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# Factors influencing the perceptions of the quality of financial reporting of Non-Governmental Organizations in Nairobi County, Kenya.

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FACTORS INFLUENCING THE PERCEPTIONS OF THE QUALITY OF FINANCIAL REPORTING  
OF NON-GOVERNMENTAL ORGANIZATIONS IN NAIROBI COUNTY, KENYA



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**056215**

**Research Thesis Submitted in Partial Fulfillment of the Requirements for the Degree of  
Master of Commerce at Strathmore University**

**February 2023**

## DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made in the thesis itself.

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Approval

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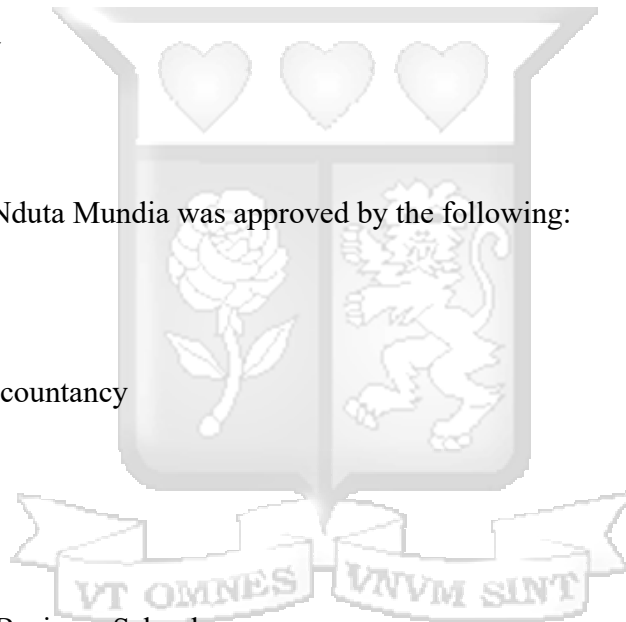
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## ABSTRACT

Poor financial reporting practices among some Kenyan NGOs have adversely affected their financial performance. Coupled with this fact is that NGO donor funds have been decreasing. The motivation for this study was to establish whether the implementation of an effective internal control system, using a computerized accounting system, and having an internal audit function would lead to an improvement in the perception of the quality of financial reporting by NGOs in Nairobi County, Kenya and if NGO size and NGO age have a controlling effect.

An explanatory research design was used in this study. The target population of the study was the 285 NGOs that existed in Nairobi in 2020, each being represented by its Finance Director, 160 public/governmental external auditors and 424 private auditors in Nairobi County, Kenya, who audit NGOs, totaling to 869 respondents. A simple random sampling technique was used to sample a total of 408 respondents to represent the views of the target population. The sample size comprised of 134 NGOs represented by their Finance Directors, 75 public/governmental external auditors and 199 private external auditors. Also, the study covered a sample of 35 large NGOs which makes up 70% of the total number of large NGOs for the review of their financial statements for the financial year 2021 to determine the level of compliance with the Deloitte 2021 IFRS checklist.

Structured questionnaires were used to collect primary quantitative data from the sampled respondents to address the stipulated objectives.

The researcher used a multiple linear regression model to explain the influence of internal control systems, internal audits, and computerized accounting systems on the perceptions of the quality of financial reporting of the NGOs in Nairobi County, Kenya, addressing the first, second, and third specific objectives of the study.

The findings were that the implementation of internal control systems, the effective usage of an internal audit department and the adoption of computerized accounting systems boost the level of the perceptions of the quality of financial reporting of the NGOs in Nairobi County, Kenya. Finally, the study, found that NGO size negatively affects the perceptions of the quality of financial reporting of the NGOs while NGO age positively affects the perceptions of the quality of financial reporting of the NGOs. The findings were corroborated by the findings of an examination of the

financial statements of the 35 large NGOs: their financial statements complied with all the IFRS disclosure requirements based on the Deloitte 2021 IFRS disclosure checklist: in addition, the NGOs' financial statements had been audited by Auditors registered with the Institute of Certified Public Accountants of Kenya (ICPAK) as mandated by the NGO Coordination Board and the audit reports of all the NGOs stated that the auditors were of the opinion that the financial statements had been prepared in accordance with IFRSs.



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## ABBREVIATIONS AND ACRONYMS

<b>ANOVA</b>	Analysis of Variance
<b>GAAP</b>	Generally Accepted Accounting Principles
<b>IASB</b>	International Accounting Standards Board
<b>IFRS</b>	International Financial Reporting Standards
<b>KMO</b>	Kaiser-Meyer-Olkin
<b>KPMG</b>	Klynveld Peat Marwick Goerdeler
<b>NACOSTI</b>	National Commission for Science, Technology & Innovation
<b>NGO</b>	Non-Governmental Organization
<b>SPSS</b>	Statistical Package for the Social Sciences
<b>VIF</b>	Variance Inflation Factor



## DEFINITION OF TERMS

<b>Computerized Accounting System</b>	An automated system records and processes financial information using accounting software. This results in vast improvements in the speed, accuracy and reliability of writing up the books with the result that decision making is enhanced (Ismael et al., 2020).
<b>Financial Reporting</b>	Involves the disclosure of every economic activity the business engaged in through adhering to the Generally Accepted Accounting Principles (GAAP) or the International Financial Reporting Standards (IFRS) (Al-Dmour et al., 2018).
<b>Internal Audit Department</b>	A body that assesses the organisation's internal controls with reference to the accounting process and corporate governance and ensures that the organisation complies with the relevant accounting standards (Tuovila, 2021).
<b>Internal Control System</b>	Involves procedures, mechanisms, and rules employed by the NGO to ensure the integrity of financial information, prevent fraud and promote accountability (Kenton, 2021).
<b>NGO</b>	A non-governmental entity established either at an international, national or community level to serve a social or political objective such as poverty alleviation (Folger, James & Logan, 2022).
<b>NGO Age</b>	The number of years an NGO has been in existence since it was founded.
<b>NGO Size</b>	The number of employees in the NGO.
<b>Quality Financial Reporting</b>	Financial statements that are verifiable, comparable, timely, understandable, reliable and relevant (Chalu, 2020; Gamayuni, 2018; Ezelibe, Nwosu & Orazulike, 2017).

## DEDICATION

I joyfully dedicate this work to our Father through his Son Jesus Christ, may he be praised for eternity.



## ACKNOWLEDGEMENTS

I praise the Almighty Lord and deeply thank Him for helping me conceive the ideas and conduct a comprehensive scientific research process that dearly helped me to mold this thesis. I also sincerely appreciate Dr. McFie's consistent guidance and constructive criticism that helped me to produce this thesis.



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# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Non-Governmental Organizations (NGOs) have played a significant role in the economic development and growth of the economies of third world countries all over the World (Ishita, Tanzil & Amit, 2017). NGOs have played a key role in catalyzing poverty alleviation, carrying out relief operations, enhancing environmental protection, and promoting social justice (Azmat & Kummer, 2019; Bagudu, 2019; Khan & Chang, 2018; Matthews, 2017).

The UN developed the idea of the NGO in 1945, just after World War II, when the UN was thinking about a consultative status to be given to corporations that were not deemed as government bodies (Ebenezer, Musah & Ahmed, 2020). Foreign inflows of funds from donors have managed to make NGOs thrive and realize their goals effectively (Chang, Harris, Jiang & Man, 2021).

About 90% of the source of NGOs' funds are derived outside their home countries, according to the United Nations Development Programme (Home Press Center Articles, 2020). Donors worldwide rely on the financial information presented by NGOs when deciding to make donations to them (Thornton & Belski, 2010). NGOs that provide accurate financial reports are rewarded by consistent and adequate donor funding (Thornton & Belski, 2010).

A study conducted by Mbugua (2013) observed that NGOs which are transparent in how they use the money allocated to them are trusted by their donors, who consequently continue to provide them with finance; these NGOs even attract more donors. Organizations worldwide are required to produce quality financial reports if they wish to attract investors: stakeholders' decisions on investments and resource allocation are based on reliable numbers in financial reports (Al-Dmour, Abbod & Al Qadi, 2018).

Financial reporting involves the disclosure of every transaction the business engaged in or event that occurred during the financial year. The final report of income and expenses and cash flows during the financial year and the financial position at the end of the year should be prepared in accordance with US Generally Accepted Accounting Principles (GAAP) for US NGOs or the International Financial Reporting Standards (IFRS) (Al-Dmour et al., 2018). Quality financial reporting involves reporting the financial activities based on the following qualitative aspects:

verifiability, comparability, timeliness, understandability, reliability, and relevance (Chalu, 2020; Gamayuni, 2018; Ezelibe, Nwosu & Orazulike, 2017). Relevant information is capable of making a difference in the decisions made by users: relevance requires financial information to be related to an economic decision (IASB, 2008). For a financial report to be considered of quality, it has to be comparable by making users pinpoint the similarities and contrasts between two or more sets of economic phenomena (Ezelibe et al., 2017).

In terms of comparability, the financial reports should always be consistent with the stipulated accounting policies (Gamayuni, 2018). For instance, the accounting for depreciation of assets in the financial reports should be in line with what the GAAP or the IFRS standard has prescribed on how the particular assets have to be depreciated. Also, financial reports should be able to be compared between one period of time and another period of time. For instance, this could mean that the original cost of property, plant and equipment in the financial report of the year ended 2015 should be the same as the financial report for the year ended 2014, provided no asset has been acquired or disposed of (Gamayuni, 2018).

A quality financial report has to be verifiable by faithfully representing the true unbiased picture of the current financial position and performance of the organization that is devoid of any material error and is complete (Ezelibe et al., 2017). A quality financial report should be understandable based on its form and terms (Gamayuni, 2018). Finally, a quality financial report must be prepared on a timely basis by providing the relevant information to the users when it still possesses the capability of influencing decisions (Ezelibe et al., 2017).

Quality financial reporting not only includes the disclosure of headings and numbers: these numbers must be explained using narratives that are clearly understood to enable sound decision making (Ezelibe et al., 2017). The “non-financial” narrative information includes corporate governance information, environmental and social information about the entity, and information concerning the top management and the entity’s governing body (Deloitte, 2021).

Various literature sources, Sugut (2014), Afiah and Azwari (2015), Novita, Imam and Tarmizi (2017), Ajao and Oluwadamilola (2020) and Albawwat, Al-Hajaia and Al-Frijat (2021), have identified three major elements that can boost the perceptions of the level of quality of financial reporting: the internal control system, internal audit, and a computerized accounting system.

An internal control system involves procedures, mechanisms, and rules employed by the NGO to ensure the integrity of financial information, prevent fraud and promote accountability (Kenton, 2021). In addition to assisting staff to comply with regulations and to restrict them from stealing assets, the internal control system enhances operational efficiency by improving financial timeliness and the accuracy of financial reporting (Kenton, 2021). Also, an internal control system involves the segregation of duties intended to frustrate any form of illegal activity that might occur (Kumuthinidevi, 2016).

Studies have confirmed that an internal control system improves the perceptions of the level of quality financial reporting (Afiah & Azwari, 2015; Ajao & Oluwadamilola, 2020; Altamuro & Beatty, 2010; Wittayapoom & Limsuwan, 2012). A weak internal control system considerably waters down the reliability of financial statements (Hevesi, 2005). Developing and maintaining an entity's internal control system will help the entity achieve accountability in its operations, thus boosting its reputation and performance (Spitzer, 2005).

Afiah and Azwari (2015) and Ajao and Oluwadamilola (2020) operationalized the internal control system in monitoring, environment control, information and communication, risk assessment, and control activity. These studies treated the internal control system as an independent variable seeking to influence the quality of financial reporting. The studies (Afiah & Azwari, 2015; Ajao & Oluwadamilola, 2020) developed question items in questionnaires assessing the internal control system on the Likert scale. The Likert scale was used to code the responses obtained from the field into figures for statistical analysis. This study will employ the same approach to assess the internal control system in the NGOs being studied.

One part of the work of the internal audit department is to assess the organisation's internal controls with reference to the accounting process and corporate governance. The internal audit department also ensures that the organisation complies with the law and helps the organisation maintain timely and accurate financial reporting (Tuovila, 2021).

Competent internal auditors help to ensure that the organisation adheres to the financial reporting rules and to identify hidden mistakes and omissions in the financial statements that need to be corrected (Abdulai, Salakpi & Nasse, 2021; Ebimobowei & Kereotu, 2011). If the internal auditors are competent, they are better positioned to identify fraud indicators in an entity since they are knowledgeable about its internal control system (Abdulai et al., 2021).

Internal audits can be carried out, in cycles, on a continuous basis dealing with different departments and different workings of those departments (Tuovila, 2021). Internal audits may be planned to give managers enough time to prepare the relevant documents to be examined (Tuovila, 2021). But also, internal audits can be carried out on a surprise basis, especially in cases where an illegal activity is suspected (Tuovila, 2021). Internal auditors are always in a better position to monitor fraud risk areas that can affect the quality of financial reporting. However, it is not their primary responsibility to possess the skills of a person whose duties are to examine and discover fraud (Abdulai et al., 2021).

Internal auditing lowers external monitoring costs since the external auditors can normally place reliance on the internal auditors for information about the working of the internal control system: the extent of examination of the system by the external auditors is thus reduced (Prawitt, Smith & Wood, 2009). The internal auditors also play an important role in reducing the opportunity for fraud, hence leading to the strengthening of the internal control system (Prawitt et al., 2009).

Studies have found that internal audit considerably boosts the perceptions of the quality of financial reporting (Albawwat, Al-Hajaia & Al-Frijat, 2021; Abdulai, Salakpi & Nassi, 2021; Ebimobowei & Kareem, 2011; Rahmatika, 2014; Arum, 2015). Albawwat et al. (2021) observed that personality traits of an internal auditor such as being innovative, open to change, self-confident, frustration resistant, and assertive lead to the internal auditor performing their duty objectively and competently, thus improving the perceptions of the quality of financial reporting. Abdulai et al. (2021) noted that internal auditors with relevant educational qualifications and professional experience will easily identify hidden mistakes and omissions that can reduce the quality of financial reporting.

A computerized accounting system has become essential in managing a large organization's internal control system (Teru, Idoku & Ndeyati, 2017). The primary purpose of a computerized accounting system is to collect and record data and information concerning the economic affairs of the firm (Yang, Lin & Koo, 2011). There are two types of computerized accounting systems: stand-alone and integrated accounting systems (Ismael, Ahmed, Yaba, Hamawandy, Jaf, Jamil & Sulaiman, 2020). The stand-alone system uses one module in an accounting program to execute a particular accounting function; for instance, an accounts payable module deals with the processing of procurement and accounts payable transactions only (Ismael et al., 2020). On the other hand,

the integrated accounting system incorporates various accounting programs to process various accounting transactions that share information (Ismael et al., 2020). For instance, the use of QuickBooks processes accounts payable transactions, accounts receivable transactions, purchases, sales of goods, and the development of the appropriate ledgers (Ismael et al., 2020).

The quality of accounting information can be enhanced by adopting computerized accounting systems since they provide reliable information in a timely manner (Oladejo & Yinus, 2020). Additionally, they combine the relevant accounting principles required when recording, analyzing, and producing financial information for the stakeholders for decision-making (Oladejo & Yinus, 2020). Peprah and Amponsem (2021) proved that computerized accounting systems boost the financial reporting practices of international NGOs. Likewise, Maureen (2019) confirmed that a computerized accounting system moderately improves the quality of financial report perceptions of Uganda's National Water and Sewerage Corporation.

### **1.1.1 Influence of Internal Control System on the Perceptions of the Quality of Financial Reporting**

Afiah and Azwari (2015) conducted a study in South Sumatra to establish the influence of the internal control system on the quality of financial reporting perceptions. Path analysis was employed to establish the relationship between the study variables. The findings were able to confirm that the full implementation of an internal control system improves the perceptions of the quality of financial reporting.

Similar findings were observed by an earlier study conducted by Altamuro and Beatty (2010) though in the context of the banking sector. Moreover, the research findings of Wittayapoom and Limsuwan (2012) showed that the internal control system boosts the quality of financial reporting perceptions (in terms of reliability) of Thai-listed firms. On the other hand, Ajao and Oluwadamilola (2020) sought to establish the influence of the internal control system on the quality of financial reporting perceptions in the context of Nigerian insurance companies. A multiple linear regression model was used for analysis. The findings indicated that the internal control system involving the control environment, identification and analysis of risks, together with close monitoring, boosts the perceptions of the quality of financial reporting of Nigerian insurance companies.

Interestingly, a study conducted by Rafindadi and Olanrewaju (2019) that sought to establish the influence of the internal control system on the perceptions of quality of financial reporting of NGOs in Nigeria observed that risk assessment, an aspect of the internal control system, had a significant negative effect on the perceptions of quality of financial reporting. This was inconsistent with the findings of Ajao and Oluwadamilola (2020) who observed a positive relationship. Moreover, the findings of Rafindadi and Olanrewaju (2019) were also inconsistent with the research outcomes of Ajao and Oluwadamilola (2020) since they observed that monitoring activities, an aspect of the internal control system, had no considerable impact on the perceptions of the quality of financial reporting of NGOs. In general, based on the studies reviewed, Afiah and Azwari (2015), Rafindadi and Olanrewaju (2019), Ajao and Oluwadamilola (2020), Wittayapoom and Limsuwan (2012) and Altamuro and Beatty (2010), limited research has been conducted to establish the influence of internal control systems on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya.

There have been inconsistencies in the research findings with reference to some aspects of the internal control system since studies conducted by Afiah and Azwari (2015) together with Ajao and Oluwadamilola (2020) had observed that monitoring and risk assessment were the aspects of the internal control system that boost the perceptions of the quality of financial reporting; however, Rafindadi and Olanrewaju (2019) found that risk assessment had a negative effect, and monitoring activities had no considerable impact on the perceptions of the quality of financial reporting. In addition, there were also inconsistencies in the manner in which the perceptions of quality of financial reporting were measured: Wittayapoom and Limsuwan (2012) assessed the perceptions of the quality of financial reporting only in terms of reliability, while Afiah and Azwari (2015) assessed the perceptions of the quality of financial reporting in terms of verifiability, relevance, comparability, and reliability: and Ajao and Oluwadamilola (2020) assessed the perceptions of the quality of financial reporting in terms of the four aforementioned aspects together with faithful representation, timeliness, and understandability. Therefore, a gap exists on how the internal control system can influence the perceptions of the quality of financial reporting of the NGOs in Nairobi County, Kenya when all the aspects of the perceptions of the quality of financial reporting are considered.

Therefore, owing to the discussed inconsistencies and gaps presented above, this study sought to establish the influence of the internal control system on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya.

### **1.1.2 Influence of Internal Audit on the Perceptions of the Quality of Financial Reporting**

Novita, Imam and Tarmizi (2017) sought to establish the influence of internal audit on the accountability of the financial statements of the Indonesian State Universities. Interestingly, the findings observed that internal audit had no considerable influence on the accountability of the financial statements. This research finding concurred with Al-Shetwi, Ramadili and Sori (2011) who, based on a study conducted in Saudi Arabia, also found that the internal audit function had no considerable impact on the quality of financial reporting. On the other hand, Albawwat, Al-Hajaia, and Al-Frijat (2021) observed that internal audit, in terms of the personality traits of the internal auditor and their internal effectiveness, boosts the perceptions of the quality of the financial reporting of the firms listed at the Amman Stock Exchange in Jordan. Besides that, Alzeban (2018) sought to establish the influence of the internal audit function in terms of independence on the perceptions of the quality of financial reporting in the case where the CEO appoints the Chief Auditing Executive. The study was conducted in the context of the listed UK companies. The conclusion of the study was that when the CEO appoints the Chief Auditing Executive to direct the internal audit function, then the independence of the function will be jeopardized, and the perceptions of the quality of the financial reporting will decrease.

Based on the studies conducted by Novita, Imam and Tarmizi (2017), Albawwat et al. (2021), Abdulai et al. (2021), Alzeban (2018), Rahmatika (2014) and Arum (2015) which attempted to establish the influence of internal audit on the on the perceptions of the quality of financial reporting, limited research has been conducted in the context of financial reporting by NGOs in Nairobi County, Kenya. Therefore, this study sought to address the present knowledge void by seeking to establish the influence of an internal audit department on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya.

### **1.1.3 Influence of a Computerized Accounting System on the Perceptions of the Quality of Financial Reporting**

Sugut (2014) carried out a study in the Kenyan NGO sector to establish the role of computerized accounting systems on the perceptions of the quality of financial reports. The finding of the study

was that using a computerized accounting system boosts the perceptions of the quality of financial reporting, though in a statistically insignificant manner. Besides that, Peprah and Amponsem (2021) conducted a study to establish how computerized systems influence international NGOs' financial reporting practices. The study employed a correlational research design; the Pearson correlation model was used to analyze the quantitative data retrieved using structured questionnaires: the finding was that computerized systems had a strong positive relationship with the financial reporting practices of the international NGOs. Similarly, Maureen (2019) also found that computerized accounting systems had a moderately positive relationship with the perceptions of the quality of financial reports of the Mbarare branch of the National Water and Sewerage Corporation in Uganda.

As earlier mentioned, Sugut (2014) observed that a computerized accounting system does not have any considerable impact on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya. This could be different in this current period since current studies, Peprah and Amponsem (2021) and Maureen (2019) have found that using a computerized accounting system significantly boosts the perceptions of the quality of financial reporting. Therefore, this study was motivated to establish the influence of computerized accounting systems on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya.

### **1.1.2 Influence of NGO Size and NGO Age as Control Variables on the Perceptions of the Quality of Financial Reporting**

Oladejo and Yinus (2020), who were interested in determining the effect of electronic accounting practices on the financial reporting quality of Nigerian banks, established that bank size influenced the perceptions of the quality of financial reporting separately. The study observed that an increase in bank size led to enhanced e-accounting adoption but a decrease in financial reporting quality. Shahzad and Rehman (2019), among other research goals, were interested in establishing how the firm size and firm age as control variables influenced the financial reporting quality perceptions: firm size was assessed in terms of the natural logarithm of total assets, while firm age was quantified as the logarithm of the number of years the firm has been in operation since it was founded. The study observed a negative relationship between firm size and financial reporting quality, in line with what Oladejo and Yinus (2020) found. Shahzad and Rehman (2019) observed that an increase in firm age boosts the perceptions of the quality of financial reporting.

Presently, there has been limited research conducted to establish the influence of entity age and entity size as control variables on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya. Therefore, this study sought to bridge the existing knowledge void.

### **1.1.3 NGOs in Nairobi County, Kenya**

In the 1970s, there were only 125 NGOs operating in Kenya (Jeruto, 2016). By the end of 2019, there were 11,262 NGOs in Kenya (NGOs Coordination Board, 2019). The operations of NGOs in Kenya are guided by the Non-Government Organizations Coordination regulations of 1992 regarding setting up the organizations and the governing board besides preparing annual reports. NGOs in Kenya are also subject to the Public Finance Management Act of 2012 and the Proceeds of Crime and Anti-Money Laundering Act of 2009; the latter act outlaws any organization from being involved in money laundering activities and fraud-related offenses. In 2015, the NGOs Coordination Board threatened to deregister 959 NGOs for failing to account for the funding they received from donors: the embezzlement of funds by NGOs had tainted the quality of their financial reporting (Amuhaya, 2020).

Based on the studies reviewed above, there has been limited research conducted on financial reporting by NGOs in Nairobi County, Kenya to establish if internal control systems, internal audit and computerized accounting systems can boost the perceptions of the quality of financial reporting. This study's main objective is to establish if these three factors influence the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya.

Besides that, there has been limited research attention paid on establishing how NGO size and NGO age controls the relationship between the factors and the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya. It is essential to determine whether the effective implementation of a computerized accounting system, an internal control system and an internal audit department for the perceptions of the quality financial reporting is influenced by NGO size and NGO age. NGOs with considerable asset size can use their financial resources to invest in the three aforementioned factors in order to enhance the perceptions of financial reporting quality. Older NGOs have been preparing financial statements for a longer period of time and hence have more experience in their preparation; also they have had a longer period to effectively implement suitable internal control systems, computerized accounting systems and an internal audit department in order to improve the perceptions of the financial reporting quality.

## 1.2 Statement of the Problem

Coupled with the fact that the Kenyan NGOs' donor funds have been decreasing, the sector is also experiencing poor financial management practices (Milelu, 2018). Effective financial management practices, such as the implementation of an effective internal control system, using a computerized accounting system, and having an internal audit function, will help to lead an NGO to properly account for the funding it receives from its donors (Afiah & Azwari, 2015; Albawwat et al., 2021; Maureen, 2019).

An NGO creates trust with its donors through transparent and prudent usage of the resources availed to it. Poor financial reporting practices among some Kenyan NGOs, that have adversely affected their funding and hence their operational performance, are some of the challenges they are experiencing in Kenya (Ayene, Kumar & Asefa, 2014; Mugenyi, Kibati & Nzioki, 2020).

Presently, based on the studies reviewed above, Afiah and Azwari (2015), Rafindadi and Olanrewaju (2019), Ajao and Oluwadamilola (2020), Wittayapoom and Limsuwan (2012) and Altamuro and Beatty (2010), limited research has been conducted to establish the influence of internal control systems on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya.

Moreover, there have been inconsistencies in internal control research findings: Afiah and Azwari (2015) and Ajao and Oluwadamilola (2020) found that monitoring and risk assessment boost the quality of financial reporting: Rafindadi and Olanrewaju (2019) found that risk assessment had a negative effect on the quality of financial reporting while monitoring activities had no considerable impact on the quality of financial reporting. This study sought to establish the influence of having an internal control system on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya.

A large number of studies have been carried out to examine whether the presence of an internal audit function has an effect on the perceptions of the quality of financial reporting, but there has been limited research has been conducted in the context of NGOs in Nairobi County, Kenya. Also, there have been inconsistencies in the research findings since Albawwat et al. (2021) and Alzeban (2018) observed that the internal audit had a significant impact on the perceptions of the quality of financial reporting, while Novita et al. (2017) and Al-Shetwi et al. (2011) observed that it did not

have an effect on the perceptions of the quality of financial reporting. Therefore, this study sought to address the present knowledge void by establishing the influence of an internal audit department on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya.

With reference to computerized accounting systems, Sugut (2014) observed that they do not have any considerable impact on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya. This could be different in this current period since more recent studies, Maureen (2019) and Peprah and Amponsem (2021) have found that using a computerized accounting system significantly boosts the perceptions of the quality of financial reporting. Therefore, this study is motivated to establish the influence of computerized accounting systems on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya. Finally, there has been limited research, for example, Shahzad and Rehman (2019) and Oladejo and Yinus (2020), conducted to establish the effects of entity age and entity size as control variables on the relationship between the factors (internal control system, internal audit function, and computerized accounting system) and the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya. Therefore, this study sought to bridge the existing knowledge void.

### **1.3 Research Objectives**

The purpose and the goals of this study are addressed in the ensuing sub-sections.

#### **1.3.1 General Objective**

The general objective of the study is to establish whether the implementation of an effective internal control system, using a computerized accounting system, and having an internal audit function will lead to an improvement in the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya and if NGO size and NGO age have a controlling effect.

#### **1.3.2 Specific Objectives**

The specific objectives of this study are to;

- (i). To establish the influence of an internal control system on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya.
- (ii). To establish the influence of an internal audit department on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya.

- (iii). To establish the influence of a computerized accounting system on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya.
- (iv). To establish the influence of NGO size and NGO age as control variables on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya.

#### **1.4 Research Questions**

- (i). What is the influence of an internal control system on the perceptions of the quality of financial reporting of an NGO in Nairobi County, Kenya?
- (ii). What is the influence of having an internal audit department on the perceptions of the quality of financial reporting of an NGO in Nairobi County, Kenya?
- (iii). What is the influence of having a computerized accounting system on the perceptions of the quality of financial reporting of an NGO in Nairobi County, Kenya?
- (iv). What are the influences of NGO size and NGO age as control variables on the quality of financial reporting of NGOs in Nairobi County, Kenya?

#### **1.5 Significance of the Study**

##### **1.5.1 Policy Makers**

The findings of this study will be beneficial to the policymakers of Kenyan NGOs since it will help them realize the importance of requiring NGOs to have internal control systems, internal audit departments, and computerized accounting systems to boost the perceptions of the quality of financial reporting of the NGOs in Kenya. The appropriate regulations and standards requiring NGOs to have them can be made. For instance, the policymakers can require all NGOs operating in Kenya to use a computerized accounting system. A computerized accounting system can process each transaction as it occurs and, at the end of each month and year, automatically prepare financial statements in accordance with US GAAP or with IFRS.

The study will also clarify to policy makers the need for each Kenyan NGO to have an internal auditor as an important factor in ensuring positive perceptions of the quality of the financial reporting of NGOs.

### **1.5.2 Management of NGOs**

The findings of the study will help the management of the NGOs appreciate the need to strengthen their internal control system and prioritize investing in a strong internal audit function and a computerized accounting system to boost the perceptions of the quality of the financial reporting. This will increase the trust that donors have in the financial reporting of Nairobi based NGOs, thus making them consistently provide more funding: when the management set up an internal audit function, it then they would be able to maintain financial reliability, safeguard the NGO's assets and boost its operational efficiency which are key in enhancing the perceptions of the quality of financial reporting. Moreover, when the management invest in an internal audit function, the operation of the internal control system is enhanced, which will in turn curb fraud risk and improve financial integrity and reliability.

### **1.5.3 Scholars**

The findings will also be beneficial to future researchers interested in pursuing research in this area by providing a basis for deeper studies into the importance, for different types of entities, of having an internal audit function, a computerized accounting system and a working system of internal control.

### **1.6 Scope of the Study**

The scope of the study was limited to establishing the factors influencing the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya. The factors were the implementation of an internal control system, having an internal audit function, and using a computerized accounting system. The study was conducted between 9<sup>th</sup> May and 25<sup>th</sup> August 2022.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter of the study begins by discussing the legitimacy and institutional theories and their applicability to the study. The chapter also presents a review of prior studies into the influence of an internal control system, the presence of an internal audit department and a computerized accounting system, with the influence of NGO size and NGO age as control variables, on the perceptions of the quality of financial reporting.

In addition, the chapter uses the conceptual framework to discuss how internal control systems, internal audits, and computerized accounting systems (independent variables) influence the perceptions of the quality of financial reporting (dependent variable) of NGOs in Nairobi County, Kenya. It also presents how the control variables, NGO size, and NGO age affect the relationship between the aforementioned three factors and the perceptions of the quality of financial reporting. The chapter concludes with how the independent and dependent variables were operationalized.

#### **2.2 Theoretical Review**

This section of the study presents and discusses both the legitimacy and institutional theories that are linked to the purpose of this research inquiry.

##### **2.2.1 Legitimacy Theory**

The original proponents of the legitimacy theory were Dowling and Pfeffer (1975). Legitimacy theory was founded on the theoretical paradigm of political economy. The theory holds that the sustainability of an organization is determined by both the market strength and the social expectations (Islam, 2017). Therefore, a better comprehension of the concerns of the public, dictated by the community expectations, is essential for an organization's going concern (Islam, 2017). Legitimacy denotes a status in which a particular organization's value system precisely matches the value system of the broader society (Lindblom, 1994). Therefore, for an entity to be considered legitimate, it must be able to meet the external standards of the wider society (Suchman, 1995). Legitimacy theory is grounded on the idea of a "social contract" whereby society lets or encourages a firm to carry out its operations so long as the organization is operating in an

acceptable manner and is engaging in socially desirable activities (Guthrie & Parker, 1989; Deegan, 2002). If investors demand organizations to use IFRSs in financial reporting, the organizations must produce financial reports in accordance with IFRSs to be perceived as legitimate (Hallberg & Persson, 2011). Thus, to achieve and preserve legitimacy, entities must consistently apply and comply with the best corporate practices, one of which is producing financial statements which are perceived as high quality (Abeywardana, Azam & Kelvin, 2021).

One way by which organizations communicate their actions to be in accordance with the legitimate expectations of their stakeholders is by producing financial statements which are perceived as high quality (Velte & Stawinoga, 2017). Amuhaya (2020) has found that there are concerns about the legitimacy of NGOs in Kenya on account of either their failure to provide financial reports or the perceptions of the low quality of their financial reporting: some NGOs were almost deregistered by the NGOs Coordination Board for failing to account for the financial resources received from their donors. Besides, the donors have been reducing their funding due to poor financial reporting by the NGOs in Kenya (Milelu, 2018). NGOs can be considered to be legitimate only through implementing strategies that boost donors' perceptions of the quality of financial reporting. Really legitimate NGOs will more likely continue to receive funding by donors.

Therefore, legitimacy theory is linked to the three objectives of this study since the research seeks to establish if an internal control system, internal audit function, and computerized accounting can be used to boost the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya in order to be considered legitimate and their sustainability to be guaranteed.

### **2.2.2 Institutional Theory**

Institutional theory was developed in the late 1970s by John Meyer and Brian Rowan as a means to explain how organizations fit with, are related to, and were shaped by their societal, state, national, and global environments (Study.com, 2022). Institutional theory is based on the notion that, in order to survive, organizations need to convince their public that they are legitimate entities that deserve support (Meyer & Rowan, 1991). To gain this legitimacy, organizations create perpetual symbols, ceremonial activities and stories. Institutional theorists assert that the institutional environment can strongly influence the development of formal structures in an organization, often more profoundly than market pressures. Innovative structures that improve technical efficiency in early-adopting organizations are legitimized in the environment. Ultimately

these innovations reach a level of legitimization where failure to adopt them is seen as "irrational and negligent": these innovations can even become legal requirements, forcing new and existing organizations to adopt a structural form even if the form does not improve efficiency. The basic similarity in all institutional theoretical claims is that something identified at a higher level is used to explain processes and outcomes at a lower level of analysis (Clemens & Cook, 1999; Amenta, 2005). Institutionalists tend to avoid both individual-level explanations and explanations situated at the same level of analysis. The major criticisms of institutional theory have been its assumptions of organizational passivity and its failure to address strategic behaviour and the exercise of influence in its conceptions of institutionalization.

Institutional theory would hold that the NGOs situated in Nairobi have adopted internal control systems, an internal audit function and computerized accounting systems because the vast majority of larger business entities has done so for a number of reasons, one of which is to raise the level of the perceptions of the quality of financial reporting: NGOs in other countries, in addition to private and public organizations do the same thing.

## **2.3 Empirical Review**

### **2.3.1 Influence of an Internal Control System on the Perceptions of the Quality of Financial Reporting**

There have been several studies that have attempted to establish the influence of an internal control system on the perceptions of the quality of financial reporting in different contexts (Afiah & Azwari, 2015; Rafindadi & Olanrewaju, 2019; Ajao & Oluwadamilola, 2020; Wittayapoom & Limsuwan, 2012; Altamuro & Beatty, 2010).

Afiah and Azwari (2015) directed a research inquiry in South Sumatra to establish the influence of an internal control system on the perceptions of the quality of financial reporting. The internal control system as the independent variable was operationalized in monitoring, environment control, information and communication, risk assessment, and control. The dependent variable, which was the quality of financial reporting, was assessed in terms of verifiability, relevance, comparability, and reliability of financial reports. The study deemed it appropriate to use questionnaires and a Likert scale to collect data on question items which would then be easily converted to numbers for statistical analysis. The study targeted 18 geographical regions, which

included cities and provinces. Normality tests were conducted to establish if the data was normally distributed. A reliability test involving the use of the Cronbach's Alpha formula was employed. The study confirmed that the questionnaire was reliable and internally consistent when the results provided evidence that the question items on the Likert scale were above the benchmark value of 0.7. Path analysis was employed to establish the relationship between the study variables.

The study's findings were that the government's implementation of internal control systems played an important role in boosting the perceptions of the quality of financial reporting. The study's findings concurred with the research outcomes of Altamuro and Beatty (2010), who established that internal control systems involving close monitoring and reporting of business operations boost the perceptions of the quality of financial reporting in the banking industry.

The Afiah and Azwari (2015) study findings were also congruent with the research outcomes of Wittayapoom and Limsuwan (2012), who observed that internal control systems significantly increase the reliability of financial reporting of Thai-listed companies. Weak internal control systems considerably water down the reliability of financial statements (Hevesi, 2005). Developing and preserving an entity's internal control system will help the entity achieve accountability in its operations, thus boosting its reputation and performance (Spitzer, 2005).

Ajao and Oluwadamilola (2020) conducted a study in Nigeria to establish how the internal control system affects the financial reporting of insurance firms. The study used a survey research design to address its research purpose. Similarly, just like Afiah and Azwari (2015), the study operationalized internal control systems as the control environment, control activities, risk assessment, and monitoring together with information and communication. The quality of financial reporting was assessed in terms of relevance, comparability, faithful representation, verifiability, timeliness, and the understandability of the financial reports. Structured questionnaires were issued to 100 randomly selected respondents. A simple random sampling technique was applied to determine the respondents. Descriptive analysis was employed to establish the relationship between the study variables. Unlike Afiah and Azwari (2015), who had applied path analysis, Ajao and Oluwadamilola (2020) resorted to a multiple linear regression model to assess how each element of the internal control system affected the perceptions of the quality of the financial reporting. The study, like other previous studies, Afiah and Azwari (2015), Wittayapoom and Limsuwan (2012), and Altamuro and Beatty (2010), observed that all the five attributes of the

internal control system significantly improve the perceptions of the quality of financial reporting of Nigerian insurance firms.

The study's findings meant that adopting policies and procedures that will assist the management directives to be adopted would consequently improve the perceptions of the quality of financial reporting (Association of Accountancy Bodies in West Africa, 2009). Control activities involve reconciliation, business performance reviews, verification, and authorization approvals (Committee of Sponsoring Organizations of the Treadway Commission, 2013). The control environment, involving the board carrying out its oversight responsibilities on the management, attracting and retaining skilled employees, and providing incentives to boost accountability, lead to producing quality financial reports (Ramos, 2004).

Additionally, the identification and careful analysis of relevant risks and how they have to be appropriately managed play an essential role in boosting the perceptions of the quality of financial reports (Sudsomboon & Ussahawanitchakit, 2009). Close monitoring aimed at determining how effective the internal control systems are in terms of functionality can help identify the existing gaps and corrective actions to be taken, leading to the production of quality financial reports (Association of Accountancy Bodies in West Africa 2009).

Finally, adopting proper information and communication techniques involving identifying, recording, and appropriately communicating the relevant financial information within a particular timeframe significantly boosts the perceptions of the quality of financial reporting (Colbert & Aldridge, 1994). Rafindadi and Olanrewaju (2019) conducted a study in Nigeria to establish how the internal control system affects NGOs' perceptions of the quality of financial reporting. The study used questionnaires through self-administration to collect primary data. 352 respondents were chosen to be studied through the multi-stage sampling methodology of 45 NGOs operating in North-Western Nigeria. Descriptive analysis and multiple linear regression analysis through the structural equation modeling technique were used. The study observed that risk assessment had a significant negative effect on the perceptions of the quality of financial reporting. Information and communication, and control activities together with the control environment had a considerable positive impact on the perceptions of the quality of financial reporting. This agreed with the findings observed by Afiah and Azwari (2015) and Ajao and Oluwadamilola (2020), that information and communication, and control activities together with control environment boost

the perceptions of the quality of financial reporting. Conversely, monitoring activities had an insignificant impact on the perceptions of the quality of financial reporting of NGOs.

In addition, the descriptive findings of the study observed that the internal control system was adequately implemented except for effective communication, adequate documentation, and staff welfare development. The study concurred with the research outcomes of Charles (2011), Olatunjo (2009), and Muraleetharan (2013), who also observed that poor welfare and training of staff were the main hindrances to the effective implementation of an internal control system. The study findings were also congruent with the research outcomes of the Global Fund Audit Report (2011), which established that insufficient supporting documentation was one of the weak elements of the internal control system.

### **2.3.2 Influence of Internal Audit on the Perceptions of the Quality of Financial Reporting**

Numerous studies, for example, Novita, Imam and Tarmizi (2017), Al-Shetwi, Ramadili, Chowdury and Sori, (2011), Albawwat, Al-Hajaia and Al-Frijat (2021), Abdulai, Salakpi and Nasse (2021), Ebimobowei and Kereotu (2011), Alzeban (2018), Rahmatika (2014), Arum (2015), Johl, Johl, Subramaniam and Cooper (2013), have attempted to establish if the internal audit function influences the perceptions of the quality of financial reporting.

Novita, Imam, and Tarmizi (2017) sought to establish the influence of internal audits on the accountability of the financial statements of Indonesian State Universities. The study employed a survey methodology, and the study population was the 37 universities listed on Indonesia's Ministry of Finance website. The study respondents were the internal auditors, public service agencies, and the parties directly responsible for the financial management roles in the targeted public universities.

The study measured the level of internal audit using three attributes as was done by Prawitt, Smith, and Wood (2009), Arena, Arnaboldi, and Azzone (2009) together with Al-Twajjry, Brierley, and Gwilliam (2004). The first attribute was proficiency and due care. Proficiency denotes the competencies, knowledge, and skills needed to carry out the audit responsibilities. The due professional care was attributed to applying care and skills anticipated from a qualified, reasonable auditor. Professional qualification, experience in auditing, educational background, and knowledge in computer-assisted audit programs were the items used to assess proficiency and due

professional care. The second attribute was independence, denoting freedom from any intervention in internal audit activities, while the third attribute was the quality of work performance. 148 questionnaires were mailed to the targeted respondents, and 90 responses were retrieved, representing a response rate of 60%. The data retrieved from the respondents were analyzed using regression analysis and the WarpPLS application.

The findings were that internal audits had no considerable impact on improving the accountability of financial statements. The study's findings coincided with the observations of an earlier study conducted in Saudi Arabia by Al-Shetwi, Ramadili, Chowdury, and Sori (2011). Al-Shetwi et al. (2011) argued that rules should be formulated to strengthen the internal audit function and that financial experts should provide enough relevant support to the internal audits to realize the perceptions of the quality financial reporting.

On the other hand, Albawwat, Al-Hajaia, and Al-Frijat (2021) were interested in establishing the link between internal auditors' personality traits, internal effectiveness, and the perceptions of the financial reporting quality in the context of companies listed on the Amman Stock Exchange in Jordan. The survey methodology that involved the application of questionnaires to collect data for analysis was used, and the partial least squares structural equation modeling was applied for analysis. 193 responses were retrieved from the internal auditors of the targeted companies. The findings of the study observed that internal auditors who are innovative, open to change, self-confident, frustration resistant, assertive, self-disciplined, and enthusiastic make the internal audit function to be highly effective in terms of being more independent, objective and compliant with the professional standards which consequently boosts the perceptions of the quality of financial reporting.

The findings of the study were not consistent with the observations made by Novit et al. (2017) and Al-Shetwi et al. (2011) since these established that the internal audit function does not possess any considerable effect on the perceptions of the quality of financial reporting. Aside from that, Abdulai, Salakpi, and Nasse (2021), together with Ebimobowei and Kereotu (2011), observed that highly qualified and competent internal auditors will, in relation that aspect of their work which deals with accounting, strictly adhere to the financial reporting rules in the auditing process and will easily identify hidden mistakes and omissions in the financial statements which will consequently result in correcting the financial statements. If they are highly competent, internal

auditors are in a better position to easily identify fraud indicators in a company since they are very knowledgeable about the internal control systems of the firm (Abdulai et al., 2021).

Alzeban (2018), unlike other studies, Novita et al. (2017), Al-Shetwi et al. (2011), Albawwat, Al-Hajaia & Al-Frijat (2021), Abdulai et al. (2021) and Ebimobowei & Kereotu (2011), sought to examine if the internal audit function would improve the perceptions of the financial reporting quality by operating independently and being competent when the CEO is involved in appointing the Chief Auditing Executive (CAE). 307 UK-listed firms from 11 industries were targeted. The study relied on secondary data from annual reports covering the periods between 2014 and 2016. The accrual quality model developed by Dechow and Dichev (2002) was used to estimate the financial reporting quality. A regression model was used for analysis. The results observed that the financial reporting quality would deteriorate when the CEO appointed the CAE, since the aspects of the internal audit function involving independence and competence will be interfered with when the CEO is involved in the appointment of the CAE. Better perceptions of financial reporting quality can be realized only when the internal audit function is sovereign and is not interfered with by the top management (Christ, Masli, Sharp & Wood, 2015; Prawit et al., 2009).

Rahmatika (2014) sought to determine the effectiveness of the internal audit on the perceptions of quality of financial reporting on the Local Government in Indonesia. 70 working area units drawn from seven District Local Governments were targeted for the study. A survey design involving questionnaires was used to collect primary data from the respondents. Structural equation modeling involving Partial Least Square was used to process the data obtained. The results of the study were that the effectiveness of the internal audit function significantly improves the perceptions of the quality of financial reporting. Internal auditors ensure that the financial and operating information used to develop the financial reports are accurate and reliable. Internal auditors also ensure that risks linked to the firms are discovered and minimized. Moreover, internal auditors ensure that acceptable internal policies and external regulations are adhered to (Sawyers, 2003). The research findings of Rahmatika (2014) were consistent with the findings observed by Abdulai et al. (2021), Ebimobowei and Kereotu (2011) together with Albawwat et al. (2021), who had also observed that the internal audit boosts the perceptions of the quality of financial reporting.

Arum (2015) directed a study to ascertain the determinants of internal audit function effectiveness and its impact on the perceptions of the financial reporting quality. The primary determinants being

independence and competency. The study focused on listed firms on the Indonesia Stock Exchange as of 2014. 87 firms were targeted. Path analysis was used to process the data obtained. The study found that enhanced internal auditors' competency and independence/objectivity increases their effectiveness, thus consequently boosting the level of the perceptions of financial reporting quality.

Johl et al. (2013) sought to investigate the influence of the internal audit function on the perceptions of the quality of financial reporting of firms listed at the Main Market of Bursa in Malaysia. Unlike the other studies (Novita et al., 2017; Al-Shetwi et al., 2011; Albawwat et al., 2021; Abdulai et al., 2021; Ebimobowei & Kereotu, 2011; Alzeban, 2018; Rahmatika, 2014; Arum, 2015), the research investigation conducted by Johl et al. (2013) sought to establish if board quality affects how the internal audit function impacts the perceptions of the quality of financial reporting. A survey methodology involving distributing questionnaires through emails was used. The study participants were the chief internal auditors and financial controllers. 620 firms were initially targeted, but only 108 firms recorded their responses. The survey data was merged with the financial data seeking to establish the state of affairs of the abnormal accruals (which acted as a proxy of financial reporting quality). A multiple regression model was used to analyze the data. The results noted that internal audit quality characterized by adequate experience, organizational independence, and quality control assurance reduces abnormal accruals, thus enhancing the perceptions of the quality of financial reporting. Moreover, the independent board that possesses financial expertise and holds frequent meetings will help the internal audit unit realize quality financial reporting perceptions when they work together.

### **2.3.3 Influence of Computerized Accounting Systems on the Perceptions of the Quality of Financial Reporting**

Sugut (2014) directed a study in the Kenyan NGO sector to establish the role of computerized accounting systems on the perceptions of the quality of financial reports. 100 NGOs located in Nairobi County were chosen to be studied by applying the non-proportionate quota sampling technique. The researcher obtained both quantitative and qualitative data to address the research purpose of the study. Semi-structured questionnaires characterized by a 5-point Likert scale of level of agreement were employed to obtain quantitative data, which both descriptive and multiple regression models analyzed. Qualitative data was retrieved through open-ended questions in the questionnaire, which was analyzed by applying content analysis. The findings of the study

observed that using a computerized accounting system boosts the quality of financial reporting perceptions though in a statistically insignificant manner. The study observed that only 46% of the NGOs utilize the QuickBooks accounting software, whereas only 19% use the SAGE computerized accounting system to process their financial transactions. The study also observed that computerized accounting systems produce accurate and timely accounting information. The study also observed that computerized accounting systems secure accounting information from unauthorized access and accurately process accounting information free from manual errors.

Peprah and Amponsem (2021) conducted a study to establish how computerized systems influence international NGOs' financial reporting practices. The study employed a correlational research design, and Pearson correlation model was used to analyze the quantitative data retrieved by structured questionnaires. The study observed that computerized systems had a strong positive relationship with the financial reporting practices of the international NGOs. Similarly, Maureen (2019) also observed that computerized accounting systems had a positive though moderate relationship with the quality of financial reports perceptions on the National Water and Sewerage Corporation Mbarare branch in Uganda.

#### **2.3.4 Influence of NGO Size and NGO Age as Control Variables on the Perceptions of the Quality of Financial Reporting**

Oladejo and Yinus (2020), who were interested in determining the effect of electronic accounting practices on the financial reporting quality perceptions of Nigerian banks, paid keen interest in how bank size influenced computerized accounting system and the perceptions of the quality of financial reporting. The study observed that an increase in bank size led to enhanced e-accounting adoption; on the other hand, increased bank size led to a shortfall in financial reporting quality perceptions. Shahzad and Rehman (2019), among other research goals, were interested in establishing how the firm size and firm age as control variables influenced the financial reporting quality perceptions. Firm size was assessed in terms of the natural logarithm of total assets, while firm age was quantified as the logarithm of the number of years the firm has been in operation since it was founded. The study observed a negative relationship between firm size and financial reporting quality perceptions. This was in line with what Oladejo and Yinus (2020) found.

Shahzad and Rehman (2019) observed that an increase in firm age boosts the quality of financial reporting perceptions. This meant that firms that have been in operation for a long period of time

have better experience and knowledge of the elements that lead to better financial reporting quality perceptions than newly founded firms. Presently, there has been limited research conducted to establish the effects of firm age and firm size on the relationship between the factors (internal control system, internal audit function, and computerized accounting system) and the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya. Therefore, this study seeks to bridge the existing knowledge void.

#### **2.4 Summary of Literature Review and Research Gaps**

Based on the studies (Afiah & Azwari, 2015; Rafindadi and Olanrewaju, 2019; Ajao & Oluwadamilola, 2020; Wittayapoom & Limsuwan, 2012; Altamuro & Beatty, 2010) reviewed, limited research has been conducted to establish the influence of internal control systems on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya. Therefore, this study sought to address the present knowledge void. Thus, the first specific objective of this study was to establish the influence of internal control systems on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya.

Based on the studies (Novita et al., 2017; Al-Shetwi et al., 2011; Albawwat et al., 2021; Abdulai et al., 2021; Ebimobwei & Kereotu, 2011; Alzeban, 2018; Rahmatika, 2014; Arum, 2015; Johl et al., 2013) reviewed, limited research has been conducted to establish the influence of internal audit on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya. Therefore, this study sought to address the present knowledge void. Consequently, the second objective of this study was to establish the influence of internal audits on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya.

Regarding computerized accounting systems, Sugut (2014) observed that they do not have any considerable impact on the quality of financial reporting perceptions of NGOs in Nairobi County, Kenya. This could be different in this current period since current studies (Peprah & Amponsem, 2021; Maureen, 2019) have proved that it significantly boosts the perceptions of the quality of financial reporting in Uganda and Ghana respectively. Therefore, this study was motivated to establish the influence of computerized accounting systems on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya.

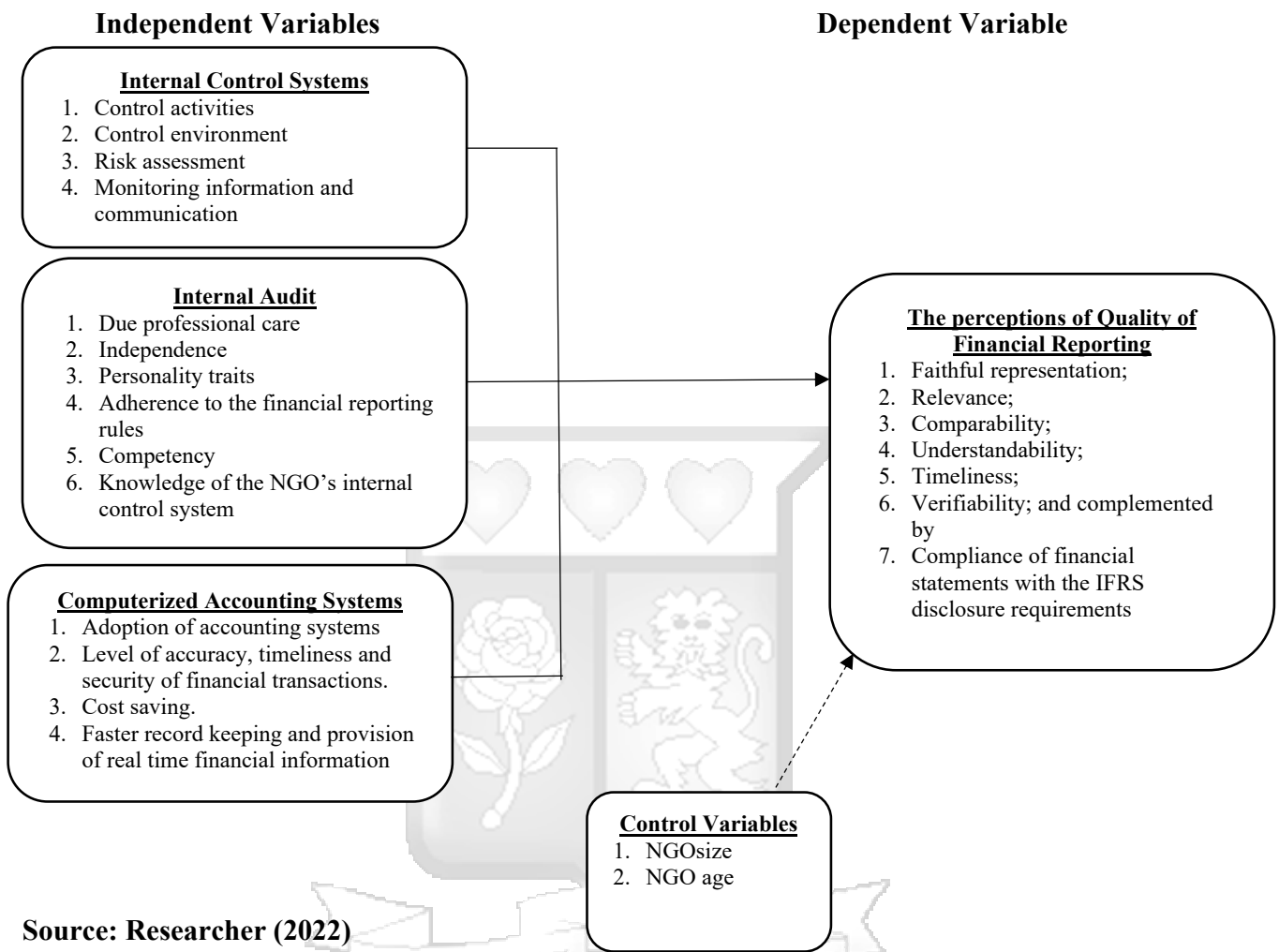
Finally, there has been limited research (Shahzad & Rehman, 2019; Oladejo & Yinus, 2020) conducted to establish the effects of firm age and firm size on the relationship between the factors (internal control system, internal audit function, and computerized accounting system) and the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya. Therefore, this study sought to fill the existing knowledge void.

## **2.5 The Conceptual Framework**

Figure 2.1 on the next page presents how internal control systems, internal audits, and computerized accounting systems (independent variables) influence the perceptions of the quality of financial reporting (dependent variable) of NGOs in Nairobi County, Kenya. It also presents how the control variables, NGO size, and NGO age affect the relationship between the aforementioned three factors and the perceptions of the quality of financial reporting.

The relationship between the internal control systems and the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya, is linked to the first specific objective of the study. The relationship between the internal audit and the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya, is linked to the second specific objective of the study. The relationship between computerized accounting systems and the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya, is linked to the third specific objective of the study. While the effect of NGO size and NGO age on the relationship between the three factors and the perceptions of the quality of financial reporting is linked to the fourth specific objective of the study.

**Figure 2. 1: The Conceptual Framework**



Source: Researcher (2022)

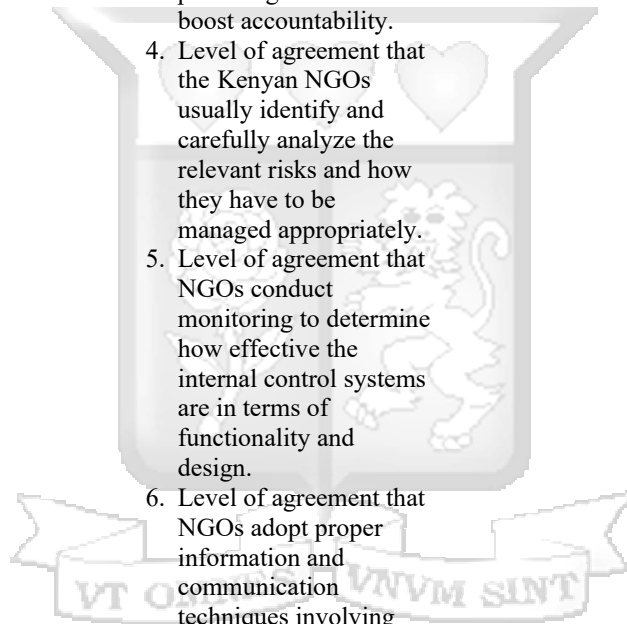
## 2.6 Operationalization of Variables

Table 2.1 below displays how the variables were operationalized.

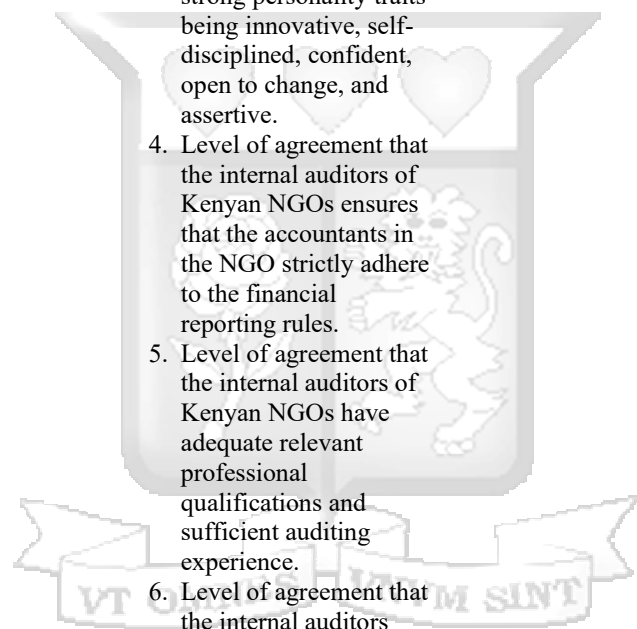
**Table 2. 1: Operationalization of Variables**

Independent Variable	Constructs	Operational Constructs	Measurement	Supporting Literature
Internal Control Systems	<ol style="list-style-type: none"> <li>1. Control activities</li> <li>2. Control environment</li> <li>3. Risk assessment</li> <li>4. Monitoring information and communication</li> </ol>	<ol style="list-style-type: none"> <li>1. Level of agreement that NGOs in Kenya have developed and adopted policies and procedures that assist in implementing the management directives.</li> <li>2. Level of agreement that NGOs in Kenya frequently conduct</li> </ol>	A 5-point Likert Scale of the extent of agreement	Ajao and Oluwadamilola (2020); Afiah and Azwari (2015); Altamuro and Beatty (2010); Wittayapoom and Limsuwan (2012); Sudsomboon and Ussahawanitchakit (2009);

- control activities such as reconciliation, business performance reviews, and verification and authorization approvals.
3. Level of agreement that the control environment in Kenyan NGOs involves the board carrying out its oversight responsibilities on the management, attracting and preserving skilled employees, and providing incentives to boost accountability.
  4. Level of agreement that the Kenyan NGOs usually identify and carefully analyze the relevant risks and how they have to be managed appropriately.
  5. Level of agreement that NGOs conduct monitoring to determine how effective the internal control systems are in terms of functionality and design.
  6. Level of agreement that NGOs adopt proper information and communication techniques involving identifying, recording, and communicating the relevant financial information in a suitable fashion within a particular timeframe.
- 



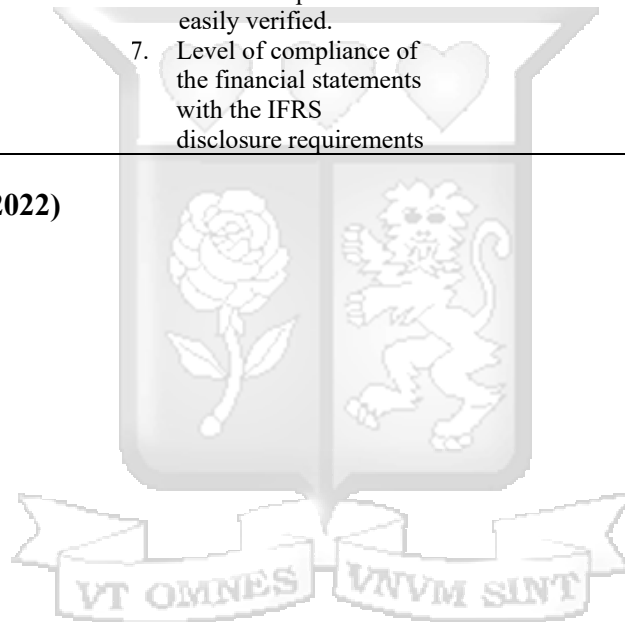
Internal Audit	<ol style="list-style-type: none"> <li>1. Due professional care</li> <li>2. Independence</li> <li>3. Personality traits</li> <li>4. Adherence to the financial reporting rules</li> <li>5. Competency</li> <li>6. Knowledge of the NGO 's internal control system</li> </ol>	<ol style="list-style-type: none"> <li>1. Level of agreement that internal auditors in Kenyan NGOs exercise due professional care when carrying out the audit process.</li> <li>2. Level of agreement that internal auditors of Kenyan NGOs are independent from managerial influence when performing their professional duties.</li> <li>3. Level of agreement that the internal auditors of Kenyan NGOs possess strong personality traits being innovative, self-disciplined, confident, open to change, and assertive.</li> <li>4. Level of agreement that the internal auditors of Kenyan NGOs ensures that the accountants in the NGO strictly adhere to the financial reporting rules.</li> <li>5. Level of agreement that the internal auditors of Kenyan NGOs have adequate relevant professional qualifications and sufficient auditing experience.</li> <li>6. Level of agreement that the internal auditors possess sufficient knowledge in the NGO 's internal control systems, which helps them identify and minimize fraud risk areas.</li> </ol>	A 5-point Likert Scale of the extent of agreement	Novita et al. (2017); Albawwat et al. (2021); Abdulai et al. (2021); Ebimobowei and Kereotu (2011); Prawitt et al. (2009); Arena et al. (2009); Al-Twajjry et al. (2004)
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Computerized accounting systems	<ol style="list-style-type: none"> <li>1. Adoption of accounting systems</li> <li>2. Level of accuracy, timeliness and security of financial transactions</li> <li>3. Cost saving</li> <li>4. Faster record keeping and provision of real time financial information.</li> </ol>	<ol style="list-style-type: none"> <li>1. Level of agreement that Kenyan NGOs use QuickBooks and SAGE to process and store accounting information.</li> <li>2. Level of agreement that the computerized accounting systems produce accurate and timely financial transactions besides securing the accounting information.</li> <li>3. Level of agreement that the computerized accounting systems save on money and resources.</li> <li>4. Level of agreement that computerized accounting is faster in record keeping and provides real-time financial information.</li> </ol>	A 5-point Likert Scale of extent of agreement	Sugut (2014); Peprah and Amponsem (2021)
Control Variable	<ol style="list-style-type: none"> <li>1. NGO size</li> <li>2. NGO age</li> </ol>	<ol style="list-style-type: none"> <li>1. NGO size will be operationalized by the number of employees the NGO has.</li> <li>2. NGO age will be operationalized as the number of years the NGO has been in operation since it was founded</li> </ol>	<ol style="list-style-type: none"> <li>1. For NGO size, a 5-point Categorical scale of employee size will be used (Less than 50 employees = 1; 50-100 employees = 2; 100 to 500 employees = 3; 500 to 1000 employees = 4; More than 1000 employees = 5)</li> <li>2. For NGO age, a 5-point Categorical scale of years of business operations will be used (Less than 5 years = 1; 5-10 years = 2; 10-20 years = 3; 20-50 years = 4; More than 5 years = 5)</li> </ol>	
Perceptions of the Quality Financial Reporting <b>(Dependent Variable)</b>	<ol style="list-style-type: none"> <li>1. Faithful representation;</li> <li>2. Relevance;</li> <li>3. Comparability;</li> <li>4. Understandability;</li> <li>5. Verifiability;</li> <li>6. Timeliness; and complemented by</li> <li>7. Compliance of financial statements with the IFRS disclosure requirements</li> </ol>	<ol style="list-style-type: none"> <li>1. The level of agreement that the financial reports produced faithfully represents the economic attribute that it claims to signify.</li> <li>2. Level of agreement that the financial reports are usually relevant, whereby inputs can be utilized to forecast future results.</li> <li>3. Level of agreement that the financial reports are</li> </ol>	A 5-point Likert Scale of the extent of agreement	Ajao and Oluwadamilola (2020); Afiah and Azwari (2015)

- 
- comparable to the financial information of other NGOs.
4. Level of agreement that the financial reports are easily understood.
  5. Level of agreement that the financial reports are usually produced on time and readily available to the stakeholders to make their decisions.
  6. Level of agreement that the financial information in the financial reports can be easily verified.
  7. Level of compliance of the financial statements with the IFRS disclosure requirements
- 

**Source: Researcher (2022)**



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter of the study elucidated the methodologies suitable for solving its research questions linked to its objectives. It started by pointing out the research philosophy that guided it, the research design it used, the population of focus, the research instrument used, and the data analysis techniques that were applied.

#### **3.2 Research Philosophy**

Research philosophy is the belief or underlying view about the approach in which data linked to a particular phenomenon of interest should be obtained, analyzed, and utilized (Bajpai, 2011). Four major research philosophies guide studies in various disciplines, which are positivism, pragmatism, interpretivism, and realism (Saunders et al., 2012).

The research philosophy that is relevant to this study is the positivist paradigm. Positivism involves working with the social reality that can be observed to produce law-like generalizations (Saunders et al., 2009). The main aim of the paradigm is to establish causal relationships based on the data obtained through the employment of statistical tools (Chirkov & Anderson, 2018). Reality is external and sovereign from the researcher's views or the researched elements, and the data obtained has to be quantitative and measurable (Saunders et al., 2009). Subsequently, regarding this study, positivism was employed since the study sought to establish the causal association between the determinants and the perceptions of the quality of the financial reporting of the NGOs in Nairobi County, Kenya, by applying statistical tools to the numerical data obtained from the questionnaires.

While positivism is the philosophical system that confines itself to the data of experience, which underlies this study, it could be argued that there is a problem in basing the study on it because there have been inconsistencies in prior research findings. Afiah and Azwari (2015) together with Ajao and Oluwadamilola (2020) had observed that monitoring and risk assessment were aspects of an internal control system that improve the quality of financial reporting, while Rafindadi and Olanrewaju (2019) found that risk assessment had a negative effect on the quality of financial

reporting and monitoring activities had no impact on the quality of financial reporting. Also, there have been other inconsistencies in research findings: Albawwat et al. (2021) and Alzeban (2018) observed that the internal audit had a significant impact on the perceptions of the quality of financial reporting: Novita et al. (2017) and Al-Shetwi et al. (2011) observed that it had no effect on the perceptions of the quality of financial reporting.

With reference to computerized accounting systems, Sugut (2014) observed that they do not have any considerable impact on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya. This could be different in this current period since more recent studies (Maureen, 2019; Peprah & Amponsem, 2021) have found that using a computerized accounting system significantly boosts the perceptions of the quality of financial reporting.

This study is based on the present state of perceptions of the quality of financial reporting influenced by having an effective internal control system, using a computerized accounting system, and having an internal audit function.

### **3.3 Research Design**

The research design that guided this study was the explanatory research design. Explanatory research is concerned with investigating a research problem that has not been properly researched (Hyun, 2021). The design is used to provide in-depth conclusive evidence on the problem that received limited research attention and is also anchored on clearly understanding the problem (Hyun, 2021). Detailed and clear research has not been conducted with reference to the relationship between a computerized accounting system, internal audit, internal control system and the perceptions of the quality of financial reporting in NGOs in Nairobi, and how the control variables (NGO size and NGO age) influence the relationship. This makes the research design to be suitable to this study since the study sought to provide an in-depth understanding of the relationship between the factors (internal control system, internal audit, and computerized accounting) and the perceptions of the quality of financial reporting besides seeking to establish how NGO size and NGO age influenced the relationship.

### **3.4 Target Population**

The target population of the study was the 285 NGOs that existed in Nairobi in 2020, each being represented by its Finance Director, 160 public/governmental external auditors and 424 private

auditors in Nairobi County, Kenya, who audit NGOs, totaling to 869 respondents (Signal Hire, 2022). Data was obtained from the public /external auditors working in the Office of the Auditor-General in Nairobi, County as they audit the annual audited financial statements submitted by the big NGOs to the NGO Coordination board. Also, data was obtained from external private auditors as NGOs are audited by the external private auditors as part of the donor requirements: the private external auditors working in a private audit firm was drawn from KPMG Kenya since it is the only private audit firm that has a list of all of its audit-employees online (Signal Hire, 2022). Data was obtained from Finance Directors since they have a clear knowledge on the existence and implementation of the internal control systems, audit function and computerized accounting systems in NGOs. The perceptions of the Finance Directors on the quality of the financial statements were complemented by the review of the level of compliance of the financial statements with the Deloitte IFRS disclosure index for the relevant year to ensure objectivity.

The target population of the study is presented in Table 3.1 below.

**Table 3. 1: Target Population**

No.	Unit of Observation	Target Population
1.	Finance Directors	285
2.	Public/Governmental External Auditors	160
3.	Private External Auditors	424
<b>Total Target Population</b>		<b>869</b>

Source: Researcher (2022)

### 3.5 Sample and Sampling Techniques

Since the finite population of the study was known and accessible, the study used Krejcie and Morgan (1970) to estimate the sample size of the study. The sample size estimator was chosen due to its efficiency and preciseness in calculating the sample size to correctly represent a given population (Kenya Projects Organization, 2012). The sample size formula is presented below;

$$s = \frac{X^2NP(1-P)}{d^2(N-1) + X^2P(1-P)}$$

Whereby; s = estimated sample size.

X<sup>2</sup> = the chi-square figure from the table based on 1 degree of freedom at the preferred confidence level (3.841).

N = the study population.

P = the population proportion projected to be 0.5 that will provide the optimum sample size.

d = the level of preciseness at 95% confidence level (whereby only 0.05 error is allowed).

$$s = \frac{7.682 \times 869 \times 0.25}{0.0025 \times 869 + (7.682 \times 0.5 \times 0.5)}$$

$$s = \frac{1668.9145}{2.1725 + 1.9205}$$

$$s = 408$$

The sample size of all the Finance Directors, the public/governmental external auditors, and the private external auditors to be studied in Nairobi County was 408. With respect to each unit of observation, the sample size of the Finance Directors was calculated as the target population of the Finance Directors divided by the total target population of all the respondents multiplied by the total sample size (i.e.,  $285/869 \times 408 = 134$ ). Therefore, the sample size for the Finance Directors was 134. The sample size of the public/external governmental auditors was calculated as the target population of the public/external governmental auditors divided by the total target population of all the respondents multiplied by the total sample size (i.e.,  $160/869 \times 408 = 75$ ). Therefore, the sample size for the public/governmental external auditors was 75. The sample size of the private external auditors was calculated as the target population of the private external auditors divided by the total target population of all the respondents multiplied by the total sample size (i.e.,  $424/869 \times 408 = 199$ ). Therefore, the sample size for the private external auditors was 199. The sample size for each unit of observation is presented in Table 3.2 below.

**Table 3. 2: Sample Size of the Study and its Distribution to each Unit of Observation**

No.	Unit of Observation	Target Population	Sample Size
1.	Finance Directors	285	134
2.	Public/Governmental External Auditors	160	75
3.	Private External Auditors	424	199
<b>Total Target Population</b>		<b>869</b>	<b>408</b>

**Source: Researcher (2022)**

A simple random sampling technique that provides each object an equal chance of being selected when compared to other sampling techniques was employed through the use of Tippet's random number codes to sample the respondents to be studied (Chakrabarty, 2018). This was done by

serializing all the respondents listed in a particular sampling frame by using random codes. The random codes with the names of the respondents were indiscriminately picked up and unveiled, and the names of the respondents discovered constituted the sample to be studied.

Based on the NGO Coordination Board Annual report (NGO Board, 2020) there are 50 big NGOs in relation to donor funding. The study is limited to the big NGOs because small NGOs do not file their financial statements with the NGO Coordination Board (NGO Board, 2020). The study covered a sample of 35 NGOs which comprise of 70% of the total big NGOs for the review of the financial statements for the financial year 2021 to determine the level of compliance of the financial statements with the disclosure requirements of the Deloitte 2021 IFRS disclosure index.

### **3.6 Data Collection Instrument and Procedures**

Structured questionnaires were used to collect primary quantitative data from the sampled respondents. The structured questionnaire contained a set of standardized question items on Likert scales that coded the responses as numerical values for statistical analysis (Cheung, 2014). The primary benefit of this type of research instrument, compared to unstructured questionnaires or interview guides, is that it is easier to code and analyze the data retrieved (Guest, 2019). Moreover, it demands a low cognitive weight on the research participant, thus leading to a high response rate and the retrieval of accurate data (Guest, 2019).

The questionnaire is composed of five sections. The first section solicited demographic information from the respondents regarding gender, job position, education qualification, NGO age, NGO size, and work experience. The second, the third, and the fourth sections contained question items on a 5-point Likert scale of agreement (1-Strongly disagree; 2-Disagree; 3-Moderately Agree; 4-Agree; 5-Strongly Agree) seeking to establish the present state of affairs of the internal control systems, the effectiveness of the internal audit and computerized accounting systems in the NGOs in Nairobi County. The data retrieved helped to address the first, second, and third objectives of the study. The fifth section contained question items on a 5-point Likert scale of agreement (1-Strongly disagree; 2-Disagree; 3-Moderately Agree; 4-Agree; 5-Strongly Agree) seeking to establish the level of the perceptions of the quality financial reporting in the NGOs in Nairobi County. The data retrieved helped to address the fourth objective of the study.

Secondary data was obtained from the annual reports from 35 big NGOs with regard to establishing the level of compliance of the financial statements with the disclosure requirements of the IFRS using a disclosure index in order to complement the findings obtained from the questionnaires.

After successfully defending her research proposal and being given the go-ahead by the panel members and the supervisor to collect data, the researcher applied for the NACOSTI research permit that aided her in collecting data. Questionnaires were distributed to the respondents at an appointed time to be filled. Since the top managers are usually busy, the researcher offered a time deadline of one week and two days for the questionnaires to be duly filled before retrieving them. The data collection exercise took place between 9<sup>th</sup> May and 23<sup>rd</sup> May 2022.

### **3.7 Research Quality**

For a survey instrument to be confidently used to collect data, it must be reliable and valid. Regarding validity, the question items must be sufficient and appropriate in assessing a specific construct through a thorough review of literature and recommendations from the experts (Oyebisi et al., 2018). Consequently, the content validity was ensured by seeking the recommendations of 10 respondents (4 Finance Directors, three public/governmental external auditors, and three private external auditors) in a pilot test.

The respondents were not included in the final data collection exercise to avoid cases of bias. The research tested the content validity three times at different points in time (February 25, 2022; February 28, 2022; and March 4, 2022). The respondents agreed that the question items were sufficient, valid, clear, understandable, and straightforward. Therefore, no changes were made to the questionnaire.

The Cronbach's Alpha model was employed to establish if the research instrument is reliable in terms of the internal consistency of the question items. Items on scales displaying figures above 0.7 are deemed to be internally consistent (Kershaw & Nicholson, 2011; Kikutia et al., 2019). The questionnaire would be considered to be reliable if the tests indicated values above 0.7.

The reliability tests were done three times at different time points (February 25, 2022; February 28, 2022; and March 4, 2022) on the same ten targeted respondents during the pilot test exercise. The findings are displayed in Table 3.3 below.

**Table 3. 3: Reliability Test Results**

Variable	February 25 2022	February 28 2022	March 4 2022	No. of Items
	Cronbach's Alpha	Cronbach's Alpha	Cronbach's Alpha	
Internal Control System	0.968	0.967	0.962	8
Internal Audit Computerized Accounting System	0.964	0.958	0.958	6
Perceptions of the Quality of Financial Reporting	0.932	0.920	0.926	4
	0.964	0.960	0.951	6

**Source: Researcher (2022)**

Table 3.3 above indicates that all the eight questions assessing the internal control system variable were internally consistent throughout all the three pilot tests conducted since they posted Cronbach's Alphas of 0.968, 0.967, and 0.962, respectively, which were greater than the benchmark figure of 0.7.

Also, it was observed that all the six question items assessing the internal audit variable were internally consistent throughout the three pilot tests conducted since they posted Cronbach's Alphas of 0.964, 0.958, and 0.958, respectively, which were greater than the benchmark figure of 0.7. Moreover, it was established that all the four question items assessing the computerized accounting system variable were internally consistent throughout all the three pilot tests conducted since they posted Cronbach's Alphas of 0.932, 0.920, and 0.926. Finally, it was noted that all the six question items assessing the perceptions of the quality of the financial reporting variable were internally consistent through all the three pilot tests conducted since they posted Cronbach's Alphas of 0.964, 0.960, and 0.951, respectively, which were greater than the benchmark figure of 0.7. Therefore, in general, it can be concluded that the whole questionnaire was reliable and fit for the primary data collection exercise.

The employment of the factor analysis model was to test the construct validity to determine if the question items were assessing the constructs that they were expected to measure (Andreou et al., 2011). Question items recording factor loadings greater than 0.4 in factors with Eigen values

greater than one indicated that they are indeed evaluating the constructs aspired to be assessed (Frederick, 2013). Regarding the question items assessing the internal control system, the KMO and Bartlett's test was conducted prior to the factor analysis to establish if the dataset was sufficient and appropriate for factor analysis. The rule of thumb for verifying if the dataset of a particular construct is sufficient and appropriate is that the KMO value has to be at least 0.5, and Bartlett's test of Sphericity had to be significant ( $p$ -value  $< 0.05$ ) (Williams, Onsman & Brown, 2010). The findings of tests for the three periods of the pilot test are presented in Table 3.4 below.

**Table 3.4: KMO and Bartlett's Test for the Internal Control System's Dataset**

<b>KMO and Bartlett's Test for the Internal Control System's Dataset</b>				
		February 25 2022	February 28 2022	March 4 2022
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.710	0.699	0.891
Bartlett's Test of Sphericity	Approx. Chi-Square	99.914	99.863	88.667
	df	28	28	28
	Sig.	0.000	0.000	0.000

**Source: Researcher (2022)**

From Table 3.4, it was observed that the dataset of the internal control system was sufficient and appropriate for factor analysis since its KMO values (0.710, 0.699, and 0.891, respectively) of the dataset for the three periods that the pilot tests were conducted were greater than 0.5. Bartlett's test of Sphericity across the three periods of the pilot tests was statistically significant ( $p$ -value = 0.000  $< 0.05$ ).

With respect to the question items assessing the internal audit as presented in Table 3.5 in the next page, it was observed that the dataset of the internal audit was sufficient and appropriate for factor analysis since its KMO values (0.710, 0.700, and 0.700, respectively) of the dataset for the three periods that the pilot tests were conducted was greater than 0.5. Moreover, Bartlett's test of Sphericity across the three periods of the pilot tests was statistically significant ( $p$ -value = 0.000  $< 0.05$ ).

**Table 3. 5: KMO and Bartlett's Test for the Internal Audit's Dataset**

<b>KMO and Bartlett's Test for the Internal Audit's Dataset</b>		February 25, 2022	February 28, 2022	March 4, 2022
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.710	0.700	0.700
Bartlett's Test of Sphericity	Approx. Chi-Square	69.293	53.977	53.977
	df	15	15	15
	Sig.	0.000	0.000	0.000

**Source: Researcher (2022)**

Regarding the question items assessing the computerized accounting system as presented in Table 3.6 below, it was observed that the dataset of the computerized accounting system was sufficient and appropriate for factor analysis since its KMO values (0.833, 0.719, and 0.791, respectively) of the dataset for the three periods that the pilot tests were conducted was greater than 0.5. Moreover, Bartlett's test of Sphericity across the three periods of the pilot tests was statistically significant ( $p$ -value = 0.000 < 0.05).

**Table 3. 6: KMO and Bartlett's Test for the Computerized Accounting System's Dataset**

<b>KMO and Bartlett's Test for the Computerized Accounting System's Dataset</b>		February 25, 2022	February 28, 2022	March 4, 2022
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.833	0.719	0.791
Bartlett's Test of Sphericity	Approx. Chi-Square	29.319	34.613	31.296
	df	6	6	6
	Sig.	0.000	0.000	0.000

**Source: Researcher (2022)**

After confirming that the datasets of the four variables were adequate and suitable for factor analysis, the researcher then conducted factor analysis through principal component analysis. The results of the analyses were displayed in Tables 3.8, 3.9, 3.10, and 3.11, respectively. Table 3.7 below presents the principal component analysis findings for the internal control system variable

based on the three pilot tests that were conducted on February 25, 2022; February 28, 2022; and March 4, 2022, respectively.

**Table 3. 7: Component Matrix Results of the Internal Control System’s Dataset**

No.	Question Item	Component Matrix <sup>a</sup>		
		February 25 2022	February 28 2022	March 4 2022
		Component 1	Component 1	Component 1
1.	Your NGO / NGO(s) has/ have developed and adopted policies and procedures that assist with implementing the management directives.	0.963	0.958	0.948
2.	Your NGO / NGOs frequently conducts control activities such as reconciliation, business performance reviews, verification, and authorization approvals.	0.966	0.954	0.954
3.	The board carries out its oversight responsibilities on the management of Kenyan NGOs.	0.959	0.952	0.900
4.	Your NGO / NGOs attract and preserves skilled employees.	0.859	0.851	0.856
5.	Your NGO / NGOs provides incentives to boost accountability	0.979	0.974	0.971
6.	Your NGO / NGOs usually identifies and carefully analyzes the relevant risks and how they have to be managed appropriately.	0.879	0.891	0.879
7.	Your NGO / NGOs conduct monitoring aimed at determining how effective the internal control systems are in terms of functionality and design.	0.949	0.944	0.945
8.	Your NGO / NGOs adopt proper information and communication techniques involving identifying, recording, and communicating the relevant financial information in a suitable fashion within a particular timeframe.	0.714	0.739	0.698

Extraction Method: Principal Component Analysis.

a. 1 component extracted.

**Source: Researcher (2022)**

Drawing from Table 3.7, it can be noted that all the eight question items were loaded in Component One (Internal Control System), and they posted factor loadings that were not less than 0.4 based on the pilot tests conducted on February 25, 2022, February 28, 2022, and March 4, 2022, respectively. This meant that all the eight-question items strongly assessed the construct of the internal control system as intended. This effectively confirmed that the questionnaire was externally valid. Therefore, all the eight-question items were preserved for the primary data collection exercise and further analyses.

Table 3.8 below presents the principal component analysis findings for the internal audit variable based on the three pilot tests conducted on February 25, 2022, February 28, 2022, and March 4, 2022, respectively.

**Table 3. 8: Component Matrix Results of the Internal Audit’s Dataset**

No.	Question Item	Component Matrix <sup>a</sup>		
		February 25 2022	February 28 2022	March 4 2022
		Component 1	Component 1	Component 1
1.	Due professional care is applied when carrying out the audit process.	0.976	0.949	0.949
2.	Internal auditors of the Kenyan NGOs are independent of managerial influence when performing the auditing duties.	0.971	0.963	0.963
3.	Internal auditors of Kenyan NGOs possess strong personality traits being innovative, self-disciplined, confident, open to change, and assertive.	0.943	0.909	0.909
4.	Internal auditors of Kenyan NGOs ensure that the accountants in the NGO strictly adhere to the financial reporting rules.	0.881	0.875	0.875
5.	Internal auditors of Kenyan NGOs possess adequate, relevant professional qualifications and sufficient auditing experience to boost their auditing process proficiency.	0.971	0.926	0.926
6.	Internal auditors of Kenyan NGOs possess sufficient knowledge of the firm's internal control systems, which help identify and minimize fraud risk areas.	0.804	0.804	0.850

Extraction Method: Principal Component Analysis.

a. 1 component extracted.

**Source: Researcher (2022)**

Table 3.8 indicates that all the six question items were all loaded in Component One (Internal Audit), and they posted factor loadings that were not less than 0.4 based on the pilot tests conducted on February 25, 2022, February 28, 2022, and March 4, 2022, respectively. This meant that all six-question items strongly assessed the construct of the internal audit as intended. This effectively confirmed that the questionnaire was externally valid. Therefore, all the six question items were preserved for the primary data collection exercise and further analyses.

Table 3.9 below presents the principal component analysis findings for the computerized accounting system variable based on the three pilot tests conducted on February 25, 2022, February 28, 2022, and March 4, 2022, respectively.

**Table 3. 9: Component Matrix Results of the Computerized Accounting System’s Dataset**

No.	Question Item	Component Matrix <sup>a</sup>		
		February 25 2022	February 28 2022	March 4 2022
		Component 1	Component 1	Component 1
1.	Your NGO / NGOs use QuickBooks and SAGE to process and store accounting information.	0.959	0.962	0.971
2.	Computerized accounting systems produce accurate and timely financial transactions besides securing the accounting information.	0.917	0.905	0.895

3.	Computerized accounting systems save on money and resources.	0.964	0.980	0.973
4.	Computerized accounting systems are faster in record keeping and provide real-time financial information.	0.842	0.813	0.805

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

**Source: Researcher (2022)**

Table 3.9 indicates that all the four question items were all loaded in Component One (Computerized Accounting System) and posted factor loadings that were not less than 0.4 based on the pilot tests conducted on February 25, 2022, February 28, 2022, and March 4, 2022, respectively. This meant that all the four question items strongly assessed the construct of the computerized accounting system as intended and effectively confirmed that the questionnaire was externally valid. Therefore, all the question items were preserved for the primary data collection exercise and further analyses.

Table 3.10 on the next page presents the principal component analysis findings for the quality of financial reporting variable based on the three pilot tests that were conducted on February 25, 2022, February 28, 2022, and March 4, 2022 respectively.

**Table 3. 10: Component Matrix Results of the Perceptions of the Quality of Financial Reporting’s Dataset**

		Component Matrix <sup>a</sup>		
No.	Question Item	February 25 2022	February 28 2022	March 4 2022
		Component 1	Component 1	Component 1
1.	The financial reports produced faithfully represent the economic attribute that it claims to signify.	0.976	0.961	0.962
2.	The financial reports are usually relevant, whereby its inputs can be utilized to forecast future results.	0.971	0.946	0.950
3.	The financial reports are comparable to the financial information of other NGOs.	0.963	0.933	0.936
4.	The financial reports are easily understood.	0.881	0.904	0.900
5.	The financial reports are usually produced on time and readily available to the stakeholders to make their decisions.	0.971	0.988	0.984
6.	The financial information in the financial reports can be easily verified.	0.804	0.772	0.774

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

**Source: Researcher (2022)**

Drawing from Table 3.10, it can be noted that all the six question items were all loaded in Component One (Perceptions of the Quality of Financial Reporting), and they posted factor

loadings that were not less than 0.4 based on the pilot tests conducted on February 25, 2022, February 28, 2022, and March 4, 2022, respectively. This meant that all the six question items strongly assessed the construct of the perceptions of the quality of financial reporting as intended. This effectively confirmed that the questionnaire was externally valid. Therefore, all the six question items were preserved for the primary data collection exercise and further analyses.

### 3.8 Data Analysis Techniques

The researcher used descriptive tools that included mean scores and standard deviation to analyze and describe the present state of affairs of the factors and the level of the perceptions of the quality of financial reporting of the NGOs in Nairobi County, Kenya.

The multiple regression analysis model is best suited to showing the relationship between the variables and the extent to which the predictor variables explain the variability of the dependent variable (Teeboom, 2019). Averages were used as a suitable composite measure to compress the raw data into variables for the inferential analysis.

Moreover, the multiple regression analysis model is best suited when researchers combine Likert items by either summing or averaging them and create a continuous variable (Frost, 2021).

The researcher devised and proposed the regression model presented below that will help her address the study objectives.

$$Y = \alpha + \beta_1 \text{Int} + \beta_2 \text{Audit} + \beta_3 \text{Comp} + \beta_4 \text{Size} + \beta_5 \text{Age} + \epsilon$$

Whereby;

Y = the dependent variable is denoting the level of the perceptions of the quality of the financial reporting.

$\alpha$  = the constant term that will depict the level of the perceptions of the quality of the financial reporting when internal control system, internal audit, and computerized accounting systems are absent.

Int, Audit, Comp = the independent variables denote internal control system, internal audit, and computerized accounting system, respectively.

Size, Age = the control variables are denoting NGO size and NGO age, respectively.

$\beta_1, \beta_2, \beta_3$  = the beta coefficients denoting the level to which internal control systems, internal audit, and computerized accounting systems significantly or insignificantly boost or reduce the perceptions of the quality of financial reporting level.

$\beta_4, \beta_5$  = the beta coefficients denoting the level to which NGO size and NGO age significantly or insignificantly boost or reduce the perceptions of the quality financial reporting.

$\varepsilon$  = the error term that will depict how the data is far or near the regression line.

### 3.8.1 Diagnostic Tests for Multiple Linear Regression

For the multiple linear regression model to be considered appropriate for analysis, the data obtained must be normally distributed (Williams et al., 2013). Therefore, the Shapiro-Wilk W test was used to test if the assumption has been adhered to by posting statistically insignificant results ( $p$ -value  $> 0.05$ ) (Statistics Solutions, 2019). After the data was obtained from the field with reference to each specific variable, it was fed into the SPSS software for the normality test analysis, and the results were presented in Table 3.12 on the next page.

**Table 3. 7: Tests of Normality Results**

	Tests of Normality					
	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Internal Control System	0.155	300	0.215	0.886	300	0.339
Computerized Accounting Systems	0.166	300	0.240	0.904	300	0.400
Perceptions of the Quality of Financial Reporting	0.240	300	0.209	0.844	300	0.301
Internal Audit Function	0.164	300	0.220	0.889	300	0.378

a. Lilliefors Significance Correction

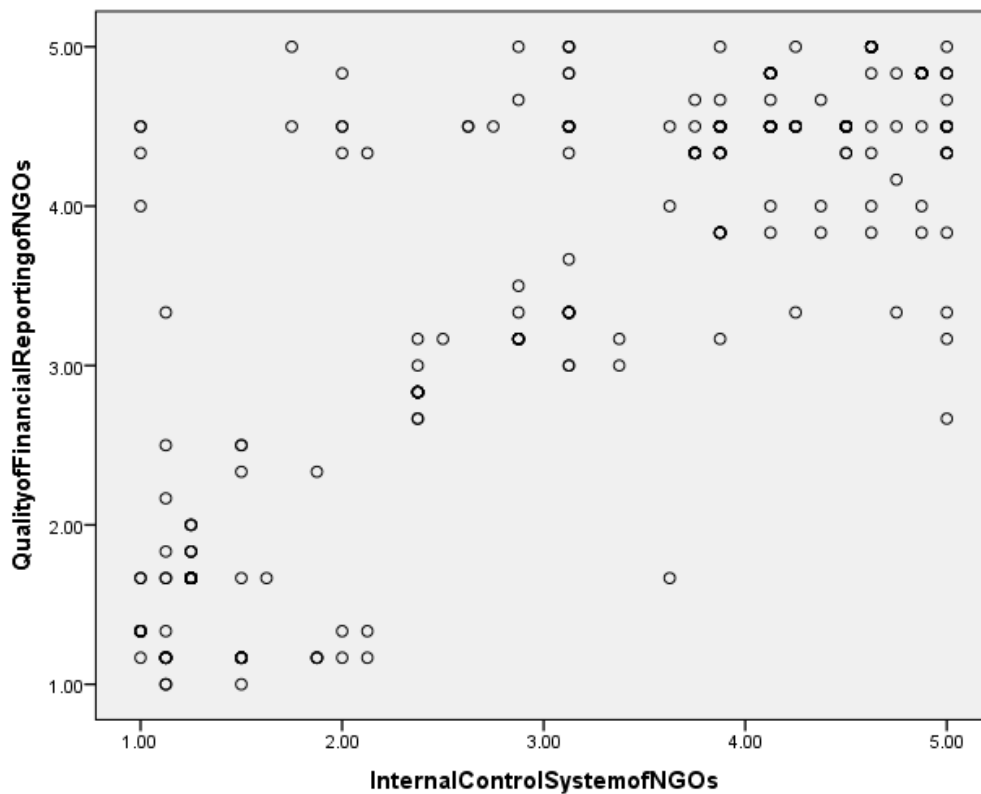
**Source: Researcher (2022)**

As we can derive from Table 3.12, the Shapiro-Wilk test results for the internal control system, computerized accounting system, internal audit function, and the perceptions of the quality of financial reporting datasets were statistically insignificant ( $p$ -values were 0.339, 0.400, 0.378, and 0.301 respectively) which were greater than 0.05.

This meant that the datasets of all the four variables were indeed normally distributed and thus qualified to be used for multiple linear regression analysis. The second assumption that needs to be adhered to is that there has to be a linear relationship between the predictor variables and the outcome variable (Laerd Statistics, 2018). To check if there was a linear relationship between the study variables, the scatter plots were utilized as recommended by Laerd Statistics (2018). The scatter plot showing the relationship between the internal control system and the perceptions of

the quality of financial reporting of NGOs in Nairobi County, Kenya, was presented in Figure 3.1 on the next page.

**Figure 3. 1: Relationship between Internal Control System and the perceptions of the Quality of Financial Reporting of NGOs in Nairobi County, Kenya**

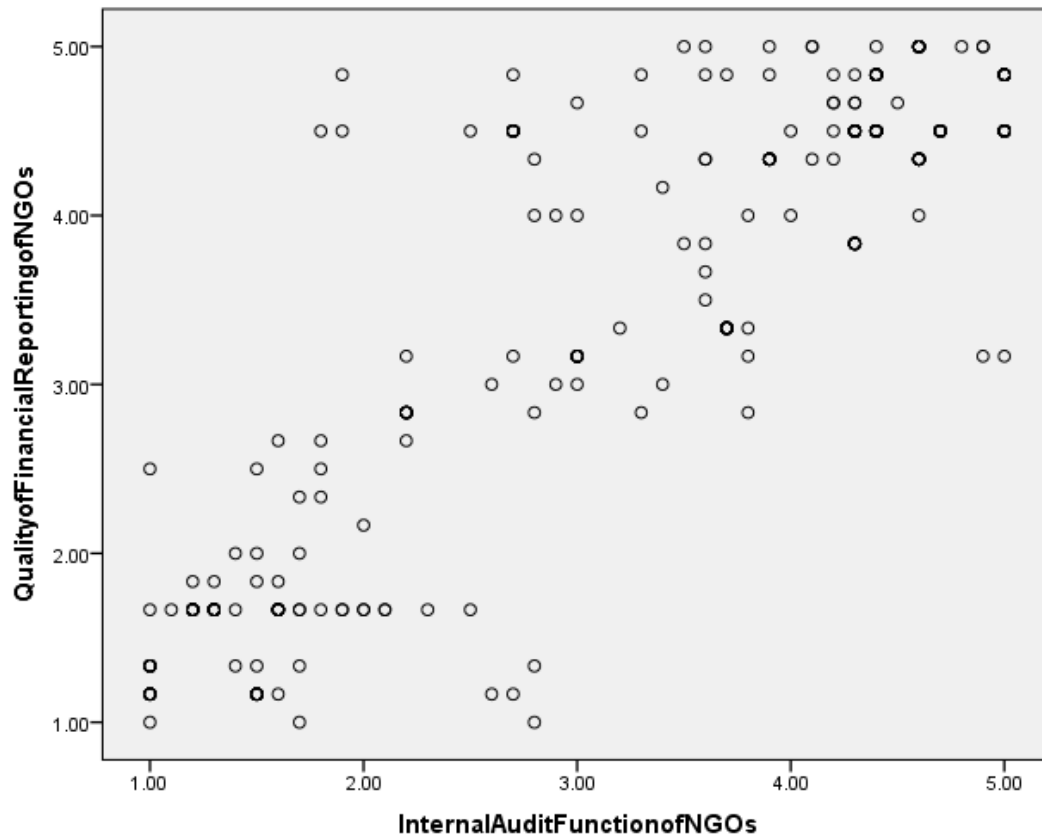


Source: Researcher (2022)



As it can be seen in Figure 3.1, we can conclude that there is a positive though weak linear relationship between the internal control system and the perceptions of the quality of financial reporting of NGOs in Nairobi County in Kenya. Thus, the linearity assumption was fulfilled and, therefore, qualified the data sets of the internal control system and the quality financial reporting to be used for multiple linear regression analysis. Besides that, the scatter plot showing the relationship between the internal audit function and the quality of financial reporting of NGOs in Nairobi County, Kenya, was presented in Figure 3.2 on the next page.

**Figure 3. 2: Relationship between Internal Audit Function and the Perceptions of the Quality of Financial Reporting of NGOs in Nairobi County, Kenya**

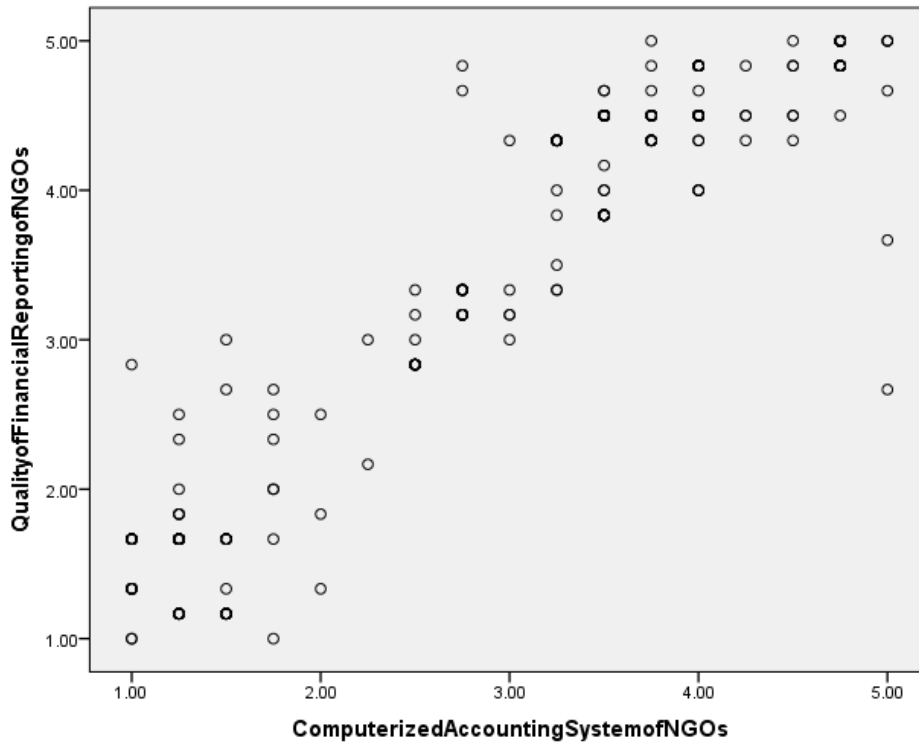


Source: Researcher (2022)



As it can be seen in Figure 3.2 we can conclude that there is a positive though moderate linear relationship between the internal audit function and the perceptions of the quality of financial reporting of NGOs in Nairobi County in Kenya. Thus, the linearity assumption was fulfilled and, therefore, qualified the data sets of the internal audit function and the quality financial reporting to be used for multiple linear regression analysis. Besides that, the scatter plot showing the relationship between the computerized accounting system and the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya, was presented in Figure 3.3 on the next page.

**Figure 3. 3: Relationship between Computerized Accounting System and the Perceptions of the Quality of Financial Reporting of NGOs in Nairobi County, Kenya**



**Source: Researcher (2022)**

As it can be seen in Figure 3.3, we can conclude that there is a positive and fairly strong linear relationship between the computerized accounting system and the perceptions of the quality of financial reporting of NGOs in Nairobi County in Kenya. Thus, the linearity assumption was fulfilled and, therefore, qualified the data sets of the computerized accounting system and the perceptions of the quality financial reporting to be used for multiple linear regression analysis.

Another assumption that must be met is that the predictor variables should be independent of each other. Thus, there should be no cases of serious multicollinearity (Waswa et al., 2018). Collinearity diagnostic tests involving the tolerance and Variance Inflation Factor (VIF) coefficients were used (Waswa et al., 2018), whereby a variable has to post a minimum tolerance figure of 0.1 and a VIF value ranging between 1 and 5 to indicate no serious case of Multicollinearity (Kim, 2018). The

Collinearity diagnostic test results based on the analysis of the data obtained from the main data collection exercise were presented in Table 3.13 on the next page.

**Table 3. 8: Collinearity Diagnostic Test Results**

Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
Internal Control System	0.244	4.092
Internal Audit Function	0.202	4.959
Computerized Accounting System	0.236	4.239

a. Dependent Variable: Perceptions of the Quality of Financial Reporting

**Source: Researcher (2022)**

Stemming from Table 3.13, we observe that the internal control system, internal audit function, and computerized accounting system displayed tolerance figures of 0.244, 0.202, and 0.236, respectively, which surpassed the benchmark figure of 0.1. Moreover, the internal control system, the internal audit function, and the computerized accounting system displayed VIF figures of 4.092, 4.959, and 4.239, respectively, which fell between the benchmark figures of 1 and 5. Therefore, we can conclude that there were no cases of serious Multicollinearity among the three independent variables. This meant that the independent variables were truly as sovereign as they were meant to be.

Finally, the residuals have to be autonomous from each other before a multiple linear regression model can be applied for analysis (Field, 2013). The Durbin Watson test was used to assess the independence assumption whereby a value that is more than one and close to 2 denoted that the residuals are not correlated with each other (Field, 2013). The Durbin Watson test results are displayed in Table 3.14 below.

**Table 3. 9: Durbin-Watson Test Results**

Model	Durbin-Watson
2	2.037

b. Predictors: (Constant), Computerized Accounting System, Internal Control System, Internal Audit Function, NGO Age, NGO Size

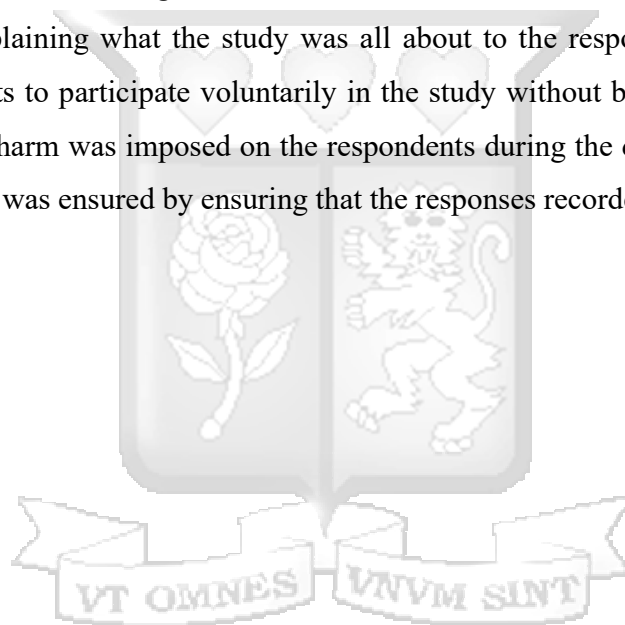
c. Dependent Variable: Perceptions of the Quality of Financial Reporting

**Source: Researcher (2022)**

Judging from the findings presented in Table 3.14, there was actually no serious case of correlation among the residuals since the Durbin-Watson figure of 2.037 was still close to 2. Therefore, the independence assumption was adhered to, thus, making the datasets of all the study variables suitable for multiple linear regression analysis.

### **3.9 Ethical Considerations**

The research permit letter obtained from NACOSTI was used to prove that this is truly an academic research study that convinced the respondents to record their responses to the questionnaires that were given to them. This research proposal was honestly produced, and integrity was upheld by paraphrasing, citing, and referencing the sources that the researcher reviewed. Informed consent was adhered to by explaining what the study was all about to the respondents. The researcher allowed the respondents to participate voluntarily in the study without being pressured. Besides that, no psychological harm was imposed on the respondents during the data collection exercise. Finally, confidentiality was ensured by ensuring that the responses recorded were anonymous and no one was profiled.



## CHAPTER FOUR

### PRESENTATION OF RESEARCH FINDINGS AND DISCUSSIONS

#### 4.1 Introduction

This chapter presented the findings of both descriptive and regression analyses based on the data obtained from the field and processed with the SPSS software. The results were discussed in line with addressing the four specific objectives of the study.

This chapter was organized based on the following sections; the first one discussed the response rate the study was able to achieve. The second section presented the demographic results. The third section discussed the descriptive results that reported the perceived state of the internal control system, the internal audit department, the computerized accounting system, and the perceptions of the quality of financial reporting of the NGOs in Nairobi County. The fourth and final section reported the regression analysis findings in line with each specific objective in detail.

#### 4.2 Response Rate

The researcher managed to convince 300 respondents to fill the questionnaires dully. Thus she was able to retrieve 300 out of the 408 questionnaires. This represented a response rate of 73.5%. Fincham (2008) posited that researchers who aspire to achieve a minimum response rate of 60% for the data seeking to address a particular phenomenon should be considered adequate for inferences to be made. Therefore, the response rate of 73.5% that this study was able to achieve was satisfactory for inferences to be made. The non-response rate of 26.5% involved the respondents who participated in the pilot exercise that were not allowed to partake in the primary data collection exercise as a move to curb any form of biasness; it also involved those who refused to participate since they feared that the aspects of the study objects were highly sensitive.

#### 4.3 Demographic Findings

Table 4.1, which has been presented below, shows the demographic results of the study with reference to gender, job position, education qualification, certificate qualification and work experience of the respondents. It also shows the findings of the age and size of the NGOs studied, which helped address the fourth specific objective of the study.

**Table 4. 1: Demographic Findings**

Demographic Statistics		Frequency	Percentage (%)
Gender	Male	187	62.3
	Female	113	37.7
Job Position	Finance Director	100	33.3
	Public/Governmental External Auditor	61	20.3
Education Qualification	Private External Auditor	139	46.3
	Bachelor Degree	107	35.7
	Higher Diploma	39	13.0
	Master Degree	127	42.3
Certificate Qualification	PhD/Doctorate Degree	27	9.0
	CPA	172	57.3
	ACCA	75	25.0
	CIA	23	7.7
	CISA	17	5.7
	CIFA	5	1.7
Work Experience	CFA	8	2.7
	Less than 1 year	43	14.3
	1-5 years	27	9.0
	6-9 years	127	42.3
NGO Size	More than 10 years	103	34.3
	Less than 50 employees	65	21.7
	50-100 employees	64	21.3
	100-500 employees	15	5.0
	500-1000 employees	14	4.7
NGO Age	More than 1000 employees	142	47.3
	Less than 5 years	65	21.7
	5-10 years	56	18.7
	10-15 years	24	8.0
	15-20 years	24	8.0
	More than 20 years	131	43.7

**Source: Researcher (2022)**

Based on the statistical evidence provided in Table 4.1 above, 62.3% of the responses were made by male while only 37.7% were made by female.

This means that the top management of NGOs and the external auditors working in the Office of the Auditor-General and KPMG are dominated by men in Kenya. With reference to the job position. 33.3% of the respondents were Finance Directors working and managing the NGOs, while 20.3% were Public/Governmental External Auditors working at the Office of the Auditor General while 46.3% were Private External Auditors working in KPMG, Kenya who had audited

NGOs in Nairobi County, Kenya. The response rate of the Private External Auditors was quite high since their initial sample size was greater and on ground they were more willing to partake in the study compared to the Finance Directors managing NGOs, whereby, some refused to partake in the study since they felt the study was sensitive.

With reference to education qualification, it was noted that most of the respondents had a Master Degree standing at 51.3% followed by those who only had a Bachelor's Degree at 35.7%. This meant that most of the Finance Directors managing the NGOs and the external auditors possessed good educational backgrounds that enabled them to be aware of the phenomenon being studied.

With reference to the certificate qualification being possessed by the respondents, it was noted that most of them were CPA holders accounting for 57.3% of the total responses, followed by 25% who were ACCA holders. Given the fact that both the Finance Directors and the external auditors possess a CPA/ACCA qualification, it means that the responses retrieved were based on people who were knowledgeable in financial accounting such as the quality of financial reporting, internal audit function, internal control system and computerized accounting system.

The findings also observed that most of the respondents had 6 to 9 years of work experience, standing at 42.3% followed by those who had more than ten years of work experience, standing at 34.3%. This meant that the Finance Directors have adequate practical experience in being involved in the preparation of financial reports and are aware of what makes a financial report of good quality. It also meant that they have practical knowledge of managing internal control systems, internal audit functions, and computerized accounting systems. It also meant that the external auditors have adequate experience of verifying the quality of financial reports and thus, have adequate knowledge on the level of quality of financial reports in most sectors in Kenya, especially with regard to NGOs.

The study observed that most of the NGOs in Nairobi County are big since 47.3% have more than 1000 employees. On the other hand, with reference to NGO age, most of the NGOs, accounting for 43.7% of the total responses, have been in existence for more than 20 years, followed by 21.7% that have been in existence in less than five years and 18.7% that have been in existence for 5 to 10 years since they were registered.

#### 4.4 Descriptive Results

The descriptive results based on the data processed through SPSS that involved the application of statistical tools limited to mean scores and standard deviations are reported in the following subsections. The results describe the perceived status and level of the internal control system, internal audit function, computerized accounting system, and the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya. The data for analysis for each particular variable was obtained from the Likert scale of measurement that numerically coded the five levels of agreement used.

##### 4.4.1 Internal Control Systems in NGOs at Nairobi County, Kenya

The descriptive statistics describing the perceived present status and level of adoption of the internal control systems in NGOs in Nairobi County, Kenya are presented in Table 4.2 below.

**Table 4. 2: Descriptive Results of the Internal Control Systems in NGOs at Nairobi County, Kenya**

No.	Statement	Mean	Standard Deviation
1.	Your NGO / NGOs adopt(s) proper information and communication techniques involving identifying, recording, and communicating the relevant financial information in a suitable fashion within a particular timeframe.	3.380	1.712
2.	Your NGO / NGOs conduct(s) monitoring aimed at determining how effective the internal control systems are in terms of functionality and design.	3.347	1.598
3.	Your NGO / NGOs frequently conduct(s) control activities such as reconciliation, business performance reviews, verification, and authorization approvals.	3.103	1.363
4.	Your NGO / NGOs attract(s) and preserves skilled employees.	3.097	1.597
5.	Your NGO / NGOs usually identifies and carefully analyzes the relevant risks and how they have to be managed appropriately.	3.067	1.557
6.	Your NGO / NGOs provide(s) incentives to boost accountability.	2.923	1.536
7.	The board carries out its oversight responsibilities on the management in Kenyan NGOs.	2.913	1.499
8.	Your NGO / NGOs has (have) developed and adopted policies and procedures that assist with implementing the management directives.	2.747	1.457
<b>Overall Mean Score</b>		<b>3.072</b>	<b>1.540</b>

Source: Researcher (2022)

The findings noted that most of the respondents moderately agreed (Mean = 3.380; Standard Deviation = 1.712) that the NGOs adopt proper information and communication techniques involving identifying, recording, and communicating the relevant financial information in a suitable fashion within a particular timeframe.

Besides that, they moderately agreed (Mean = 3.347; Standard Deviation = 1.598) that NGOs conduct monitoring aimed at determining how effective the internal control systems are in terms of functionality and design.

The respondents also moderately agreed (Mean = 3.103; Standard Deviation = 1.363) that the NGOs frequently conduct control activities such as reconciliation, business performance reviews, verification, and authorization approvals. They also moderately agreed (Mean = 3.097; Standard Deviation = 1.597) that their NGOs attract and retain skilled employees. Finally, the respondents moderately agreed (Mean = 3.067; Standard Deviation = 1.557) that the NGOs usually identify and carefully analyze the relevant risks and how they must be managed appropriately.

On the other hand, most respondents disagreed (Mean = 2.923; Standard Deviation = 1.536) that their NGO provides incentives to boost accountability. Besides that, most of them did not also agree (Mean = 2.913; Standard Deviation = 1.499) that the board carries out its oversight responsibilities on the management of Kenyan NGOs. Finally, most of the respondents did not agree (Mean = 2.747; Standard Deviation = 1.457) that their NGOs have developed and adopted policies and procedures that assist in implementing management directives.

#### 4.4.2 Internal Audit Function in NGOs at Nairobi County, Kenya

The descriptive statistics describing the perceived present status and level of adoption of the internal audit function in NGOs in Nairobi County, Kenya, was presented in Table 4.3 on the next page.

**Table 4. 3: Descriptive Results of the Internal Audit Function in NGOs at Nairobi County, Kenya**

No.	Statement	Mean	Standard Deviation
1.	Internal auditors of Kenyan NGOs possess sufficient knowledge of the NGO 's internal control systems, which help identify and minimize fraud risk areas.	3.473	1.618

2.	Internal auditors of Kenyan NGOs ensure that the accountants in the NGO strictly adhere to the financial reporting rules.	3.457	1.646
3.	Internal auditors of Kenyan NGOs are self-disciplined.	3.457	1.689
4.	Internal auditors of Kenyan NGOs possess adequate, relevant professional qualifications and sufficient auditing experience to boost their auditing process proficiency.	3.427	1.514
5.	Internal auditors of Kenyan NGOs are assertive.	3.357	1.533
6.	Internal auditors of Kenyan NGOs are very innovative.	3.260	1.584
7.	Internal auditors of Kenyan NGOs are open to change.	3.160	1.454
8.	Internal auditors of Kenyan NGOs are very confident.	2.973	1.390
9.	Internal auditors of the Kenyan NGOs are independent of managerial influence when performing the auditing duties.	2.930	1.465
10.	Due professional care is applied when carrying out the audit process.	2.833	1.454
<b>Overall Mean Score</b>		<b>3.233</b>	<b>1.535</b>

**Source: Researcher (2022)**

The results portrayed in Table 4.3 observed that most of the respondents moderately agreed that (Mean = 3.473; Standard Deviation = 1.618) the internal auditors of Kenyan NGOs possess sufficient knowledge of the NGO 's internal control systems, which helps in identifying and minimizing fraud risk areas.

Moreover, the respondents moderately agreed that (Mean = 3.457; Standard Deviation = 1.646) the internal auditors of Kenyan NGOs ensure that the accountants in the strictly adhere to the financial reporting rules. Besides that, they moderately agreed that (Mean = 3.457; Standard Deviation = 1.689) the internal auditors of Kenyan NGOs are self-disciplined in their profession. Furthermore, they moderately agreed that (Mean = 3.427; Standard Deviation = 1.514) the internal auditors of Kenyan NGOs possess adequate, relevant professional qualifications and sufficient auditing experience to boost their auditing process proficiency. It was also observed that most of the respondents moderately agreed that the internal auditors of Kenyan NGOs are assertive, innovative, and open to change, justified by mean scores of 3.357, 3.260, and 3.160, respectively, with standard deviations of 1.533, 1584, and 1.454, respectively.

However, it was noted that most of the respondents disagreed that the internal auditors of Kenyan NGOs are very confident and are independent of managerial influence when performing their auditing duties. This was justified by mean scores of 2.973 and 2.930, respectively, with a standard deviation of 1.390 and 1.465.

#### 4.4.3 Computerized Accounting Systems in NGOs at Nairobi County, Kenya

The descriptive statistics describing the perceived present status and the level of adoption of the computerized accounting systems in NGOs in Nairobi County, Kenya, was presented in Table 4.4 below.

**Table 4. 4: Descriptive Results of the Computerized Accounting Systems in NGOs at Nairobi County, Kenya**

No.	Statement	Mean	Standard Deviation
1.	Computerized accounting systems produce accurate and timely financial transactions besides securing the accounting information.	3.087	1.275
2.	Computerized accounting systems are faster in record keeping and provide real-time financial information.	3.087	1.461
3.	Computerized accounting systems save on money and resources.	3.000	1.369
4.	Your NGO uses QuickBooks and SAGE to process and store accounting information.	2.710	1.339
<b>Overall Mean Score</b>		<b>2.971</b>	<b>1.361</b>

**Source: Researcher (2022)**

The research results based on the presentation made in Table 4.4 above, it was observed that most of the respondents moderately agreed that computerized accounting systems produce accurate and timely financial transactions besides securing the accounting information. This was justified by a mean of 3.087 and a standard deviation of 1.275.

Besides that, most of the respondents moderately agreed that computerized accounting systems are faster in record keeping and provide real-time financial information. This was justified by a mean of 3.087 and a standard deviation of 1.461. Finally, most of the respondents moderately agreed that computerized accounting systems save on money and resources. This was justified by a mean of 3.000 and a standard deviation of 1.369. Interestingly most of the respondents disagreed that the NGOs use QuickBooks and SAGE to process and store accounting information. This means that the NGO sector in Kenya has not adequately embraced the implementation of a computerized accounting system with reference to SAGE and QuickBooks to manage their accounting transactions and the creation of financial reports.

#### 4.4.4 Perceptions of the Quality of Financial Reporting of NGOs in Nairobi County, Kenya

The descriptive statistics describing the perceived present status and the level of the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya, was presented in Table 4.5 below.

**Table 4. 5: Descriptive Results of the Perceptions of the Quality of Financial Reporting of NGOs in Nairobi County, Kenya**

No.	Statement	Mean	Standard Deviation
1.	The financial reports are usually produced on time and readily available to the stakeholders to make their decisions.	3.747	1.439
2.	The financial reports are produced faithfully and represent the economic attribute they claim to signify.	3.707	1.452
3.	The financial reports are usually relevant, whereby their inputs can be utilized to forecast future results.	3.597	1.475
4.	The financial information in the financial reports can be easily verified.	3.570	1.490
5.	The financial reports are easily understood.	3.087	1.467
6.	The financial reports are comparable to the financial information of other NGOs.	2.910	1.367
<b>Overall Mean Score</b>		<b>3.436</b>	<b>1.448</b>

**Source: Researcher (2022)**

The results, as they have been revealed in Table 4.5, indicated that most of the respondents agreed that the financial reports in the NGO sector are usually produced on time and readily available to the stakeholders to make their decisions. This was justified by a mean of 3.747 and a standard deviation of 1.439.

Besides that, the respondents agreed that the financial reports are produced faithfully and they represent the economic attribute that they claim to signify. This was justified by a mean of 3.707 and a standard deviation of 1.452. Moreover, the respondents agreed that the financial reports are usually relevant, whereby their inputs can be utilized to forecast future results. This was justified by a mean of 3.597 and a standard deviation of 1.475.

Aside from that, the respondents agreed that the financial information in the financial reports produced by the NGOs can be easily verified. This was justified by a mean of 3.570 and a standard deviation of 1.490. The respondents moderately agreed that the financial reports produced by the

NGOs are easily understood. This was justified by a mean of 3.087 and a standard deviation of 1.467. Interestingly, most of the respondents disagreed that the financial reports are comparable to the financial information of other NGOs. This was justified by a mean of 2.910 and a standard deviation of 1.367.

#### **4.6. Compliance of Financial Statements with the IFRS Disclosure Requirements**

The researcher used the Deloitte IFRS index 2021 to establish the level of compliance of the sampled 35 NGOs financial statements for the financial year 2021 with the disclosure requirements of the IFRS using a disclosure index. The Financial Directors of the companies requested for confidentiality to be upheld hence the NGO names were coded. All the 35 NGOs were compliant with all the IFRS requirements based on the checklist and were audited by Auditors registered under the Institute of Certified Public Accountants of Kenya (ICPAK) as mandated by the NGO Coordination Board.

The independent auditors' report to the trustees / board of directors for all the 35 financial reports of the big NGOs stated that the accompanying financial statements gave a true and fair view of the financial position in accordance with IFRS.

For instance, the International Livestock Research Institute (ILRI) 2021 independent auditor's report to the trustees confirmed that the NGO had a consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cashflows, consolidated statement changes in net assets, the notes to the financial statements and an overview of significant accounting policies according to the IFRS standards (International Livestock Research Institute, 2021).

Moreover, the independent auditor's report to the trustees stated the financial statements produced by ILRI as at 31<sup>st</sup> December 2021 stated the financial statements provided a true and fair view of the financial position in accordance with IFRS (International Livestock Research Institute, 2021). Therefore, corroborated the primary data results indicating that ILRI's financial statements were timely, faithful, relevant, verifiable, comparable and understandable. Hence, the perceptions of the quality of financial reporting was achieved by the NGO.

In addition, the World Vision Kenya's independent auditor's report to the board of directors for the financial statements as at 30<sup>th</sup> September 2021 stated the financial statements presented a true

and fair view of the financial position of World Vision Kenya in all material respects and in accordance with the IFRS (World Vision Kenya, 2021). Thus corroborated the primary data results indicating that World Vision Kenya's financial statements were timely, faithful, relevant, verifiable, comparable and understandable. Hence, the perceptions of the quality of financial reporting were achieved by the NGO.

Also, the independent auditors' report to the board of directors concerning the financial statements of Plan International for the year ended 30<sup>th</sup> June 2021 indicated that they had been properly prepared in line with the accounting policies and IFRS standards in all material respects (Plan International, 2021). Thus corroborated the primary data results that indicated that the perceptions of the quality of financial reports prepared by the Kenyan NGO are timely, faithful, relevant, verifiable, comparable and understandable.

The independent auditors' report of Amref Health Africa, indicated that the NGO had reported its financial statements as at 31<sup>st</sup> December 2021 transparently and fairly in all material respects in line with IFRS (Amref Health Africa, 2021). Therefore, the findings corroborated the primary data results that indicated that the perceptions of the quality of financial reports prepared by the Kenyan NGO are timely, faithful, relevant, verifiable, comparable and understandable.

The Islamic Relief Worldwide independent auditors' report, indicated that the NGO had reported its financial statements as at 31<sup>st</sup> December 2021 transparently and fairly in all material respects in line with IFRS (Islamic Relief Worldwide, 2021). Therefore, the findings corroborated the primary data results that indicated that the perceptions of the quality of financial reports prepared by the Kenyan NGO are timely, faithful, relevant, verifiable, comparable and understandable.

#### 4.6 Multiple Linear Regression Analysis Results

The regression analysis results sought to establish the influence of the internal control system, internal audit department, and computerized accounting system on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya, were presented in Table 4.6 in the next page.

The results portrayed in Table 4.6, denoting the model summary results, posted an R-value of 0.954. This meant that 95.4% of the entire data were explained by the regression model, thus indicating that the regression model had a very high prediction power.

Moreover, the R-Square value of 0.911 denoted that 91.1% variance in the perceptions of the quality of financial reporting of NGOs was statistically explained by the internal control systems, internal audit function, and computerized accounting systems. Additionally, the R-Square value of 0.915 denoted that 91.5% variance in the perceptions of the quality of financial reporting was not only explained by the three aforementioned variables but by the NGO size and NGO age, which were the control variables of the study. This meant that NGO age and NGO size only accounted for 0.4% variance in the perceptions of the quality of financial reporting of NGOs in Nairobi County.

Moreover, the regression results posted standard error values of 0.40629 in the first model and 0.39866 in the second model. The error values were very low; this means that the data of all the study variables were very close to the regression line, thus showing that the regression model had a strong predictive strength.

91.1% variance in the perceptions of the quality of financial reporting based on the ANOVA results in Table 4.6 were significantly explained by the internal control system, internal audit function, and computerized accounting system. This was because the  $p$ -value in Model 1 in the ANOVA table was 0.000<sup>b</sup> which was less than the benchmark figure of 0.05. Moreover, the 91.5% variance in the perceptions of quality of financial reporting was not only significantly explained by the three aforementioned variables but by the NGO size and NGO age, which were the control variables of the study ( $p$ -value = 0.000<sup>c</sup> < 0.05).

The regression coefficients were used to show how each particular variable influenced the perceptions of the quality of financial reporting of the NGOs in Nairobi County, Kenya. The findings of the regression coefficient results are presented in the last part of Table 4.6.

**Table 4. 6: Model Summary Results**

Model Summary <sup>c</sup>						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	
1	.954 <sup>a</sup>	.911	.910	.40629		
2	.956 <sup>b</sup>	.915	.913	.39866	2.037	

a. Predictors: (Constant), Computerized Accounting of NGO, Internal Control System of NGO, Internal Audit of NGO  
b. Predictors: (Constant), Computerized Accounting of NGO, Internal Control System of NGO, Internal Audit of NGO, NGO Age, NGO Size  
c. Dependent Variable: Perceptions of the Quality of Financial Reporting of an NGO

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	497.886	3	165.962	1005.380	.000 <sup>b</sup>
	Residual	48.862	296	.165		
	Total	546.748	299			
2	Regression	500.022	5	100.004	629.237	.000 <sup>c</sup>
	Residual	46.725	294	.159		
	Total	546.748	299			

a. Dependent Variable: Perceptions of the Quality of Financial Reporting of NGO  
b. Predictors: (Constant), Computerized Accounting of NGO, Internal Control System of NGO, Internal Audit of NGO  
c. Predictors: (Constant), Computerized Accounting of NGO, Internal Control System of NGO, Internal Audit of NGO, NGO Age, NGO Size

**Coefficients<sup>a</sup>**

**Table 4.8: Regression Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
		B	Std. Error			
1	(Constant)	.293	.062		4.701	.000
	Internal Control System of NGO	.090	.034	.093	2.655	.008
	Internal Audit of NGO	.218	.038	.219	5.664	.000
	Computerized Accounting of NGO	.728	.038	.679	18.970	.000
	NGO Size	-.088	.034	-.111	-2.559	.011
	NGO Age	.115	.033	.142	3.460	.001

a. Dependent Variable: Perceptions of the Quality of Financial Reporting of NGO

**Source: Researcher (2022)**

The regression coefficients presented in Table 4.8 above helped the researcher to develop the following regression model;

$$Y = 0.293 + 0.090\text{Int} + 0.218\text{Audit} + 0.728\text{Comp} - 0.088\text{Size} + 0.115\text{Age}$$

Whereby; Y is the dependent variable denoting the level of the perceptions of the quality of the financial reporting. Int is the internal control system, Audit is the internal audit function, and Comp is the computerized accounting system. While Size is the control variable denoting NGO size and Age is the NGO age.

The constant figure of 0.293 meant that the absence of internal control system, internal audit, and computerized accounting system would significantly bring down the level of quality of financial reporting of the NGOs in Nairobi County to 0.293, which is considerably low ( $p\text{-value} = 0.000 < 0.05$ ).

#### **4.6.1 Influence of Internal Control System on the Perceptions of the Quality of Financial Reporting of NGOs in Nairobi County, Kenya**

The unstandardized beta coefficient of the internal control system, which was 0.090 was used to address the first specific objective of the study. This is considering the fact that the first specific objective sought to establish the influence of an internal control system on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya.

The findings meant that internal control system significantly improve the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya by 9% ( $\beta = 0.090$ ;  $p\text{-value} = 0.008 < 0.05$ ). This meant that the adoption of proper information and communication techniques, conducting monitoring programmes, and frequently conducting control activities such as reconciliation, verification, and authorization approvals will improve the perceptions of the quality of financial reporting of the NGOs in Nairobi County, Kenya.

Therefore, in line with the legitimacy theory, it can be confirmed that the adoption of an effective internal control system will improve the perceptions of the quality of the NGOs' financial reporting in order for them to be considered legitimate and continue receiving donor funding for their sustainability. The study concurred with Afiah and Azwari (2015) based on the study conducted in South Sumatra that implementing internal control systems involving communication,

monitoring, and control activities boosts the perceptions of the quality of financial reporting. The findings were also congruent with the observations made by Altamuro and Beatty (2010) that internal control systems consisting of close monitoring of business operations improve the perceptions of the quality of financial reporting.

Close monitoring aimed at determining how effective the internal control systems are in functionality can help identify the existing gaps and corrective actions to be taken, leading to the production of the perceptions of quality financial reports (Association of Accountancy Bodies in West Africa 2009). Interestingly, the research findings were inconsistent with Rafindadi and Olanrewaju (2019) with specific reference to monitoring activities by establishing that it had an insignificant impact on the perceptions of the quality of financial reporting of NGOs in Nigeria. Aside from that, the findings of the study concurred with Wittayapoom and Limsuwan (2012), who observed that internal control systems significantly increase the reliability of financial reporting of Thai-listed companies. Weak internal control systems considerably water down the reliability of financial statements (Hevesi, 2005). Developing and preserving an entity's internal control system will help the entity achieve accountability in its operations, thus boosting its reputation and performance (Spitzer, 2005).

Finally, the findings were consistent with the research outcomes of Ajao and Oluwadamilola (2020) together with Rafindadi and Olanrewaju (2019), who observed that control activities and effective information and communication systems boost the perceptions of the quality of financial reporting of insurance firms and NGOs in Nigeria. The adoption of proper information and communication techniques involving identifying, recording, and appropriately communicating the relevant financial information within a particular timeframe significantly boosts the quality of financial reporting (Colbert & Aldridge, 1994). Control activities involve reconciliations, business performance reviews, verification, and authorization approvals and provide incentives to boost accountability, leading to the production of quality financial reports (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

#### **4.6.2 Influence of Internal Audit Department on the Perceptions of the Quality of Financial Reporting of NGOs in Nairobi County, Kenya**

The unstandardized beta coefficient of the internal audit department, which was 0.218, was used to address the second specific objective of the study. This is considering the fact that the second specific objective sought to establish the influence of an internal audit department on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya. The findings meant that the internal audit department significantly improve the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya by 21.8% ( $\beta = 0.218$ ;  $p$ -value =  $0.000 < 0.05$ ). The findings meant that the internal auditors working the NGOs possessed enough knowledge of the NGO's internal control systems, strictly ensure that the accountants adhere to financial reporting rules, are self-disciplined, assertive, innovative, and open to change which considerably improved the perceptions of the quality of financial reporting of NGOs in Nairobi County.

Interestingly, the research findings disagreed with Novita et al. (2017) and Al-Shetwi et al. (2011), who observed that the internal audit attributes involving possessing sufficient financial audit knowledge gained from experience and professional skills obtained do not significantly boost the perceptions of the quality of financial reporting in Indonesian State Universities and Saudi Arabia. Al-Shetwi et al. (2011) argued that rules should be formulated to strengthen the internal audit function and that financial experts should provide enough relevant support to the internal audits to realize the perceptions of the quality of financial reporting.

However, the findings of this study were the same as the observations made by Albawwat et al. (2021) that the auditor's personality aspects, such as being innovative, being open to change, and being assertive, boosts the perceptions of the quality of financial reporting of firms listed at the Amman Stock Exchange in Jordan.

The findings also concurred with Abdulai et al. (2021) together with Ebimobowei and Kereotu (2011), who observed that a high level of competency in an internal audit department would make the internal auditors ensure that accountants in the NGO strictly adhere to the financial reporting rules, which will make them to easily identify hidden mistakes and fraud risk areas in the financial statements to be corrected thus improving the perceptions of the quality of financial reporting.

The findings also indirectly coincided with the findings of Alzeban (2018), who observed that financial reporting quality perceptions would deteriorate when the competency and independence of the internal audit function is jeopardized through the CEO being involved in the appointment of the Chief Auditing Executive. Better financial reporting quality perceptions can only be realized when the internal audit function is sovereign and is not interfered with by the top management (Christ, Masli, Sharp & Wood, 2015; Prawit et al., 2009).

#### **4.6.3 Influence of Computerized Accounting System on the Perceptions of the Quality of Financial Reporting of NGOs in Nairobi County, Kenya**

The unstandardized beta coefficient of the computerized accounting system, which was 0.728, was used to address the third specific objective of the study. This is considering the fact that the third specific objective actually sought to establish the influence of a computerized accounting system on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya.

The findings meant that computerized accounting system significantly improve the quality of financial reporting of NGOs in Nairobi County, Kenya, by 72.8% ( $\beta = 0.728$ ;  $p\text{-value} = 0.000 < 0.05$ ). This meant that the adoption of computerized accounting systems such as QuickBooks and SAGE that produces accurate and timely financial transactions besides securing the accounting information consequently boosts the level of the perceptions of the quality of financial reporting of the NGOs in Nairobi County, Kenya.

Therefore, in line with the legitimacy theory, it can be confirmed that the adoption of a computerized accounting system will lead to the improvement of the perceptions of the quality of the NGOs' financial reporting in order for them to be considered legitimate and continue receiving donor funding for their sustainability. The findings disagreed with Sugut (2014), who had also steered a study in the Kenyan NGO sector that computerized accounting system does not significantly boost the perceptions of the quality of financial reporting.

Thus, it has become essential for NGOs, especially in Kenya, to fully embrace a computerized accounting system to process their financial transactions since it boosts the perceptions of the quality of financial reporting. It must also be noted that the findings observed that the impact the computerized accounting system has on the perceptions of the quality of financial reporting of

NGOs is more significant when compared to the internal control system and the internal audit function.

A computerized accounting system has become essential in managing the internal control systems of most organizations (Teru et al., 2017). The primary purpose of a computerized accounting system is to collect and record data and information concerning the economic affairs of the firm (Yang et al., 2011). The perceptions of the quality of accounting information can be enhanced by adopting computerized accounting systems since they provide reliable information in a timely manner (Oladejo & Yinus, 2020). Additionally, they combine the relevant accounting principles required when recording, analyzing, and producing financial information for the stakeholders for decision-making (Oladejo & Yinus, 2020).

The study's findings concurred with Peprah and Amponsem (2021), which proved that computerized accounting systems improves the perceptions of the financial reporting practices of international NGOs in a substantial manner. Likewise, the findings also agreed with the research outcomes of Maureen (2019), who confirmed that a computerized accounting system considerably improves the perceptions of quality of financial reports of Uganda's National Water and Sewerage Corporation.

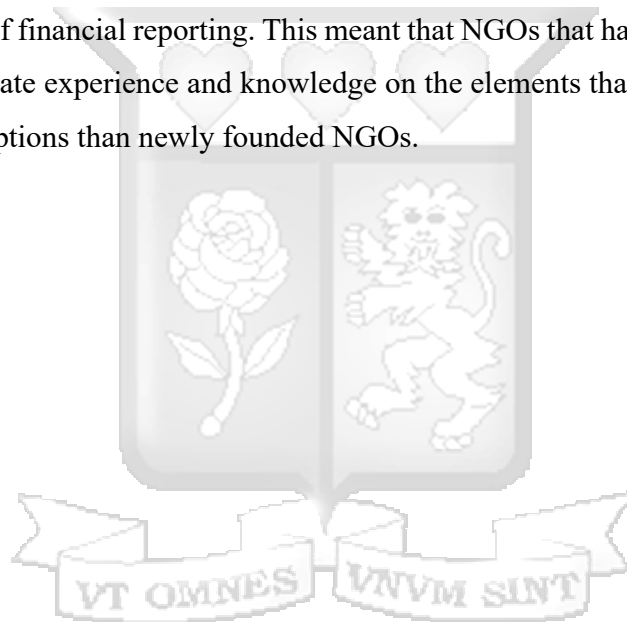
#### **4.6.4 Effects of NGO Size and NGO Age on the Relationship between the Factors and the perceptions of the Quality of Financial Reporting of NGOs in Nairobi County, Kenya**

The unstandardized beta coefficients of NGO size and NGO age of -0.088 and 0.115 were used to address the fourth specific objective of the study. This is considering that the fourth specific objective sought to establish the effects of NGO size and NGO age on the relationship between the factors and the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya.

The NGO size unstandardized beta coefficient of -0.088 meant that a unit increase in NGO size would significantly lower the perceptions of the quality of financial reporting by 8.8% in the NGO sector even with the implementation of effective internal control systems, internal audit functions, and computerized accounting system ( $p$ -value = 0.011 < 0.05). Since the bigger the organization, the greater the donor funding, which provides incentive for money to be misappropriated, negatively affecting the perceptions of the quality of financial reporting. Moreover, with

significant cash at hand, it can be used to influence employees responsible for the management of the internal control systems, internal audit function and the computerized accounting system. The study's findings agreed with Shahzad and Rehman (2019) and Oladejo and Yinus (2020), that an increase in NGO size decreases the level of the perceptions of financial reporting quality.

Besides that, the NGO age unstandardized figure of 0.115 meant that a unit increase of NGO age will considerably increase the level of the perceptions of quality of financial reporting of NGOs in Nairobi County by 11.5% even with the implementation of effective internal control systems, internal audit function and computerized accounting system ( $p$ -value = 0.001 < 0.05). The findings of the study concurred with Shahzad and Rehman (2019), who observed that an increase in NGO age boosts the quality of financial reporting. This meant that NGOs that have been in operation for a long time have adequate experience and knowledge on the elements that lead to better financial reporting quality perceptions than newly founded NGOs.



## CHAPTER FIVE

### SUMMARY OF DISCUSSIONS, CONCLUSIONS, AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter summarizes the discussion of the statistical findings the study was able to achieve with regard to establishing how internal control system, internal audit, computerized accounting, NGO size and NGO age influenced the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya. The chapter then goes ahead to discuss the conclusions that could be made from the interpreted research findings and the proposed recommendations that closes the chapter.

#### 5.2 Summary of Discussion of Findings

This section summarizes the discussion of findings in line with each specific objective.

##### 5.2.1 Influence of Internal Control System on the Perceptions of the Quality of Financial Reporting of NGOs in Nairobi County, Kenya

The first specific objective sought to establish the influence of an internal control system on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya. The objective was addressed by descriptive analysis involving mean and multiple linear regression analysis. The descriptive findings observed that the NGOs adopt proper information and communication techniques involving identifying, recording, and communicating the relevant financial information in a suitable fashion within a particular timeframe.

The findings also observed that the NGOs conduct monitoring to determine how effective the internal control systems are in terms of functionality and design. Moreover, the findings noted that

NGOs frequently conduct control activities such as reconciliation, business performance reviews, verification, and authorization approvals.

Finally the descriptive findings observed that the NGOs usually identify and carefully analyze the relevant risks and how they have to be managed appropriately. Also, the descriptive findings noted that NGOs do not provide incentives to their employees to boost their accountability. Besides that, the descriptive findings also observed that the board does not usually carry out its oversight responsibilities on the management of Kenyan NGOs. Finally, the descriptive results also observed that the NGOs do not usually develop and adopt guidelines that will assist in implementing management directives.

The regression analysis observed that the internal control system significantly improves the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya. Hence the adoption of proper information and communication techniques, conducting monitoring programmes and frequently conducting control activities such as reconciliation, verification and authorization approvals will improve the quality of financial reporting of the NGOs in Nairobi County, Kenya.

Therefore, in line with the legitimacy theory, it can be confirmed that the adoption of an effective internal control system will improve the perceptions of the quality of the NGOs' financial reporting in order for them to be considered legitimate and continue receiving donor funding for their sustainability. The study concurred with Afiah and Azwari (2015) based on the study conducted in South Sumatra that implementing internal control systems involving communication, monitoring, and control activities boosts the quality of financial reporting perceptions. The findings were also congruent with the observations made by Altamuro and Beatty (2010) that internal control systems consisting of close monitoring of business operations improve the quality of financial reporting perceptions.

Close monitoring aimed at determining how effective the internal control systems are in functionality can help identify the existing gaps and corrective actions to be taken, leading to the production of the of quality financial reports (Association of Accountancy Bodies in West Africa 2009).

Interestingly, the research findings were inconsistent with Rafindadi and Olanrewaju (2019) who made specific reference to monitoring activities by establishing that it had an insignificant impact on the quality of financial reporting perceptions of NGOs in Nigeria.

The findings of the study concurred with Wittayapoom and Limsuwan (2012), who observed that internal control systems significantly increase the reliability of financial reporting of Thai-listed companies. Weak internal control systems considerably water down the reliability of financial statements (Hevesi, 2005). Developing and preserving an entity's internal control system will help the entity achieve accountability in its operations, thus boosting its reputation and performance (Spitzer, 2005).

Finally, the findings were consistent with the research outcomes of Ajao and Oluwadamilola (2020) together with Rafindadi and Olanrewaju (2019), who observed that control activities and effective information and communication systems boost the quality of financial reporting perceptions of insurance firms and NGOs in Nigeria. The adoption of pertinent information and communication techniques involving identifying, recording, and appropriately communicating the relevant financial information within a particular timeframe significantly boosts the quality of financial reporting perceptions (Colbert & Aldridge, 1994). Control activities involve reconciliations, business performance reviews, verification, and authorization approvals provide incentives to boost accountability, leading to the production of the perceptions of quality financial reports (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

In line with the legitimacy theory, it can be established that the Kenyan NGOs are using internal control system as a legitimacy tool for boosting their perceptions of the quality of financial reporting in order to earn confidence from their current and potential donors. Based on the institutional theory, the study has observed that the NGOs have adopted the internal control systems to boost their level of perceptions of quality financial reporting as a result of other NGOs in other countries, private and public organizations doing the same thing. Therefore, both the legitimacy and institutional theories were relevant to the first objective.

### **5.2.2 Influence of Internal Audit Department on the Perceptions of the Quality of Financial Reporting of NGOs in Nairobi County, Kenya**

The second specific objective sought to establish the influence of an internal audit department on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya. The objective was addressed by descriptive analysis involving mean and multiple linear regression analysis.

The descriptive results observed that the internal auditors of Kenyan NGOs possess sufficient knowledge of the NGO 's internal control systems, which helps identify and minimize fraud risk areas. Moreover, the findings observed that the internal auditors of Kenyan NGOs strictly ensure that the accountants in the NGO adhere to the financial reporting rules in the auditing process. Besides that, the findings noted that the internal auditors of Kenyan NGOs possess adequate, relevant professional qualifications and sufficient auditing experience to boost their auditing process proficiency. Aside from that, the descriptive findings observed that the internal auditors of Kenyan NGOs are assertive, innovative, and open to change. However, the results observed that the internal auditors of Kenyan NGOs are not very confident and independent of managerial influence when performing their auditing duties.

The regression results observed that the internal audit department significantly improves the perceptions of the quality of financial reporting of NGOs in Nairobi County. The findings meant that the internal auditors possess enough knowledge of the NGO's internal control systems, strictly adhering to financial reporting rules, being self-disciplined, assertive, innovative, and open to change considerably improve the perceptions of the quality of financial reporting of NGOs in Nairobi County.

The research findings disagreed with Novita et al. (2017) and Al-Shetwi et al. (2011), who observed that the internal audit attributes involving possessing sufficient financial audit knowledge gained from experience and professional skills obtained do not significantly boost the quality of financial reporting perceptions in Indonesian State Universities and Saudi Arabia. Al-Shetwi et al. (2011) argued that rules should be formulated to strengthen the internal audit function and that financial experts should provide enough relevant support to the internal audits to realize quality financial reporting perceptions.

However, the findings of the study matched with the observations made by Albawwat et al. (2021) that the auditor's personality aspects, such as being innovative, being open to change, and being assertive, boosts the quality of financial reporting perceptions of firms listed at the Amman Stock Exchange in Jordan.

The findings also concurred with Abdulai et al. (2021) together with Ebimobowei and Kereotu (2011), who observed that a high level of competency in an internal audit department would make the internal auditors strictly ensure that the accountants in the NGO adhere to the financial reporting rules, which will make them to quickly identify hidden mistakes and fraud risk areas in the financial statements to be corrected thus improving the quality of financial reporting perceptions.

The findings also indirectly coincided with Alzeban (2018) findings which observed that financial reporting quality perceptions would deteriorate when the competency and independence of the internal audit function is jeopardized through the CEO being involved in the appointment of the Chief Auditing Executive. Better financial reporting quality perceptions can only be realized when the internal audit function is sovereign and is not interfered with by the top management (Christ, Masli, Sharp & Wood, 2015; Prawit et al., 2009).

In line with the legitimacy theory, it can be established that the Kenyan NGOs are using internal audit function as a legitimacy tool for boosting their quality of financial reporting perceptions to earn confidence from their current and potential donors. Based on the institutional theory, the study has observed that the NGOs have adopted internal audit unit to boost their level of perceptions of the quality of financial reporting as a result of other NGOs in other countries, private and public organizations doing the same thing. Therefore, both the legitimacy and institutional theories were relevant to the second specific objective of the study.

### **5.2.3 Influence of Computerized Accounting System on the Perceptions of the Quality of Financial Reporting of NGOs in Nairobi County, Kenya**

The third specific objective sought to establish the influence of a computerized accounting system on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya. The

objective was addressed by descriptive analysis involving mean and multiple linear regression analysis.

The descriptive results observed the computerized accounting systems produce accurate and timely financial transactions besides securing the accounting information in the NGO sector. Besides that, the findings observed that computerized accounting systems are faster in record keeping and provide real-time financial information. Finally, the results noted that computerized accounting systems save on money and resources. Interestingly, the descriptive findings observed that most NGOs do not use QuickBooks and SAGE to process and store accounting information. This means that the NGO sector in Kenya has not adequately implemented SAGE and QuickBooks computerized accounting system to manage their accounting transactions and the creation of financial reports.

The regression analysis results observed that a computerized accounting system significantly improves the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya. This meant that the adoption of computerized accounting systems such as QuickBooks and SAGE that produces accurate and timely financial transactions besides securing the accounting information consequently boosts the level of perceptions of the quality of financial reporting of the NGOs in Nairobi County, Kenya.

Therefore, in line with the legitimacy theory, it can be confirmed that the adoption of a computerized accounting system will improve the perceptions of the quality of the NGOs' financial reporting in order for them to be considered legitimate and continue receiving donor funding for their sustainability. The findings disagreed with Sugut (2014), who also steered a study in the Kenyan NGO sector that computerized accounting system does not significantly boost the quality of financial reporting perceptions.

Thus, it has become essential for NGOs, especially in Kenya, to fully embrace computerized accounting systems to process their financial transactions since it boosts the perceptions of the quality of financial reporting. It must also be noted that the findings observed that the computerized accounting system's impact on the perceptions of the quality of financial reporting of NGOs is more significant when compared to the internal control system and the internal audit function.

A computerized accounting system has become essential in managing the internal control systems of most organizations (Teru et al., 2017). The primary purpose of a computerized accounting system is to collect and record data and information concerning the economic affairs of the firm (Yang et al., 2011).

The quality of accounting information can be enhanced by adopting computerized accounting systems since they provide reliable information in a timely manner (Oladejo & Yinus, 2020). Additionally, they combine the relevant accounting principles required when recording, analyzing, and producing financial information to the stakeholders for decision-making (Oladejo & Yinus, 2020).

The study's findings concurred with Peprah and Amponsem (2021), which proved that computerized accounting systems momentarily boost the financial reporting practices of international NGOs. Likewise, the findings also agreed with the research outcomes of Maureen (2019), who confirmed that a computerized accounting system considerably improves the quality of financial reports perceptions of Uganda's National Water and Sewerage Corporation.

In line with the legitimacy theory, it can be established that the Kenyan NGO are using a computerized accounting system as a legitimacy tool for boosting their perceptions of the quality of financial reporting to earn confidence from their current and potential donors. Based on the institutional theory, the study has observed that the NGOs have adopted computerized accounting system to boost their perceptions of the level of quality of financial reporting as a result of other NGOs in other countries, private and public organizations doing the same thing. Consequently, both the legitimacy and institutional theories were relevant to the third specific objective of the study.

#### **5.2.4 Effects of NGO Size and NGO Age on the Relationship between the Factors and the Perceptions of the Quality of Financial Reporting of NGOs in Nairobi County, Kenya**

The fourth specific objective sought to establish the effects of NGO size and NGO age on the relationship between the factors and the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya.

The multiple linear regression model was used to address the objective. The findings observed that increase in NGO size significantly lowers the perceptions of the quality of financial reporting in the NGO sector even with the implementation of an effective internal control system, internal audit function, and computerized accounting system. Since the bigger the organization, the greater the donor funding, which provides an incentive for money to be misappropriated which negatively affects the quality of financial reporting. Moreover, with significant cash at hand, it can influence employees responsible for the management of the internal control systems, internal audit function and the computerized accounting system.

The study's findings agreed with Shahzad and Rehman (2019) and Oladejo and Yinus (2020) that an increase of firm size decreases the level of financial reporting quality perceptions.

Besides that, the regression analysis findings observed that NGO age considerably increases the perceptions of the quality of financial reporting of NGOs in Nairobi County even with the implementation of an effective internal control system, internal audit function, and computerized accounting system. The findings of the study concurred with Shahzad and Rehman (2019), who observed that an increase of firm age boosts the perceptions of the quality of financial reporting. This meant that organizations that have been in operation for a long time have adequate experience and knowledge on the elements that lead to better financial reporting quality perceptions than newly founded organizations.

### **5.3 Conclusions**

In line with the first specific objective of the study we can conclude that the effective implementation of the internal control systems involving the adoption of proper information and communication techniques, conducting monitoring and control activities such as reconciliations, verification and authorization approvals will improve the perceptions of the quality of financial reporting of the NGOs in Nairobi County, Kenya.

Besides that, in line with the second specific objective of the study we can conclude that the effective usage of the internal audit department involving the usage of internal auditors possessing enough knowledge of the NGO's internal control systems, strictly ensuring that the accountants in the NGOs adheres to financial reporting rules, being self-disciplined, assertive, innovative and

open to change considerably improves the perceptions of the quality of financial reporting of NGOs in Nairobi County.

Also, in line with the third specific objective of the study we can conclude that the adoption of the computerized accounting systems such as QuickBooks and SAGE that produce accurate and timely financial transactions besides securing the accounting information consequently boosts the perceptions of the level of quality of financial reporting of the NGOs in Nairobi County, Kenya. Even though at the present moment most of the NGOs have not fully embraced the usage of SAGE or QuickBooks computerized accounting systems.

Finally, in line with the fourth specific objective of the study, we conclude that NGO size negatively affects the perceptions of the quality of financial reporting of the NGOs while NGO age positively affects the perceptions of the quality of financial reporting of the NGOs.

## **5.4 Recommendations**

### **5.4.1 Policy Makers**

The findings of the study recommend for the policy formulators in the NGO sector to formulate appropriate regulations and standards encouraging to fully adopt the usage of computerized accounting systems in NGOs in Kenya. This is because a computerized accounting system has become essential in managing the internal control systems of most organizations. Moreover, they should also formulate policies that involve the employment of internal auditors with strong personality traits since they play an essential role in ensuring the production of quality financial reports.

### **5.4.2 Top Management of NGOs**

Also, the study recommends that the top management in the NGO sector to always see that they implement internal control systems involving the adoption of proper information and communication techniques, conducting monitoring and control activities such as reconciliation, verification and authorization approvals will improve the perceptions of the quality of financial reporting of the NGOs in Nairobi County, Kenya. The management should also set aside enough money they get from the donors to invest in a computerized accounting system since it plays an important role in boosting the perceptions of the quality of financial reporting of the NGOs.

This seeks to contribute to the financial accounting literature by establishing the influence of internal control system, internal audit department, and the computerized accounting system on the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya, and how NGO size and age controls the relationship.

### 5.4.3 Areas for Further Research

The study was limited to the context of the NGO sector. Therefore, a future researcher can use this study to extend the study to other contexts including the manufacturing, banking or insurance sectors in Nairobi County Kenya. Future studies can consider qualitative approaches such as interviews and focus group discussions to provide more in-depth information concerning the influence of the internal control system, internal audit department, and the computerized accounting system on the perceptions of the quality of financial reporting.

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## APPENDICES

### APPENDIX ONE: QUESTIONNAIRE

This questionnaire seeks to establish the factors influencing the perceptions of the quality of financial reporting of NGOs in Nairobi County, Kenya. The information provided will be kept confidential and only be used to academic purposes. Your participation in this study by responding to the question items in this questionnaire will be highly appreciated.

(Please tick  inside the box  where it is relevant)

#### SECTION A: DEMOGRAPHIC INFORMATION

1. Gender: Male  Female
2. Job Position: Country Director  Public/Governmental External Auditor   
Private External Auditor
3. Education Qualification: Bachelor Degree  Higher Diploma  Master Degree   
PhD/Doctorate Degree
4. Certificate Qualification: CPA  ACCA  CIA  CISA  CIFA   
CFA
5. Work experience: Less than 1 year  1-5 years  6-9 years   
More than 10 years
6. NGO size in terms of the total number of employees the NGO has: less than 50 employees   
50-100 employees  100-500 employees  500-1000 employees   
More than 1000 employees
7. NGO age in terms of the number of years the NGO has operated since its inception: Less  
than 5 years  5-10 years  10-15 years  15-20 years  
More than 20 years

#### SECTION B: IMPLEMENTATION OF INTERNAL CONTROL SYSTEMS IN NGOS

Indicate how you agree with the statements in the table below by ticking (√) in the applicable column. **Strongly Disagree: 1; Disagree: 2; Moderately Agree: 3; Agree: 4; Strongly Agree: 5**

No.	Statement	1	2	3	4	5
1.	Your NGO has/ NGOs have developed and adopted policies and procedures that assist with implementing the management directives.					
2.	Your NGO /NGOs frequently conduct(s) control activities such as reconciliation, business performance reviews, verification, and authorization approvals.					
3.	The board carries out its oversight responsibilities on the management in Kenyan NGOs.					
4.	Your NGO / NGOs attract(s) and preserve(s) skilled employees.					
5.	Your NGO / NGOs provide(s) incentives to boost accountability					
6.	Your NGO / NGOs usually identifies and carefully analyzes the relevant risks and how they have to be managed appropriately.					
7.	Your NGO / NGOs conducts monitoring aimed at determining how effective the internal control systems are in terms of functionality and design.					
8.	Your NGO / NGOs adopts proper information and communication techniques involving identifying, recording, and communicating the relevant financial information in a suitable fashion within a particular timeframe.					

### SECTION C: INTERNAL AUDIT IN NGOS

Indicate how you agree with the statements in the table below by ticking (√) in the applicable column.

No.	Statement	Strongly Disagree: 1	Disagree: 2	Moderately Agree: 3	Agree: 4	Strongly Agree: 5
1.	Due professional care is applied when carrying out the audit process.					
2.	Internal auditors of the Kenyan NGOs are independent of managerial influence when performing the auditing duties.					
3.	Internal auditors of Kenyan NGOs are very innovative.					
4.	Internal auditors of Kenyan NGOs are self-disciplined.					
5.	Internal auditors of Kenyan NGOs are very confident.					
6.	Internal auditors of Kenyan NGOs are open to change.					

7.	Internal auditors of Kenyan NGOs are assertive.					
8.	Internal auditors of Kenyan NGOs ensure that accountants in the NGOs adhere to the financial reporting rules”.					
9.	Internal auditors of Kenyan NGOs possess adequate, relevant professional qualifications and sufficient auditing experience to boost their auditing process proficiency.					
10.	Internal auditors of Kenyan NGOs possess sufficient knowledge of the firm's internal control systems, which help identify and minimize fraud risk areas.					

#### SECTION D: IMPLEMENTATION OF COMPUTERIZED ACCOUNTING SYTEMS IN NGOS

Indicate how you agree with the statements in the table below by ticking (√) in the applicable column.

No.	Statement	Strongly Disagree: 1	Disagree: 2	Moderately Agree: 3	Agree: 4	Strongly Agree: 5
1.	Your NGO / NGO(s) use(s) QuickBooks and SAGE to process and store accounting information.					
2.	Computerized accounting systems record accurate and timely financial transactions besides securing the accounting information.					
3.	Computerized accounting systems save on money and resources.					
4.	Computerized accounting systems are faster in record keeping and provide real-time financial information.					

#### SECTION E: PERCEPTIONS OF THE QUALITY OF FINANCIAL REPORTING OF NGOS IN KENYA

Indicate how you agree with the statements in the table below by ticking (√) in the applicable column.

No.	Statement	Strongly Disagree: 1	Disagree: 2	Moderately Agree: 3	Agree: 4	Strongly Agree: 5
1.	The financial reports produced faithfully represent the economic attribute that it claims to signify.					
2.	The financial reports are usually relevant, whereby its inputs can be utilized to forecast future results.					
3.	The financial reports are comparable to the financial information of other NGOs.					
4.	The financial reports are easily understood.					
5.	The financial reports are usually produced on time and readily available to the stakeholders to make their decisions.					
6.	The financial information in the financial reports can be easily verified.					

**YOUR FEEDBACK IS HIGHLY APPRECIATED; KINDLY CHECK IF YOU HAVE ANSWERED ALL THE QUESTION ITEMS**

#### APPENDIX TWO: LIST OF REGISTERED NGOs IN NAIROBI COUNTY

- 1 748 Air Services (K) Ltd.
- 2 ACROSS
- 3 Action Africa Help International
- 4 Action AID International Kenya
- 5 Adventist Development and Relief Agency International (Somalia Projects)
- 6 African Association for Public Administration and Management (AAPAM)
- 7 African Association for the Advancement of Science and Technology
- 8 African Association of Dermatology
- 9 African Association of Insect Scientists (AAIS)
- 10 African Braille Centre
- 11 African Centre for Research in the Arts (ACRA)
- 12 African Centre for Resources and Environment (ACRE)
- 13 African Centre for Technology Studies (ACTS)
- 14 African Clinical Epidemiology Network (AFRICLEN)
- 15 African Community Education Network
- 16 African Council for Communication Education (ACCE)
- 17 African Economic Research Consortium (AERC)

18	African Energy Policy Research Network (AFREPREN/FWD)
19	African Wildlife Foundation
20	American Refugee Committee
21	Arrow Kenya
22	Artist Forum International
23	Association for Better Land Husbandry (ABLH)
24	Association of Christian Resource Organization Serving Sudan
25	Association of Evangelicals in Africa (AEA)
26	Association of International Schools of Africa (AISA)
27	Association of Member Episcopal Conferences in Eastern Africa (AMECEA)
28	Associations of Surgeons of East Africa
29	Awareness Group on aids Prevention (AGAP)
30	Baathman computer training school
31	Best Buddies Kenya
32	BirdLife International, Kenya
33	Bloodlife Initiative Kenya
34	Bondo Community Development Programme
35	Borderklan foundation
36	Brothers Self Help Group
37	Building Africa, Kenya
38	Cactus Communication
39	Capital Area Soccer League
40	Capture Foundation International
41	Care and Restoration of Education Status on Poor AIDS Orphans (CRESPO)
42	Care International
43	Caring Neighbours
44	Catholic Biblical Centre for Africa and Madagascar (BICAM)
45	Catholic University Human Rights Association
46	Catholic University of Eastern Africa (CUEA)
47	Catholic University Students Organization (CUSO)
48	Center for Policy, Planning, and Performance
49	Centers For International Programs - Kenya
50	Centre for African Entrepreneurship Research and Development (CAERD)
51	Centre for African Family Studies
52	Centre for African Family Studies (CAFS)
53	Centre for Conflict Preventions and Reconciliation
54	Cherish Others Organisation Kenya
55	Childfund Kenya
56	Children's Garden Home and School
57	Chrisco Fellowship, Ylavia Kisumu, Youth Leader
58	Christian Age Concern Foundation Kenya

59	Christian Aid Kenya
60	Church of Restoration Gathiga
61	Church Worls Service and Witness
62	Community Empowerment for Economic Development Organization
63	Community Initiatives and Social Support Organization (CISSO)
64	Community Service Foundation
65	Company for Habitat and Housing in Africa (Shelter-Afrique)
66	Compassion International Kenya
67	Connect Centre for Women and Children
68	Consumer Information Network (CIN)
69	Covenant Life Foundation
70	Crescent of Hope
71	Culture of Peace Network (CPN) "Unesco-Peer"
72	Cyntanada
73	Danish Refugee Council
74	David Sheldrick Wildlife Trust
75	Deaf Aid
76	Development Volunteer Africa
77	Direct Aid
78	Diva Kenya
79	East Africa Natural History Society (EANHS)
80	East African Development Center (EADEC)
81	East African Enterprise Network (EAEN)
82	East African Wild Life Society (EAWLS)
83	East African Women's League (EAWL)
84	Eastern Africa Association for Theological Education by Extension (EAATEE-Kenya)
85	Eastern Africa Environmental Network (EAEN)
86	Eastern African Association for the Study of Religions (EAASR)
87	Eastern and Southern Africa Leath Industries Association (ESALIA)
88	Eastern and Southern African Business Organization (ESABO)
89	Eastern and Southern African Trade and Development Bank (PTA Bank)
90	Eastern Central and Southern African Federation of Accountants (ECSAFA)
91	Ecryp Technology Solutions Ltd
92	ELC International (ELCI)
93	Elizabeth Glaser Pediatric Aids Foundation
94	End Poverty Resource Management Programs
95	Environment Liaison Center International (ELCI)
96	Environmental Ambassadors Association of Kenya
97	Etegoa Worldwide Ministries
98	Familia Human Care Trust - Kenya
99	Family Federation for World Peace and Unification, Kenya

- 100 Family Federation for World Peace, Africa Regional Office
- 101 Family Health International (FHI 360)/ Kenya
- 102 Family Help Line Organisation
- 103 Federation of African Public Relations Associations (FAPRA)
- 104 Fellowship of Christian Communicators in Africa and Madagascar (FOCCAM)
- 105 Female Education in Mathematics and Science in Africa (FEMSA)
- 106 Firstway Learning Consultants
- 107 Fitness for Health Initiative Africa
- 108 Flying Doctors' Society of Africa
- 109 Forum for African Women Educationalists (FAWE)
- 110 Foundation for Woodstove Dissemination (FWD)
- 111 Friends in Peace & Community Development
- 112 Friends of America Foundation
- 113 Friendship Force Club of Kenya
- 114 General Welfare International Foundation
- 115 Give Directly Kenya
- 116 Global Development of Peaceful Environments
- 117 Global Development Volunteers
- 118 Global Fund for Higher Education (Fonds Mondial pour l'Enseignement  
Superieur)
- 119 Global Programs for Research & Training
- 120 Global Village
- 121 Global Volunteers
- 122 Grande Famille Pour Le Developpement Communautaire, Internationale
- 123 Grassroot Women for Habitat
- 124 Green Africa Network
- 125 Green Belt Movement (GBM)
- 126 Hand in Hand Eastern Africa
- 127 Hardo Relief & Development Organization
- 128 Healthcare Rescue Centre
- 129 Hemophilia Welfare Foundation (Kenya)
- 130 Hifadhi Africa Organization (HAO)
- 131 Horn of African Peace
- 132 Hot Sun Foundation
- 133 Huruma Habitat for Humanity
- 134 Huruma Starehe Development Programme
- 135 Huruma Trust Fund
- 136 ICFTU African Regional Organization (AFRO)
- 137 IMA World Health
- 138 Institut francaise de recherche en Afrique (IFRA)
- 139 Institute of Civic Affairs and Development
- 140 Institute of Health Research and Services

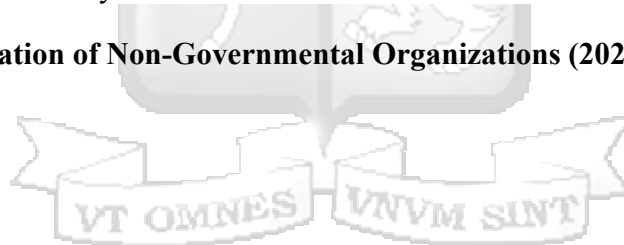
141	Integrated Development Africa Programme
142	Interfaith Youth Peace Initiative
143	International Federation for Widows, Orphans and Needy
144	International Institute for Gender and Community Development
145	International Livestock Research Institute (ILRI)
146	International Medical Corps
147	International Movement for Catholic Students (IMCS)
148	International Rescue Committee
149	International Training and Education Centre for Health (I-TECH)
150	Islamic Relief Kenya
151	Jasho Women Group
152	Jomutech Initiative Consortium
153	Jubba Environmental and Development Action (Jeda)
154	Kenya Association for Maternal and Neonatal Health (KAMANEH)
155	Kenya Coalition against Landmines
156	Kenya Enterprise Development Services Center
157	Kenya Hortlink Enterprises
158	Kenya Library Association
159	Kenya Peace Association Ministry
160	Kenya Red Cross Society
161	Kenya School of Aviation
162	Kenya Youth for Peace and Development
163	Kiambu Youth Progressive Forum
164	Kibera Community Youth Programme
165	KickStart International
166	Kimetrica Limited
167	Kioo Cha Ukweli
168	Kirinyaga Sports Foundation (KISFO)
169	Lake Victoria Special Arts Initiative
170	League of Kenya Women Voters
171	Lifebridge
172	Maendeleo Ya Wanawake Organization
173	Make a Change International Development (MACID)
174	Marginal Development and Environment Awareness Program
175	Marie Stopes Kenya
176	Matonyok Nomad Development Organization - MANDO
177	Matungu community Development Charity
178	Medea Group
179	Medecins Sans Frontieres - France
180	Medecins Sans Frontieres - Holland
181	Medecins Sans Frontieres - Switzerland

182 Medecins Sans Frontieres Belgium  
 183 Medical Assistance Programs (MAP International)  
 184 Megabridge Foundation  
 185 Mercy USA for AID and Development Kenya  
 186 MERP KENYA  
 187 Migori Youth Education and Rural Health Programmes (MIYEHELP)  
 188 Missions of Hope International  
 189 Movement of Men against AIDS in Kenya  
 190 Msingi Women  
 191 Muslim Youth Peace Care  
 192 Name  
 193 National Council of Churches of Kenya (NCCK)  
 194 Ngece Rinjeu Development Foundation  
 195 Ngong Youth Organization  
 196 Nile Relief and Development Society, South Sudan (NRDS)  
 197 Northern Aid  
 198 Northern Arid Lands Development Initiatives (NADI).  
 199 Nous Sommes Freres/ Pax Christi of Bukauu-Drc (NSF/PCJ)  
 200 Oasis Africa  
 201 Oasis of Hope  
 202 One Acre Fund  
 203 OPA Foundation  
 204 Organisation for youth in environmental and educational affairs  
 205 Organization for Green Education  
 206 PACT INC  
 207 Pamoja Radio  
 208 Partnership for African Social and Governance Research  
 209 Peace mercy foundation international Kenya  
 210 Pharmaccess Foundation  
 211 Plan International  
 212 Platform for Land Use Sustainability  
 213 Point Five International  
 214 Ponty Education Services  
 215 Population Council  
 216 Population Services International Kenya  
 217 Poverty Africa  
 218 Poverty Alleviation Initiatives for Development (PAID)  
 219 Prayer Warriors, Young Men and Women Peace Makers  
 220 Prodigal Rescue Centre  
 221 Qatar Charity  
 222 Rawalo Youth Development Foundation

223	Rays of Good Hope International Volunteers (ROHIV)
224	Reach out Disabled Foundation
225	Relief International Kenya
226	Research Concepts
227	Safedrive Africa Foundation (SDAF)
228	Samaritans Purse International Relief
229	Sangwa Amahoro Association
230	Save Kenya Water Towers
231	Save the Children International (Kenya)
232	Shelter 2000
233	Shelter Action Organization
234	Single Ladies International Ministries
235	Smart Options
236	Society of St. Vincent De Paul
237	Solidarity for Social and Environmental Services (SOSES)
238	Somali Youth Development Foundation
239	South Sudan Law Society
240	Springs of Life Center
241	St Francis Children's Village
242	St. Teresa's Youth Club
243	Strengthening Peoples Actions in Resilience through Knowledge (SPARK)
244	Sudan Islamic Aid Association
245	Sustainable Water Development Services (SWADES)
246	Talent Support Initiatives International
247	Tearfund
248	Terminal Tours Kenya
249	The Africa Tobacco Free-Initiative
250	The African Academy of Sciences
251	The Congolese Communities of Africa
252	The CRADLE-The Children Foundation
253	The Episcopal Church of the Sudan
254	The Institute for Social Accountability (TISA)
255	The President Barack Obama Junior Africa Foundation (Aspiring Non-Profit)
256	The Young People Empowerment Initiative
257	Transparency International Kenya
258	Trocaire
259	Ukambani Christian Community Services (UCCS 2)
260	Ungana Young Friends of AMREF
261	United Nations High Commissioner for Refugees
262	University of Washington – Global Assistance Programme (UW-GAP) Kenya
263	Upendo Child-care

264	Uthiru Selfhelp Group
265	UZIMA Foundation
266	Veterinaires Sans Frontieres (VSF-Germany)
267	Vipani
268	Volunteers for Africa
269	Wageria Community Based Organization
270	Wakilisha Safari Kenya
271	Washington State University - Global Health Kenya
272	Waumini Youth Group
273	Weast Rural Development Programme
274	Windle International - Kenya
275	Winners Chapel International
276	Women Fighting AIDs in Kenya (WOFAK)
277	Women's Resource Centre
278	Woni Witu Foundation
279	World Harvest Mission
280	World Teens Federation
281	World Vision Kenya
282	World Youth Channel
283	Yitzhak Rabin Foundation
284	Youth Alive! Kenya (YAK)
285	Youth in Focus Kenya

**Source: World Association of Non-Governmental Organizations (2022)**

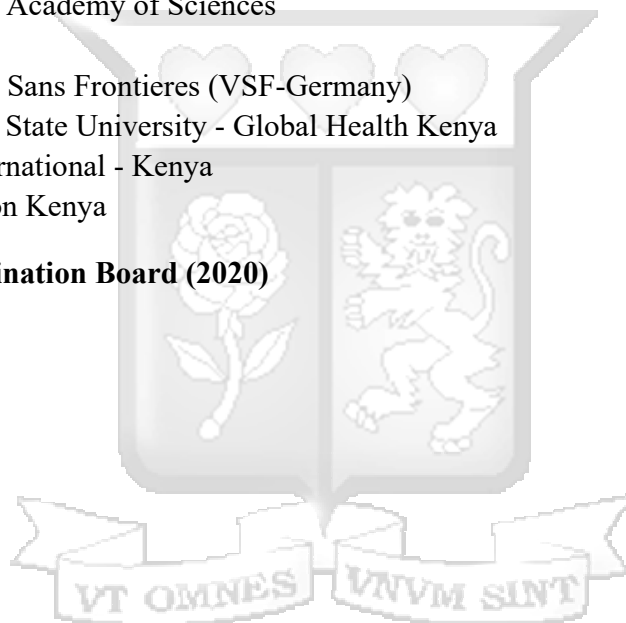


### APPENDIX THREE: LIST OF FIFTY BIGGEST NGOs IN KENYA






- 1 Action Africa Help International
- 2 Action AID International Kenya
- 3 Adventist Development and Relief Agency International (Somalia  
4 Projects)
- 4 African Wildlife Foundation
- 5 Aids Healthcare Foundation Kenya
- 6 American Refugee Committee
- 7 Amref Health Africa in Kenya
- 8 Association of Christian Resource Organization Serving Sudan
- 9 Care International
- 10 Centers For International Programs - Kenya
- 11 Childfund Kenya
- 12 Christian Aid Kenya
- 13 Church Worls Service and Witness
- 14 Compassion International Kenya
- 15 Danish Refugee Council
- 16 David Sheldrick Wildlife Trust
- 17 Direct Aid
- 18 Elizabeth Glaser Pediatric Aids Foundation
- 19 Family Health International (FHI 360)/ Kenya
- 20 Forum for African Women Educationalists
- 21 Give Directly Kenya
- 22 Global Programs for Research & Training
- 23 Hand in Hand Eastern Africa
- 24 IMA World Health
- 25 International Livestock Research Institute
- 26 International Medical Corps
- 27 International Rescue Committee
- 28 Islamic Relief Kenya
- 29 Marie Stopes Kenya
- 30 Medecins Sans Frontieres - France
- 31 Medecins Sans Frontieres - Holland
- 32 Medecins Sans Frontieres - Switzerland

- 33 Medecins Sans Frontieres Belgium
- 34 Mercy USA for AID and Development Kenya
- 35 Missions of Hope International
- 36 PACT INC
- 37 Pharmaccess Foundation
- 38 Plan International
- 39 Population Council
- 40 Population Services International Kenya
- 41 Qatar Charity
- 42 Relief International Kenya
- 43 Samaritans Purse International Relief
- 44 Save the Children International (Kenya)
- 45 The African Academy of Sciences
- 46 Trocaire
- 47 Veterinaires Sans Frontieres (VSF-Germany)
- 48 Washington State University - Global Health Kenya
- 49 Windle International - Kenya
- 50 World Vision Kenya

**Source: NGOs Coordination Board (2020)**



## APPENDIX FOUR: NACOSTI RESEARCH PERMIT

 <b>REPUBLIC OF KENYA</b>	 <b>NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY &amp; INNOVATION</b>
Ref No: <b>690039</b>	Date of Issue: <b>04/May/2022</b>
<b>RESEARCH LICENSE</b>	
	
<b>This is to Certify that Miss. Beatrice Nduta Mundia of Strathmore University, has been licensed to conduct research in Nairobi on the topic: FACTORS INFLUENCING THE QUALITY OF THE FINANCIAL REPORTING OF NGOS IN NAIROBI COUNTY, KENYA for the period ending : 04/May/2023.</b>	
License No: <b>NACOSTI/P/22/17058</b>	
<b>690039</b> Applicant Identification Number	 Director General <b>NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY &amp; INNOVATION</b>
	Verification QR Code 
<b>NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.</b>	

THE SCIENCE, TECHNOLOGY AND INNOVATION ACT, 2013

The Grant of Research Licenses is Guided by the Science, Technology and Innovation (Research Licensing) Regulations, 2014

CONDITIONS

1. The License is valid for the proposed research, location and specified period
2. The License any rights thereunder are non-transferable
3. The Licensee shall inform the relevant County Director of Education, County Commissioner and County Governor before commencement of the research
4. Excavation, filming and collection of specimens are subject to further necessary clearance from relevant Government Agencies
5. The License does not give authority to transfer research materials
6. NACOSTI may monitor and evaluate the licensed research project
7. The Licensee shall submit one hard copy and upload a soft copy of their final report (thesis) within one year of completion of the research
8. NACOSTI reserves the right to modify the conditions of the License including cancellation without prior notice

National Commission for Science, Technology and Innovation  
off Waiyaki Way, Upper Kabete,  
P. O. Box 30623, 00100 Nairobi, KENYA  
Land line: 020 4007000, 020 2241349, 020 3310571, 020 8001077  
Mobile: 0713 788 787 / 0735 404 245  
E-mail: dg@nacosti.go.ke / registry@nacosti.go.ke  
Website: www.nacosti.go.ke

## APPENDIX FIVE: ETHICAL APPROVAL LETTER



6<sup>th</sup> June 2022

Ms Mundia Beatrice,  
beatrice.nduta@strathmore.edu

Dear Ms Mundia,

**RE: Factors Influencing the Quality of The Financial Reporting of Ngos in Nairobi County, Kenya.**

This is to inform you that SU-IERC has reviewed and **approved** your above **SU Masters'** research proposal. Your application reference number is **SU-IERC1337/22**. The approval period is **6<sup>th</sup> June 2022 to 5<sup>th</sup> June 2023**.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including (informed consents, study instruments, MTA) will be used
- ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-IERC.
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-IERC within 48 hours of notification
- iv. Any changes, anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-IERC within 48 hours
- v. Clearance for export of biological specimens must be obtained from relevant institutions.
- vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days upon completion of the study to SU-IERC.

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke/> and obtain other clearances needed.

Yours sincerely,

for: **Dr Ben Ngoye,**  
**Secretary; SU-IERC**

**Cc: Prof Fred Were,**  
**Chairperson; SU-IERC**



## APPENDIX SIX: LETTER OF INTRODUCTION

C/O Sangale Rd, Madaraka Estate,  
P.O. Box 58857 00200, Nairobi, Kenya.  
Cell: +254 708 414/6/7, Twitter: @SBSKenya  
Email: info@sbs.ac.ke or visit www.sbs.strathmore.edu



15<sup>th</sup> March 2022

To Whom It May Concern,

**RE: FACILITATION OF RESEARCH – BEATRICE NDUTA**

This is to introduce Beatrice Nduta who is a Master of Commerce (MCOM) Student at Strathmore University Business School, admission number MCOM/056215. As part of our MCOM Program, Beatrice is expected to do applied research and undertake a project. This is in partial fulfilment of the requirements of the MCOM course. To this effect, Beatrice would like to request for appropriate data from your organization.

Beatrice is undertaking a research paper on “Factors Influencing the Perceptions of the Quality of the Financial Reporting of NGOs in Nairobi County, Kenya.” The information obtained shall be treated confidentially and shall be used for academic purposes only.

Our MCOM seeks to establish links with industry, and one of these ways is by directing our research to areas that would be of direct use to industry. We would be glad to share our findings with you after the research, and we trust that you will find them of great interest and of practical value to your organization.

We appreciate your support and shall be willing to provide any further information if required.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Njoki Kiagiri".

Njoki Kiagiri  
Manager – Graduate Programs  
Strathmore University Business School



6<sup>th</sup> June 2022

Ms Mundia Beatrice,  
beatrice.nduta@strathmore.edu

Dear Ms Mundia,

**RE: Factors Influencing the Quality of The Financial Reporting of Ngos in Nairobi County, Kenya.**

This is to inform you that SU-IERC has reviewed and approved your above SU Masters' research proposal. Your application reference number is SU-IERC1337/22. The approval period is 6<sup>th</sup> June 2022 to 5<sup>th</sup> June 2023.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including (informed consents, study instruments, MTA) will be used
- ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-IERC.
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-IERC within 48 hours of notification
- iv. Any changes, anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-IERC within 48 hours
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- vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days upon completion of the study to SU-IERC.

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke/> and obtain other clearances needed.

Yours sincerely,

for Dr Ben Ngoye,  
Secretary; SU-IERC

Cc: Prof Fred Were,  
Chairperson; SU-IERC

