officers. The research did census survey of the target population. Primary data was obtained through self-administered semi-structured questionnaires while the secondary data from desk review of relevant materials. Pilot study of 5 Accounting Officers from the target population in 5 constituencies was done. The reliability of the instrument was estimated after the pilot study of 5 CBOs, the result gave Coefficient alpha of 0.949. Validity of the instrument was verified using experts' reviewers. Data analysis was done using descriptive statistics, Pearson's correlation and regression analyses and presented in tables. The findings were that governance was a positive insignificant predictor of financial reporting ($\beta = 0.172$, $p = 0.140$) implying that for every unit increase in governance, financial reporting will increase by 0.172; accountability positively insignificantly influences financial reporting ($\beta = 0.125$, $p = 0.327$) meaning for every unit increase in accountability financial reporting will increase by 0.125 and accounting systems significantly affect financial reporting ($\beta = 0.548$, $p = 0.00$) implying that for every unit increase in accounting system financial reporting will increase by 0.548. The study concludes that embracing governance, accountability and accounting systems lead to quality financial reporting. The study recommends that CBOs should intensify good governance practices, improve accountability and strengthen accounting systems. The study findings may help CBOs in improving compliance to donor requirements and inform CBO sector policy formulation in Kenya and the funding partners. The study can form basis for further research in the area.

TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS

AIDS	Acquired immune Deficiency Syndrome
BOD	Board of Directors
CACC	Constituency Aids Control Coordinators
CACG	Commonwealth Association for Corporate Governance
CAFS	Centre for African Family Studies
CBO	Community Based Organization
CCM	Country Coordinating Mechanism
CPA (K)	Certified Public Accountants Kenya
FASB	Financial Accounting Standards Board
FBO	Faith Based Organization
FMA	Financial Management Agency
GAAP	Generally Accepted Accounting Principles
GOK	Government of Kenya
HIV	Human Immunodeficiency Virus
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard Board
ICPAK	Institute of Certified Public Accountants of Kenya
M&E	Monitoring and Evaluation
MAS	Management Accounting System
MDG	Millennium Development Goals
NACC	National Aids Control Council
NCCBO	National Council of Community Based Organization
NGO	Non-Governmental Organization
NPO	Non-Profit Organization
PMC	Project Management Committee
PWC	Price Waterhouse Coopers
SDG	Sustainable Development Goals
SORAAPs	Statement of Recommended Accounting & Auditing Practices
TOWA	Total War against Aids

OPERATIONAL DEFINITION OF TERMS

The following provide the definitions of terms as used in the study

Community Based Organizations (CBOs): Refers to Total War against Aids (TOWA) funded communal groupings operating within constituencies with common intention to effectively address the plight of HIV/AIDs victims needs in the community in Kisumu County, Kenya. The CBOs were formed for varied reasons and receive funding from members collection and other donors but were also identified by National Aids Control Council (NACC) to receive TOWA funding from World Bank.

Financial reporting: A process that the CBOs undertake to produce operating and financial information that is relevant and reliable in decision making. It involves the CBOs issuance of financial statements and their related notes and disclosures as set forth in the accounting standards and requirements**.** This study focused on relevancy and reliability in financial reporting.

Governance: The CBOs management of resources in a manner that is open, transparent, accountable, equitable and responsive to local community's needs. Governance for the sake of this study focused on the CBOs management committee independence and management effectiveness (qualification and performance).

Accountability: The responsibility of CBOs management delegated to carry out specific tasks on behalf of donors. This indicated the extent to which the donor funds are put in proper use as reported in the financial statement focusing on objectivity and honesty.

Accounting System: These are operating policies and procedures supporting the recording of financial activities in the CBOs. These are in form of CBOs written financial guideline, manual or computer financial system being used in recording financial activities.

Relevance: Financial information capable of making a difference to CBOs donors and members decisions who are the main users of financial information. Relevant information has confirmatory or predictive value and represents fundamental qualitative characteristics of CBOs financial reporting.

Reliability: The CBOs ability of financial reporting to consistently perform as expected in achieving the CBOs objective. In this study reliability represent enhancing qualitative characteristics which are complementary to the fundamental qualitative characteristics and these are comparability, verifiability, timelines and understandability of CBOs financial reporting.

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE: INTRODUCTION

This chapter sets out to review specific areas of the study. It is given under subsections of; background information with specific focus on the objectives of the study comparing and contrasting the existing literature and critically analyses to expose the knowledge gaps. The chapter addresses the statement of research problem; it also gives the research main and specific objectives; highlights research hypothesis; scope and justification of the study and finally the conceptual framework of the study.

1.1 Background of the study

Financial reporting is a process which provides financial information about the reporting entity that is useful to existing and potential stakeholders in making decisions about providing resources to the organization (IASB 2012). Financial reporting provides a method of systematically recording and evaluating business activities for the benefits of all stakeholders, they also discloses useful information that ensures transparency and can be used for decision making (Greuning, 2004). Financial reporting involves the public issuance of financial statements and their related notes and disclosures as set forth in accounting standards and requirements (Borio & Tsatsaronis, 2005). The objective of financial reporting is focused on meeting the information needs of the primary user in resource management. Financial reporting is a function of management within planning and controlling functions and is important to all organizations (Borio & Tsatsaronis, 2005).

Financial reporting process give rise to financial reports which are formal records of an organization's financial activities, they are means of portraying financial accountability in an organization (Collins & Collins, 1978). Financial reports must exhibit certain qualities that make them useful to the stakeholders and these include relevance, reliability, understandability and timeliness (Gale, 2003). Financial report is the first source of independent and true communication about performance of company managers (Sloan, 2001). Financial statements form part of the process of financial reporting. The main components of a complete set of financial statements are statement of financial position; a statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, comprising a summary of significant accounting policies and other explanatory information.

At present there are two sets of international accounting standards issued and widely used by professional accountants: IPSAS and IFRS/IAS for financial reporting practice in public sector and for-profit organisations respectively. Corporate sector financial reporting (especially for publicly accountable firms –including those listed on stock exchanges), conforms to the standards that are issued by the International Accounting Standards Board (IASB). The IASB has also published IFRS for Small and Medium Enterprises (SMEs) for use primarily by smaller for-profit entities (International Federation of Accountants, n.d).

Governance is an important element for an organization to operate effectively and foster its growth. For an organization to function efficiently and effectively stakeholders must have confidence in the financial reporting process which can be achieved when there is a well-balanced, functioning system of corporate governance (Rezaee, 2003). NGOs should strengthen their leadership through training, couching and mentoring both the Board of Directors/Management Committees and the NGO management (Kateeba, 2010). For an organization to deliver quality reporting it needs to have well skilled personnel, qualified and well trained accounting staff who are able to meet the donor financial reporting requirements (Ayuma,2012). Mukasa, (2002) found out that staff members in the NGOs typically receive lower pay than in the commercial private sector. They have little organizational and professional skills and the little training they receive or lack of it concerns them. CBOs have people other than an accountant preparing their financial returns and reports, this can be the treasurer of the group or a person a pointed by the management team and may not necessarily be an Accountant (Odindo, 2009).

In CBOs management committee is the governing body which provides strategic direction and leadership. Rezaee (2003) examined financial reporting in corporate organizations operating in the capital market with robust governance system unlike CBOs who are small in size and rely on contribution or donations. The findings of, Kateeba, (2010); Ayuma, (2012) and Mukasa are based on large NGOs generally on challenges of governance in these organizations and not specifically financial reporting. Odindo (2009) assesses CBOs capacity needs in general not mentioning governance in relation to financial reporting. CBOs are generally small in size with a unique system where governing body is the management and could also double up as the operating personnel. The CBOs scenario does not fit any of the studies given therefore necessitated the need of an independent study on governance and its effect on financial reporting in these grass root organizations. This study specifically established the effect of governance on financial reporting of the CBOs which remained unclear.

Alnoor (2003) asserts that NPOs respond to issues of accountability with both tools and processes. Familiar tools are annual reports, financial accounts, performance assessments, quarterly reports, independent evaluations and audits. Odindo (2009) conclude that community based programs in Kenya fail due to a lack of transparency and accountability in the use of project funds, or a lack of proper records on how the funds were used. Slim (2002) outlines two kinds of accountability for NGOs; performance accountability and voice accountability that is the reliability of what they said and the authority with which they spoke.

The studies on accountability of Alnoor (2003) and Odindo (2009) are rightly based on NPOS where CBOs fall and assessing their accountability. The studies go round the concept of accountability but there is no link of accountability and financial reporting. Despite the size of the CBOs, there is need of financial reporting to facilitate funding for effective implementation. There was need to go in-depth to ascertain the effect accountability has on financial reporting of the CBOs which is not evident in the previous studies. This study analyzed the effect of accountability on financial reporting of the CBOs.

Investing in a good accounting system ensures good financial reporting and illustrated the need to incorporate the Standard Operating Reporting Procedures in financial reporting in NGOs to reduce these challenges (Ayuma, 2012). Mwangi (2011) asserts that for a long time in Kenya, the practices and principles of accounting have been viewed to be for use by corporate and other formally structured organizations and for SMEs the written accounting records are limited to a list of debtors and business creditors, the other records are held in the traders' memory.

Ayuma (2012) focus on computer accounting system on large multi-funded NGOs, the result do not represent the CBOs scenario whose system are not robust as these organizations. Mwangi (2011) studied business Small and Micro Enterprises whose accounting recording are different from the donor funded CBOs recording. This study did not cover the technological software aspect as given by Ayuma (2012) but on the written policies and procedures being followed to generate the financial reports therefore agrees with the assertions of Mwangi (2011) on the view of fundamental accounting principles requirements.

It was therefore important to establish the effect of accounting systems on financial reporting which remained unclear whether it is important to have these systems in the CBOs and which no other study has adequately addressed.

A Non-Profit Organization (NPO) is an organization that operates like a business but does not seek financial gain (Gray, et al 2006). The practices followed by NPOs on certain issues are varied and diverse thereby making the financial reports incomparable and difficult for users to understand. Currently, the International Accounting Standards Board (IASB) (an independent, private-sector body that develops and approves International Financial Reporting Standards) has not put emphasis on the quality of financial statements and increased accountability of Not-For-Profit Organizations. This has created a myriad of challenges for the NPOs since their reporting is not guided by standards but by the various stakeholder requirements (Ayuma, 2012). As a result, some countries have made efforts in harmonising accounting practices and presentation which mostly refer to the lager NPO formed under NGOs Co-ordination Board usually referred to as Non-Governmental Organizations (NGO), these standards which exist are mostly country-specific.

Community-Based Organizations are communal groupings that operate within a single local community (Fisher, 2002). They are essentially a subset of the wider group of nonprofits, like other nonprofits they are often run on a voluntary basis and are self-funding or given grant by well-wishers. In Kenya they are registered under the National Council of Community Based Organization Board (NCCBO). The CBOs financial reporting follow the generally accepted financial principles as spelt out by IFRS since there is no special standard set for NPOs. It is evidenced that CBOs are in dire need of financial support to be able to carry out their programs, most CBOs have people other than an Accountant preparing their financial returns and reports (Odindo, 2009). Currently NCCBO is unclear with regard to the financial reporting requirements for registered CBOs in Kenya. Absence of financial standards in this sector makes it difficult to have uniformity in the process and presentation, therefore each CBO follows their own reporting style or specific donor requirement. The Total War Against Aids (TOWA) CBOs operate with mandate to facilitate HIV/AIDS care and reduction activities in Kenya. The CBOs received funding from World Bank through Financial Management Agencies (FMA) Price Water House Coopers (PWHC) and monitored by National Aids Control Council (NACC) representing the government. From the audit reports for period between the years 2011 to 2014, the CBOs have been faced with continuous poor financial reporting which have caused delay in fund transfer whose requirement is complete financial documentation as per donor requirement (Kepher Franklin and Associate CPA, 2014).

These grass root organizations are important in development and therefore the research will analyze factors affecting financial reporting by the CBOs to give some direction in this sector. This study focused on the factors affecting the qualitative characteristics of financial reporting. The study concentrated on the effect of governance, accountability and use of accounting system in financial reporting of these CBO as adapted from Keating & Frumkin (2003) in the assessing Non-Profit Making Financial Measure and to ascertain to the extend which these same factors are affecting financial reporting of the CBOs.

1.2 Statement of the Research Problem

Research findings on financial reporting do not highlight or contradict greatly with CBOs scenario. While research on financial reporting in corporate organizations and larger NPOs has been done, none has been specific on financial reporting of CBOs. CBOs capacity assessment has been conducted in Kenya, but no research has been done specifically highlighting the factors affecting financial reporting of the CBOs. Currently National Council of Community Based Organization Board is unclear with regard to the financial reporting requirements for registered CBOs in Kenya. The International Accounting Standards Board in its quest on financial reporting requirement has put much emphasis on business enterprises or profit making organization but not to the NPOs. TOWA funded CBOs were given funds to facilitate the HIV/AIDS related support activities. The audit reports revealed that the CBOs have been faced with continuous poor financial reporting; this caused delays in funds transfer to the CBOs hence affecting service delivery to beneficiaries causing anxieties and even death. The governing body was entrusted with donor fund; CBO scenario does not fit any of the studies given therefore necessitated the need of an independent study on governance and its effect on financial reporting in these grass root organizations. The demand for accountability in form of complete financial reports made by the Financial Management Agency (FMA) caused delays in further funds transfer therefore there was need to analyze the effect of accountability on financial reporting which is not evident in the previous studies. The absence or failure to use accounting guidelines by the CBOs and which no other study has adequately addressed necessitated this study to establish the effect of accounting system in financial reporting of the CBOs. It is therefore clear that there is a concern on CBOs financial reporting. This research therefore bridges the gap of limited knowledge in this sector by analyzing factors affecting financial reporting of the CBOs in consistent with the guided objectives.

1.3 Objective of the Study

The main objective of this study was to analyze factors affecting financial reporting of CBOs in Kisumu County, Kenya.

The specific objectives of the study were to:

i) establish the effect of governance on financial reporting of CBOs in Kisumu County, Kenya.

ii) analyze the effect of accountability on financial reporting of CBOs in Kisumu County, Kenya.

iii) establish the effect of accounting systems on financial reporting of CBOs in Kisumu County, Kenya.

1.4 Research Hypothesis

The study was guided by the following null hypotheses.

$H_{01;}$ Governance has no effect on financial reporting of CBOs in Kisumu County, Kenya.

$H_{02;}$ Accountability has no effect on financial reporting of CBOs in Kisumu County, Kenya.

$H_{03;}$ Accounting systems has no effect on financial reporting of CBOs in Kisumu County, Kenya.

1.5 Scope of the Study

The study is multi-disciplinary mainly based on accounting and finance. Geographical scope of the study will be taken from the CBOs in Kisumu County constituencies. The county has seven constituencies namely: Kisumu East, Kisumu West, Kisumu Central, Seme, Nyando, Nyakach and Muhoroni Constituencies. The study focused on the factors affecting financial reporting in Community Based Organizations, specifically CBOs in these constituencies as a representative. The study targeted TOWA funded CBOs due to the uniformity of operations and representation. The constituencies within Kisumu County were chosen because they had largest TOWA funded CBOs representations compared to other Counties. This study was conceptualized between September 2015 and November 2015.

1.6 Significance of the Study

Community Based Organizations are an integral part of Kenya's development process and have shaped important policies like poverty eradication. The study was to enhance CBOs capacity to build mechanisms in financial reporting. TOWA funded CBOs reporting guidelines require them to submit financial reports every month, these report must be consistent to the guidelines and to the Generally Accepted Accounting Principles (GAAP). The funds transfer to the CBOs follows the agreement bi-annual in any financial period and is given in subsequent tranches after submitting financial reports that adheres to the guidelines otherwise the delay or failure to receive full anticipated funding. The study findings can generate knowledge for the donors about why the CBOs fail to comply with donor requirements leading to delay or stoppage of funding. This can help the donors to identify what kind of technical support they should provide the CBOs before giving them any funding in order to ensure acceptable financial reports. The study findings can help CBO sector in general in improving their compliance to donor requirements and thus improve their capability to attract more funding and ensure their organizational sustainability and growth. This study can also make an academic contribution to the area of knowledge. Finally study findings can be a basis for further research on the donor/CBO relationships.

1.7 The Conceptual Framework

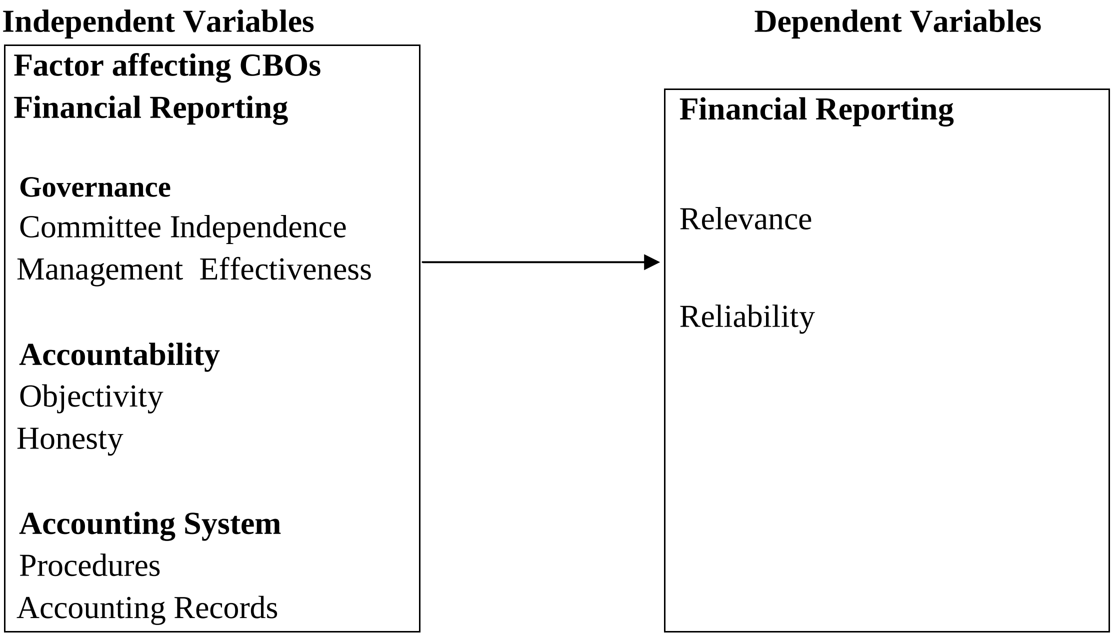

Figure 1.1: The Conceptual Framework
Source: Adapted from The Contingency Theory by Fiedler (1967)

This study was anchored on the contingency theory of leadership according to Fiedler (1967). The theory states that for the leader to be effective, he/she must adjust leadership style in a manner consistent with critical aspects of the organizational context, such as the nature of the task and attributes of employees carrying out the work. This theory focuses on the situational or environmental factors that influence leadership. This theory was used to represent how financial reporting is contingent upon the factors in the organization emanating from governance, accountability and accounting system. Two variables have been taken into account; financial reporting being dependent and the factors affecting financial reporting as independent variables. These variables have been identified and their relationship shown in the figure above. In the model for this study, the test was between the factors and the financial reporting. The factors have been categorized into three broad parts to express the effects emanating from; governance, accountability and accounting system in an Organization adapted from Keating & Frumkin (2003) in the assessing Non-Profit Making Financial Measure with adjustments made to fit the CBOs, their quest to quality financial reporting and meeting the needs of the funders and other key stakeholders. These directly affect the qualitative characteristics which for the purpose of this study were; relevance of and reliability on financial reporting.

The qualitative characteristics adapted from conceptual framework for financial reporting (FASB, IASB 2008) was used to represent the dependent variables. The framework asserts that for financial information to be useful, it should possess two fundamental qualitative characteristics which are relevance and faithful representation. It further describes enhancing qualitative characteristics, which are complementary to the fundamental qualitative characteristics; comparability, verifiability, timelines and understandability. Reliability represented the enhancing qualitative characteristic of, comparability, verifiability, timelines and understandability as in the framework. Therefore financial reporting is a function of these factors; this was used to represent the content of financial reporting of the CBOs as illustrated in the figure 1.1 above.

CHAPTER TWO LITERATURE REVIEW

This section provides a critical review of related literature that has been published in this area with a specific focus on the objectives of the study. This chapter reviews theories and empirical literature resulting from such studies done in Kenya and elsewhere.

2.1 Theoretical Review

2.1.1 The contingency theory

The contingency theory of leadership according to Fiedler (1967) states that for the leader to be effective, he must adjust leadership style in a manner consistent with critical aspects of the organizational context, such as the nature of the task and attributes of employees carrying out the work. During the 1970s, accounting researchers began using contingency theory in management accounting research, developing it into the accepted, but sometimes criticized, contingency theory of Management Accounting System (Otley, 1980). The main approach is to identify variables that seem to affect the complexity of Management Accounting System in organizations, the Management Accounting System is contingent upon certain factors or variables (Jones, 1985). This theory was used to represent how financial reporting is contingent upon the factors in the in the CBOs emanating from governance in the organization. The theory fits well with CBOs case because they are generally managed and run by the governing body (management committee) where in most cases the treasurer is the accounting officer. The theory was used to explore further if the financial reporting is contingent upon accountability and accounting system.

2.1.2 The Concept of Governance

According to Cadbury (1991), directors are accountable for the preparation and authorization of financial statements and responsible for ensuring the quality and integrity of financial reporting. This includes their relevance, faithful representation, comparability, timeliness, and how understandable they are for users. He posits that the governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim was to align as nearly as possible the interest of individuals, organizations and society. The theory is based on the aspects of corporate profit organizations and not the CBOs, it does not disclose the effect of governance to financial reporting and does not represent realty in the CBOs. The qualitative aspects of relevance and reliability in this study were used to establish the effect of governance on financial reporting of the CBOs.

Eyong (2001) asserts that good governance means the effective management of an organization's resources in a manner that is open, transparent, accountable, equitable and responsive to people's needs. Good governance aims to ensure management achieves the organization objectives and is accountable for the financial and other resources within the boundaries set by the rules of the project. Governing bodies are either called Boards, Trustees, Executive Committees, Management Committees or Councils. Organization leadership should establish internal control systems that will ensure a code of ethical conduct and a framework for internal regulations, including systems and bylaws. NPOs require a governing body to provide strategic direction and leadership CAFS (2001). NPOs operate in a rapidly changing and competitive world if they have to survive in this challenging environment, managers need to develop the necessary understanding and confidence to make full use of financial management tools (Lewis, 2012). Wanjohi (2010) in his study found out that the major challenges that community based organizations face in their quest to sustainability include poor leadership. NPO sector is also faced with governance challenges in relation to internal cohesion, Kenya National Council of NGOs (2001) spells out that NPO governing bodies are often weak, ineffective and seldom not capable of discharging even basic responsibilities. The governing body has no monetary stake in the organization but chosen on trust by management, beneficiaries or the donors to oversee the organization's functions, this generally make them non committed in challenging situations. Karanja, (2014) highlights the recent deregistration of 510 charitable organizations for failing to file their audited reports as required by law and other 15 non-governmental organizations for allegedly funding terrorism activities in the country.

The previous studies set the ground and explained governance and its challenges in the corporate profit organizations and larger NPOs especially on their broader management, but do not highlight effect of governance on financial reporting. This study used these grounds to go further and establish the effect of governance on financial reporting specifically on CBOs which are rather smaller in size and operation. In consistent with the above quoted scholars this study highlighted effective management of resources, protection of stakeholders' interest and adequacy of personnel skills. In contrast Cadbury, (1991) analysis is on corporate profit organizations which have very different set up with CBOs, also focused on the capital market which CBOs have no connection with. Eyong (2001), CAFS (2001), Wanjohi (2010) and Lewis, (2012) have based their assessment in large nonprofit organizations with robust governance structure than the grass root CBOs. The studies are also generally assessing governance in promoting efficient use of resources but do not clearly bring out governance as an issue in the financial reporting. It is clear that these studies cannot be used to address this specific sector as far as governance effect on financial reporting is concerned but were used as a guide. The funds were entrusted to the CBO governing body hence the need to establish their effect on financial reporting which this study addressed.

There is still limited knowledge on the effect of governance on financial reporting specifically of the CBOs in general. This study went ahead established the effect of governance on relevancy and reliability of financial reporting of the CBOs.

2.1.3 The Concept of Accountability

Financial accountability refers to the use of public money in term of norms property, austerity and efficiency; it is giving an account of actions taken and being held accountable for these actions (Mestry, 2006). Financial accountability is primarily understood as the relationship between the citizens as accouters, and the Government as an accounted, where the citizens hold the Government to account for the stewardship of public money. Accountability is procedure requiring officials and those who seek to influence them to follow established rules defining acceptable processes and outcomes, and to demonstrate that they have followed those procedures (Johnston, 2006). According to Brown & Moore (2001), accountability should be treated as a key strategic issue that will help an organization to define and achieve its highest value. Mestry, Johnson, Brown and Moore looks at accountability in terms of the process and importance in larger organizations and do not bring out the effect accountability has on financial reporting. This study went further and analyzed the effect of accountability on financial reporting of the CBOs.

Ross (1973), states that the issue of accountability arises as part of the process of delegation. The principle gives the agent resources or delegates power for a purpose and wishes to constrain or provide incentives to the agent to provide value for money in the use of the resources. Cornwall et al., (2000) suggests that the concept of accountability is often used without clarity over who is accountable to whom in what domains of life. Langenberg (2004), states that while NPOs might argue that existing accountability mechanisms are that simply having a code does not ensure all organizations will follow the rules. Thus, on the surface, it would appear that some form of mandatory reporting by NPOs forms an ideal measure of accountability. Marshall (2002), states that there is no straight forward measure of organizational effectiveness of NPOs and there is the issue of enforcement and /or sanctions. These concepts were on larger organizations and do not clearly isolate the effect of accountability on financial reporting. In view of these facts and especially agency principle between donors (principle) and CBO management (agents) it was important to analyze the effect of accountability on financial reporting by the agents of the funds given by the donors.

Boice (2004) states that financial accounting is financial responsibility or operational transparency that requires demonstrating how donations to organization have been used and how effective organization is in achieving its goals. Financial accountability is made by preparing and circulating financial statements or reports to stakeholders. According to Gale (2003), financial accountability gives NPOs legitimacy and credibility, contributes to their reputation and adds to their sustainability. Good financial accountability limits fraud and mismanagement. It also empowers beneficiaries and other stakeholders since information is power. While donors are willing to fund organizations that can create an impact in the society, they also expect accountability of the funds they give. However, according to Leat (1988) there is need of accountability with sanctions, where some form of penalty is imposed if the account or the actions are inadequate. These assertions were on larger organization with profound processes and also do not show how accountability affect financial report. In support of Boice, Gale and Leat in their reports it was important then to go further and analyze the effect of accountability on financial reporting of the CBOs.

This study incorporated the stated scholars ideas on accountability as defined especially in the presence of principle and agent relationship and code of conduct. It is also true as Langenberg (2004) asserts that having code does not mean the organizations will follow, it may just be kept. It is by action for instance; quality financial reporting that one may judge the accountability compliance. The scholars; (Mestry, 2006, Brown & Moore, 2001, Marshall, 2002, Boice, 2004) put emphasis on the importance of accountability in resource allocation and operational efficiency but do not bring out effect of accountability on financial reporting quality that this study analyzed. These analysis do not bring out the effect of accountability on financial reporting and were also based on corporate profit making organizations and large nonprofit organization with distinct corporate structure, therefore the result do not represent the small CBOs which this study focused on. This study specifically analyzed the objectivity and honesty in financial reporting processes while analyzing the effect of accountability on financial reporting in these grass root organizations.

2.1.4 The Concept of Accounting System

A company's Accounting Information Systems often are subsystem of its overall management information system (MIS). Collins & Collins (1978) contend that an accounting system is a way of keeping a written record of transactions. Receipts are given for all money that is received by an organization and receipts are asked for every time money is spent. According to Larson & Pyle (1988) an accounting system consists of business papers, records, reports and procedures that are used by an organization in recording transactions and reporting their effects. Kugel (2011) suggest that having the right technology and using it effectively are both essential to achieving better execution of Financial Performance Management processes. The concepts do not establish clearly the effect of accounting system on financial reporting. In agreement to the extent of these scholars' assertions this study went ahead to establish the effect of accounting systems on financial reporting in TOWA funded CBOs.

Welsch & Short (1987) stated that an accounting system, regardless of the size of the organization is designed to collect, process and report periodic financial information about the entity. Schnelder (1989) stresses that the heart of fiscal management in any organization is a good accounting system, that is appropriate to that organization. In order to achieve consistent financial accountability it is necessary to establish standards and a system for accounting practices. Brown & Moore (2001) state that there is no single accountability system that is right for all organizations. The need for a transparent and standardized reporting and accounting system for large scale service delivery, conflicts with the requirements for the service to those in need. It is important to note despite the size of CBOs that they need accounting system as stated by Welsch & Short (1987). These previous studies looked at accounting system in relation to large organizations and did not establish how the accounting systems affect financial reporting. There is need in the same content to establish whether CBOs need these systems and their effect to financial reporting. This study focused on the small grass root CBOs to establish the effect of accounting systems on financial reporting, in case the CBOs.

An organization's choice of accounting system is to determine how easy or challenging it is to come up with the varied reports. From these analyses, it is clear that accounting systems are crucial but they do not clarify the effect on the financial reporting. It is therefore important to establish the effect of accounting systems especially that of the small nonprofit sector which may assume the usefulness at the expense of financial reporting requirement which facilitates effective receipt of donor funds which has remained an issue in the CBOs.

2.1.5 Financial Reporting

Financial reporting provides financial information about the reporting entity that is useful to existing and potential stakeholders in making decisions about providing resources to the organization (IASB 2012). Financial reporting refers to a good overview of project’s progress, and good financial records make sound project monitoring and evaluation much easier Greuning (2004). Greuning (2004) looks at a financial reporting in terms of full disclosure of the financial statements, ensuring transparency and provision of a fair presentation of useful information that can be used for decision making purposes. Borio & Tsatsaronis (2005) asserts that financial reporting means issuance of financial statements and their related notes and disclosures but insist that they have to follow the accounting standards and requirements. The Financial Accounting Standards Board (FASB, 2008) states that financial reporting should provide information that is useful to present and future investors and other users in making rational investments and decisions such as issuance of credit facilities. FASB and the IASB published Conceptual Framework for Financial Reporting which represents the foundations of the accounting standards. The application of objectives and qualitative characteristics should lead to quality financial reporting information that is useful for decision making (FASB, 2008; IASB, 2006). According to Gale (2003) poor financial reporting greatly diminishes NPOs prosperity.

International Accounting Standards Board (IASB) has not improved the quality of financial statements and increased accountability of NPOs; some countries have made efforts in harmonizing accounting practices and presentation using GAAP. In Kenya, the council of the ICPAK set the IFRS to be the accounting standard (World Bank, 2001). ICPAK (2005) further confirmed that the requirement for adopting IFRS had been legalized for both listed and non-listed companies in the Companies Act (CAP 486). However, due to lack of emphasis on the format of financial statements and increased accountability of Not-For-Profit Organizations Kenya has also made efforts in harmonizing accounting practices and presentation by coming up with Statement of Recommended Accounting and Auditing Practices (National Council of NGO, 1998). SORAAPs are sector-driven recommendations on accounting practices for specialized industries or sectors which supplement accounting standards and other legal and regulatory requirements in the light of the special factors prevailing or transactions undertaken in that particular industry or sector that are not addressed in accounting standards.

Barth, Landsman & Lang, (2006) states that information is material if its omission or misstatement could influence the decisions that users make on the basis of an entity's financial information. When considering whether financial information is a relevant or reliable of what it purports to represent, it is important to take into account materiality because material omissions or misstatements will result in information that is incomplete, biased, or not free from error. Barth, Landsman & Lang, (2006) further assert that financial reporting imposes costs; the benefits of financial reporting should justify those costs. The costs of providing information include costs of collecting and processing the information.

It is no doubt from the quoted scholars that financial reporting is important to the existent and growth of an organization. These studies were based on corporate profit organization and large NGOs and not CBOs, there is also no clear analysis of factors affecting financial reporting. TOWA funded CBOs are required to submit financial report which is consistent to the donor requirements to the FMA before receiving more funds, these grass root organizations have not performed well in their submissions. It is therefore important to analyze factors affecting financial reporting in light of these harmonized accounting practices and the constraints. This study focused on factors affecting financial reporting in TOWA funded CBOs because there is limited knowledge especially in these grassroots sector financial reporting in attracting more funds for expansion.

2.1.6 The Concept of Community Based Organizations

Fisher (2002) states that before the formal registration of CBOs, community members usually start informal groupings with common agenda, most of them are mainly women groupings with a name “Merry go round”. The main agenda in these groups is some activities on economic empowerment. The history of Community Based Organizations (CBOs) lies way back during the American Civil War, whereby charity groups were designed to offer assistance to those who were displaced, disabled, or impoverished by the war. It was during the period between 1980s and 1990s, when CBOs expanded to a point that they were being referred to as a movement, and the process of community organizing expanded into many community organizations (Fisher, 2002). The main difficulty that emerged during this period was the shifting of power from local communities to regions, nations, and international corporations. The process of globalization raised issues about the efficacy of local organizations in addressing problems caused by large-scale financial forces, thus the foundation of national and international organizations (Speer& Perkins, 2002).

In Kenya, CBOs began as self-help groups in the years of 1960s when the first president of Kenya, Mzee Jomo Kenyatta began to encourage grassroots growth through coming together in the spirit of what was referred to as Harambee (Wanjohi, 2013). This spirit was based on the understanding that one could not be able to carry out plans or actions by him/herself but would require a certain contribution from the other members of the society. The Harambee spirit kept most of the self-help groups growing, (Wanjohi, 2013). It is estimated that there are 52,350 CBOs in Kenya registered with National Council of Community Based Organization. Most of these organizations are membership based organizations that offer services to their members as much as they give back to the society (NCCBO, 2015).

The TOWA funded CBOs were given funds from World Bank through financial management agencies Price Water House Coopers (PWHC) and monitored by National Aids Control Council (NACC) representing the government. The fund was given to facilitate HIV/AIDS care and reduction activities. From the audit reports for period between the years 2011 to 2014, the CBOs have been faced with continuous inconsistency in financial reporting hence the delay in fund transfer by financial management agencies whose requirement is complete financial report (Kepher Franklin and Associate CPA, 2014). The delay in funding means that the HIV/AIDS care and reduction activities are not facilitated and therefore the life of the affected and infected is at risk. The CBOs were given capacity building by the financial management agencies but over the periods there were observed concerns in the financial reporting. The CBO sector contribute to national development, unless the issue of financial reporting is emphasized, it is very difficult for them to address not only the critical issues facing communities today but also the very challenges threatening their own survival and the purpose on which they are formed. There is no specific previous research on factors affecting financial reporting of these grass root organization. This research emphasis was on governance, accountability and accounting system and their effect on financial reporting. The study focused on the factors affecting financial reporting in the CBOs because this remained an issue in this sector.

2.2 Empirical Review

2.2.1 Effect of Governance on Financial Reporting

Rezaee, (2003) assessing the 'six legged stool' asserts that corporate governance is a mechanism of managing, directing, and monitoring a corporation with the goal of creating shareholder value while protecting the interests of other stakeholders. The six legged stool consist of six groups of: Board of Directors, Audit Committee, Top Management Team, Internal Auditors, External Auditors and Governing Bodies. For good corporate governance, companies should develop a "six-legged stool" model that supports responsible and reliable financial reports. Each participant in the process is a leg of the stool, supporting the one top goal of producing high-quality reports. The model is based on the active participation of all parties and fosters continuous improvements. (Rezaee, 2003) further states that this should be done by personnel with adequate skills; if they are not qualified or lack adequate training then the effect on financial reporting is enhanced. He concludes that for capital markets to function efficiently and effectively stakeholders must have confidence in the financial reporting process which can be achieved when there is a well-balanced, functioning system of corporate governance. Rezaee (2003) reports on corporate organizations, although the CBOs are not robust in governance as these large organizations therefore it is important to understand their governance structure and the effect on financial reporting. CBOs do not have six legged stool but may have one or two comprising of management and Committee or just committee who doubles as management. This is unique and need proper analysis on the CBOs operations to ascertain the oversight role of governance on financial reporting. This study looked at the CBOs governing body and established the effect of governance on financial reporting so as to foster stakeholder's confidence.

Kateeba (2010) conducted a study on the relationship between governance and quality of financial reports in NGOs supported by AIM programme in Bushenyi, Ntungamo and Rukungiri Districts in Uganda. The study utilized a cross section survey research design and a total of 107 respondents from 37 local and 9 national NGOs were interviewed. It was concluded that governance is highly related to the quality of financial reports in NGOs. The regression analysis established that governance is a predictor of quality of financial reports accounting for 49.2% of variation in quality of financial reports. It was therefore recommended that NGOs should strengthen their leadership through training, couching and mentoring both the Board of Directors and the NGO management. His study used cross section survey design based on the relationship between governance and quality financial reports of the larger NGOs with established structures. This study employed correlational research design which determined and reported the way things were and focused on a smaller institution of CBOs establishing the effect of governance on financial reporting of CBOs. Keteeba (2010) study focused on the reports, the end product of financial reporting, this study analyzed effect of governance on the process of financial reporting itself, that is during financial production or reporting, this gave better insight of factors to deal with directly to achieve better results.

Ayuma (2012)) conducted a study in Kenya on an analysis of the challenges that multi-funded NGOs in Kenya face in financial reporting; his findings included the fact that for an organization to deliver reports it needs to have well skilled personnel, a qualified and well trained accounting staff who is able to meet the donor financial reporting requirements. Mukasa (2002) did a case study of expatriate staff necessity in International Development NGOs in Uganda found out that staff members in the NGOs typically receive lower pay than in the commercial private sector. They have little organizational and professional skills and the little training they receive or lack of it concerns them. Another study by Ernst & Young (2013) on capacity assessment of CBOs working with Plan International in Kenya found out that majority of CBOs accounting and finance roles were handled by the treasurer who is part of the executive committee. The treasurer had no adequate accounting/finance background and the treasurer is not empowered to carry out duties independently, this is a focus on general capacity assessment without connection to financial reporting. These studies focused on the staff capacity, this study also included in governance staff capacity since most management committee double as the operating personnel. TOWA funded CBOs committee serve on voluntary basis with basic allowances, this study needed to ascertain that these officials can still operate normally and have the capacity to carry on the required financial reporting. Necessitated with these scholars' findings, the study looked at the management effectiveness and established the effect of governance on financial reporting of the CBOs.

Odindo (2009) did an assessment on capacity needs of community based organizations in Kenya to apply for Global Fund Grants (GFATM). Qualitative and quantitative techniques methods were used that would lead to the assessment of views and opinions from a wide and varied cohort of respondents among the CBOs that had carried out or plan to apply for funds to control malaria in their area of project implementation. The assessment was conducted through questionnaire interviews with heads and coordinators of Community Based Organizations, and Key Informant Interviews of all the organizations interviewed. His study targeted; Community Based Organizations, National Organizations, Faith Based Organizations (FBO) and International Organizations. The results on financial reporting showed that most organizations have people other than an accountant preparing their financial returns and reports. It was recommended that CBOs that wish to apply for GFATM grants for their malaria projects should be trained to enhance their capacity to implement these programs. This was an assessment based on capacity needs of CBOs which is so wide and did not bring out explicitly the effect of governance on financial reporting in this sector.

Organizations require a governing body to provide strategic direction and leadership which in the TOWA funded CBOs is carried out through the CBOs management committee. The CBOs are generally small in size with a unique system where governing body is the management and could also double up as the operating personnel. The CBO scenario does not fit any of the studies therefore necessitated the need of an independent study. This study specifically established the effect of governance on financial reporting of TOWA funded CBOs which remained unclear.

2.2.2 Effect of Accountability on Financial reporting

Slim (2002) did an overview assessment of the NGO accountability literature over the last ten years which outlines two kinds of accountability for NGOs: performance accountability and voice accountability. Slim adds that over the last ten years NGOs have had to respond to both the veracity of what they said and the authority with which they spoke. The task of providing statements of income and expenditure, description of programs, targets and achievements is less subjective than providing an account of goals and missions. TOWA funded CBOS are expected to account for the fund granted as per the agreement signed with donor and FMA; in a given format and budget used analysis. The agreement document forms the CBOs accountability and must adhere to the requirement otherwise next funding is delayed until adequate compliance is ascertained. Whereas the two accountabilities are important, Slim (2002) assessment was on NGOs larger organization and not CBOs and did not relate accountability to financial reporting. This study focused on financial accountability and analyzed the effect of accountability on financial reporting of TOWA funded CBOs.

Alnoor (2003) examines how accountability is practiced by not-for-profit organizations, five broad mechanisms were reviewed: reports and disclosure statements, performance assessments and evaluations, participation, self-regulation, and social audits. Each mechanism, distinguished as either a “tool” or a “process,” is analyzed along three dimensions of accountability: upward– downward, internal–external, and functional–strategic. It was observed that accountability in practice had emphasized “upward” and “external” accountability to donors while “downward” and “internal” mechanisms remain comparatively underdeveloped. Alnoor (2003) concludes that NPOs respond to issues of accountability with both tools and processes. Tools are created by stakeholders that have considerable leverage over an NPO like a donor or a government regulator. Familiar tools are annual reports, financial accounts, performance assessments, quarterly reports, independent evaluations and audits. Moreover, NGOs and fund providers have focused primarily on short-term “functional” accountability responses at the expense of longer-term “strategic” processes necessary for lasting social and political change. Alnoor (2003) focused on how accountability is practiced by NGOs not CBO and did not analyze the effect of accountability on financial reporting. Most of TOWA funded CBOs have remained small overtime, familiar financial reporting tools have remain the templates given by the FMA and NACC which shows external accountability matters more than internal. Financial reporting is accountability process, therefore considering accountability in practice the study analyzed the effect of accountability on financial reporting of the CBOs.

Odindo (2009) did a study on Capacity Needs of Community Based Organizations in Kenya to apply for Global Fund Grants he found out that financial management and reporting are two crucial areas of project management. Many community based programs in Kenya fail due to a lack of transparency and accountability in the use of project funds, or a lack of proper records on how the funds were used. TOWA fund is supposed to be held in separate account and the use be properly authorized by the officials. Financial audits are carried at various intervals by both external and NACC auditors. Odindo (2009) study on capacity needs of the CBOs hence not clearly bringing out accountability in relation to financial reporting This study focused on accountability as an important issue and therefore analyzed the effect of accountability on financial reporting of the CBOs.

The studies go round the concept of accountability but there is no link of accountability and financial reporting. Keeping in mind the size of CBOs and the need of financial reporting to facilitate funding for effective implementation, there is need to further analyze the effect of accountability on financial reporting in the CBOs. This study analyzed the effect of accountability on financial reporting of the CBOs.

2.2.3 Effect of Accounting System on Financial Reporting

Ayuma (2012) conducted a study on an analysis of the challenges that multi-funded NGOs in Kenya face in financial reporting. The study adopted an explanatory research design on a sample of 86 senior finance personnel in multi- funded NGOs. Primary data was collected using questionnaires and data analyzed using descriptive and inferential statistics (t-test and chi-square test). In relation to donor requirements, the entire respondents acknowledge that donor requirements are not similar and all of them expect the organization to meet the donor requirements. The analysis shows that varying donor and regulatory requirements create challenges in financial reporting. From the findings, qualification inadequacy of the accounting staff resulted in financial reporting challenges. The study concluded that investing in a good accounting system ensures good financial reporting. The findings illustrated the need to incorporate the Standard Operating Reporting Procedures in financial reporting in NGOs to reduce these challenges. TOWA funded CBOs were given standard financial reporting procedures by the FMA and are supposed to follow them in financial reporting. They are also supposed to obtain adequate training on how to use the system and to give required reports monthly. It is important to ascertain whether the CBOs understood the given accounting procedures. Whereas Ayuma (2012) study focused on the multi- funded NGOs with robust structures and did not bring out the effect of accounting system on financial reporting. This study analyzed the effect of accounting systems on financial reporting of the smaller grass root CBOs. There is no specific study on CBOs accounting system in relation to financial reporting which this study focused on.

Mwangi (2011) investigated Accounting Systems in Small and Micro Enterprises in Kenya, what accounting means to small and micro traders in Kenya, by reviewing the practices and principles they use in running their businesses. Informal interviews with small traders in Nairobi, Nakuru and Kisumu were used to gather qualitative data. The findings indicate that these enterprises do have an accounting system but the written accounting records are limited to a list of debtors and business creditors. The other records are held in the traders' memory. This system makes it difficult to analyze data in this sector as information is elicited only through careful inquiry and discussion with individual traders. The results of the findings also indicate that trading in this sector is profitable just like the other business in the formal sector. Lack of written accounting information makes it difficult to carry out financial ratios relating to profitability. TOWA funded CBOs written accounting system is limited to the instructions given by the FMA others records may be with individual official separately. Mwangi (2011) examined the profit-making SME organization and also did not bring out the effect these accounting systems have on financial reporting. This study focused on the non-profit grass root organizations, the CBOs and established the effect of accounting systems on financial reporting of the CBOs.

These previous studies were based on accounting software whereas this study did not cover the technological software aspect but the written policies and procedures of the CBOs. This study agrees with the assertions of Mwangi (2011) on the view of fundamental accounting principles requirements. It was therefore important to establish the effect of accounting systems on financial reporting of the CBOs which remained unclear whether it is important to have the systems or not. This study specifically focused on the TOWA funded CBOs written procedures and accounting records to financial reporting guidelines.

2.6 Summary

Financial reporting is an area of concern in many organizations and especially Non Profit Organizations which the CBOs belong. The review of relevant literature pointed out a number of gaps that this study seeks to fill specifically on factors affecting financial reporting of CBOs. Important point to note is that there are limited or just implied literature on CBOs' financial reporting, this could be attributed to the common believe that CBOs are communal groupings and may generally not bother with operating guidelines. The available study when referring to non-profit organization mean the NGOs which are larger organizations registered with National Council NGO and are donor based while CBOs are registered with National Council of CBOs and are membership based also get some funding from the NGOs and other well-wishers but carry out fundamental activities in the society. A part from few general assessments from CBOs bringing out elements of financial reporting there are no specific literature on effect of financial reporting of CBOs. There are no clear findings on the effect of governance on financial reporting of CBOs which this study analyzed. There is no clear attachment to CBOs on the studies on accountability; the study analyzed the effect of accountability on financial reporting of CBOs. When referring to accounting system the available literature point at large corporate organization computerized systems, this study specifically established the effect of accounting systems on financial reporting of the CBOs. The study of these grass root organization is very important to the researcher because all larger organizations start small and their sustainability into foreseeable future will depend on the foundation of good governance, accountability and accounting system at their inception. TOWA funded CBOs rely on funds granted after strict agreement which among other things require periodic submission of financial reports from these CBOs to maintain continuous funding. This study highlighted factors affecting financial reporting of the CBOs while taking into account relevance and reliability of the process.

CHAPTER THREE: RESEARCH METHODOLOGY

This section describes the methodology employed in conducting the study. It specifies the research design, the area in which the study was conducted, the study population, the sampling, data collection techniques, analysis and presentation.

3.1 Research Design

The study employed correlational research design. Correlations describe the relationship between two variables in statistical terms, according to Cooper & Schindler (2003) correlational research tests for statistical relationship between two variables. There was description of situation and association between variables, Mugenda and Mugenda (2003) define descriptive research design as a process of collecting data in order to test hypothesis or to answer questions concerning the current status of the subject in the study. This method is appropriate because it describe such things as possible behavior, attitudes, values and characteristics; it determines and reports the way things are. The study used correlational research design because of its ability to analyze the factors affecting quality financial reporting and measure the degree of their effects in quality financial reporting in addition to describing them. It presents an opportunity to fuse both quantitative and qualitative data and this helped in primary data collection using structured questionnaire.

3.2 Study Area

Kisumu County covers a total land area of 2085.9 km2 and another 567 km2 covered by water. It lies within longitudes 33° 20’E and 35° 20’SE and latitudes 0° 20’South and 0° 50’South. The county is bordered by Homa Bay County and Kisii Counties to the South, Nandi County to the North East, Kericho County to the East, Vihiga County to the North West and Siaya County to the West. The county has seven constituencies namely: Kisumu East, Kisumu West, Kisumu Central, Seme, Nyando, Nyakach and Muhoroni Constituencies. The study covered the TOWA funded CBOs in the seven constituencies.

3.3 Target Population

The target population of respondents is 63; comprising 55 TOWA funded CBOs Treasure/Accounting officer, 7 CACC Officers from the 7 constituencies and one county FMA officer. The Treasure/Accounting officer was insightful in understanding the factors affecting financial reporting, CACC Officers oversee the CBOs implementation including financial aspects and FMA officer who train the CBOs on financials and receive monthly financial report. The Accounting Officer was aware of all financial obligations demanded both by donors and statutory obligation and they oversee the management of all the donor funds and their accountability in terms of quality financial reporting. The Accounting Officer also was able to specify what could be lacking from the capacity building given by the Financial management Agency.

3.4 Sampling Frame

Census survey was used where all the 55 CBOs and 8 key informants were taken for the study. The treasurer or accounting officer from each CBO was purposively taken; all the seven CACC officials in the seven constituencies and the only one county FMA officer formed the sample frame. The figure below shows the distribution of the CBOs in the county constituencies.

Table 3.1: Distribution of the proportion

Constituency	Number of CBOs	CACC Official	FMA Officer	Total
Kisumu Central	6	1		7
Kisumu East	5	1		6
Kisumu West	9	1		10
Kisumu Rural	9	1		10
Nyando	9	1		10
Nyakach	9	1		10
Muhoroni	8	1		9
Total	**55**	**7**	**1**	**63**

Source: FMA Records

3.5 Data Collection Instrument

Structured questionnaires were used as data collection instruments to collect relevant information needed to address the objectives of the study. The questionnaires used in the study were close-ended which enabled the respondents to have answers to choose from. The questionnaire was designed to capture data as per the study objectives, for both descriptive and inferential statistics. One set of schedule was used to interview CBOs accounting officer and key informants. The tool was appropriate for this study as it is typically efficient, economical and practical. Primary data was developed through survey conducted using a self-administered questionnaire. The questionnaire had two parts, part A collected information of the respondent's profile and part B on factors affecting quality financial reporting.

3.5.1 Sources of Data

The study used both primary and secondary data. Primary data was collected from the 63 respondents by use of questionnaires designed to answer the research questions of the study. Secondary data was collected through desk reviewing of CBOs available financial records like the audited accounts and management letters, also from books, journals and other relevant materials.

3.5.2 Data Collection Procedure

The questionnaire was self-administered; this ensured that respondents were familiar with research issues and any clarification on the statement given.

3.5.3 Reliability Test

The questionnaire was pre-tested on 5 CBOs funded by TOWA in five different constituencies. Multi-point formatted statements with a 5-point Likert scale questionnaire of 1 strongly disagree to 5 strongly agree was used. The reliability of the instrument was estimated after the pilot study using the Cronbach's reliability coefficient, which is a measure of internal consistency. An overall Cronbach Alpha reliability coefficient of 0.949 was established. Alpha measures the strength of internal consistency by establishing if certain items measure same construct.

Cronbach Alpha was established for every objective to determine if each objective would produce consistent result in other research at a later time. The table 3.2 below shows the result of each objective alpha:

Table 3.2 Reliability Coefficient

Scale	*Croncbach's Alpha*	*Number of Items*
Effectiveness of Governance	*0.850*	*6*
Effect of Accountability	0.701	6
Usefulness of Accounting System	0.980	3

Source: Survey Data, 2016

The results in table 3.2 above shows that all the three objectives were reliable since the reliability values for each exceed prescribed threshold of 0.7 (Mugenda and Mugenda 2003)

3.5.4 Validity Test

To ensure research results were accurately interpreted and can be generalized to other populations, the selected total population census gave credibility to the study. The expert reviewer in the department of Accounting and Finance at Maseno University reviewed the contents of the instruments and determined validity to ensure the instrument accurately measure the variables it intended to measure and that they are in line with research objectives and analysis of variance (ANOVA). The Significance of the result is analyzed in the ANOVA table 4.15 in chapter 4 to establish whether the prediction is accurate. The significant p value of 0.00 indicates that the regression relationship was highly significant in predicting the variables.

3.6 Data Analysis

The data collected from the questionnaire was analyzed using both descriptive and regression analysis. After collecting and cleaning the data it was entered in a computer using IBM Statistical Package for Social Scientists (SPSS V.20). Various statistical tests were run to analyze the data. These included the descriptive statistics to measure mean and standard deviation, multiple regression analysis and correlation analysis used to measure the relationship between independent variables (governance, accountability and accounting system) and the dependent variable (financial reporting) in the CBOs.

3.6.1 Model Specification

The study employed relevance and reliability as a measure of financial reporting of the CBOs. The dependent variables in this study are; governance, accountability and accounting system, they served as proxies for factors affecting financial reporting.

The regression model functionally stated:

Financial reporting (relevance and reliability) =F (Governance, Accountability, Accounting System)

Stated stochastically as:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$

Whereas:

Y = Financial Reporting (relevance and reliability)

β_0 = Constant;

β_1, β_2 & β_3= Regression coefficient variables to be measured

X_1 = Governance

X_2 = Accountability

X_3 = Accounting System

ε = Error Term

3.7 Data presentation

The results of the analysis have been presented in the form of tables, graphs, pie charts and histograms where appropriate. According to Breakwell (2006), descriptive research design is commonly represented by use of frequency charts, graphs, and pie charts to tabulate the information gathered appropriately.

CHAPTER FOUR: RESULTS AND DISCUSSIONS

This chapter presents the research findings in reference to the research questions and research objectives found in chapter one. The chapter is divided in three sections. The first one presents the descriptive information about the respondents and the CBOs, the second one presents the results in relation to the objectives of the study and discussions the results.

4.1 Background Information

The study targeted 63 respondents (55 CBOs Accounting Officers, 7 CACC Officers and one FMA). 5 CBO Accounting officers were used in pilot survey, the respondent were all notified of the intention and gave appointments which were honoured by 57 out of 58 remaining after the pilot survey, respondents contributing to 98.3%. This response was excellent according to Mugenda and Mugenda (1999), assertion that a response rate of 70% is acceptable in social science research hence the response rate was adequate for analysis and reporting. The questionnaires were self-administered to the 57 respondent. The respondents were CBOs finance personnel (Accounting Officer/Treasurer) and the monitoring officers; CACCs and FMA, these were the core persons dealing with management of funds in the CBOs. It is therefore evident that the findings on factors affecting financial reporting of the CBOs were obtained from highly reliable sources. The 57 respondents were made up of; 50 CBOs Accounting Officers, 6 CACC Officers and one FMA.

The study sought to establish the background information of the respondents. This was important as it would reflect on the relevance and reliability of information based on the relationship of the respondents to CBO, the sources of funding of the organization and whether the CBOs received all the anticipated funds in the last financial year. The findings from the primary data are given in the following illustrations in tables and figures.

4.1.1 Distribution By Education Level

The respondents were asked to indicate their highest levels of education to enable the determination of the average level of education. The results are summarized in Table 4.4

Table 4.1 Distribution by of Level of Education

Educational level	**Frequency**	**Percentage**
Certificate	25	44
Diploma	17	30
Degree	7	12
Others	8	14
TOTAL	**57**	**100**

Source: Survey Data, 2016

The results in table 4.1 above show that the majority of the respondents (44 percent) were certificate holders; these were holders of secondary certifications. They were followed by diploma holders at 30 percent. Others who were informally trained individual in various skills after school dropout formed 14%. The degree level represented only 12% percent. The results show that the majority of the respondents were below degree level. This meant that the qualification to hold the office was wanting and that the respondents needed some support to understand the questionnaire statements and therefore the administration of the questionnaire was worth self-administered by the researcher so as to give reliable results. Assessing the educational level of CBO Accounting Officers majority (44%) being certificate holders highlight the capacity issue in these organizations financial reporting.

4.1.2 Distribution By Years Worked

Table 4.2: Distribution by Years worked with the CBO

Years	**Frequency**	**Percentage**
Below one year	7	12
Between 1-3 years	20	35
Over 3 years	30	53
TOTAL	**57**	**100**

Source: Survey Data, 2016

The results in Table 4.2 above show that the majority of respondents (53 percent) had worked with the CBOs for a period over 3 years. In addition, 35 per cent of the respondents had worked between 1 to 3 years and only 12% for a period below one year. The implication of these results is that almost all respondents had a working relationship with the respective CBOs of at least 1 year, a period which was long enough for them to know of issues in these organizations.

4.1.3 CBOS Sources of Funding

Table 4.3: Sources of Funding

Source	Frequency	Percentage
TOWA fund only	11	20
TOWA fund & Others	46	80
TOTAL	**57**	**100**

Source: Survey Data, 2016

The CBOs studied as constituted were not formed for TOWA funding only but to attract various funding to implement the CBOs objectives. The study therefore sought to establish other funding source. From Figure 4.3 findings, most of the TOWA funded CBOs have funding from other sources while others depended only on TOWA funds. The findings shows 80% of the CBOs have other sources of funding besides TOWA and 20% of the CBOs depend only on TOWA funds for their operations. This is important to show the sustainability of the CBOs. This was quite significant and could mean that reporting requirement from other funding sources could affect the y financial reporting.

4.1.4 Tranches of Funds Received

The CBOs have arrangement with FMA to receive funds in two tranches at an interval of 6 months every financial year; each tranche is received after submitting complete financial data to the FMA. The study sought to establish whether the respondent organizations had received all the allocated funds from the FMA. This was to establish whether the two tranches for the last financial year from TOWA funds were received and implementation of designated activities went on normally.

Table 4.4: Tranches of Funds Received

Tranches	*Number CBOs*	*Percentage*
Tranche 1(Initial)	12	24
Tranche 2 (after 6 months)	38	76
Total	50	100

Source: Survey Data, 2016

The agreement with FMA is to disburse annual funding in two tranches, at the beginning of financial year and then after six months. The findings shows that 24% received the first tranche for the financial year and 76% received the two tranches for the year. This shows that the 24% missed out part of funding and therefore did not complete the planned implementation of activities and the main reason was none submission of complete financial data and evidence of problems in financial data.

4.2 Factors affecting financial reporting

This section aimed at analysing the factors affecting financial reporting of the CBOs in Kisumu County, Kenya. The respondents were supposed to indicate on the level of agreement based on a Likert scale of 1-5 where 1 represented strongly disagree, 2-disagree, 3-neutral,4-agree and 5-strongly agree.. The number of respondents in all scenarios was 57. The analysis for percentage, mean and standard deviation were based on this rating scale.

4.2.1 Effect of governance on financial reporting

Objective one was to establish the effect of governance on financial reporting of the CBOs. Governance for the sake of this study focused on the CBOs management committee independence and management effectiveness considering the qualification and performance. The respondents were asked to what extend they generally agree that governance affect CBO’s quality financial reporting, the results is given in the table below:

Table 4.5: Extend that governance affect financial reporting

Source	Frequency	Percentage
Disagree	6	10.5
Neutral	46	80.7
Agree	5	8.8
TOTAL	**57**	**100**

Source: Survey Data, 2016

From the findings shows that the majority 80.7% were neutral, not certain or just moderately agreed that governance affect quality financial reporting in the CBOs, 10.5% disagreed and only 8.8% agreed that governance as define affect financial reporting of the CBOs. To most of the respondents, they were neutral due to fact that other outside players like the CACC and FMA monitor and give directions and could not attribute governance issue fully to the CBO officials are not fully in control.

The respondents were further asked to indicate their level of agreement with specific statements on governance considering independence and effectiveness of the board and management respectively. Mean score and standard deviation for each statement were computed and presented in table 4.6 below.

Table 4.6 Board/Management Committee Independence

Independence	*Mean*	*Standand Deviation*
The CBO has Qualified and independent members of the Management Committee or Board of Directors	*3.140*	*0.5154*
CBO officials regularly reviews/monitors the performance of the implementing staff	3.175	0.658
The leadership use the reported results in decision making and is effective in the management of the CBO resources	2.474	0.734

Source: Survey Data, 2016

The study sought to analyse the effect of Management Committee Independence on financial reporting of the CBOs. The findings as indicated in table 4.6 above shows that Committee Independence in the CBOs are almost similar. The respondents were neutral or moderately agree that CBOs have qualified and independent members of the management committee and that the CBOs regularly review the performance of implementing staff with a mean of 3.14 and 3.175 respectively. They disagreed with a mean of 2.474 that the leadership use the reported results in decision making and is effective in management of the CBO resources. The standard deviation between these mean was 0.5154, 0.658 and 0.734. Without qualified and independent members of the management committee who do not adequately do regular monitoring of implementing staff and do not use reported result in decision making mean that financial reporting process is compromised and not adequately executed. Management committee or the Board of governance independence is crucial in financial reporting. Directors are accountable for the preparation and authorization of financial statements and responsible for ensuring the quality and integrity of financial reporting (Cadbury 1991). Therefore without proper independence in the governing body in executing their duties this affects financial reporting relevance and reliability negatively.

Table 4.7 Management Effectiveness

	Mean	Std. Deviation
Accounting Officer has the required qualification and working experience appropriate for their position	2.0175	.69414
The Accounting Officer attend regular FMA finance trainings to adhere to reporting guidelines	3.7193	3.97202
The management team of the CBO provides a service with commitment in a timely manner	3.1228	.75758

Source: Survey Data, 2016

Another way of analysing effect of governance used was Management effectiveness; the respondents were to indicate the extent of agreement with the statements on management effectiveness. The findings in Table 4.4 above shows that the respondents disagreed with a mean of 2.0175 that Accounting Officers in the CBOs have the required qualification and working experience appropriate for their position. They agreed that The Accounting Officer attended regular FMA finance trainings to adhere to reporting guidelines with a mean of 3.7193 with a standard deviation of 3.97 that means that the variation of response was significant. The respondent moderately agreed that management team of the CBO provides a service with commitment in a timely manner, (mean=3.1228, std deviation=0.75758). It was noted that CBOs use members who have no or limited knowledge on financial reporting in preparing the books, this implies that the books where note adequately done as per required standards. While FMA organized financial workshop for book keeper, it was noted that in most incidences that other officials like chairpersons or secretary went to these forums leaving behind the CBOs book-keepers, this mean that the book keepers may not have up-to-date information on financial reporting. CBOs management team work was voluntary with very limited allowance on specific assignment, those CBOs who contracted part-time book-keepers also paid them very minimal amount. This means that CBO offered no full time fully paid job hence as much as they tried their best, they could not serve with commitment in a timely manner. From the findings the management capacity to generating adequate financial data was compromised hence this affected financial reporting.

Ayuma (2012) stresses that for an organization to deliver reports it needs to have well skilled personnel, a qualified and well trained accounting staff who is able to meet the donor financial reporting requirements. The CBOs may not afford well trained personnel but can strengthen their governance through training, couching and mentoring both the Management Committees and management and management of the CBOs as recommended by Kateeba (2010).

4.2.2 Accountability and financial reporting

The second objective was to analyze the effect of accountability on financial reporting of the CBOs. This is indicated the extent to which the donor funds are put in proper use as reported in the financial statement focusing on objectivity and honesty. The respondents were asked to what extend they generally agree that accountability affect CBO’s quality financial reporting, the results is given in the figure below:

Table 4.8 Effect of Accountability on financial reporting

Source	**Frequency**	**Percentage**
Neutral	6	11
Agree	40	70
Strongly Agree	11	19
TOTAL	**57**	**100**

Source: Survey Data, 2016

From the figure above majority 70% agreed while 19% strongly agreed and 0nly 11% were neutral that accountability affects financial reporting. This is a stronger position of agreement of the respondents and it shows that accountability is important to CBO financial reporting; CBOs are required to account for the funds given before next transfer. Accountability was looked at in terms of objectivity and honesty in the organizations undertakings, the respondents were further asked to indicate their level of agreement with specific statements on objectivity and honesty in financial reporting in the CBO. Mean score and standard deviation for each statement were computed and presented in tables 4.9 and 4.10 below.

Table 4.9 Objectivity in Financial Reporting

	Mean	Std. Deviation
CBO management share with stakeholders program progress reports and financial report	3.1228	.59971
FMA require previous fund transfer accountability before next transfer	4.1228	.33113
The Accounting officer understand the process of financial reporting and account as per agreed plan	2.6842	.90943

Source: Survey Data, 2016

All the respondent agreed that FMA require previous fund transfer accountability before next transfer (M=4.12, SD=0.33). They have to submit report before getting the next funding even as they struggle with sufficient management control over use of funds. They moderately agreed that CBO management share with stakeholders program progress reports and financial report (M=3.1228, SD=0.59971). They struggle through these factors and therefore disagreed that the Accounting officer understand the process of financial reporting and account as per agreed plan (M=2.6842, SD=0.90943). Alnoor (2003) concludes that NPOs respond to issues of accountability with both tools and processes. Tools are created by stakeholders that have considerable leverage over an NPO like a donor or a government regulator. The results show that accountability is needed by the FMA before the subsequent fund transfer but accounting officers do not fully understand the format and process of financial reporting which therefore compromises the quality of financial reporting and lead to delays in funds transfer. Training in these tools and processes is important.

Table 4.10 Honesty in Financial Reporting

	Mean	Std. Deviation
CBO properly account for funds in the given format	3.8772	.33113
In the discussion of the annual results, highlight is made on the positive events as well as the negative events	2.8246	.42774
There is sufficient management control over use of funds in the CBO	2.8070	.61058

Source: Survey Data, 2016

From the findings, the respondents significantly agreed that CBO properly account for funds in the given format (M=3.8772, SD=0.33113), this is because the format is set by the FMA and the proper use of it depend on the users. Because of the management leadership, they mostly disagreed that in the discussion of the annual results, highlight is made on the positive events as well as the negative events (M=2.8246, SD=0.42774). They could not also agree well that there is sufficient management control over use of funds in the CBO with (M=2.8070, SD=0.61058). Although most respondent indicated that FMA and CACC do follow up management and monitoring of funds and therefore this was adequate, failure of management to place proper control over the use of funds can lead to misuse or lose of these funds. Odindo (2009) states that many community based programs in Kenya fail due to a lack of transparency and accountability in the use of project funds, or a lack of proper records on how the funds were used. It is important that the CBOs should have transparency and accountability in the use of project funds by accounting in the given format and have control over the use of funds. If the results are not properly analysed to show future improvement, this also affect financial disclosures and reporting. It is therefore evident that honesty affects financial reporting disclosures.

4.2.3 Effect of Accounting system on financial reporting

The study sought to establish the effect of accounting systems on financial reporting in the CBOs. These were in form of CBOs written financial guideline, manual or computer financial system being used in recording financial activities where applicable. The respondents were asked to what extend they generally agree that accounting system affect CBO's quality financial reporting, the results is given in the table below:

Table 4.11 Effect of Accounting systems on financial reporting

Response	**Frequency**	**Percentage**
Neutral	10	18
Agree	39	68
Strongly Agree	8	14
TOTAL	**57**	**100**

Source: Survey Data, 2016

From the findings; 14 strongly agreed that accounting system affect financial reporting, 68% agreed and 18% were neutral that accounting system affect financial reporting of the CBOs. The Accounting officers were aware of FMA and NACC prescribed procedures and format for financial reports therefore agreed that they are important to financial reporting. Ayuma (2012) also states that investing in a good accounting system ensures good financial reporting but the CBO should ensure to impose this within their means.

The respondents were to indicate the extent of agreement with the given specific statements in the CBOs. The table 4.12 below gives the mean and standard deviation of the results.

Table 4.12 Accounting System

	Mean	Std. Deviation
The CBO has a written guidelines as concern the financial reporting and is used in reviewing, approval and recording of financial documents	2.1930	.89520
The CBO adheres to the generally accepted standards of Accounting, auditing and disclosure	1.5965	.65081
The internal control procedures of the CBO ensure safeguard of the organization's assets and the CBO's sustainability	2.0877	.82982

Source: Survey Data, 2016

From the findings the respondent disagreed that the CBO have written guidelines as concern the financial reporting and is used in reviewing, approval and recording of financial documents (M=2.1930, SD=0.8952). They also disagreed that the internal control procedures of the CBO ensure safeguard of the organization's assets and the CBO's sustainability (M=2.0877, SD=0.82982). These prompted respondents strongly disagreed that the CBO adheres to the generally accepted standards of Accounting, auditing and disclosure which are the accounting best practices with (M=1.5965, SD=0.65081). The accounting officers acknowledged the importance of accounting systems despite the fact that as CBOs they did not have accounting policies and procedures apart from the guidelines from FMA and NACC. Guided by Ayuma (2012) findings, there is need in this sector to incorporate the Standard Operating Reporting Procedures in financial reporting in CBOs and NCCBO could facilitate this.

4.2.4 Quality Financial Reporting

The respondents were asked to what extend they generally agree that financial reporting is important to the CBO, the results is given in the figure below:

Table 4.13 Importance of financial reporting

Response	**Frequency**	**Percentage**
Neutral	10	18
Agree	40	70
Strongly Agree	7	12
TOTAL	**57**	**100**

Source: Survey Data, 2016

The result generally confirms that financial reporting is important to the CBOs by high level of agreement.

The study further sought to find out specific issues regarding relevance and reliability of the process of financial reporting. The respondents were to indicate the level of agreement with quality statements. The descriptive statistics of mean and standard deviation for relevance and reliability is analysed and given in table 4.14 and 4.15 below respectively.

Table 4.14 Relevance in financial reporting

	Mean	Std. Deviation
CBOs reporting requirement follow International Financial reporting standards (IFRS)	1.5965	.75261
Financial reporting process of the CBOs contain all relevant material information (about debtors, creditors, accruals etc.)	1.3509	.58221
Financial reporting information given influence decision making	4.1228	.33113

Source: Survey Data, 2016

The respondent strongly disagreed that CBOs reporting requirement follow International Financial reporting standards (M=1.5965, SD=0.75261). They also strongly disagreed that financial reporting process of the CBOs contain all relevant material information (about debtors, creditors, accruals etc.), (M=1.3509, SD=0. .58221). As they disagree with these fact they agree that financial reporting information given influence decision making (M=4.1228, SD= 0.33113). It is now evident that the CBOs financial reporting though influences decision making do not follow GAAP and do not contain all relevant material information. Reports were generally not guided by operating principles of financial reporting. As stated by Greuning (2004), financial reporting gives good overview of project's progress, and good financial records make sound project monitoring and evaluation much easier, the CBOs also need the good overview of progress.

Table 4.15 Reliability of financial Reporting Process

	Mean	Std. Deviation
There is sufficient reliable information on budget execution and The CBO's financial reporting information is accurate and comparable to information provided by other organizations	2.6316	.64453
The financial reporting gives information which is understandable to stake holders	1.6491	.81265
Financial reporting process and submission of reports to FMA follows the schedule time agreed	2.386	.61975

Source: Survey Data, 2016

The respondent generally disagreed that there is sufficient reliable information on budget execution and the CBO's financial reporting information is accurate and comparable to information provided by other organizations, (M=2.6316,SD=0.64453). Despite the requirement to submit reports on time as schedule, the respondent disagreed that financial reporting process and submission of reports to FMA follows the schedule time agreed, (M=2.386; SD=0.61975). The respondent disagree that the financial reporting gives information which is understandable to stake holders (M=1.6491; SD=0.81265). It is therefore evident that most CBOs did not follow even the already agreed procedures with the FMA it therefore compromises reliability on the financial reports produced. Nevertheless International Accounting Standards Board (IASB) has not improved the quality of financial statements and increased accountability of NPOs therefore it is important that NCCBO comes up with some guide to CBOs financial reporting.

4.3. Correlation and Regression Analysis

Pearson Correlation and multiple regression analysis were used on each independent variable to ascertain the relationship with financial reporting in the CBOs in Kisumu County, Kenya. The research used various tests which were carried out and the results and interpretations for each objective are given in the next discussions. Correlation and regression tables guiding the discussions are given below:

Table 4.16 Bivariate Coefficient of Factors Affecting Financial Reporting

		Governance	Accountability	Accounting System	Relevance	Reliability
Governance	Pearson Correlation	1	.534**	.373**	.246	.251
	Sig. (2-tailed)		.000	.004	.065	.060
Accountability	Pearson Correlation		1	.539**	.366**	.354**
	Sig. (2-tailed)			.000	.005	.007
Accounting System	Pearson Correlation			1	.434**	.482**
	Sig. (2-tailed)				.001	.000
Relevance	Pearson Correlation				1	.453**
	Sig. (2-tailed)					.000
Reliability	Pearson Correlation					1
	Sig. (2-tailed)					
	N=57					

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Survey Data, 2016

Table 17: Regression Coefficient between Variables

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
	B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
(Constant)	.701	.485		1.445	.154					
Governance	.160	.107	.172	1.499	.140	.442	.202	.144	.704	1.420
Accountability	.180	.182	.125	.990	.327	.511	.135	.095	.581	1.722
Accounting System	.279	.058	.548	4.770	.000	.679	.548	.458	.700	1.429

Source: Survey Data, 2016

a. Predictors: (Constant), Accounting System, Governance, Accountability
b. Dependent Variable: Financial Reporting

Pearson correlation, 2 tailed table 4.16 is a symmetrical along the diagonal. The values below the diagonal are excluded because they are mirror of the values above the diagonal. According to Wong and Hiew (2005) the correlation coefficient value range from 0.10 to 0.29 is considered weak from 0.3. to 0.49 is considered medium and 0.5 to 1.0 is considered very strong and $p<0.05$. The results in the table 4.10 above show that all the predictor variables have positive correlation with the dependent variable (relevance and reliability of financial reporting).

The regression model in table 4.17 above with the value of $t=1.445$ and with a level of significance of 0.154 indicates a low significant between independent variables and the dependent variable. To evaluate the variables, standardised coefficient which means each of the variables has been converted to same scale for ease of comparison has been used. The regression analysis above established that taking all factors into account (Governance, Accounting System and Accountability) constant at zero financial reporting will be at 0.701**.** The constant is very low meaning that financial reporting depend on these factors and they have greater effect on the result.

Note that the significant levels are now different from the p values in the correlation matrix this is because multiple regression analysis looks at the combination of the three variables with each other to predict the outcome. On their own from correlation table each variable is highly significant with p value less than 0.05 but in combinations with each other from the regression coefficient table only accounting system is now significant with p value slightly above 0.05, the rest are no longer significantly associated with p values more than 0.05. Regression looks at the entire model for reliability.

4.3.1 Governance and Financial Reporting

Pearson Correlations were derived by assessing the degree of variations in the dependent variable (quality financial reporting), the independent variables (governance) and the results, an extract from table 16 are as given in the table 18 below;

Table 4.18 Bivariate Coefficient of Governance and Financial Reporting

		Governance	Accountability	Accounting System	Relevance	Reliability
Governance	Pearson Correlation	1	.534**	.373**	.246	.251
	Sig. (2-tailed)		.000	.004	.065	.060
	N=57					

Source: Survey Data, 2016

The results in the table above show that governance has weak correlation with relevance (r=0.246, p=0.065) and reliability (r=0.251, p=0.060). It is worth noting that governance has a week correlation with p-values for both relevance and reliability above 0.05. Governance has positive correlation with the dependent variable (relevance and reliability of financial reporting). As stated by Kateeba, (2010) NGOs should strengthen their leadership through training, couching and mentoring both the Board of Directors and the NGO management to enhance their capacity, this is important also for the CBOs. Cadbury (1991) stated that directors are accountable for the preparation and authorization of financial statements and responsible for ensuring the quality and integrity of financial reporting which is not in agreement with the CBOs scenario. It should be noted that there is a week correlation coefficient, although the CBOs appreciated the importance of governance to financial reporting, they do not have the technical capacity therefore assume that the structure they have is adequate to the size and funding scope.

Regression looks at the entire model for reliability. The multiple regression analysis give beta and p-values for governance as; (β=0.172, p=0.140), implying that for every unit increase in governance, financial reporting will increase by 0.172, see regression coefficient table 17 above.

Rezaee, (2003) reporting on corporate organizations stated for good corporate governance, companies should develop a model that supports responsible and reliable financial reports which should be done by personnel with adequate skills; if they are not qualified or lack adequate training then the effect on financial reporting is enhanced. CBOs have a thin governance structure which cannot support this model of Rezaee, most members are comfortable with their status.

4.3.2 Accountability and Financial Reporting

Pearson Correlations were derived by assessing the degree of variations in the dependent variable (quality financial reporting), the independent variables (accountability) and the results, extract from table 16 are as given in the table below;

Table 4.19 Bivariate Coefficient of Accountability and Financial Reporting

		Governance	Accountability	Accounting System	Relevance	Reliability
Accountability	Pearson Correlation	.534**	1	.539**	.366**	.354**
	Sig. (2-tailed)	.000		.000	.005	.007
	N=57					

Source: Survey Data, 2016

The result shows significant relationship between accountability and financial reporting given as relevance (r=0.366, p=0.005) and reliability (r=0.354, p=0.007). This was a strong position of agreement by respondents that accountability affects financial reporting of the CBOs. Nevertheless Accounting officer do not understand the process of financial reporting. Alnoor (2003) stated that NPOs respond to issues of accountability with both tools and processes it is therefore important for CBOs to use properly the tools as per their capacity. From the regression analysis table above; beta and p-values for accountability as; (β=0.125, p=0.397), implying that for every unit increase in governance, financial reporting will increase by

0.125, this is positively insignificant and can only explain that CBOs do not take accountability seriously. As stated by Odindo (2009) lack of financial records on how the funds were used caused delays in funding of some NGOs hence need to have internal financial controls. This is true in the CBOs, delays in submitting financial reports caused delays in funds transfers and activity implementation were also delayed causing anxiety even death. Slim (2002) outlines two kinds of accountability for NGOs; performance accountability and voice accountability that is the reliability of what they said and the authority with which they spoke, this is applicable in the CBOs to the extent of the performance accountability which they also do not have adequate capacity.

4.3.3 Accounting System and Financial Reporting

Pearson Correlations were derived by assessing the degree of variations in the dependent variable (quality financial reporting), the independent variables (accounting system) and the results, extract from table 16 are as given in the table above.

Table 4.20 Bivariate Coefficient of Accounting System and Financial Reporting

		Governance	Accountability	Accounting System	Relevance	Reliability
Accounting System	Pearson Correlation	.373**	.539**	1	.434**	.482**
	Sig. (2-tailed)	.004	.000		.001	.000
	N=57					

Source: Survey Data, 2016

The result shows significant relationship between accountability and financial reporting given as relevance (r=0.434, p=0.01), and reliability (r=0482, p=0.00). From the regression analysis table above; beta and p-values for accountability as; (β=0.548, p=0.00), implying that for every unit increase in governance, financial reporting will increase by 0.548. Ayuma (2012) concluded that investing in a good accounting system ensures good financial reporting. The findings agrees with Ayuma (2012) and illustrate the need to incorporate the Standard Operating Reporting Procedures in financial reporting but not involving complicated and expensive system. This study also finds it necessary for the CBOs despite the size and funding to incorporate some GAAP in financial. This study also agrees with the assertions of Mwangi (2011) on the view of fundamental accounting principles requirements.

4.3.4 Other Regression Model Analysis

Table 4.21 Model Summary on Factors Affecting Quality Financial Reporting

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.715[a]	.511	.484	.27398

Source: Survey Data, 2016

a. Predictors: (Constant), Governance, Accountability, Accounting System,

b. Dependent Variable: Quality Financial Reporting

From the model summary the entire correlation R is 0.715 which is above each of the predictor correlation in the correlation table. R square (Coefficient of determination) is 1 minus the ratio of residual variability. R squared is commonly used statistics to evaluate model fit, how much of the predictor variables explain the change in the dependent variable, in this case is 51.1%. The adjusted R Square also called Coefficient of multiple determinations adjusted to reality and corrects any overestimation in the population; it is the percentage of the variance in the dependent variable uniquely explained or jointly be the independent variables. Results give adjusted R Square at 48.4%, that is, of the changes in quality financial reporting 48.4% could be attributed to the combined effect of the predictor variables. Standard error of the estimate gives the variability in the prediction, which is plus or minus the estimate. The standard error of the estimate is 0.27398, quite low following the higher significance of the predictors. Gale (2003) expresses that financial reports must exhibit certain qualities that make them useful to the stakeholders and these include relevance and reliability hence these qualities account for the 48.4%.

Table 4.21 ANOVA Results on The Variables

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	4.162	3	1.387	18.481	.000[b]
1	Residual	3.978	53	.075		
	Total	8.140	56			

Source: *Source: Survey Data, 2016*

a. Predictors: (Constant), Accounting System, Governance, Accountability

b. Dependent Variable: Financial Reporting

The Significance of the result is analysed in the ANOVA table to establish whether the prediction is accurate. $F(3,53) = 18.481$calculated at 5% significant level, 18.481, falls off the normally distribution graph. The probability value of 0.00 less than 0.05 indicate that there is 0.000 chances that the result was found by some random chance. Therefore regression shows significant effect of predictor variables; Governance, Accountability and Accounting System on financial reporting and therefore there was no random chance for these results.

Gale (2003) expresses that financial reports must exhibit certain qualities that make them useful to the stakeholders and these include relevance and reliability which the results above shown these relationship. As stated by Borio & Tsatsaronis, (2005) financial reporting is a function of management within planning and controlling functions and is important to all organizations and therefore the correlation and significance is justified even in the CBOs. Borio & Tsatsaronis (2005) asserts that financial reporting is the issuance of financial statements and their related notes and disclosures but insist that they have to follow the accounting standards and requirements. This result can be attributed to the part that stresses that financial reporting is the issuance of financial statements and their related notes and disclosures which the CBOs are required to produce but the CBOs may not follow accounting standards and requirements but given formats.

4.4 Model Evaluation

The proposed Regression model in chapter 3 stated:

$Y = b_0 + b_1X_{1i} + b_2X_{2i} + b_3X_{3i + e}$

Where as:

QFR = Financial Reporting

b_0 = Constant; b_1 = Coefficient of variables (main & intervening)

X_1 = Governance

X_2 = Accountability

X_3 = Accounting System

The formulation of the model with a goodness of fit at 48.4% in the form of the equation below:

QFR= $0.701+ 0.172X_{1i} +125X_{2i} + 0.548X_{3i}$

T values (1.445), (1.499), (0.99), (4.77)

In explaining the size of effect of each independent variable on dependent variable, the standardized beta coefficient was used. From the above regression equation; governance, accountability and accounting system would have financial reporting index of 0.0.701. Unit increase in governance would lead to an increase in financial reporting by a factor of 0.172; a unit increase in accountability would lead to an increase in financial reporting index by a factor 0.125 while a unit increase in accounting system would lead to a decrease financial reporting index by a factor of 0.548.

4.5 Hypothesis Testing

Thus, this follows that the three hypotheses:
H01; Governance has no effect on financial reporting of TOWA funded CBOs in Kisumu County, Kenya;H02; Accountability has no effect on financial reporting of TOWA funded CBOs in Kisumu County, Kenya. H03; Accounting systems has no effect on financial reporting of TOWA funded CBOs in Kisumu County, Kenya are all rejected

CHAPTER FIVE: SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATIONS

This chapter present conclusion and recommendations in the factors affecting quality financial reporting based on the findings obtained and interpreted from the data collected and suggestion for further research. The objective of these study was to analyse the predetermined factors affecting quality financial reporting in TOWA funded CBOs. The conclusion and recommendations are drawn from the specific objectives of study, to; assess the effectiveness of governance, analyse the effect of accountability and establish the usefulness of accounting systems in the CBOs quality financial reporting. The study limitations are also highlighted.

5.1 Summary of the findings

The objective of this study was to analyze factors affecting financial reporting of CBOs in Kisumu County, Kenya. The study used multi-point formatted statements with a 5-point Likert scale structured questionnaire and did census survey on 55 TOWA funded CBOs in Kisumu county and 8 key informant who work with the CBOs. From the findings, majority of the respondents have worked with the CBOs for more than one year and most had certificate level. Most CBOs 80% had funds from other sources apart from TOWA fund, for the last financial not all CBOs received the total agreed funds from FMA. The findings give adjusted R Square at 48.4%, that is, of the changes in quality financial reporting 48.4% could be attributed to the combined effect of the predictor variables (governance, accountability and accounting system). The remaining 51.6% could be explained by other factors outside the scope of this study, nevertheless this was significant enough. The standard error of the estimate is 0.27398, low following the significance of the predictors.

The first objective of this study was to establish the effect of governance on quality financial reporting this was also to address the null hypothesis; Governance has no effect on financial reporting of the CBOs. The statistical analysis of the data obtained from the study indicated that a positive relationship existed between governance and financial reporting with correlation; relevance ($r=0.246$, $p=0.065$), reliability; ($r=0.251$, $p=0.060$). The study results when analyzed gave the following values during testing for rejecting or accepting of hypotheses (H01; $\beta=0.172$, $t=1.499$, $p=0.140$). This is an indication that null hypothesis is rejected, governance had some effect on financial reporting although with low significant influence, $p>0.05$. Unit increase in governance would lead to an increase in financial reporting index by a factor of 0.172 when considered in combination with other variables to predict the outcome. Only 9% agreed that governance as define affect financial reporting in the CBOs, while 81% were neutral or moderately agreed, this explain why it has some influence but not significant. Assessing the Board/committee independence and management effectiveness revealed that in most CBOs, the Board committee and management was one and the same persons this contributed to the respondents being neutral to the statements as given.

The study sought to find out the effect of accountability on financial reporting. Analysing the effect of accountability on quality financial reporting gave relationship with a positive correlation (relevance, $r=0.366$, $p=0.005$ and reliability $r=0.354$, $p=0.007$). This correlation is high enough with $p<0.05$ showing significance effect to financial reporting. In testing for rejecting or accepting of hypotheses, the result was; (H02; $\beta=0.125$, $t=0.99$, $p=0.327$), reject null hypothesis. Unit increase in accountability would lead to an increase in financial reporting index by a factor of 0.125 when considered in combination with other variables to predict the outcome. The p value 0.325 greater than 0.05, has low significant when seen in combination with others. The result shows that 79% moderately agreed while 21% fully agreed that accountability affect quality financial reporting. This is a stronger position of agreement and it shows that accountability is key to quality financial reporting. It is evident that FMA require previous fund transfer accountability before next transfer ($M=4.12$, $SD=0.33$), while there is lack of Accounting officers who understand the process of financial reporting and report correctly ($M=2.6842$, $SD=0.90943$). In the analysis of the effect of accountability in TOWA funded CBOs quality financial reporting it is evident that accountability uniquely affects the quality financial reporting and cannot be ignored.

The third objective was to establish the effect of accounting systems on financial reporting of the CBOs so as to find out whether it is necessary to have accounting systems in CBOs. The results give higher correlation coefficient with relevance and reliability (relevance, $r=0.434$, $p=0.01$), and reliability ($r=0482$, $p=0.00$). In testing for rejecting or accepting of hypotheses, the result was; (H03; $\beta=0.548$, $t=4.77$, $p=0.000$). Unit increase in accounting system would lead to an increase in financial reporting index by a factor of 0.0,548, with high significance $p<0.00$, reject the hypothesis. From the respondents 68% agreed that accounting system affect quality financial reporting, 14% strongly agreed while only 18% were neutral. Despite their strong believe in systems, they disagreed that CBO adheres to the generally accepted standards of Accounting, auditing and disclosure. The CBOs assume systems and operate without proper policies and procedures, they assume organization size and reliance on FMA and NACC procedure and reporting templates.

5.2 Conclusion

The study concludes that governance financial reporting is contingent upon governance, although the effect has low significant. In consistent with previous studies governance is an important element in well structure organizations which should be adapted by CBOs to the extent of their capacity without ignoring it. Gale (2003) expresses that financial reports must exhibit certain qualities that make them useful to the stakeholders and these include relevance, reliability, understandability and timeliness. CBOs leadership is voluntary and the scope of operation is limited to a given community, members choose their leadership according to trust and not given qualifications, therefore it was viewed by many respondents as an important issue but not applicable to them. The CBOs governance does not use the reported results in decision making and is not effective in the management of the CBO resources. It was further evident that Accounting Officers in the CBOs do not have required qualification and working experience appropriate to carry out process of financial reporting. Ayuma (2012) study of multi-funded NGOs concluded that an organization need well trained accounting staff to meet donor financial requirement. It is also evident that educational level of the of CBO officers was mostly certificate which is minimal and they may not make proper strategic decision on relevance and reliability of financial reporting. The main concern to these CBOs being the cost of well qualified officials and staff compared to the organization funding which is usually minimal and defined to programmatic activities other than operations including allowances and salaries. There is no adequate training focusing on governance and relevance and reliability of financial reporting hence growth and sustainability of the CBOs are also compromised.

The study concludes that accountability affected quality financial reporting to a greater extent. FMA require previous fund transfer accountability before next transfer while the Accounting officer did not understand the process of financial reporting and account as per agreed plan and there was no sufficient management control over use of funds in the CBO.A number of CBOs did not receive the two transfers of funds due to accountability issues which meant delays in activity implementation or no implementation. The effect of no implementation was suffering to the affected up to lose of life. Delay in funding or no funding at all also is a pointer that growth and sustainability of the CBOs are compromised.

The CBOs can adapt Slim (2002) performance and voice accountability in setting effective mission and goals to ensure standard financial reporting. As the CBOs use donors' tools when keeping to recommended accountability in financial reporting, they need to follow processes established hence conforming to Alnoor (2003) assertion while focusing on CBO scenario. As stated by Odindo (2009) lack of financial records on how the funds were used caused delays in funding of some NGOs hence need to have internal financial controls.

The study concluded that accounting system had effect on financial reporting to greater extent and it is necessary to have accounting systems in the CBOs. The respondent strongly agreed that accounting system affect financial reporting by 68%, there lack of formulating and follow the guidelines concern them. The CBO do not adheres to the generally accepted standards of accounting, auditing and disclosure. The CBO has no written guidelines as concern the financial reporting and that the internal control procedures of the CBO do not ensure safeguard of the organization's assets and the CBO's sustainability. The absences of these key guidelines affect financial reporting and key deliverables. CBOs assume dependence on FMA guidelines which are limited to TOWA funded CBOs which are also not properly understood, and which should not be the case since most CBO have funding from other sources with different requirements as per the findings. As in Ayuma (2012) findings varying donor and regulatory requirements create challenges in financial reporting. There are reporting formats by NACC, FMA and other donors to adhere to, causing confusion hence need to invest in good accounting system.

The study further concluded that although the main predictors had some significant influence on financial reporting there are factors to consider to an extent, these included cost benefit analysis and materiality. Barth, Landsman & Lang, (2006) states that information is material if its omission or misstatement could influence the decisions that users make on the basis of an entity's financial information and that financial reporting imposes costs; the benefits of financial reporting should justify those costs. There are a number of concerns which came up; it is argued that as much as there is need of qualified leadership and management, at the level of funding and the size, the CBOs cannot attract qualified people to good governance and management. The reports shared to stakeholders who may not understand them and give material input that make a difference. The CBOs may need to high service of a professional to set proper systems, without adequate funding needed may not cover these costs. Cost benefit analysis and materially of these circumstances is important and need to be considered.

It is evident from the findings that use of qualified accounting officer do not make difference in financial reporting and that use of accounting system do not make a difference in-terms of cost and time in these CBOs. This shows that they are not so material to the CBOs due to cost and time,

The study finally concludes that quality of financial reporting is contingent upon governance, accountability and accounting system in TOWA funded CBOs. The regression analysis established that governance, accountability and accounting system are predictors of quality of financial reporting accounting for 48.4% of variation in quality of financial reporting. It can be deduced that accounting system affects financial reporting to a greater extent, followed by governance then accountability. This implies that financial reporting of CBO can be greatly improved if governance, accountability and accounting systems are strengthened. The study concludes that considering CBOs size, funding scope and capacity of leadership, the sector may not need robust professional outlook in terms of governance, accountability and accounting system but may need a different approach to build capacity of leadership and members to ensure relevant and reliable financial reporting. Therefore the previous studies on corporate organizations and larger CBOs were used as a guide since the findings do not much with these organizations settings. However, in order to yield positive results the process of strengthening these variables should be continuous and other intervening factors taken into account.

5.2 Recommendations

From the findings the study gives recommendations that would improve financial reporting in the CBOs. Generally, CBO that strive to have relevant and reliable financial reporting to stakeholders should; meet the donor requirements and in a timely manner, have some accounting systems, employ qualified and competent personnel, negotiate with the donors to have training and capacity development budgets.

It is therefore recommended that steps should be taken to strengthen the governance (both Management Committees and management) through training, coaching and mentoring. This will ensure improved quality financial reporting. Management Committees should also be continuously oriented on their roles in order to improve on their supervision. On qualification inadequacy of the accounting staff, the study recommends a need for the CBOs to avoid the use of Committee members like the Treasurer as accounting officers as encountered in most

CBOs but despite the size absorb some knowledgeable accounting staff even on part time and enhance proper professional training for CBOs growth. The structure should ensure that the board makes collective decisions and ensure that the management committee is clearly separate from the staff. The Board/Management Committee should set policy, exercise oversight and provide strategic direction. It should delegate its authority and provide supervision to the management of the CBO.

It is recommended that the CBOs should ensure accountability in all their operations, including financial reporting. They should ensure that regular financial audits carried by CACC and external auditors enhance accountability to stakeholders. They should put in place a basic communication; management should share with stakeholders program progress reports to ensure sufficient management control over use of funds. Fund transfer accountability should be timely as required per the agreement to facilitate next funding for effective implementation and to avoid delays which cause harm to the beneficiaries. Internal controls should be established and adhered to.

The study recommends that CBOs should review their current accounting systems to identify gaps and then put in place steps to fill those gaps. It is recommended that despite the size of the CBO, each should have some written guideline in form of policy manual for use in financial reporting and other operation activities like procurement. The CBOs may involve the assistance of professional to guide in the policy formulation and implementation. The Boards/Management committees should ensure that the systems in place are appropriate for their kind of operations and that they have staff with capacity to manage the system. There should be a define accounting guidelines, the CBOs should also invest on some simple computer systems like QuickBooks which can help in cost collection of expenses and guide on simple financial reporting. This will strengthen their financial accountability systems, growth and sustainability of the CBOs.

Lastly to alleviate the challenges such as the ones described in this study, the study illustrates the need for the CBOs to consider cost benefit analysis and materiality in making such decision. These may affect the outcome of the effect of governance, accountability and accounting system. It is important for CBOs to be guided with some standard guidelines therefore NCCBO should consider developing some statements of standard procedures to guide this sector.

5.3 Suggestions for Further Research

The study has explored specific factors (governance, accountability and accounting system) affecting quality financial reporting in TOWA funded CBOs. The study focused on the three areas that create challenges in quality financial reporting therefore further research should be conducted to investigate other challenges of financial reporting in the CBO sector. Cost benefit analysis and materiality could be included in the further research to establish how they intervene in the factors affecting quality financial reporting and whether there can be different when they are included.

The study further identified that considering CBOs size, funding scope and capacity of leadership the sector may not need robust professional outlook in terms of governance, accountability and accounting system but needs a different approach to build capacity of leadership and members to ensure quality financial reporting. Therefore further study is recommended on the analysis of challenges facing CBOs growth and sustainability which are embedded on quality financial reporting.

5.4 Limitations of the Study

The research was limited in some of its findings because some CBO Accounting Officers were sceptical of the use of their feedback, most of them being members of the management committee. Some CBOs financial records were incomplete and others missing. The implication of this limitation is that the number of responses may not ideally reflect every CBO and exhaustion of feedback to factors affecting quality financial reporting in TOWA funded CBOs.

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APPENDICES

APPENDIX I: LETTER OF TRANSMITTAL

Caren Atieno Onyango
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2nd September, 2016

Dear Sir/Madam,

RE: REQUEST FOR PARTICIPATION ON RESEARCH STUDY

My name is Caren Atieno Onyango a final Master in Business Administration student at Maseno University. My area of specialization is finance. I am currently carrying out a research on *Factors Affecting TOWA funded CBOs quality financial reporting.*

Enclosed please find a questionnaire in relation to the study which seeks to add value to the policy makers on coordinating CBOs and donor requirements. You are requested to take few minutes of your busy schedule to complete this questionnaire. It is estimated to take 15-20 minutes. The researcher promise strict confidentiality concerning your responses and undertake to ensure that any information provided in this questionnaire is solely academic purpose.

Thank you in advance for your contribution towards my studies by way of taking this interview. Please answer each of the questions to the best of your ability and knowledge.

Yours faithfully,

Caren Atieno Onyango

ADM/NO: MBA/BE/00047/2014

APPENDIX II: QUESTIONNAIRE

SECTION A –BACKGROUND INFORMATION

Instruction: Please tick and fill in the appropriate space.

1. Your relationship to CBO

☐ Member of the Management Committee ☐ Management ☐ Support Staff

2. Your title ____

3. Highest level of education attained by respondent
☐ Certificate ☐ Diploma ☐ Degree

Others (specify) ____

4. For how long have you had a working relationship with this CBO?
☐ Less than 1 year ☐ 1-3 years ☐ 4 and above

Others (specify) ____

7. Number of received funds in your Last Financial year

☐ Quarter 1Only ☐ Quarter 1&2 ☐ Quarter 1,2&3 ☐ All 4 Quarters

8. Sources of Funds in Your Organization
☐ TOWA Funds Only ☐ TOWA Funds and Others

SECTION B: FACTORS AFFECTING FINANCIAL REPORTING

Indicate the extent to which you agree with the following statements by using a scale of 1 to 5 where, 1= Strongly Disagree (0-20%) , 2= Disagree (21-40%), 3= Neutral (40-60%), 4= Agree (61-80%) and 5= Strongly Agree (80-100%). Tick the relevant column that best describes your opinion of the statement in reference to the factors affecting financial reporting in your CBO.

1. **Assessing the effectiveness of governance**

To what extent do you agree that governance affect CBO’s quality financial reporting

☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree

To what extent do you agree with the following statements on governance effect to CBO's quality financial reporting considering the aspects of independence and effectiveness

a) Board/Management Committee Independence

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
	1	2	3	4	5
The CBO has Qualified and independent members of the Management Committee or Board of Directors					
CBO regularly reviews/monitors the performance of the implementing staff					
The leadership use the reported results in decision making and is effective in the management of the CBO resources					

b) Management Effectiveness

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
	1	2	3	4	5
Accounting Officer has the required qualification and working experience appropriate for their position					
The Accounting Officer attend regular FMA finance trainings to adhere to reporting guidelines					
The management team of the CBO provides a service with commitment in a timely manner					

2. **Analysing the effect of accountability**

   To what extend do you agree that Accountability affect CBO's quality financial reporting

☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree

To what extend do you agree with the following statements on accountability effect to CBO's quality financial reporting considering the aspects of objectivity and honesty

a) Objectivity

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
	1	2	3	4	5
The management of the CBO share with stakeholders program progress reports and financial report					
FMA require previous fund transfer accountability before next transfer					
The Accounting officer understand the process of financial reporting and account as per agreed plan					

b) Honesty

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
	1	2	3	4	5
CBO properly account for funds in the given format					
In the discussion of the annual results, highlight is made on the positive events as well as the negative events					
There is sufficient management control over use of funds in the CBO					

3. **Establishing the usefulness of accounting systems**

To what extend do you agree that accounting system affect CBO's quality financial reporting

☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree

To what extend do you agree with the following statements on accounting system effect to CBO's quality financial reporting

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
	1	2	3	4	5
The CBO has a written guidelines as concern the financial reporting and is used in reviewing, approval and recording of financial documents					
The CBO adheres to the generally accepted standards of Accounting, auditing and disclosure					
The internal control procedures of the CBO ensure safeguard of the organization's assets and the CBO's sustainability					

4. Financial Reporting

To what extend do you agree that financial reporting is important to the CBO

☐ Strongly disagree ☐ Disagree ☐ Neutral ☐ Agree ☐ Strongly agree

a) Relevance of Financial Reporting

To what extend do you agree with the following statements on relevance of CBO's financial reporting

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
	1	2	3	4	5
CBOs reporting requirement follow International Financial reporting standards (IFRS)					
Financial reporting process of the CBOs contain all relevant material information (about debtors, creditors, accruals etc.)					
Financial reporting information given influence decision making					

b) Reliability on Financial Reporting

To what extend do you agree with the following statements on reliability on CBO's financial reporting

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
	1	2	3	4	5
There is sufficient reliable information on budget execution and The CBO's financial reporting information is accurate and comparable to information provided by other organizations					
The financial reporting gives information which is understandable to stake holders					
Financial reporting process and submission of reports to FMA follows the schedule time agreed					

Thank you for your participation.

APPENDIX III: LIST OF TOWA FUNDED CBO IN KISUMU COUNTY

	NAME OF CBO	CONSTITUENCY
1	Aegis For Development Group	KISUMU CENTRAL
2	Society For Women and AIDS in Kenya (SWAK)	KISUMU CENTRAL
3	Kisumu Green Project (CBO)	KISUMU CENTRAL
4	Orongo Widows and Orphans Group	KISUMU CENTRAL
5	St. Vincent Depaul CBO Project	KISUMU CENTRAL
6	Port Florence Youth Initiative	KISUMU CENTRAL
7	Ushindi Women Group	KISUMU RURAL
8	Chako Ok Etieko Widows and Orphans Group	KISUMU RURAL
9	Kosewe Women Group	KISUMU RURAL
10	Mrembo Hair Dressing Youth Gr.	KISUMU RURAL
11	United Youth Group	KISUMU RURAL
12	Grail Women Group	KISUMU RURAL
13	Gender Aid Peer Educators Group	KISUMU RURAL
14	Kulusia Women Group Kamatitu	KISUMU RURAL
15	Kojwang Kowe Farmers Group	KISUMU RURAL
16	Shepherds Rock Community Development (SRCD)	KISUMU TOWN EAST
17	Maisha Orphans and Widows of Kisumu (CBO)	KISUMU TOWN EAST
18	Jumuika Women Group	KISUMU TOWN EAST
19	Happy Self Help Group	KISUMU TOWN EAST
20	Pal Omega Positive Support Group	KISUMU TOWN EAST
21	MERCY SH SUPPORT GROUP	KISUMU TOWN EAST
22	Imperial Youth Group	KISUMU TOWN WEST
23	Tonny Red Women Group	KISUMU TOWN WEST
24	Sekombo Women Group	KISUMU TOWN WEST
25	Anuno Self Help Group	KISUMU TOWN WEST
26	Kibuye Jua Kali Association	KISUMU TOWN WEST
27	Tahidi Sisters Women Group	KISUMU TOWN WEST
28	Better Living Community Based Organization	KISUMU TOWN WEST
29	Kisumu Soda Trolley Operators Self Help Group	KISUMU TOWN WEST
30	Hekima Women Group	KISUMU TOWN WEST
31	Oling Thii Self Help Group	MUHORONI
32	Makindu Mor Primary Health Care Group (B1)	MUHORONI
33	Midekre Home Based Care Support Group	MUHORONI
34	Ombeyi Young Care Support Project	MUHORONI
35	Tamu Pamoja Youth Group	MUHORONI
36	Lima Support Group	MUHORONI
37	Katugonono Widows and Orphans Group	MUHORONI
38	Manyine Women Group	MUHORONI
39	Chwa Bodo Orphans Widows widowers Community Support Group	NYAKACH
40	Central Nyakach Christian CBO	NYAKACH
41	Ondisore Widows and Orphans Support Group	NYAKACH
42	Pap Onditi CHWs Development Group	NYAKACH
43	Lisana Women Group	NYAKACH
44	Tinada Youth Group	NYAKACH
45	Mbugra Widows and Orphans Self Help Group	NYAKACH
46	Kibogo PLWHAS Support Group	NYAKACH
47	Osiepe Kobura Women Group	NYAKACH
48	Kochieng Widows and Orphans Self Help Group	NYANDO
49	Kajulu Ulore Women Group	NYANDO
50	Usilale Women Group	NYANDO
51	Kwakungu Women Group	NYANDO
52	Koka Community Based Organization	NYANDO
53	Nyamika Children's Development Project	NYANDO
54	Grand Mothers Raising Grand Children	NYANDO
55	Nyardac Support Group Centre	NYANDO

APPENDIX IV: MAP OF KISUMU COUNTY