

**INFLUENCE OF RISK BASED INTERNAL AUDIT ON FINANCIAL  
SUSTAINABILITY OF NON-GOVERNMENTAL ORGANIZATION IN  
NAKURU COUNTY, KENYA**

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**KABARAK UNIVERSITY**

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## DECLARATION

### Declaration

This research project is my original work and has not been presented for a degree in any other university.

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## APPROVAL

To the School of Business and Economics:

The Project entitled “Effects of Devolved Functions on Performance of Counties in Kenya: a Case Study of Kakamega County written by Elizabeth Kemunto Ogega is presented to the School of Business and Economics of Kabarak University. We have reviewed the research proposal and recommend it be accepted in partial fulfilment of the requirement for the degree of Master of Business Administration, Finance Option. This research project has been submitted with our approval as the university Supervisors.

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## **DEDICATION**

I dedicate this research project to my beloved parents Mr. Julius Ogega Mariaria and the Late Mrs. Lorna Ogega Mariaria and to my siblings; Victor Ondieki Ogega, Dominic Onyando Ogega and Eng. Emmanuel Ogega Mariaria for their continuous support and encouragement in my higher studies at Kabarak University.

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## ABSTRACT

Financial sustainability requires appropriate risk based audit practice hence effective and efficient internal audit. Most non-governmental organizations are faced with sustainability challenges which can be attributed to difficulties in the design, monitoring and implementation of project financing strategies which may impact negatively on overall sustainability. The financial sustainability of an organization is a measure of the organization's ability to meet its financial obligations. Many Non-Governmental Organizations (NGOs) in Kenya largely depend on foreign funding. The declining state of foreign funding coupled with the Miscellaneous Amendment Bill of 2013 imposes a strain to an already constraining situation. The study was to determine the influence of risk based internal audit on financial sustainability of non-governmental organization. The study was specifically looking at the influence of Internal Audit Transparency, Internal Auditors Competency, Internal Auditors Independence and Management Support on financial sustainability of NGOs in Nakuru County Kenya. Theories underpinning this study were: Auditing Theory, Stakeholder Theory and Theory of Budgeting. Descriptive research design was used. The researcher used a sample frame of 79 NGOs. From each NGO the researcher targeted three officials namely program managers, grants managers and accountants. This gave a total of 237 officials who were the targeted population. A sampling technique was used where 115 officials were selected. Data collection was done through use of questionnaires constructed on a likert scale. Questionnaires were tested for validity and reliability. Statistical package for social sciences (SPSS) IBM software was used for analyzing the collected data. Data was analyzed using descriptive statistics which included frequency, percentages, mean and standard deviation and inferential statistics which included regression and correlation analysis and was presented in tables and figures. The study established that audit transparency, auditor competency, auditors' independence and management support had significant relationships with financial sustainability of non-governmental organization in Nakuru County. Correlation analysis showed that auditors' competence had a significant influence on financial sustainability of NGOs in Nakuru County. On the other hand audit transparency, auditors' independence and management support did not significantly influence financial sustainability of non-governmental organization in Nakuru County. The study was of significant to Government as it would assist in formulating effective policies on issues appertaining to the NGOs finances also it was significant to academicians and researchers. The study concluded that audit transparency, auditor competency, auditors' independence and management support had significant relationships with financial sustainability of non-governmental organization in Nakuru County. The study recommended that the organizations should ensure that internal auditors department operates independently without undue influence to ensure that the internal auditors perform their duties confidently without fear and favor. Also the researcher recommended that the internal auditors department should ensure they recruit competent auditors in the organizations with sufficient knowledge and skills in auditing to ensure that the audit process is accurate giving an accurate position of the financial standing of the organization.

**Keywords:** *Internal Audit, Auditors Competence, Auditors Independence, Financial Sustainability, Auditing Transparency*

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## LIST OF ABBREVIATIONS OF ACRONYMS

<b>AED</b>	: Academy for Educational Development
<b>ANOVA</b>	: Analysis of Variance
<b>ASAL</b>	: Arid and semi-arid Lands
<b>CAE</b>	: Chief Audit Executive
<b>FGD</b>	: Focus Group Discussion
<b>GAAP</b>	: Generally Accepted Accounting Practices
<b>IADs</b>	: Internal Audit Divisions
<b>IIA</b>	: Institute of Internal Auditors
<b>IPPF</b>	: International Professional Practices Framework
<b>KPMG</b>	: Klynveld Peat Marwick Goerdeler
<b>NGOs</b>	: Non Governmental Organizations
<b>NSE</b>	: Nairobi Stock Exchange
<b>OECD</b>	: Organisation for Economic Co-operation and Development
<b>RBAA</b>	: Risk Based Audit Approach
<b>RBIA</b>	: Risk Based Internal Audit
<b>SPSS</b>	: Statistical Package for Social Science
<b>USAID</b>	: United States for International Development

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

Financial sustainability is an important factor in the long-term survival and effectiveness of NGOs. According to Lynn (2013) the more there are different sources of funds available the more financially sustainable an NGO is. In other words, financial sustainability of an NGO depends on its ability to diversify its sources of funds. Diversification of such funds is a knowledge that very few organisations are privileged to. Most organisations are run in the traditional, basic or fundamental manner where by non-governmental organisations struggle to acquire the donor funds. The donor funds are first acquired then they are later spent in the daily operation of the firm without care of what tomorrow will bring or other sources of funds.

In practice NGOs that are not dependent on a particular funding stream is likely to remain sustainable. A sustainable NGO is one that can continue to fulfil its mission over time and meet the needs of its key stakeholders, particularly its beneficiaries and supporters (Malvern, 2002). Sustainable NGOs are those that are able to respond strategically and effectively to such external changes, revise their mission and objectives accordingly, access new sources of income, and adapt their systems and processes to meet the new challenges.

According to Bowman (2010), an organization that is sustainable in the long term but unsustainable in the short term is likely to be short of cash. Conversely, an organization that is sustainable in the short term but not in the long term may have adequate cash but inflation will cause the value of its assets to erode over time. This, in turn, will cause the quantity and quality of services to diminish unless capital campaigns periodically bring infusions of new assets. The ultimate strategic goal of nonprofits financial outcomes is merely a means to accomplishing an organizations social mission (Hackler and Saxton, 2007). Thus, a non profit organizations ability to pursue its mission (providing consistent and quality programming and services) and its financial sustainability are linked.

Risk based Internal Audit (RBIA) is an internal process which is fundamentally focused on the inherent risks that are involved in the activities or system of an organization and provide assurance based on the auditor's true and fair opinion that risk is being handled

by the management within the defined risk appetite level. Risk based internal audit is mostly carried out by either the internal or the external or both the audit department of an organization in the case of large or multinational organization to help the risk management function of the company by providing true and fair assurance about the risk appetite and risk mitigation. (Gibson, 2003).

RBIA allows internal audit to provide true and fair assurance to the organization board that risk management processes in the organization are managing risks effectively, in relation to the risk appetite (Ashbaugh & Warfield, 2003). It is the risk management framework of the management and seeks at every stage to reinforce the responsibility of management and BOD (Board of Directors) for managing risk. The aims of this risk-based approach are to assess and identify the high-risk areas, while at the same time; the auditor is minimizing the risk of negligence (Griffiths, 2006). This can therefore speed the audit work and help to allocate specialists to specific areas of the audit. However, this process can cause more time to be spent on the audit and raise costs, thus not making economic sense. Unfortunately, another problem faced by auditors when adopting the risk-based approach is when identifying high-risk areas. Auditors must decide what evidence is required and in how much detail (Commonwealth of Australia, 2004). Risk based audit can be an effective external mechanism because it signals to potential investors and donors whether the manager complied with the accounting practices and did not misrepresent financial information.

Quality of risk audit also matters as evidence suggests that it is usually driven by active stakeholders (Ashbaugh & Warfield, 2003). In addition, there is evidence that firms who voluntarily adopt the International Accounting Standards or US Generally Accepted Accounting Practices (GAAP) have lower cost of debt (Leutz & Verrecchia, 2000). Goodwin-Stewart and Kent (2006) assert that internal auditing plays a crucial role in monitoring a firm's risk profile and identifying areas to improve risk management.

The object of internal auditing is to improve organizational efficiency and effectiveness through constructive criticism. Generally, internal audit has become an indispensable management tool for achieving effective control in both public and private organizations. In a study on a sample of Australian and New Zealand firms, Coram et al. (2008) established that organizations with an internal audit function are more likely to detect and self report fraud through misappropriation of assets than those that do not.

According to Serageldin (2006) sustainability is determined by several financial and human capital related factors. An NGO is considered sustainable if it has diverse funding sources, so that if one or two left the scene, no great harm would be done to the organization's capacity to continue its work (Pratt & Hailey, 2012). Risk Based Auditing could improve the precision of financial statement information by issuing qualified opinions to firms with unreliable financial statements. Auditors enable investors to screen out such firms (Gibson, 2003). The aims of this risk-based approach are to assess and identify the high-risk areas, while at the same time, the auditor is minimising the risk of negligence (Griffiths, 2006). This can therefore speed the audit work and help to allocate specialists to specific areas of the audit.

Chen (2003) investigated the relationship between Risk Based Internal Audit and corporate governance structures. It was found that there existed a significant positive relationship between the level of risk based internal audit (RBIA) used and corporate governance board size. The findings of this study indicated a significant negative correlation existed, suggesting that a small board size seems to be more effective, and is more likely to use RBIA, as a complementary mechanism.

Nakuru town is Kenya's third largest residential town after Nairobi and Mombasa and was rated the fastest developing town in sub-Saharan Africa in 2011 by the UN habitat. The cost of living has more than doubled in the last four years as a result of inflation and other political activities such as elections that happen every five years in Kenya (UN-Habitat report, 2011). There has been an Increase in Street families during the 2007-2008 postelection violence with Nakuru county being among the worst affected towns in the country which left many people displaced, lost and homeless. Most children were separated from their families during these period resulting to a drastic increase in street children in the town.

According to first county integrated plan (2013-2017) the total population of Nakuru County stood at 1,867,461 in year 2014, comprising of 937,131 males and 930,330 Females as per the projections of Kenya National Population and Housing Census of 2009. The population is projected to increase to 1,925,296, comprising of 966,154 males and 959,142 Female in 2015 and to 2,046,395 comprising of 1,026,924 males and 1,019,471 females at the end of the plan period. Increase in population in any given town

or area often result to an increase in people that are living beyond the poverty level and the government may not be able to cater for the large increase of its population. Most non-governmental organisation that deal with such activities often step in and cater for this group. This will result in an increase in the number of non-governmental organisation.

### **1.1.1 Risk Based Internal Audit on Financial Sustainability of Non-Governmental Organizations**

Risk Based Auditing could improve the precision of financial statement information by issuing qualified opinions to firms with unreliable financial statements. Auditors enable investors to screen out such firms (Gibson, 2003). Uncertainty regarding the association between the focus of voluntary corporate governance guidelines and risk management and internal control activities in practice has created a research gap in this area. Beekes and Brown (2006) refer to company responses to such voluntary guidelines as a rich area for research. The impact of risk based audit has been found to mitigate the occurrence of risks through enhancing quality financial reporting, minimizing losses and eventually improving institutions financial performance (Vafeas, 1999).

The Risk Based Audit, which focuses on both recorded and unrecorded risk, improves financial statement assurance and the financial statement reporting process. The Risk Based Audit focuses on business risk and the processes for controlling these risks. The higher the risk area, the more audit time and client controls are required. Besides focusing on the level of risk, the risk-based method helps to evaluate and build value into the financial reporting process and the clients company. In order to do this, the auditor must have an up to date insight of the clients business and activities. This knowledge is gained through the way the client operates their business, management, internal and external environments. The knowledge gathered can help to design the audit program that includes the most effective and efficient combination of tests responsive to each client's unique circumstances. For this reason, the risk-based approach is then superior to traditional auditing methods (Gibson, 2003).

Risk based audit can be an effective external mechanism because it signals to potential investors and donors whether the manager complied with the accounting practices and did not misrepresent financial information. Quality of risk audit also matters as evidence

suggests that it is usually driven by active stakeholders (Ashbaugh & Warfield, 2003). Goodwin-Stewart and Kent (2006) use an agency framework to explore firm characteristics associated with the existence of internal audit role in risk management, risk control and governance perspectives influencing financial performance in financial institutions.

### **1.1.2 Non-governmental Organizations in Kenya**

In Kenya, NGO growth has truly been staggering; in 1974, there were only 125 NGOs in Kenya, by 1990 there were over 400 registered with the government, soaring nearly to 3000 in 2004 and well over 4200 by 2007 (Brass 2010 citing National Council of NGOs, NGO Coordination Board, 2006). The current number of registered NGOs is 7082 (NGO Coordination Board, 2014). Most of the NGO funding is derived from foreign sources, indeed most NGOs in Kenya- whether established within the country by Kenyan citizens or abroad are funded via international sources or local private sources. Of the 4211 organizations listed in the Kenya's government NGO Board database in December 2006, only 663 (about 16%) submitted a return with funding source information in the most recent return year, 2005. In these return figures 91% of funds were listed as coming from international sources. Of the other 9% of funds, 8% came from local private sources, with only 1% of the NGO funds being derived from the Government of Kenya at the national or local level. Over 35% of the organizations received funding entirely from abroad, with organizations receiving funds from a mix of local and international sources (an additional 25% of organizations) getting 71% of their funds from abroad on average (Brass,2010).

Nakuru County in Kenya is home to about 249 duly registered and active NGOs (NGO Coordination Board, 2014). Some of these NGOs are headquartered there while others have simply set up their branch offices in Nakuru to enable them to access the western parts of the country while maintaining proximity to Nairobi. Logistically, Nakuru County is convenient in resupplying the western and mostly arid and semi-arid lands (ASAL) in the north. However, with declining donor funding, some NGOs branches in the area are facing closure due to the financial sustainability imperative. In the same vein, the NGOs headquartered in the area may also face challenges in diversifying sources of funds through investment due to the existing opportunities in the area (Kerine 2015).



## **1.2 Problem Statement**

In Nakuru County, there has been a massive expansion of NGOs and a substantial infusion of money combined with the desire for change which has led to the financing of NGOs. Although donors are the major sources of funding of NGOs, the level of donor contributions has steadily declined. This has affected the operations of NGOs' in Nakuru County. As a result, the NGOs have been unable to achieve their objectives. Also complaints concerning sustainability of NGOs have been raised by the government, the community and the donors. Financial sustainability is critical to NGOs for stability and enhancement of growth. However, NGOs usually end their operations when funding stops. The emergence of new business risks has compelled many organizations to formulate strategies and to elevate the status of internal auditing (Szpirglas, 2006). This has been so through creation of independent internal auditing departments. Through this, the internal auditors add value to the organizations through greater accountability, independence and objectivity (Mutchler, Chang & Prawitt, 2001). The success of internal audit is pegged in a strong, active management support and improved governance structures. The management have to allocate sufficient resources to the internal audit department to enable them hire competent staff to do their job efficiently. Effectiveness and transparency in the auditing process in the organizations is a sure way of enhancing performance resulting to sustainability of the organization. The trend in the running of NGOs raises doubt on the extent of their adoption of Risk based internal audit and the influence on their financial sustainability. NGOs tend to be dissolved once the donor funding stops trickling in rising doubt unto the sustainability of NGO projects. The foregoing prompts the undertaking of this study to examine the influence of risk based internal auditing on financial sustainability of NGOs in Nakuru County Kenya.

## **1.3 Study Objectives**

### **1.3.1 General Objective of the Study**

The study was to establish the influence of risk based internal audit on financial sustainability of Non-governmental organizations in Nakuru County, Kenya.

### **1.3.3 Specific Objectives of the Study**

- i. To examine the influence of internal Audit transparency on financial sustainability of Non-governmental organizations in Nakuru County Kenya.

- ii. To establish the influence internal auditors' competency on financial sustainability of Non-governmental Organizations in Nakuru County Kenya.
- iii. To evaluate the influence of internal auditors' independence on financial sustainability of Non-governmental Organizations in Nakuru County Kenya.
- iv. To establish the influence of management support on financial sustainability of Non-governmental Organizational in Nakuru County Kenya.

#### **1.4 Study Hypothesis**

- i. **H<sub>01</sub>**: Internal Audit transparency had no significant influence on financial sustainability of Non-governmental organizations in Nakuru County Kenya.
- ii. **H<sub>02</sub>**: There was no statistically significant influence of internal auditors' competence on financial sustainability of Non-governmental organizations in Nakuru County Kenya.
- iii. **H<sub>03</sub>**: Internal auditors' independence had no significant influence on financial sustainability of Non-governmental organizations in Nakuru County Kenya.
- iv. **H<sub>04</sub>**: Management support had no significant influence on financial sustainability of Non-governmental organizations in Nakuru County Kenya.

#### **1.5 Significance of the study**

This study was paramount in that it would enable directors and management appreciate the importance of risk based internal audit practices and assist them in rating their level of compliance against those of their competitors or the entire market, and in determining whether risk based internal audit practices improve financial sustainability of Non-governmental organizations.

Study findings was of great value to the Government as it would assist in formulating effective policies on issues appertaining to the NGOs finances, this would enable the realization of the millennium development goals and vision 2030 with its objectives of alleviating poverty and enhancing equitable economic development. Through the study findings, the stakeholders such as the community and other management committees would be enlightened on how to ensure financial sustainability of NGOs, so as to make it effective and efficient towards reaching their objectives. Finally, the study findings

would be of value to the academicians and other researchers as it would provide the base for further research in the influence of risk based internal audit on financial sustainability of NGOs.

### **1.6 Scope of the study**

The study was concerned with Nakuru County on risk based internal audit on financial sustainability of Non-governmental organizations. It aimed at establishing the influence of risk based internal audit on financial sustainability of non-governmental organization in Nakuru county Kenya. The study covered 79 active and registered NGOs in Nakuru County. The study was held in Nakuru County because Nakuru County is one of the developing counties in Kenya with upcoming NGOs and also during the post-election violence of 2007- 2008 Nakuru county was one of the major counties that were majorly hit and affected which resulted in high number of social cultural issues that needed the intervention of non-governmental organisation to assist the government in several areas. On the other hand, Nakuru town is one of the biggest town in Kenya thus has seen the rural urban migration souring over the years. The study was conducted between the month of October and November 2017.

### **1.7 Limitations and Delimitations of the Study**

#### **1.7.1 Limitations**

The study was limited to Non-governmental organizations in Nakuru county Kenya. Further it was limited to the program managers, grants managers and accountants in the NGOs in Nakuru County.

#### **1.7.2 Delimitations**

Respondents were assured that they would be treated with confidentiality and that the information they provided would be purely treated for academic purpose only. On the other hand the researcher was expected to meet all the research expenses.

### **1.8 Operational Definition of Terms**

**Sustainability:** Is characterized by durability (rate at which a firm's underlying resources, capabilities or core competencies can depreciate or become obsolete) and imitability (rate at a firm's underlying resources, capabilities can be duplicated) (Hungler &Wheelen, 2007). This term has been used in the study to mean the ability of a NGO to

secure and manage enough resources, human and financial to fulfil its mission effectively in the long term.

**Financial sustainability:** Financial sustainability refers to the ability of administrators to maintain an organization over the long term. It can be gauged by an organisation's net income (the surplus of revenues over expenses); liquidity (the cash available to pay bills); and solvency (the relationship of assets and debt or liabilities) (Isaboke, 2016). Under this study the term has been used to show how NGOs have managed to maintain their financial status.

**Risk Management:** Is a comprehensive and systematic approach aimed at identifying, measuring and controlling an entity's exposure to accidental loss, theft and liability involving human, financial, and physical and natural resources (Kaplan & Schultz, 2006). The term has been used in this study with reference to organization re-orientation towards attainment of financial sustainability.

**Internal Audit:** It is a set of instructions, guidelines and procedures that a company's senior leadership establishes to prevent operating losses resulting from theft, error, technological malfunction and employee neglect or carelessness (Basoln 2002). The term has been used in this study to show how NGOs demonstrate a commitment to transparency and accountability and bring credibility to the NGO.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter comprised of the related literature of the study research which were written by other scholars. The chapter is organized according to the main areas of the study.

#### **2.2 Theoretical Review**

##### **2.2.1 Theory of Auditing**

Auditing theory helps to explain why auditing is needed in organizations. It also reveals certain laws that govern the audit process and its activities. Auditing theory enhances the understanding of the relationships and interrelationships between different parties of an organization. A sub-theory of auditing theory is the policeman theory. According to this theory, the auditor is responsible for searching, discovering and preventing fraud. Recently, the main focus of the auditors has been to provide reasonable assurance and verify the truth and fairness of the financial statements. The detection of fraud is, nevertheless, still a crucial topic in the debate on the auditor's responsibility, and typically after events where financial statement frauds have been revealed, the pressure increases the responsibilities of auditors in detecting fraud (Hayes, Pisano, Upton & Wheelwright 2005).

The lending credibility theory is another sub-theory of auditing theory which postulates that the primary function of the audit is to add credibility to the financial statements. In light of the foregoing, the auditors are perceived to sell "credibility" to the clients. Audited financial statements are viewed as having elements that enhance the confidence of the financial users in the results presented by the management in the financial statements. On the other hand, the users are perceived to gain benefits from the increased credibility; these benefits are ideally considered to be that the quality of investment decisions improve when they are based on reliable information (Ittonen, 2010).

Also another part of the audit theory is the "theory of inspired confidence" which Hayes et al. (2005) also regard as the "theory of rational expectations". The theory addresses both the demand and the supply for audit services. It is argued that the demand for audit services is a direct consequence of the participation of third parties in the organization. These parties demand for accountability from the management in return for their

investments in the firm. In this light, accountability is realized through the issuance of periodic financial reports. It is, however, argued that the information provided by the management is probably biased, and as such outside parties have no direct means of monitoring. Auditing according to this theory risk based auditing is required to validate this information. It is emphasized that the auditor should always strive to meet the public expectations.

### **2.2.2 Stakeholder Theory**

Stakeholder theory takes into account of a wider group of constituents rather than focusing on shareholders. A consequence of focusing on shareholders is that the enhancement of shareholders' value is paramount whereas when a wider stakeholder group such as employees, providers of credit, customers, suppliers, government and the local community is taken into account the overriding focus on shareholder value becomes less self evident. Nonetheless many companies do strive to maximize shareholders value whilst at the same time trying to take into account the interests of the wider stakeholder group. One rationale for effectively privileging shareholders over other stakeholders is that they are recipients of the residual free cash flow (being the profits remaining once other stakeholders such as loan creditors, have been paid). This means that the shareholders have vested interest in trying to ensure that resources are used to maximum effect, which in turn should be to the benefit of the society.

This theory maintains that the interest of the stockholders need not harm stakeholders (Freeman, 2008). It also holds that an organization can enhance the interests of its stakeholders without damaging the interest of its wider stockholders. This theory grew in response to the economic theory of the firm. Applied to NGOs, the management has a responsibility to provide the stakeholders with the reports on the operations of the NGOs. It also has a responsibility to justify the value of the NGOs' spending plans (Haber, 2004). This theory is considered relevant in guiding this study because stakeholders play a significant role in ensuring the financial sustainability of the NGOs (Onyango, 2002). The role of the stakeholders is to ensure that the NGOs are financially stable and all activities are directed towards realizing the goals of the NGO. The management ensures that the NGOs are operating at optimal level in order to maximize shareholders' profits and to ensure their sustainability.

### **2.2.3 Budgeting Theory**

For an NGO to effectively deliver on its mandate, it needs to ensure that it has the resources to meet these objectives and budgeting is an effective tool to achieve this. Effective financial management is a continuous process featuring a cycle of good management practices based on using accurate analysis of their results to inform their future plans. This in essence is referred to as budgeting. NGOs need to realistically plan to see whether the cost of a project can be absorbed into the regular budget for the future which provides a basis of negotiating with a donor on how long an organization needs support (DiMattia, 2008). An organization needs to plan and consider how to confront future potential risks and opportunities by establishing an efficient system of control, a detector of variances between organizational objectives and performance (Anthony & Govindarajan, 2007). Budgets are considered to be the core element of an efficient control process and a consequently vital part to any projects financing mechanisms (Davila & Foster, 2007). Similarly, as a forward looking set of numbers, budgets project future financial management practice on performance which enables evaluating the financial viability of a chosen strategy (King, Clarkson & Wallace, 2010).

In most organizations this process is formalized by preparing annual plans and monitoring performance against budgets. Budgets are therefore merely a collection of plans and forecasts. For an NGO, they reflect the financial implication of project plans, identifying the amount, quantity and timing of resources needed (Innes, 2005). Budgets in NGO's are more likely to have most impact in that they are focused on providing a funding stream which enables it to pursue its work in a comprehensive, flexible and ongoing fashion (Wkh, 2001). The implementation of budgetary procedures, i.e. the establishment of short to medium-term objectives, serves the purpose of providing estimates of future income, funding and expenses, to provide short and long-term objectives for a coordinated management policy (Fisher, Maines, Pfeffer & Sprinkle, 2002).

### **2.2.4 Social Origins Theory**

The basis of this theory is that the non-governmental organisations are deeply embedded in the economic, social and political dynamics of different societies. Its development cannot be pin pointed to a specific factor such as poor delivery of public goods. The rise of NGOs is as a result of segregation of the society base on class and social grouping in

the society. Salamon and Anheir (1997) suggest that limited state provisions of social welfare services therefore does not automatically lead to the emergence of extensive NGOs activities as the market failure or government failure theory state. Where traditional elites remain in control and utilize authoritarian methods, it is possible the NGOs and the government will still be underdeveloped.

This theory suggests that there are models of non-profit activities which are characterized by a particular grouping or gathering of social forces which are: A statist model characterized by limited state activities and a weak non-profit sector, a statist model characterized by limited state activity and a weak non-profit sector, a libel model characterised by limited state activity but a strong non-profit sector, a social democratic model characterised by expanded state involvement in social welfare activity and limited non-profit involvement, a corporatist or partnership model in which both the state and the non-profit sector are actively involved in societal problem-solving, often in cooperation with each other.

#### **2.2.5 Interdependence Theory**

The paradigm of conflict is not the only way by which the beginning and relevance of non-governmental organisation can work be reviewed but can be reviewed also by the relationship and partnership view of point. (Salamon, 1995). NGOs are at times quick to respond before the government does and therefore they have specialised in several skills which the government may utilize. Despite the good effort by the non-governmental organisation, they also experience some shortfalls that may prevent them from responding appropriately to public problems. The failure of the government and the market and even voluntary failure has resulted in the rise of NGOs, interdependent on government and business sector as a mechanism for meeting public needs. (Salamon, 1987). The inability these organisation have is the ability in fostering a true sense of self-reliance.

#### **2.2.6 Accountability Theory**

According to the Accountability Theory, accountability refers to the extent to which the objectives for which the resources were entrusted have been achieved. Accountability is simply a contract between an agent and a principal and arises from a duty upon the agent and the rights of the principal (Gray et al., 1987). Although the principal may be passive,



the work of the agent is to account what the principal has achieved. According to this theory, a passive principal is merely waiving his/her rights to information (Stewart, 1984). The agent should therefore account to principals who demand information and are willing to enforce the contract (Tricker, 1983). Much of the research on corporate accountability suggests that regulation is the only way to ensure that companies provide complete and comparable reports. (Gray et al., 1987) suggest a compliance with standards approach, and the proliferation of reporting guidelines.

According to academics, only mandated, standardized reporting (such as the use of IAF) would yield comprehensive information required to assess firms' (such as NGOs) performance. Support for such a regulated approach is provided by evidence that voluntary disclosure levels are much lower than those for mandated disclosure (Guthrie & Parker, 1990). As such, firms have to be more accountable since the matters at hand are too complex and crucial to be left entirely in the hands of corporate governance, which are overburdened. Inform stakeholders, enables them to express their choices about critical issues. When using appropriate mechanisms, such as IAF, accountability should be more focused on accounting for corporate governance actions and effects on organization and society, rather than accounting for their financial performance (Bebbington & Gray, 1993). According to Ebrahim (2003), accountability by the agents is a dynamic concept and more complex. Therefore organizations must deal with competing requirements of various stakeholders, and most often choose to satisfy the needs of their primary stakeholders first and often at the expense of secondary stakeholders' needs as their principle goal is aligned with the needs of these primary stakeholders. Brown and Moore (2001) postulate that since agencies are not coherently aligned with one another they must, like other organizations, also prioritize their stakeholders. This can have dire consequences for their existence as their goals to provide welfare may not always be aligned with the goals of their donors.

### **2.3 Empirical Review**

Shiu (2008) aimed at investigating the current use of risk based audit approach (RBAA) by Taiwanese banks and to explore factors associated with the adoption of RBAA by Taiwanese banking industry. To understand banks' demand of RBAA, the study examined whether the use of RBAA varied with factors reflecting banks' risk management, internal control, corporate governance and internal auditors' technical

competence. The models tested in the study found empirical support that banks that use a relatively high level of RBAA will disclose more information about financial risk management, compliance risk management, technology risk management and have a higher ratio of Non-Performing Loan. The results supported the null hypothesis that the level of RBAA employed is positively associated with the bank's risk management.

Kibara (2007) in his study on a survey of internal auditors risk management practices in the banking industry in Kenya found out that, most banks in Kenya were in process of drafting the Early Rate Mode process and strategies. Kibet (2008) concluded that internal audit function played a role in corporate governance. The limitations of the study were time constraints, restriction to the state owned corporations and having to make prior arrangement in order to meet the heads of IADS. Recommendations of further study were effective and contribution of internal audit in promoting corporate governance for companies listed in the Nairobi Stock Exchange (NSE). Additionally, a study on the influence of internal audit and audit committee on financial reporting quality was recommended.

Rasler (2007) argues that building a truly "sustainable" NGO is a multidimensional challenge entailing both internal factors of strengthening organizational capacity, as well as external factors of establishing a more supportive regulatory environment and secure resources for NGO initiative. Krishnan, (2005) carried out an empirical analysis on the role of risk based audit on internal corporate governance and found that the higher level of independent directors and supervisors employ higher percentage of RBIA for monitoring of risk management. Finally, the result indicated that financial institutions use a relatively high level of RBIA when there was a higher level of shareholdings held by institutional shareholders and internal auditors' technical competence are higher.

The Sarbanes-Oxley Act of 2002 has also contributed to the growth of internal auditing. "Internal auditors have enjoyed increased prominence, higher salaries, and a greater public appreciation for the role that internal auditing can play in a well-governed organization (Hermanson, 2006)." In particular, companies are using internal auditors to strengthen and evaluate their internal control systems to comply with the internal controls provisions of Sarbanes-Oxley. A 2003 survey by The Institute of Internal Auditors indicated that 20% of companies included in the Fortune 1,000 did not yet have

internal audit departments but 50% of the Fortune 1,000 companies planned to increase their internal audit staffs to comply with Sarbanes-Oxley (Harrington, 2004). A later survey of 117 chief audit executives of public companies subject to the provisions of Sarbanes- Oxley indicated that 111 reported their companies increased internal audit budgets from 2002 to 2005 (Kaplan & Schultz, 2006). Of these 111, 32% increased internal audit budgets by more than 50%. Another survey of 402 companies reports that more than half of them increased internal audit resources as a result of Sarbanes-Oxley, with 15% indicating more than a 50% increase (Price water house Coopers, 2006).

### **2.3.1 Internal Audit transparency of financial sustainability of Non-governmental organizations.**

Despite using fundraising efficiency as an indicator of financial performance of NGOs, there exist other measures which are linked to the financial transparency with NGOs as suggested by Standards for Charity Accountability of Better Business Bureau Organization (2008). By stating transparency in financial performance of NGOs, it indicates that they make information relating to financial activities available to relevant stakeholders especially donors. This calls for the preparation of comprehensive, accurate and timely financial reports and ensuring that they are made accessible to interested parties especially donors (Standards for Charity Accountability of Better Business Bureau Organization 2008).

Increased transparency can encourage greater donations by assuring donors that their donations are reaching the desired populations, can clarify accountability groups, and can increase overall quality of NGO service. One important role of transparency is to reduce corruption within the organization and more importantly during humanitarian crises. Humanitarian crises can lead to an inequitable distribution of aid, which includes NGO services, basic need supplies or development funds. NGOs are particularly vulnerable to fraud, embezzlement or bribery, which can occur when local governance is destroyed, the rule of law is all but gone, or there is a shortage or surplus of aid. Transparency helps ensure that aid via NGOs reaches those who need it, and offers some protection for the aid recipients. This protection is especially important due to the asymmetric relationship of NGO aid (Morgan 2009).

Although nonprofits which are often thought of as forces of good and representative of the true voices of ordinary citizens have occupied the moral high ground compared to governments and large corporations, practitioners and scholars have long debated the need to institutionalize organizational governance and transparency to maintain public trust (Keohane, 2002). In addition, internal auditors evaluate issues of integrity in a firm, measure systems and information flow to attain accountability and transparency in financial reporting (IIA, 2004). Function of internal auditors is to achieve transparency and high level of accountability in management of utilization of public finances and achieving expected institution performance (Shuttleworth, 2008).

### **2.3.2 Internal auditors' competency on financial sustainability of Non-governmental Organizations**

The competency of internal auditors is important in promoting good governance and ensuring effective utilization of public resources. The internal audit function personnel both at the audit committee level and at actual internal auditors should be qualified, competent and knowledgeable to enable them perform their duties effectively. Morgan (2009) posited that internal auditors needed to be experienced and have the expertise. The uniqueness of internal auditor's competency is fostered by ensuring internal auditor's independence, expertise, integrity and diligence to perform their role effectively (DeZoort, Hermanson, Archambeault & Reed 2002). In organizations with internal auditors with high competency levels, there is a positive correlation with performance which results in overall more effective corporate governance.

Lack of experience, expertise, knowledge and qualification on auditing practices hinders performance of internal auditors. Kariuki, (2010) posited that internal auditors in a firm should be competent professionals. Lack of adequate understanding when coupled with low level of knowledge on auditing operations poses a major threat to the achievement of high performance. The audit function requires internal auditors to be competent with high professional qualification with required experience to effectively execute their mandate. To achieve good governance, internal auditors must have attained minimum education level and have good professional standing in auditing. The chief auditor is required to effectively select and recruit highly trained and skilled internal auditors (Kunkel, 2014). Knowledge, competency and qualification of the internal auditors role

depends on the level of staff competency attained and this impacts on the audit quality (Mihret & Yismaw, 2013).

Detecting fraud is a challenging task. Perpetrators actively engage in deception in an attempt to conceal their behaviour, auditors may have limited experience in fraud detection, and fraudulent activities are inherently unpredictable and difficult to detect (Nieschwietz et al., 2000). Hence, the organization would be optimally served by identifying and utilizing those individuals who, because they appear to share certain unique personality traits or characteristics, may be best suited to the fraud detection task. Uecker et al. (2011) used perceptions of relative aggressiveness between internal and external auditors to investigate the detection of corporate irregularities. Internal auditors play an important role in fraud detection with most frauds identified by the internal audit function (KPMG, 2013).

Due to the importance of effective fraud detection, any measures that can enhance the efficacy of auditors should be of value. While experience and ability are undeniably important in the detection process, certain individual characteristics may be predictive of the capacity to detect fraud (Ashton, 2013). Understanding how auditors are perceived, and how these perceptions lead to beliefs regarding their detection abilities, is an important first step in relating personality traits to the efficacy of auditors. Effective internal audit system helps in achieving performance, resource optimization and prevents loss of revenues. The public expenditure management systems of the government are greatly enhanced by effective internal systems in which the internal audit has an important role in raising the reliability of the internal control system, improving the process of risk management and above all, satisfying the needs of internal users.

Tan and Kao (2010) pointed out that it is important to focus on individual's competence in performing assigned responsibilities as people having relevant experience and knowledge normally demonstrate better performance as they tend to prove their competence. The internal audit support enhances the system of responsibility that the executive directors and employees have towards the owners and other stakeholders (Eighme & Cashell, 2010). Taken together, the internal audit department provides a reliable, objective, and neutral service to the management, board of directors, and audit committee, while stakeholders are interested in return on investments, sustainable

growth, strong leadership, and reliable reporting on the financial performance and business practices of a company (Ljubisavljević & Jovanovi, 2011).

### **2.3.3 Influence of internal auditors' independence on financial sustainability of Non-governmental Organizations**

The internal audit activity should be independent. Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner (The Institute of Internal Auditors, 2001). To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels (The Institute of Internal Auditors, 2010).

Internal auditors should be objective in performing their work. Through the help of organizational independence the audit activity conduct work without interference by the entity under audit. Rieder, Stefan, & Luzia Lehmann, (2002) argued that audit activity should have sufficient independence from those it is required to audit in order to conduct and be perceived to conduct its work without interference . Together with objectivity, organizational independence contributes to the accuracy of the auditors' work and the ability to rely on reported results. Independence is greatly impacted by how a Chief Audit Executive (CAE) is appointed and can be terminated (Rubin, 2006).

The international professional practices framework (IPPF) states that the CAE, reporting functionally to the board and administratively to the organization's chief executive officer, facilitates organizational independence. Important parts of this independence are the CAE's ability to be protected from management or political interference or retaliation resulting from carrying out legitimate duties in accordance with the Standards. The CAE also should be free to staff the audit activity without interference from management or undue political influence from public officials' interference (Rieder, Stefan, & Luzia, 2002). To preserve independence, public sector auditors' advisory services should never assume a management role (Dorotinsky, & Pradhan, 2007). Moreover, auditors must

maintain independence and objectivity for any subsequent audits conducted where advisory services have been provided previously (Hatry, 2006).

As outlined by Floyd & Shrestha (2008), no matter how big, a non-profit organisation's effort to sell itself and its mission to its donors will continue as long as it is engaged in raising money and other resources otherwise its viability may be at stake, as well as its appeal to the donor community; it must continue to refine and redefine its marketing approaches and strategies to meet its expanding needs. It is obvious that if an NFP organisation is to maintain its ability to serve its various missions, its resource needs are bound to grow due to the national demographic trends which indicate that the population will continue to grow, especially among the minority and low income groups, hence increased need for unmet social needs. A survey done by the NGO coordination board indicated that a total of KES 68,825,055,222.00 was received by NGOs as donations to fund various projects during the year 2005/6. (The NGO Co-ordination Board, 2009)

Internal audit independence and authority are important concepts that enable the function to operate without interference and provide effective feedback to management on how to continuously enhance effective control policies (Warga, 2014). The auditing services offered by internal auditors are achieved through internal auditor's independence and where internal auditors lack independence, they would normally fail to perform to the expectation of the organization (Kadondi, 2012). Internal auditors are used as a control mechanism for evaluating management action against the expectations of the board and shareholders (Montondon & Fisher, 2009). Despite their existence, information inequalities constraint management and directors and the expectation that the internal audit function is an effective control system that promotes good governance (Lin et al, 2013).

Kirima (2016) did a study on factors affecting the performance of the internal audit function in government ministries in Kenya and concluded that internal audit independence and authority impacts on performance and concluded that performance is enhanced by there being a clear policy on the establishment of the internal audit function which protects the internal auditors from undue pressure of reprisals when they report, ensures that internal auditors do not audit operations they were involved in implementation, requires the presence of a clearly structured recruitment processes

where the Chief Audit Executive (CAE) is fully involved and the internal auditors having unrestricted access to records and transactions and to those charged with governance. Kirima also recommended that the ministries should keep organizing seminars and workshops to train the internal auditors and that the heads of the internal audit department should be responsible to the audit committees who possess sufficient authority to promote independence and to ensure that the broad audit objectives are met.

#### **2.3.4 Influence of internal auditing expenditures on financial sustainability of Non-governmental Organizations**

According to Anderson (2008) NGO accounting is dominated by budgeting. A budget is plan expressed in quantitative or monetary terms aimed at pursuing specific objectives during a defined period of time. He further states that budgeting has three main objectives: The first one being planning, Budgets provide a detailed plan of action for a given period of time, the plan relates to all aspects of the organization-production, labor, sales, and expenses among others. The second one is controlling, budgetary controls help responsible officers or accounting officers to be focused on only certain activities. This makes a comparison between the actual achieved results and the expected results possible. The third one is coordination; Budgeting helps manager (accounting officers) to coordinate their activities so as to be able to achieve the overall objectives of the organization.

Alridge and Colbert (2004) assert that budgeting is very important for NGO's because it acts as a control measure, they go ahead to mention that the benefits of budgeting almost always clearly outweigh the costs and efforts required by the process. The advantage of budgeting for the NGO's is that it forces project managers to think ahead. A look in to the future invariably compels top management to set goals and objectives. Budgeting therefore tends to move an organization from a reactionary mode in which management simply reacts to problems, to a controlled mode in which problems are anticipated and positive action is taken.

In Zambia, there has been no specific financial improvement for public sector (El-Nafbi, 2008). Historically the public sector has faced capacity constraints compounded by inadequate information process and systems. In addition, non-compliance with internal controls has lead to poor predictability of government expenditure and lack of analytical



capacity. The lack of adequate auditing and accounting systems in most African countries is exemplified by ineffective internal control and internal check, unqualified auditing and accounting staff, and unreliable and untimely accounting information systems. This has led to inadequate safeguards against corruption, fraud and other related malpractices. In Nigeria's public sector, policies are not adequately followed. Owizy (2011) assessed the effectiveness of internal control in government ministries taking a case of Benue State ministry of finance. According to the study findings, it was established that Benue State ministry of finance prepare annual budget promptly and also have adequate expenditure tracking to prevent financial recklessness. Consequently, it was recommended that, the ministry of finance should strictly abide by the principles and procedures in order to ensure that slack are built into the budget.

### **2.3.5 Influence of management support on financial sustainability of Non-governmental**

#### **Organizational**

According to Noebere (2000) all studies of business failure points to poor management as the main cause. The success of a firm is measured by its profitability which depends on the efficiency of its management. According to Schiavo-Campo (2001), some NGOs do not have the time and expertise to manage all of the funded programs, or even to ensure full involvement by all of the communities, as is normally claimed. Buysse and Verbeke (2003) in their study found that effective management requires the identification of important stakeholders.

Non-profit leaders observe government and foundation support as essential for their organization's financial feasibility, but distinguish that there are challenges associated with reliance on grants, contracts, and other sources of government or foundation funding. In a study of 26 health, human services, and community and economic development organizations in Mississippi, it was found that study participants expressed reservations about their organizations' reliance on government funding for their operations, due to considerable restrictions on how public funds can be utilized and the relatively large amount of time and resources consumed in complying with state and federal requirements (Besel, Charlotte & Klak 2011). In addition, overreliance on government-contract funding may lead to the hiring of temporary staff, which may have negative implications for staffing patterns and delivery of quality services. In a case

study of the Canadian Red Cross in the Toronto region, reliance on contract-based funding led to challenges with employee retention (Akingbola, 2004).

Okorley and Nkrumah (2009), for instance concluded that the survival of NGOs can be improved if they are able to develop and implement need-based and demand-driven programmes, supported by good leadership, transparency, accountability, and commitment to meet felt and expressed needs of beneficiaries. Further, there is need for management capacity that promotes learning organisation principles (such as shared vision, teamwork), and the provision of quality material resources for organisational efficiency and effectiveness.

The report should be supported by the stakeholder of the company including the management and the employees. The legitimacy of the audit activity and its mission should be understood and supported by Stakeholder like a broad range of elected and appointed public sector officials, as well as by the media and involved citizens (Bariyima, 2012). This because the auditors have used professional audit standards, such as the International Professional Practices Framework (IPPF) promulgated by The Institute of Internal Auditors, support the implementation of the previous elements and provide a framework to promote quality audit work that is systematic, objective, and based on evidence. Applied to NGOs, the management has a responsibility to provide the stakeholders with the reports on the operations of the NGOs. It also has a responsibility to justify the value of the NGOs' spending plans (Haber, 2004).

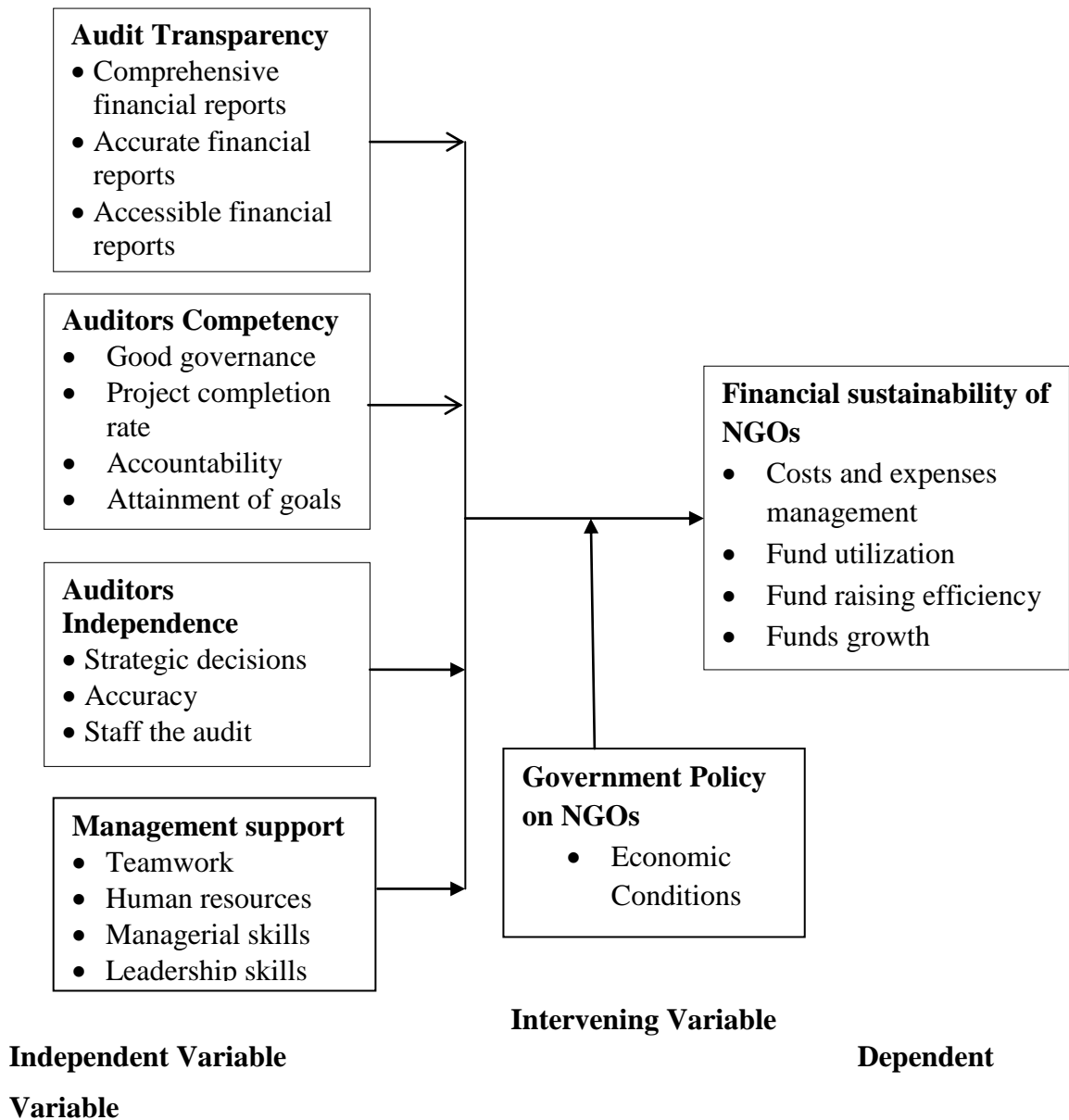
According to Mostashari (2005), one of the biggest problem NGO's in Iran are facing is Lack of managerial and leadership skills, this deprives NGOs from strategic planning. A number of NGOs visited during the research study indicated that they did not have a strategic plan and even annual operational plans for their routine tasks. They said they were interested in long-term planning, but strategic planning was an ad-hoc subject who needed special knowledge and skill and so they did not have such knowledge "stated in the focus group discussion (FGD)". There was a clear indication that budgeting was not being done and yet this was a very important internal control tool an which one would expect to measure performance.

Schneider (2014) found that internal auditors role in achieving objectivity in the organization is largely affected by their economic status and that lack of clear reward

systems. Schneider found that when rewards were not given to internal auditors, the internal audit operations could be influenced by management and this would affect their reports and may result in unreliable reports to the organization. In contrast, clear rewards linked to performance influenced internal auditors' intent to report any violation in the organization. Hence, internal auditors fail to achieve their performance due to lack of support from management, insufficient resources and failure to receive support from executive as well as poor relationship in the organization (Warga, 2014).

#### **2.4 Framework Conceptualization**

Kombo & Tromp (2006), define a conceptual framework as a research tool intended to assist the researcher develop awareness and understanding of the situation under scrutiny and to communicate it. The dependent variable in this study was financial suitability of NGOs while the independent variables included audit transparency, audit competency, audit independence and management support.



Source: Researcher, 2017

**Figure 2. 1:** Conceptual Framework

### 2.5 Knowledge Gap

According to McCord (2002), risk assessment of material misstatement at the financial statement level and also at the planning stage, clarifies the direction on performing a combined assessment of inherent and control risk, thus leaving the ability for the auditors to assess other risk factors in an audit. In their examination of the effects of the role of the board of directors in assisting in the formulation of corporate strategies on the auditors' planning judgments, they established that auditors respond to the role of the

board when making judgments with respect to control risk assessments. Keitany (2000), in his study on the internal audit control function and its implication on risk assessment by external auditors, established that the extent of dependence on internal controls were insensitive to the strength of internal audit departments. A study on the impact of risk-based audit on financial performance in Kenya's insurance companies conducted by Kasiva (2012) among 44 respondents that included finance officers, internal auditors, credit officers, relationship officers, and accountants found out that risk-based auditing through risk management should be enhanced to enable the organization concerned to detect risks on time

According to Okorley and Nkrumah (2012), organisational sustainability is looked at by local NGOs from several aspects of organisation's activities. The scope includes the availability of funds, availability and quality of material resources, supportive leadership, development of needs-based and demand-driven programme and effective management. Okorley and Nkrumah continue to state that all these factors greatly affect the effectiveness and survival of local NGOs.

Bongani (2013) report that establishing internal control systems in organizations is critical to ensure the reliability of accounting records, because internal control systems can constrain management or staff's reported and possible random errors. This ensures the authenticity of the content of financial reporting to provide reasonable assurance to stakeholders and it becomes another important system arrangement to ensure reliable financial reporting. Petrovits et. al. (2009) affirms that internal control systems are not new to the NGOs sector including the FBOs. Most organizations that receive external funding are subjected to rigorous internal control in line with the donor agency requirements. FBOs which exhibit internal control deficiencies may risk losing the much needed funding from the donors as they are accountable to them as well as the beneficiaries, the employees and other stakeholders.

Through Risk based audit sound risk management strategies which are forward looking and helps to improve business decisions (Fatemi and Glaum, 2000). It is not just about avoiding or minimizing losses, but about dealing positively with opportunities. It is a powerful tool for public sector managers (Drzik, 2000). Good risk management is based on a well-planned, logical, comprehensive and documented strategy. This strategy provides general policy guidance, and plans and procedures that can be used as part of the organization's everyday work to manage risk (OECD, 2005). The Risk Based

Internal Auditing (RBIA) approach involves management to a far greater extent. The risks to be covered in audits will exist in all parts of the organization and audits will therefore involve managers in departments never visited before (Millichamp, 2002). Many risks will be very significant to the organization and the discussion of their controls will involve more senior managers and directors than might be involved in traditional finance orientated audits (Al-Tamimi, 2002).

The literature reviewed has revealed a general conceptualization of studies in Kenya focusing on different factors influencing financial sustainability of NGOs. However, specific studies on the influence of risk based internal audit on financial sustainability of NGOs in Kenya, and particularly in Nakuru County have not been done. This study aimed at providing useful highlights on the influence of risk based internal audit on financial sustainability of NGOs in Nakuru county Kenya.

Kasiva (2012) further argues that fraud risk assessment is one area that deserves significant reliance on internal audit work. In this light, it is reasoned that due to the fact that internal auditors are more privy with the operations of the firm they work more than external auditors, are particularly suited to carry out fraud risk assessment. In a survey of internal auditors' risk management practices in the Kenya's banking sector, Kibaara (2007) investigated bank internal auditors' risk assessment practices and established that, most banks in Kenya were in the process of drafting the enterprise risk management (ERM) process and strategies in line with risk assessment.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presented the methodology that was used in data collection and analysis. It presented the research design, targeted population, the procedures used in sample selection and sampling techniques, instruments for data collection, presentation and analysis of data, methods of verifying reliability and validity of instruments and ethical considerations.

#### **3.2 Research Design**

The study used descriptive survey design. According to Mugenda and Mugenda (2003) a descriptive survey design allows simultaneous description of views, perceptions and beliefs of the respondents at a given point in time. This technique is considered appropriate for obtaining factual and attitudinal information for research questions about self report, beliefs, opinions and characteristics of the respondents' behaviours. In addition, Kerlinger (2009) points out that descriptive studies are not only restricted to the fact findings but may often result in the formulation of important principles of knowledge and solutions to significant problems and are more than just a collection of data since they involve measurement, classification, analysis and interpretation. The research approach was quantitative in nature and relied on primary methods of data collection.

#### **3.3 Targeted Population**

Target population is the specific population about which information is desired. Population is a set of people, services, elements, events, group of things or households that are being investigated (Ngechu (2004). Mugenda and Mugenda, (2003), explain that the target population should have some observable characteristics, to which the researcher intends to generalize the results of the study. The target population of this study included the management team of NGO's based in Nakuru County registered with the NGO council of Kenya. There are 79-registered NGO's in Nakuru County Kenya, (see Appendix 3).

### 3.4 Sampling Design and Procedure

In this study, the sample size was drawn from branch/program managers, financial officers and accountants from NGOs in Nakuru County. Program managers, grants managers and accountants were involved in the study because they are knowledgeable about the operations of their NGOs, and therefore, able to provide reliable information pertaining the study variables. To obtain the study sample size, Nassiuma's (2000) formula for estimating a sample size  $n$  from a known population,  $N$  was used in selecting the study respondents:

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

Where  $n$  = Sample size

$N$  = Population, 237 in this case

$C$  = co-efficient of variation assumed to be 30% for survey research

$e$  = standard error, assumed to be 0.02 in this case

Substituting these values in the equation estimated sample size will be:

$$n = \frac{237 \times 0.3^2}{0.3^2 + (237 - 1) 0.02^2} = 115$$

This gave 115 persons as the study respondents. Stratified random sampling was then applied in selecting the study participants. The NGOs targeted was stratified according to the activities they undertake. The required sample size was proportionately distributed to all the stratas and simple random sampling applied in selecting the actual study participants were shown in table 3.1.



**Table 3. 1: Classification of NGOs, Number of Officials and Sample Size.**

<b>Classification of NGOs</b>	<b>Number</b>	<b>No of officials</b>	<b>Sample Size</b>
Provision of Water Services	5	15	7
Agriculture	4	12	5
Community Development	9	27	13
Health Promotions	6	18	9
Environmental Protection	8	24	12
Child welfare protection	7	21	10
Peace Building and Conflict	6	18	9
Humanitarian Welfare	7	21	10
Empowerment and advocacy	7	21	10
Entrepreneurship	6	18	9
Family and Social Relations	6	18	9
Youth and Gender Issues	8	24	12
<b>Total</b>	<b>79</b>	<b>237</b>	<b>115</b>

Source: Nakuru County, Social Services Department, 2016.

### **3.5 Data Collection Instruments**

Under this research, the method used to acquire information was the questionnaires in collecting the data. The questionnaires are advantageous in that they save on time, are confidential and eliminate interviewer bias, when using questionnaires is that a large number of people can be reached relatively easily and economically, a standard questionnaire provides quantifiable answers for a research topic and their answers are relatively easy to analyse. ( Kombo & Tromp, 2011).

The questionnaire used consisting of structured closed ended questions for ease of analysis. The questions were in the form of a likert rating scale. Close ended questions have the advantage of collecting viable quantitative data, they are easy and quick to answer, and the response choice can clarify the question text for the respondent. They improve consistency of responses, easy to compare with other respondents or questionnaires, are easier, are quicker and less costly to analyze. The questionnaires were distributed through drop and pick method.

### **3.6 Pilot Testing**

In order to ensure that the research instruments are reliable, the instrument was taken for piloting with 10% of the sample size in Nakuru County. This helped to ascertain whether the results of the pilot study was corresponding with the objectives of the study. The data obtained during the pilot study was considered during the research.

### **3.7 Validity of the Instrument**

Validity is the accuracy and meaningfulness of inferences, which are based on the results. It is a measure of how well a test measures what it is intended to measure. In this study validity was ensured by good instrument design to reflect the research objectives (Borg & Gall, 1997). The supervisor was consulted to verify content and face validity of the instrument. The questionnaire was carefully designed and tested with a few members of the population for further improvements. This was done in order to enhance its validity and accuracy of data to be collected for the study.

### **3.8 Reliability of the Instrument**

Reliability is the extent to which research instrument yields consistent results when administered at different periods of time. The reliability was ensured by testing the instruments during pilot study. The internal consistency method provided a unique estimate of reliability for the given test administration. Cronbach's alpha for estimating internal consistency reliability was used. Cronbach alpha coefficient values above 0.7 were an indicator that the instrument was reliable.

### **3.9 Data Analysis and Presentation**

Before the actual data analysis, data obtained through questionnaire was validated, edited and then coded Mugenda and Mugenda, (2003). The returned instruments were scrutinized to determine correctness and accuracy of responses. The findings were coded based on the variables under study. Tables and other graphical presentations as appropriate were used to present the data collected for ease of understanding and analysis. Descriptive and inferential statistics were used in data analysis, with the aid of Statistical Package for Social Sciences (SPSS) IBM software. Descriptive statistics included the frequencies and percentages, mean and standard deviations. Regression analysis which included multiple regressions was used to establish the influence of risk based internal audit on financial sustainability of NGOs in Nakuru County at 95% level of significance. The following regression model was used.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where,

Y = Financial Sustainability

X<sub>1</sub> = Auditors Transparency

X<sub>2</sub> = Auditors Competence

X<sub>3</sub> = Auditors Independence

X<sub>4</sub> = Management Support

β<sub>0</sub> = Model Constant

β<sub>1</sub>, β<sub>2</sub> and β<sub>3</sub> = Model Coefficients

ε = Error Term.

## CHAPTER FOUR

### DATA ANALYSIS AND DISCUSSIONS

#### 4.1 Introduction

This chapter presented the findings as derived from the data analysis and discussions thereof. The researcher essentially presented the findings in line with the study and objectives. The findings were presented starting with the response rate, followed by the background information of the respondents, then descriptive statistics presented as per every variable and finally the inferential statistics. The findings were presented in tables and discussions thereof.

#### 4.2 Response rate

A total of 115 questionnaires were distributed for the staff in non-governmental organisations. 84 questionnaires were returned by the respondents. Six of the returned questionnaires were incompletely filled and were deemed inappropriate for data analysis thus were discarded. Thus 78 questionnaires were completely filled and returned indicating a response rate of 68% ((percent). Essentially, the response rate that every researcher would pursue would be 100% (percent). In reality however this is not possible due to sampling measurement and coverage errors. A response rate below 51% (percent) is considered inadequate in social sciences (Pinsonneault & Kraemer, 1993). Babbie (1990) suggested that a response rate of 60% (percent) is good; 70% (percent) is very good.

#### 4.3 Background information

The researcher sought to establish the background information of the respondents in the non-governmental organizations in Nakuru County. The information related to respondents gender, experience and education. The findings in regard to the gender of the respondents was as shown in the table 4.1 below.

**Table 4. 1: Gender of the Respondents**

	Frequency	Percent
Valid Male	45	58.4
Valid Female	32	41.6
Total	77	100.0

Both genders were represented in these research. The findings indicated that 58.4% (percent) of the respondents were male while 41.6% (percent) were female. It was therefore observed that the employees in the non-governmental organizations were fairly distributed across both genders. This is with the conformity of the constitution which requires a 2/3 (Two third gender rule) in the employment of staffs in any given organization in Kenya. The findings in relation to the respondents experience were as presented in table 4.2

**Table 4. 2: Experience in NGOs**

		Frequency	Percent
Valid	Below 1 year	8	10.4
	1-5 Yrs	67	87.0
	6-10 Yrs	2	2.6
	Total	77	100.0

A majority of the respondents comprising up to 87% (percent) had worked in the NGOs for between one and five years. 10.4% ( percent) of the respondents had worked in the NGOS for less than one year while only 2.6% ( percent) of the respondents had been working there for between six and ten years. The researcher thus observed that the respondents had rather relatively little experience in working in the NGOs. Little experience in organization especially in non-governmental organization may result in a catastrophic outcome especially in fund utilization, acquiring and operational running. The study further examining the education levels of the respondents and the results were as presented in Table 4.3

**Table 4. 3: Academic qualification**

		Frequency	Percent
Valid	Diploma	14	18.2
	Bachelor Degree	58	75.3
	Master's Degree	5	6.5
	Total	77	100.0

The above table 4.3 indicated that 75.3% (percent) of the respondents forming the majority in the NGOs had a bachelor degree. In addition 18.2% (percent) had a diploma while 6.5% (percent) of the respondents had a master's degree. This was an indication that many of the employees in the non-governmental organizations had acquired

significantly sufficient academic qualification. This portrayed in their working outcome or results which portray professionalism

#### 4.4 Descriptive Statistics

The researcher sought to establish the general views of the respondents in regard to various aspects of the study variables. The questionnaires had been structured in a manner to elicit responses in a Likert scale. This enabled the computation of frequencies and chi-square ( $\chi^2$ ) values of the responses and enabled the researcher to make out observations on respondents views. The analysis was in line with the study variables as presented hereafter

##### 4.4.1 Auditors Transparency

Respondent's views were sought in relation to the auditing transparency in the non-governmental organizations. The findings from the analysis were as shown in table 4.4

**Table 4. 4: Auditing Transparency Descriptive Statistics**

	SA (%)	A (%)	U (%)	D (%)	SD (%)	$\chi^2$	p-value
The institution has an operational website which hosts the organization profiles and activities	48.1 (37)	16.9 (13)	3.9 (3)	2.6 (2)	28.6 (22)	55.143	.000
Our audit reports are conveyed on the institutions website for everyone scrutiny	6.5 (5)	6.5 (5)	1.3 (1)	19.5 (15)	66.2 (51)	109.818	.000
The institutions website has aided in information storage aiding future references in the audit process	16.9 (13)	9.1 (7)	7.8 (6)	11.7 (9)	54.5 (42)	59.299	.000
The audit department prepares accurate financial reports reflected in organizations financial transactions	23.4 (18)	54.5 (42)	7.8 (6)	1.3 (1)	13.0 (10)	67.481	.000
Use of audit trails through adoption of ICT has enhanced audit transparency in the NGO	32.5 (25)	22.1 (17)	22.1 (17)	2.6 (2)	20.8 (16)	18.000	.001
The financial reports are collated for all the departments in the NGO	42.9 (33)	37.7 (29)	6.5 (5)	3.9 (3)	9.1 (7)	53.714	.000
The audit department in the NGO has assumed high level of accountability in financial management	39.0 (30)	37.7 (29)	15.6 (12)	1.3 (1)	6.5 (5)	47.091	.000
Valid N (list wise)	77						

The findings acquired indicated that 65% (percent) of the respondents were in agreement that their institution had an operational website which hosts the organizations profiles and activities. Further 77.9% (percent) of the respondents strongly and/or agreed that the audit department prepares accurate financial reports reflecting organizations financial transaction. Additionally, 80.6% (percent) of the respondents strongly and/or agreed that the financial reports are collated for all the departments in the NGOs. Equally 76.7% (percent) of the respondents strongly and/or agreed that the audit department in the NGOs assumes high level of accountability in financial management. However 85.7% (percent) of the respondents strongly and/or disagreed that their audit reports are conveyed on the institutions website for everyone scrutiny. Further 66.2% (percent) of the respondents also strongly and/or disagreed that their institutions website has aided in information storage aiding future references in the audit process. On the other hand 54.6% (percent) of the respondents were in agreement that the use of audit trails through adoption of ICT has enhanced audit transparency in the NGO. The chi-square ( $\chi^2$ ) values were all found to be significant at  $p < .05$  indicating that respondents expressed different views in all aspects of auditors transparency. This was in agreement with Morgan (2009) who asserted that increased transparency can encourage greater donations by assuring donors that their donations are reaching the desired populations, can clarify accountability groups, and can increase overall quality of NGO service.

#### **4.4.2 Auditors Competence**

Respondents' views were sought in regard to auditors' competence in the NGOs in Nakuru. The analysis findings were as presented in table 4.5

**Table 4. 5: Descriptive Statistics on Auditors Competence**

	SA	A	U	D	SD	$\chi^2$	P- Value
	(%)	(%)	(%)	(%)	(%)		
The organization hires qualified auditors to perform its functions	44.2 (34)	37.7 (29)	9.1 (7)	2.6 (2)	6.5 (5)	57.740	.000
The hiring of competent auditors has enhanced good governance in the NGO	45.5 (35)	45.5 (35)	1.3 (1)	3.9 (3)	3.9 (3)	83.325	.000
Good management of financial resources enables the completion of NGO projects	51.9 (40)	37.7 (29)	3.9 (3)	2.6 (2)	3.9 (3)	82.935	.000
The audit department accounts for all the NGOs project expenditures	28.6 (22)	22.1 (17)	11.7 (9)	26.0 (20)	11.7 (9)	9.688	.047
The high understanding of audit operations by the auditors enables the achievement of high performance in the NGO	27.3 (21)	35.1 (27)	29.9 (23)	2.6 (2)	5.2 (4)	34.623	.000
The chief auditor in the NGO selects and recruits highly skilled auditors	24.7 (19)	23.4 (18)	13 (10)	10.4 (8)	28.6 (22)	9.558	.049
The internal control systems in the NGO is highly reliable in enhancing transparency	42.9 (33)	26.0 (20)	15.6 (12)	6.5 (5)	9.1 (7)	33.844	.000
Valid N (list wise)	77						

It was observed that 81.9% (percent) of the respondents strongly and/or agreed that the organization hires qualified auditors to perform its functions. 91% (percent) of them observed that the hiring of competent auditors enhances good governance in the NGOs. Further 89.6% (percent) of the respondents also strongly and/or agreed that good management of financial resources enables the completion of NGOs projects. 62.4% (percent) of the respondents strongly and/or agreed that the high understanding of audit operations by the auditors enabled the achievement of high performance in the NGOs. In addition 68.9% (percent) of the respondents noted that the internal control systems in the NGOs are highly reliable in enhancing transparency. Respondents were however undecided on whether the audit department accounts for all the NGOs project expenditures with their responses appearing to balance across all response categories. In addition they were undecided on whether the chief auditors in the NGOs select and



recruits highly skilled auditors. The chi-square ( $\chi^2$ ) statistic for the two aspects were found to be insignificant at  $p < .05$  indicating that the responses did not indicate any significant differences. However all the other aspects had chi-square ( $\chi^2$ ) statistics significant indicating that the respondents demonstrated significant differences in their responses. Further, the study was in agreement with other researcher like Morgan (2009) who found out that competency of internal auditors is important in promoting good governance and ensuring effective utilization of public resources. The internal audit function personnel both at the audit committee level and at actual internal auditors should be qualified, competent and knowledgeable to enable them perform their duties effectively

#### 4.4.3 Auditors Independence

The views of the respondents regarding auditors' independence in the NGOs in Nakuru were sought out. The findings from the analysis were as shown in table 4.6.

**Table 4. 6: Descriptive Statistics on Auditors Independence**

	SA %	A %	U %	D %	SD %	$\chi^2$	P- Value
The organization audit department has been given autonomy in its operation	27.3 (21)	40.3 (31)	9.1 (7)	11.7 (9)	11.7 (9)	27.740	.000
The audit department in the organization adheres to the accountability requirement of their performance	31.2 (24)	54.5 (42)	5.2 (4)	2.6 (2)	6.5 (5)	77.870	.000
The organization audit department adheres to the institute of internal auditors guidelines in regard to internal auditors independence and objectivity	31.2 (24)	46.8 (36)	13.0 (10)	2.6 (2)	6.5 (5)	52.935	.000
The internal auditors in the organization possess the knowledge and competencies requires for them to perform their job objectively and independently	35.1 (27)	40.3 (31)	16.9 (13)	1.3 (1)	6.5 (5)	45.403	.000
The internal audit department independently contributes to the risk management, control and governance prices using disciplined and systematic approach	22.1 (17)	41.6 (32)	16.9 (13)	10.4 (8)	9.1 (7)	26.571	.000
Personal economic interests have hindered the department of internal audit from operating independently without undue influence	33.8 (26)	32.5 (25)	6.5 (5)	7.8 (6)	19.5 (15)	26.052	.000

It was observed that the majority of the respondents agreed with all the aspects of auditors' independence with their responses falling on either strongly and/or agree. 67.6% (percent) of them strongly and/or agreed that the organization audit department has been given autonomy in its operation while 85.7% (percent) of them strongly and/or agreed that the audit department adheres to the accountability requirement of their performance. Further 78% (percent) of them strongly and/or agreed that the organization audit department adheres to the institute of internal auditors guidelines in regard to internal auditors' independence. On the other hand, 75.4% (percent) of them also strongly and/or agreed that the internal auditors in the organization possess the knowledge and competencies required for them to perform their job objectively and independently. Additionally, 63.7% (percent) of the respondents strongly and/or agreed that the internal audit department independently contributes to the risk management, control and governance prices using disciplined and systematic approach and also that personal economic interests have hindered the department of internal audit from operating independently without undue influence. The chi square ( $\chi^2$ ) values were all significant indicating that the responses were significantly diverse and the respondents were not in agreement with each other. This was in agreement with other researchers such as Warga, (2014) and Kadondi (2012) who agreed that internal audit independence and authority are important concepts that enable the function to operate without interference and provide effective feedback to management on how to continuously enhance effective control policies.

#### **4.4.4 Management Support**

Regarding management support, the findings were as presented in table 4.7

**Table 4. 7: Descriptive Statistics on Management Support**

	SA %	A %	U %	D %	SD %	$\chi^2$	P- Value
The management of the organization provides all the necessary support to the internal auditing department	13.0 (10)	26.0 (20)	29.9 (23)	18.2 (14)	13.0 (10)	9.039	.060
The management provides the needed resources to the auditing department to perform their function	10.4 (8)	27.3 (21)	16.9 (13)	36.4 (28)	9.1 (7)	20.857	.000
The management of the organization values the work performed by the internal audit department	10.4 (8)	42.9 (33)	28.6 (22)	13.0 (10)	5.2 (4)	36.831	.000
Any decisions made in the institution has to be guided by the internal audit report	5.2 (4)	15.6 (12)	11.7 (9)	46.8 (36)	20.8 (16)	39.429	.000
The heads of the auditing department are involved in management strategy development meetings in the organization	6.5 (5)	29.9 (23)	22.1 (17)	26.0 (20)	15.6 (12)	13.065	.000
The management ensures sufficient independence is given to the auditing department to perform their work	7.8 (6)	31.2 (24)	28.6 (22)	18.2 (14)	14.3 (11)	14.753	.005
Valid N (list wise)	77						

Respondents were not conclusive on whether the management of the organization provides all the necessary support to the internal auditing department with responses being spread almost equally across all choice categories. The chi-square ( $\chi^2$ ) value for this aspect was also insignificant at  $p < .05$  indicating that responses were similar among all the respondents. Further they were undecided on whether the management provides the needed resources to the auditing department to perform their function having responses distributed across the choice categories. Additionally respondents were not sure that the management values the work performed by the internal audit department and whether the heads of the auditing department were involved in management strategy development meetings in the organizations. On the other hand they remained indifferent as to whether the management ensures sufficient independence is given to the auditing department to perform their work. However 67.6% (percent) of the respondents strongly and/or disagreed that any decisions made in the institution has to be guided by the internal audit report meaning that this was not the case in the organization. It was observed that this was in agreement with other scholars like Buysse and Verbeke (2003) and Okorley and Nkrumah (2009), who agreed that effective management requires the

identification of important stakeholders and that the survival of NGOs can be improved if they are able to develop and implement need-based and demand-driven programmes, supported by good leadership, transparency, accountability, and commitment to meet felt and expressed needs of beneficiaries

#### 4.4.5 Financial sustainability of NGOs

The study sought respondents' views on the financial sustainability of the NGOs. The findings were as presented in table 4.8

**Table 4. 8: Descriptive Statistics on NGOs Financial Sustainability**

	SA	A	U	D	SD	$\chi^2$	P-Value
	%	%	%	%	%		
Auditors competence enhances timely completion of NGOs projects	28.6 (22)	31.2 (24)	32.5 (25)	1.3 (1)	6.5 (5)	34.104	.000
Audit transparency in the NGOs has resulted to increased donor funding	33.8 (26)	49.4 (38)	6.5 (5)	7.8 (6)	2.6 (2)	64.883	.000
Improved management support enables the NGO to operate efficiently and proactively to environmental threats	31.2 (24)	53.2 (41)	7.8 (6)	5.2 (4)	2.6 (2)	73.195	.000
There is accountability in financial management my NGO	32.5 (25)	44.2 (34)	18.2 (14)	2.6 (2)	2.6 (2)	51.896	.000
Auditors independence enhances the timely attainment of goals and objectives of the NGO	20.8 (16)	22.1 (17)	41.6 (32)	7.8 (6)	7.8 (6)	29.558	.000
Due to increased management support has led to increased capitalization of the NGO through good will donations and fundraising	28.6 (22)	32.5 (25)	31.2 (24)	2.6 (2)	5.2 (4)	33.714	.000
Increased management support has led to increased capitalization of the NGO through good will donations and fundraising	41.6 (32)	33.8 (26)	19.5 (15)	1.3 (1)	3.9 (3)	47.158	.000
Valid N (list wise)	76						

The findings indicated that 59.8% (percent) of the respondents strongly and/or agreed that the auditors competence enhances timely completion of NGO projects. Further 83.2% (percent) of them strongly and/or agreed that audit transparency in the NGOs has resulted to increased donor funding. They observed that improved management support enables the NGO to operate efficiently and proactively to environmental threats. On the other hand, 76.7% (percent) of the respondents strongly and/or agreed that there is accountability in financial management in their NGOs. Further, 61.1% (percent) of the

respondents strongly and/or agreed that increased management support has led to increased capitalization of the NGO through good will donations and fundraising. They were however inconclusive on whether auditors independence enhances the timely attainment of goals and objectives of the NGO with a majority of the respondents choosing to be undecided on this aspects. The respondents' views were however very diverse with all the responses having chi-square ( $\chi^2$ ) statistic significant at  $p < .05$ .

#### 4.5 Inferential Statistics

The study undertook inferential analysis to establish whether there existed relationships between independent and the dependent variables and also to test the hypothesis. To do this, the responses were computed into composite mean scores of their mean as per every study variable. The composite mean scores were then used in the inferential analysis. Pearson product moment correlation coefficient was used to test for any relationships while simple regression analysis was adopted for hypothesis testing. The findings from these analyses were as discussed hereafter.

##### 4.5.1 Correlation Analysis

The study utilized Pearson correlation coefficient to examine the relationship between the independent variables and the dependent variable. The analysis findings were as presented in table 4.9

**Table 4. 9: Correlation Results**

		Audit Transparency	Auditors competence	Auditors Independence	Management Support
Financial Sustainability	Pearson Correlation	.296**	.419**	.311**	.231*
	Sig. (2- tailed)	.009	.000	.006	.043
	N	77	77	77	77

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

\* . Correlation is significant at the 0.05 level (2-tailed).

The table shows the existence of weak positive significant ( $r=.296$ ,  $p=.009$ ) relationship between audit transparency and financial sustainability. The relationship was significant at  $p < .01$  level of significance. This indicates that enhancing audit transparency consequently enhances the financial sustainability of NGOs in Nakuru County. On the

other hand there was an average positive significant relationship ( $r=.419$ ,  $p<.000$ ) between auditors competence and financial sustainability. As such auditors' competence plays a role in determining the financial sustainability of NGOs in Nakuru County. A weak positive significant relationship ( $r=.311$ ,  $p=.006$ ) was also established between auditors independence and financial sustainability. Further management support had a weak positive significant ( $r=.231$ ,  $p=.043$ ) relationship with financial sustainability at  $p<.05$  level of significance. Thus the researcher observed that enhancing auditors' independence and increasing the management support of the auditing department would consequently lead to improved financial sustainability in the NGOs in the county of Nakuru.

#### 4.5.2 Hypothesis Testing

The analysis was based on various hypotheses to guide in accomplishing the research objectives. Simple linear regression analysis was utilized to test the hypotheses using the analysis of variance (ANOVA) at a level of significance of  $p<.05$ . The analysis was as per every hypothesis.

- i. **H<sub>01</sub>**: Internal Audit transparency has no significant influence on financial sustainability of Non-governmental organizations.

The first hypothesis postulated that internal audit transparency did not significantly influence the financial sustainability of NGOs in Nakuru. To authenticate this postulation, ANOVA test was applied at  $p<.05$  and the findings presented hereafter.

**Table 4. 10: Model Results**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.296 <sup>a</sup>	.087	.075	.68512

a. Predictors: (Constant), Audit Transparency

The model summary indicated an R-squared value of .087 indicating that audit transparency accounted for only 8.7% (percent) of the total variation in financial sustainability of NGOs. Therefore audit transparency influence on financial sustainability is minimal indicating that other factors excluded from this model greatly influence financial sustainability. The ANOVA findings were as presented in table 4.11

**Table 4. 11: ANOVA<sup>a</sup> Results**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.375	1	3.375	7.189	.009 <sup>b</sup>
	Residual	35.204	75	.469		
	Total	38.579	76			

a. Dependent Variable: Financial Sustainability

b. Predictors: (Constant), Audit Transparency

The findings gave an F-statistic ( $F_{(1,75)}=7.189$ ,  $p<.009$ ) which was significant at  $p<.05$ . Thus, audit transparency significantly influences financial sustainability of the NGOs in Nakuru County. Therefore, the null hypothesis,  $H_{01}$  that internal audit transparency has no significant influence on financial sustainability of Non-governmental organizations was consequently rejected. The study therefore concluded that internal audit transparency has a significant influence on financial sustainability of NGOs in Nakuru County.

**H<sub>02</sub>:** Internal auditors' competency has no significant influence on financial sustainability of Non-governmental organizations in Nakuru County.

The hypothesis indicated that internal auditor's competency does not significantly influence financial sustainability of NGOs the Nakuru County. ANOVA was done to establish whether the hypothesis was correct or not. The findings were as shown hereafter.

**Table 4. 12: Model Results**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.419 <sup>a</sup>	.175	.164	.65129

a. Predictors: (Constant), Auditors competence

From the model summary table 4.12, an R-squared value of .175 was established. This meant that auditors' competence accounted for 17.5% (percent) of the total variance in financial sustainability of non-governmental organizations in Nakuru County. The remaining 82.5% (percent) of variation in financial sustainability was accounted for by

factors not considered in this model. The analysis of variances yielded the following results in table 4.13

**Table 4. 13: ANOVA<sup>a</sup> Results**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.766	1	6.766	15.950	.000 <sup>b</sup>
	Residual	31.813	75	.424		
	Total	38.579	76			

a. Dependent Variable: Financial Sustainability

b. Predictors: (Constant), Auditors competence

The F-statistics ( $F_{(1,75)} = 15.950$ ,  $p = .000$ ) was found to be significant at  $p < .05$  level of significance. This implied that auditors' independence significantly explains the variation in financial sustainability in non governmental institutions in Nakuru County. Therefore, the null hypothesis  $H_{02}$ , that internal auditors' competency has no significant influence on financial sustainability of Non-governmental organizations in Nakuru County was consequently rejected.

**H<sub>03</sub>:** Internal auditors' independence has no significant influence on financial sustainability of Non-governmental organizations in Nakuru County.

According to the hypothesis, internal auditors' independence does not have a significant influence on financial sustainability of NGOs in the county of Nakuru. To ascertain the authenticity of the hypothesis, ANOVA was performed at  $p < .05$  level of significance.

**Table 4. 14: Model Results**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.311 <sup>a</sup>	.097	.085	.68160

a. Predictors: (Constant), Auditors Independence

The findings indicated an R-squared value of 0.97 indicating that internal auditors' independence could explain 9.7% (percent) of the total variance in financial sustainability in the NGOs. Thus auditors' independence plays a significant role in determining the financial sustainability of NGOs in Nakuru County. The analysis of variance gave the results shown in table 4.15



**Table 4. 15: ANOVA<sup>a</sup> Results**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.736	1	3.736	8.041	.006 <sup>b</sup>
	Residual	34.843	75	.465		
	Total	38.579	76			

a. Dependent Variable: Financial Sustainability

b. Predictors: (Constant), Auditors Independence

The F-statistics ( $F_{(1, 75)} = 8.041$ ,  $p < .006$ ) was significant at  $p < .05$  level of significance. As such the auditors' independence plays a significant role in determining the financial sustainability of non-governmental organizations in Nakuru. Therefore the null hypothesis H03, that internal auditors' independence has no significant influence on financial sustainability of Non-governmental organizations in Nakuru County was consequently rejected.

**H<sub>04</sub>:** Internal audit management support has no significant influence on financial sustainability of Non-governmental organizations in Nakuru County.

The fourth hypothesis was of the view that management support does not significantly influence the financial sustainability of non-governmental organizations in Nakuru. The researcher sought to ascertain the assertion through testing the hypothesis using ANOVA at  $p < .05$  level of significance. The findings were as presented hereafter.

**Table 4. 16: Model Results**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.231 <sup>a</sup>	.053	.041	.69776

a. Predictors: (Constant), Management Support

The model summary showed an R-squared value of .053 meaning that management support explained 5.3% (percent) of the total variation in financial sustainability of NGOs in Nakuru. Therefore, the influence of management support on financial support is somewhat little compared to other factors. The analysis of variance gave the following results.

**Table 4. 17: ANOVA<sup>a</sup> Results**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.064	1	2.064	4.238	.043 <sup>b</sup>
	Residual	36.515	75	.487		
	Total	38.579	76			

a. Dependent Variable: Financial Sustainability

b. Predictors: (Constant), Management Support

An F-statistic value of 4.238 was obtained and found to be significant at  $p < .05$  level of significance. This implies that the influence of management support on financial sustainability of NGOs is significant at  $p < .05$ . Thus the null hypothesis  $H_{04}$  that internal audit management support has no significant influence on financial sustainability of Non-governmental organizations in Nakuru County was consequently rejected. As such increasing management support on the audit department enhances the financial sustainability of the NGOs

#### 4.5.3 Multiple Linear Regression Analysis

The researcher undertook multiple liner regression of dependent variable against independent variable and findings from the analysis were as show in table 4.18.

**Table 4. 18: Model Results**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.436 <sup>a</sup>	.190	.145	.65889

a. Predictors: (Constant), management support, Auditors independence, Auditors competence, auditor transparency

The coefficient of determination was .190 which implies that 19.0% (percent) of the variance in financial sustainability of NGOs in Nakuru County was as a result of auditor transparency, auditors competence, auditors independence and management support adopted by Non-Governmental organizations. This implies that other factors not considered in this model accounted for 81% (percent) of the total variance in financial sustainability of NGOs in Nakuru County. The analysis of variance gave the following results in Table 4.19.

**Table 4. 19: ANOVA<sup>a</sup> Results**

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	7.321	4	1.830	4.216	.004 <sup>b</sup>
1	Residual	31.258	72	.434		
	Total	38.579	76			

a. Dependent Variable: financial sustainability

b. Predictors: (Constant), management support, Auditors independence, Auditors competence, auditor transparency

An F-value ( $F_{(4, 72)} = 4.216$ ,  $p = .004$ ) was established which was significant at  $p < .05$  level of significance. This indicates that the independent variables taken together have a significant influence on the financial sustainability of NGOs in Nakuru County. Thus it was concluded that for financial sustainability could significantly be explained by the management support, auditors' competence, auditor's independence and auditor's transparency. The model coefficients table gave the following results shown in table 4.20

**Table 4. 20: Coefficients<sup>a</sup> for Multiple Regression**

Model	Unstandardized Coefficients		Standardized t	Sig.	Collinearity Statistics			
	B	Std. Error	Beta		Tolerance	VIF		
	(Constant)	2.209	.437	5.055	.000			
	Auditor transparency	-.015	.133	-.018	-.111	.912	.450	2.221
1	Auditors competence	.300	.136	.344	2.205	.031	.463	2.159
	Auditors independence	.064	.128	.072	.501	.618	.540	1.853
	Management support	.110	.117	.123	.940	.351	.655	1.527

a. Dependent Variable: financial sustainability

From the table the findings indicated that the parameter estimate ( $\beta$ ) for auditor transparency was  $-.015$  with a t-value of  $-.111$ . However, the t-value was insignificant at

$p < .05$  level of significance. Thus, auditor's transparency has no significant influence on financial sustainability of NGOs in Nakuru County. This implies that the null hypothesis  $H_{01}$  that internal Audit transparency had no significant influence on financial sustainability of Non-governmental organizations in Nakuru County Kenya failed to be rejected. Further, the parameter estimate ( $\beta$ ) for auditor's competence was .300 with a t-value of 2.205. However, the t-value was insignificant at  $p < .05$  level of significance. This means that auditor's competence has no significant influence on financial sustainability of NGOs in Nakuru County. Therefore the null hypothesis  $H_{02}$  that there was no statistically significant influence of internal auditors' competence on financial sustainability of Non-governmental organizations in Nakuru County Kenya failed to be rejected. On the other hand, the parameter estimate ( $\beta$ ) for auditor independence was .064 with a t-value of .501. However, the t-value was insignificant at  $p < .05$  level of significance. Thus auditor independence has no significant influence on the financial sustainability of NGOs in Nakuru County, Kenya. As such the null hypothesis  $H_{03}$  that internal auditors' independence had no significant influence on financial sustainability of Non-governmental organizations in Nakuru County Kenya was consequently rejected. Finally the researcher observed that, the parameter estimate ( $\beta$ ) for management support was .110 with a t-value of .940. However, the t-value was insignificant at  $p < .05$  level of significance. Therefore management support has no significant influence on financial sustainability of NGOs in Nakuru County. Therefore the null hypothesis  $H_{03}$  that management support had no significant influence on financial sustainability of Non-governmental organizations in Nakuru County Kenya failed to be rejected. The study fitted the following regression model from the model coefficients table.

$$Y = 2.209 - .015X_1 + .300 X_2 + .064X_3 + .110X_4 + e$$

Where,

Y = Financial Sustainability

$X_1$  = Auditors Transparency

$X_2$  = Auditors Competence

$X_3$  = Auditors Independence

$X_4 =$  Management Support

From the above model, it was observed that financial sustainability of NGOs in Nakuru County was a constant of 2.209. Therefore with all the other factors held constant, financial sustainability of NGOs remains at a constant factor of 2.067. On the other hand, a unit increase in the auditors' transparency led to a subsequent increase in financial sustainability of NGOs by a factor of -.015. Further, with all factors held constant, a unit increase in the auditors' competence led to a subsequent increase in financial sustainability of NGOs by a factor of .300. A unit increase in the auditors' independence with other factors held constants was shown to result to an increase in the financial sustainability of NGOs by a factor of .064. In addition a unit increase in the management support led to a subsequent increase in financial sustainability of NGOs by a factor of .110. Therefore, the independent variables had a significant influence on the financial sustainability of NGOs in Nakuru County. Findings from the above analysis it shows that auditors' transparency, auditors' competence, auditors' independence and management support influence the financial sustainability of NGOs in Nakuru County.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

The study aimed at establishing the influence of risk based internal audit on financial sustainability of non-governmental organisations in Nakuru County governmental. This chapter presents the summary of findings from the analysis, researcher's conclusions and recommendations. The findings were summarized in line with the study objectives.

#### **5.2 Findings of the Summary**

The study's summary was presented in respect to the study variables and the study objectives as presented hereafter.

##### **5.2.1 Auditors Transparency and financial sustainability of Non-governmental organisations**

From descriptive analysis, the findings indicated that the respondents were in agreement that their institution had an operational website which hosts the organizations profiles and activities. Further they agreed that the audit department prepares accurate financial reports reflecting organizations financial transaction and that the financial reports are collated for all the departments in the non-governmental organizations. Equally respondents agreed that the audit department in the non-governmental organizations assumes high level of accountability in financial management. However respondents disagreed that their audit reports are conveyed on the institutions website for everyone scrutiny and that their institutions website has aided in information storage aiding future references in the audit process. On the other hand respondents were undecided on whether the use of audit trails through adoption of information communication technology has enhanced audit transparency in the non-governmental organizations.

Correlation analysis indicated that auditors' transparency has a significant relationship with financial sustainability of the non-governmental organizations in Nakuru County. Thus it was observed that auditor's transparency has a role in determining the financial sustainability of non-governmental organizations in Nakuru County. Further, regression analysis demonstrated that audit transparency accounts for 8.7% (percent) of the total variation in the financial sustainability of non-governmental organizations. Analysis of

variance indicated that audit transparency significantly influences the financial sustainability of non-governmental organizations in the Nakuru County.

### **5.2.2 Internal Auditors Competence and Financial Sustainability**

Descriptive statistics indicated that respondents agreed that the organization hires qualified auditors to perform its functions. They observed that the hiring of competent auditors enhances good governance in the non-governmental organizations. They also agreed that good management of financial resources the completion of non-governmental organizations (NGOs) projects. Respondents further agreed that the high understanding of audit operations by the auditors enabled the achievement of high performance in the non-governmental organizations (NGO). In addition respondents noted that the internal control systems in the non-governmental organizations (NGOs) are highly reliable in enhancing transparency. Respondents were however undecided on whether the audit department accounts for all the non-governmental organizations (NGOs) project expenditures. In addition they were undecided on whether the chief auditors in the non-governmental organizations (NGOs) select and recruit highly skilled auditors.

Correlation analysis demonstrated that internal auditors had a significant relationship with financial sustainability of non-governmental organizations (NGOs) in the county of Nakuru. Further the regression analysis indicated that internal auditors' competence could explain 17.5% of the total variation in financial sustainability of non-governmental organizations (NGOs). The analysis of variance showed that internal auditor's competency significantly influenced the financial sustainability of the non-governmental organizations (NGOs) in Nakuru County.

### **5.2.3 Internal Auditors Independence and Financial Sustainability of non-governmental organizations NGOs**

From descriptive analysis, findings indicated that the respondents agreed with all the aspects of auditors' independence. They agreed that the organization audit department has been given autonomy in its operation and that the audit department adheres to the accountability requirement of their performance. They further agreed that the organization audit department adheres to the institute of internal auditors guidelines in regard to internal auditors' independence. On the other hand, they also agreed that the internal auditors in the organization possess the knowledge and competencies required for

them to perform their job objectively and independently. They further agreed that the internal audit department independently contributes to the risk management, control and governance prices using disciplined and systematic approach and also that personal economic interests have hindered the department of internal audit from operating independently without undue influence.

The correlation analysis demonstrated that internal auditors' independence has a significant relationship with financial sustainability of non government organizations in Nakuru County. Regression analysis indicated that internal auditors' independence explains about 9.7% (percent) of the total variation in financial sustainability of Nakuru County. The analysis of variance also indicated that internal auditors' independence significantly influences the financial sustainability of non-governmental organizations (NGOs) in Nakuru County.

#### **5.2.4 Management Support and Financial Sustainability of non-governmental organizations (NGOs)**

It was established that the respondents were not conclusive on whether the management of the organization provides all the necessary support to the internal auditing and whether the management provides the needed resources to the auditing department to perform their function. Additionally respondents were not sure that the management values the work performed by the internal audit department and whether the heads of the auditing department were involved in management strategy development meetings in the organizations. On the other hand they remained indifferent as to whether the management ensures sufficient independence is given to the auditing department to perform their work. However the respondents disagreed that any decisions made in the institution has to be guided by the internal audit report meaning that this was not the case in the organization.

The correlation analysis indicated that management support had positive significant relationship with financial sustainability of non governmental institutions in Nakuru County. Further regression analysis demonstrated that management support explains about 5.3% (percent) of the total variation in financial sustainability of non-governmental organizations (NGOs). Analysis of variance showed that management



support was significant in determining the financial sustainability of non-governmental organizations (NGOs) in the county.

### **5.2.5 Financial Sustainability of non-governmental organizations (NGOs)**

It was established that the respondents agreed that the auditors competence enhances timely completion of non-governmental organizations (NGO) projects and that audit transparency in the non-governmental organizations (NGOs) has resulted to increased donor funding. They observed that improved management support enables the non-governmental organizations (NGO) to operate efficiently and proactively to environmental threats. They also acknowledged that there is accountability in financial management in their non-governmental organizations (NGOs) and that increased management support has led to increased capitalization of the non-governmental organizations (NGO) through good will donations and fundraising. In addition they agreed that increased management support has led to increased capitalization of the non-governmental organizations (NGO) through good will donations and fundraising. They were however undecided on whether auditors independence enhances the timely attainment of goals and objectives of the non-governmental organizations (NGOs).

## **5.3 Conclusions of the Study**

### **5.3.1 Auditors Transparency and financial sustainability of non-governmental organizations (NGOs)**

Based on the summary of the study, the researcher made pertinent conclusions emerging from the study findings. To begin with it was concluded that auditors' transparency significantly influences the financial sustainability of non-governmental organizations (NGOs) in Nakuru County. The findings indicated that auditors' transparency was significant in explaining the variations in financial sustainability of non-governmental organizations (NGOs). Therefore it was concluded that auditors' transparency is important in determining the financial sustainability of the non-governmental organizations (NGOs).

### **5.3.2 Internal Auditors Competence and Financial Sustainability**

Secondly the researcher concluded that the auditor's competence had a significant influence on financial sustainability of the non-governmental organizations (NGOs) in Nakuru County. Auditors' competence had the greatest impact in terms of explaining the

variations in financial sustainability in the non-governmental organizations (NGOs) in comparison to the other variables. As such it was concluded that auditors' competence was more important in determining the financial sustainability of the non-governmental organizations (NGOs).

### **5.3.3 Internal Auditors Independence and Financial Sustainability of non-governmental organizations (NGOs)**

Thirdly the study concluded that auditors' independence played a key role in determining the financial sustainability of non-governmental organizations (NGOs) in Nakuru County. It was established the internal auditors' independence significantly accounts for the variation in the financial sustainability of the non-governmental organizations. It was further shown that internal auditors' independence has a significant relationship with the financial sustainability of the non-governmental organizations (NGOs). Therefore enhancing auditors' independence enhances the financial sustainability of non-governmental organizations (NGOs) in Nakuru County.

### **5.3.4 Management Support and Financial Sustainability of non-governmental organizations (NGOs)**

Finally the study concluded that management support has a significant influence of financial sustainability of the non-governmental organizations. Thus, it was concluded that management support is require for improved financial sustainability of the non-governmental organizations in Nakuru county Kenya.

## **5.4 Recommendations of the Study**

### **5.4.1 Auditors Transparency and financial sustainability of non-governmental organizations (NGOs)**

Based on the conclusions of the study, the researcher recommended that management of the various non-governmental organizations (NGOs) should ensure that there is the setting up of the internal audit department in their organizations. This will be geared towards ensuring that all the financial operations of the non-governmental organizations (NGOs) are monitored appropriately for the sake of transparency in financial expenditures. Enhanced transparency in financial expenditures will contribute to increased financial sustainability in the non-governmental organizations (NGOs).

#### **5.4.2 Internal Auditors Competence and Financial Sustainability**

Further the researcher recommended that the internal auditors department should ensure they recruit competent auditors in the organizations with sufficient knowledge and skills in auditing. This will ensure that the audit process is accurate giving an accurate position of the financial standing of the organization.

#### **5.4.3 Internal Auditors Independence and Financial Sustainability of non-governmental organizations (NGOs)**

It was further recommended that the organizations should ensure that internal auditors department operates independently without undue influence. This will ensure that the internal auditors perform their duties confidently without fear and favor. This consequently would lead to decision making that is informed by an unbiased auditing reports which would to financial sustainability.

#### **5.4.4 Management Support and Financial Sustainability of non-governmental organizations (NGOs)**

Additionally, the study recommended that management support should be given to the auditing department to ensure they have enough resources to perform their duties. The auditing department should also be involved and recognized in the decision making of the organization.

#### **5.5 Suggestions for Further Studies**

The study was limited to the non-governmental organizations (NGOs) operating in Nakuru County. As such, the researcher recommends that the study be conducted in other parts of the country to enable the generalization of the study findings. Further, the researcher recommends that a study be done to establish other factors influencing the financial sustainability of the non-governmental organizations (NGOs) in Nakuru county since this study was only limited to four factors.

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## **APPENDICES**

### **Appendix 1: Introductory letter**

**Elizabeth Kemunto Ogega**

PO BOX,

NAKURU-20100

Dear Respondent,

#### **RE: RESEARCH QUESTIONNAIRE**

I am a Masters student at Kabarak University conducting a research entitled “Influence of Risk Based Internal Audit on Financial Sustainability of Non-Governmental Organizations in Nakuru County Kenya”. This research forms part of the requirement for my masters’ degree qualification. I would appreciate if you would kindly take a little of your time to complete a questionnaire that I will provide. Any information provided from you is purely for academic purposes and all responses was treated with utmost confidentiality. Your cooperation is most valued and appreciated.

I take this opportunity to thank you in advance for your quick return of your completed questionnaire.

Yours Faithfully,

**Elizabeth Kemunto Ogega**

## Appendix II: University Authorization



### SCHOOL OF BUSINESS & ECONOMICS

P.O. Private Bag, 20157  
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[www.kabarak.ac.ke](http://www.kabarak.ac.ke)

1<sup>st</sup> November, 2017

To Whom It May Concern:

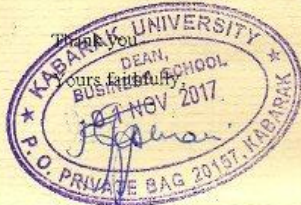
Dear Sir/Madam,

RE: ELIZABETH KEMUNTO OGEKA – GMF/NE/1105/09/16

This is to confirm that the above named is a bonafide student of Kabarak University pursuing a Master of Science in Finance (Finance and Investment Analysis Option).

Elizabeth has completed her coursework and currently carrying out a study on "*Influence Of Risk Based Internal Audit On financial Sustainability Of Non-Governmental Organizations In Nakuru County, Kenya*"

Your assistance will be highly appreciated.



Dr. John Gathii  
Dean

#### **Kabarak University Moral Code**

As members of Kabarak University family, we purpose at all times and all places, to set apart in one's heart, Jesus as Lord.  
(1 Peter 3:15)

### Appendix III: Research Questionnaire

#### Section A: Background Information

##### 1. Gender

Male  Female

##### 2. Number of Years in the NGO

Below 5 years  5 – 10 Years  10 – 15 Years   
Above 15 Years

##### 3. Academic Qualification

Diploma  Bachelors Degree  Masters Degree  PhD

**Section B: In the following section, indicate your level of agreement with the statements therein using the following scale.**

1-Strongly Disagree (SD), 2-Disagree (D), 3-Undecided (U), 4-Agree (A) and 5-Strongly Agree (SA).

##### 1. Audit transparency

Sn	Statement	SA	A	U	D	SA
i.	The institution has an operational Website which hosts the organization profiles and activities					
ii.	Our audit reports are conveyed on the institutions website for everyone scrutiny					
iii.	The institutions website has aided in information storage aiding future references in the audit process					
iv.	The audit department prepares accurate financial reports reflected organizations financial transactions					
v.	Use of audit trails through adoption of ICT has enhances audit transparency in the NGO					
vi.	The financial reports are collated for all the departments in the NGO					
vii.	The audit department in the NGOs has assumed high level of accountability in financial management					

## 2. Auditors competency

Sn	Statement	SA	A	U	D	SA
i.	The organization hires qualified auditors to perform its functions					
ii.	The hiring of competent auditors has enhanced good governance in the NGO					
iii.	Good management of financial resources enables the completion of NGOs projects					
iv.	The audit department accounts for all the NGOs project expenditures					
v.	The high understanding of audit operations by the auditors enables the achievement of high performance in the NGO					
vi.	The chief auditor in the NGO selects and recruits highly skilled auditors					
vii.	The internal control systems in the NGO is highly reliable in enhancing transparency					

## 3. Auditors Independence

Sn	Statement	SA	A	U	D	SA
i.	The organization audit department has been given autonomy in its operation					
ii.	The audit department in the organization adheres to the accountability requirement of their performance					
iii.	The organizations audit department adheres to the institute of internal auditors guidelines in regard to internal auditors independence and objectivity					
iv.	The internal auditors in the organization possess the knowledge and competencies required for them to perform their job objectively and independently					
v.	The internal audit department independently contributes to the risk management, control and governance processes using disciplined and systematic approach					
vi.	Personal economic interests have hindered the department of internal audit from operating independently without undue influence					

#### 4. Management Support

Sn	Statement	SA	A	U	D	SD
i.	The management of the organization provides all the necessary support to the internal auditing department					
ii.	The management provides the needed resources to the auditing department to perform their function					
iii.	The management of the organization values the work performed by the internal audit department					
iv.	Any decisions made in the institution has to be guided by the internal audit report					
v.	The heads of the auditing department are involved in management strategy development meetings in the organization					
vi.	The management ensures sufficient independence is given to the auditing department to perform their work					

#### 5. FINANCIAL SUSTAINABILITY OF NGOs

	Description	5	4	3	2	1
i	My NGO completes its projects on time					
ii	Increased transparency in the NGOs has resulted to increased donor funding					
iii	The NGO operates efficiently and proactively to environmental threats					
iv	There is accountability in financial management my NGO					
v	Goals and objectives of the NGO are attained on time					
vi	The NGO accounts for its financial expenditure if and when they take place					
vii	Increased management support has led to increased capitalization of the NGO through good will donations and fundraising					

THANK YOU

## **Appendix IV: List of NGOS**

1. Alfa Family Care International
2. Better Environment Organization
3. Better Life Foundation
4. Better Livelihood Links (Bells)
5. Boro Health Care And Social Welfare Project
6. Bethel Humanitarian Aid
7. Basikimo Compassion International
8. Barnabas Kenya Project
9. Centre For Advocacy On Legal,Ethical Human Rights Issues
10. Centre For Youth Empowerment And Economic Sustainability
11. Cheppema Childrens Centre
12. Crusading Volunteers Team
13. Children Rescue Organisation
14. Child Care International Kenya
15. Dietach Development Project
16. Development Of Integrated Rural Community Entities (Odirce).
17. Development Support Center
18. Dream Rescue International
19. Ebenezer Community Healthcare And Development
20. Elmago Concern Ministries
21. Environmental Heritage Kenya
22. Expanding Opportunities
23. Farming Systems Kenya Limited
24. Friends Of America Foundation
25. Friends Of Conservation
26. Glorious Women
27. Hand Of Mercy International
28. Heritage Children Care
29. Heritage Institute Of Environment And Development
30. High Way Rescue Team Organization
31. Hope Craft Skills Development Centre

32. Hope For Life Kenya
33. Hope Kenya Program
34. Immanuel Youth Services Center
35. Kenya Anti-Aids Foundation
36. Kenya Centre For Informal Sector Promotion
37. Kenya Center For Intensive Farming
38. Kenya International Development Organisation(Kido)
39. Kokiri Health Care And Research Project
40. Kokos Medicine Therapy International
41. Kongasis Community Development Organization
42. Kommunatakion Organization For Develoment Assistance
43. L'ancre International
44. League Of Kenya Women Voters
45. Learning And Development Kenya
46. Legal Resource Cultural Centre
47. Lelaitich Inter-Sectoral Development Organization(Leido)
48. Nissi Holistic Health Consultancy Services
49. Ntreach Program
50. Njaaga Child Hope Kenya Chapter
51. Microsector Development Organization
52. Mbaluk Ecology Center
53. Organization For Community Initiatives
54. Orphan Concern International-Kenya
55. Partners For Progress
56. Philadephia Needy Foundation
57. Progressive Development Programme
58. Psychological Conflict Awareness And Control Agency
59. Resource Conflict Institute
60. Rift Valley Youth Information And Counseling Center
61. Rohi Children Organization
62. Sere Community Program (Scp)
63. St. Alex Foundation
64. St. Lazarus Community - Focus Development Foundations (Saintlaz)



65. St. Paul Children Care Center
66. St. Teresa's Subukia Children's Home
67. Sustainable Enterprenuership Participatory Programme Sepp – Kenya
68. Tabuga Development (Water)
69. Take Heart Association Project
70. Talent Empire
71. The Center For Environmental Policy And Law In Africa (Cepla)
72. The Life Water Kenya
73. The Council Of International Fellowship
74. Universal Health And Safety Centre
75. Universal Welfare Ladder Organization
76. Urban Environment Conservation Systems, Natural
77. Upper Development Organization, Nakuru
78. Water And Environmental Organization Kenya
79. Youth Care And Positive Development Concern

(Source: National council of NGOs database, 2017)