

A SURVEY OF FINANCIAL MANAGEMENT PRACTICES
AMONG DEVELOPMENT NGOS IN KENYA

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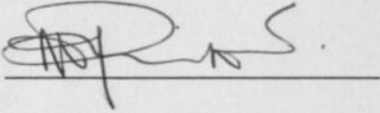
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SEPTEMBER 2006

DECLARATION

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

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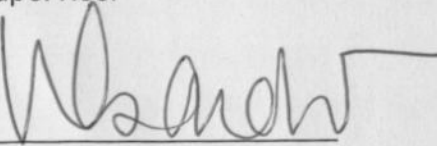
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This management project has been submitted for examination with my approval as the University supervisor

SIGNED



DATE

28 NOV, 2006

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DEDICATION

To my beloved parents, family members and in memory of my Grandfather
For their resourceful unsurpassed support and encouragement

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MAY GOD BLESS YOU ALL

LIST OF ACRONYMS

CBOs-Community Based Organizations	Page 21
CSOs - Civil Society Organizations	21
DFRD -District Focus for Rural Development	22
EAC- East African Community	23
FMS- Founder Member Syndrome	24
IFAC-International Federation of Accountants	25
IMF-International Monetary Fund	26
INGOs- International NGOs	28
LNGOs-Local NGOs	29
MoU -Memorandum of Understanding	30
NGOs- Non-Governmental Organizations	31
PVOs-Private Voluntary Organizations	32
SAPs - Structural Adjustment Programmes	32
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ABSTRACT**INTRODUCTION**

The objectives of this study were to identify financial management practices of development NGOs and determine the strengths of the practices in ensuring sound financial management. Thirty four development NGOs responded to the questionnaire out of 50 sampled for the study, giving a response rate of 68%. The literature explored the definition of development NGOs and financial management practices. The literature recognized the role of the development NGOs in supplementing governments' development effort, the history of NGOs in Kenya, NGOs financial management practices, challenges to the NGOs financial management and causes of financial mismanagement.

The methodology was based on the fact the study was a cross sectional survey. This method allowed for collection of a large amount of data that could be statistically analyzed. The data was collected from development NGOs that were randomly selected to ensure that a wide range of NGOs were represented in the study. Data was collected through closed ended questionnaire using the drop and pick approach. The respondents were the executive/managing directors of the NGOs or the chief financial officers. Data analysis was done through use of content analysis.

The findings were that the financial management practices of development NGOs partially conforms which the laid down procedures of International Financial Reporting Standards. Inadequate budget forecasts was notably present which results in poor financial planning. The study also revealed inadequate regulatory financial structure in which NGOs operate and key weaknesses in financial management practices of internal control namely: Fiscal policies and financial oversight, analysis of service cost on regular basis, establishment of guidelines to invest idle funds, implementation of audit recommendations for systems and procedural improvements that covers financial compliance.

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background

The qualitative and quantitative growth of NGOs in Kenya over the last quarter of the 20th century has been enormous. NGOs registered a cumulative growth of over 100% between 1977 and 1987. By 1995 there were at least 23,000 women organizations in the country. Most of these organizations are registered under the Ministry of Culture and Social Services. The NGOs registered by the NGO Coordination Bureau (under the Office of the President) in 2002 were at least 1441 compared to only 250 in 1993 (Mbote, 2002). By the end of 2005 there were 2541 registered NGOs operating in Kenya (Musebe, 2006).

There is also a growing body of literature arguing that NGOs are an important tool in the efforts of civil society to influence the actions of the state, especially in the process of economic development. NGOs are primarily seen as effective advocates for the less privileged sectors of civil society (Pedlowiski, 1997). Thus NGOs are seen as development agents bringing their role of development into sharp focus. This is a move away from the restrictive model where an NGO was seen only as social welfare provider. The very nature and multiplicity of NGOs as underscored, makes the fashioning of an encompassing definition problematic in the Kenya context. NGO's activities are so varied that it is unlikely that any one definition will include all NGOs. The government and the NGO community, in the run up to the promulgation of the Non-Governmental Organization Act of 1990, coined a definition of an NGO as "a private voluntary grouping of individuals or associations, not operated for profit or for other commercial purposes but which have organised themselves nationally or internationally for the benefit of the public at large and for the promotion of social welfare, development, charity or research in the areas inclusive of, but not restricted to, health, relief, agriculture, education, industry and the supply of amenities and services" that they considered satisfactory (Mbote, 2002).

Non-governmental organizations have also become quite prominent in the field of international development in recent decades. The World Bank, for example, defines NGOs as "private organizations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development." A World Bank Key document, "Working with NGOs", further gave an

explanation that in wider usage, NGO can be applied to any non-profit organization which is independent from government which typically value-based organizations depending in whole or in part, on charitable donations and voluntary service. Notable in this document was that although the NGO sector has become increasingly professionalized over the last two decades, the principles of altruism and voluntarism remains key defining characteristics (World Bank, 1995).

According to Wikipedia virtual encyclopaedia, a non-governmental organization is a non-profit group or association that acts outside of institutionalised political structures and pursues matters of interest to its members by lobbying, persuasion, or direct action. The term is generally restricted to social, cultural, legal, and environmental advocacy groups having goals that are primarily non-commercial. NGOs usually gain at least a portion of their funding from private sources. Because the label "NGO" is considered too broad by some, as it might cover anything that is non-governmental, many NGOs now prefer the term private voluntary organization (PVO) or Private Development Organization (PDO).

A 1995 UN report on global governance estimated that there are nearly 29,000 international NGOs. National numbers are even higher: The United States of America has an estimated 2 million NGOs, most of them formed in the past 30 years. Russia has 65,000 NGOs. India has 2 million NGOs. Dozens are created daily. In Kenya alone, some 240 NGOs come into existence every year. Different sources refer to these groups with different names, using NGOs, Civil Society Organizations (CSOs), Private Voluntary Organizations, charities, non-profits charities/charitable organizations, third sector organizations and so on.

These groups can encompass a wide variety of groups, ranging from corporate-funded think tanks, to community groups, grassroot activist groups, development and research organizations, advocacy groups, operational, emergency/humanitarian relief focused, and so on. While there may be distinctions in specific situations, this section deals with a high level look at these issues, and so these terms may be used interchangeably, and sometimes using NGOs as the umbrella term (World Bank, 1995).

1.1.1 History of NGOs in Kenya

The Kenyan government after attainment of independence in 1963 embarked on a very ambitious plan to achieve development through the fight to alleviate poverty, disease and illiteracy. The government single headedly was not able to meet the demands of these

developmental challenges hence the onset of development NGOs to supplement government's efforts. (Chelogy et al., 2004).

At independence, the Jomo Kenyatta government in Kenya launched into a drive for economic development whose basis, among others, was foreign direct investment and strong economic ties in the East African region. The quest for foreign capital saw the country adopt a Non-aligned stand with an obvious bias to the capitalist West, from where foreign investment and development aid has all along been mostly coming from (Munene, 2005).

By 1966, the economy of Kenya was bouncing at a GDP growth rate of 6.6 per cent. Over the years, the economic growth started trickling down to alarming levels until in the 1970s when the so-called Ndegwa Commission was formed to look into why poverty was ravaging an otherwise well-endowed land. Before the Ndegwa Commission, (1965) a sessional paper on African socialism in planning was prepared under which Kenya would map out the course of development in the country. In the following two years, development planning was decentralized into the rural areas through the so-called District Focus for Rural Development (DFRD). But since the district focus for rural development operated under the provincial administration, a colonial relic which made the village chief more powerful than many other senior government officers, the politics of patronage and the fact that the DFRD bureaucrats were not responsible and accountable to the beneficiaries of development made the whole programme to fail to spur economic growth in Kenya (Onyando, 1999).

Onyando, (2002) stated that when poverty became even more acute despite the many development planning and poverty alleviation offensives, another Ndegwa Commission was formed in 1982 which recommended that the people be involved more in planning development projects in the rural areas in Kenya. It was at this time that NGOs and Community Based Organizations became the in-thing in East Africa. At this time, dictatorship in many African countries and its attendant corruption machineries were being fingered as the reason why the continent was not developing. The infamous Structural Adjustment Programmes (SAPs) were introduced on the continent by the World Bank and the International Monetary Fund (IMF), which recommended privatization of state parastatals, liberalization of trade and other measures as a way of preparing the continent for economic take-off. The idea was to take the development steering wheel from the government.

When the government tried to meddle in the affairs of NGOs in the name of regulating them in Kenya, various NGOs came up with a self-regulating outfit called the NGO council. It was mandated to ensure that it recommended for registration only those NGOs that were like Caesar's wife-beyond reproach. With time, the council slept on the job and behold, today briefcase operators are writing proposals and pocketing donor money and flaunting it in ways that are worlds away from what they are financed to do. As the Kenya example shows, it was because nobody trusted the politicians and bureaucrats in government with development funds that the NGOS stepped into the picture. But quite ironically, the only trusted channel of development has become the proverbial leopard watching over, so to speak, Africa's development cattle. Now, that is quite alarming for Kenya and, by extension, Africa (Munene, 2005).

1.1.2 Development Non Governmental Organizations

The original concentration of NGOs was largely in social and welfare activities. Over a period of time however, NGOs activities have become diversified and now cover environment, energy and conservation measures, health, food and nutrition, water and sanitation, population matters, shelter, relief services, programmes for disabled persons, children, youth, women, destitute, religion, communication, informal sector and education (Mbote, 2002).

NGOs can be distinguished into two groups: Operational/development and advocacy NGOs. Development NGOs have to mobilize resources, in the form of financial donations, materials or volunteer labour, in order to sustain their projects and programs. This process may require quite complex organization. Finance obtained from grants or contracts, from governments, foundations or companies, require time and expertise spent on planning, preparing applications, budgeting, accounting and reporting. Major fund-raising events require skills in advertising, media relations and motivating supporters. Thus, development NGOs need to possess an efficient headquarters bureaucracy, in addition to the operational staff in the field (Mostashari, 2005).

Advocacy NGOs carry out much the same functions, but with a different balance between them. They persuade people to donate their time and the major events are aimed to attract favourable publicity rather than raise funds. Only the defining activities such as furthering of religious faith or promoting cultural values, holding demonstrations, human rights and women's gender injustice issues serve to differentiate them. In reality, the distinctions are

not as sharp as the labels suggest. Development NGOs often move into advocacy when projects regularly face similar problems and the impact of the projects seems to be insufficient (Mostashari, 2005).

The primary purpose of development NGOs is the design and implementation of development-related projects. One categorization that is frequently used is the division into relief-oriented or development-oriented organizations. Development NGOs can be community-based, national or international. The primary purpose of an advocacy NGO is to defend or promote a specific cause. As opposed to operational project management, these organizations typically try to raise awareness, acceptance and knowledge by lobbying, press work and activist events (Mbote, 2002).

The role of development NGOs in the development of third-world nations has grown precipitously since the 1970s. Today there are 5,000 international NGOs (INGOs) based in developing nations that work with over 20,000 local NGOs (LNGOs) in developing nations (Picciotto, 1996).

In the last two decades, the number of development non-governmental organizations has also grown significantly, as has the amount of resources they control. The growth of the NGO sector has also been phenomenal elsewhere in the world. One of the reasons is comparative advantage or the ability of NGOs to deliver emergency relief or development services cost-effectively to those most in need. NGOs can reach groups that government and other agencies cannot, and past development strategies have given NGOs the legitimacy to act on behalf of the poor (Onyando, 1999).

According to Shaw (1990), by the late 80s development oriented NGOs in the North raised over \$3 billion from private sources and received a further \$1.5 billion from Northern governments, which together accounted for 15% of all official foreign aid. In addition, official aid is increasingly funded directly to LNGOs, although figures on this are harder to obtain.

According to the Executive Director's Guide, financial management is the foundation of planning and managing every aspect of the organization, including people, programs, buildings, equipment, fundraising, technology, printing and insurance. Thinking strategically when managing money is essential because it is interlinked with every other function (Linnell et al. 2002).

In daring to Lead, Peters et al (2001) revealed that the majority of non-profit executive directors have "program" backgrounds, and have less experience with the financial responsibilities of their job than they themselves would like.

Sound financial management is crucial to the survival and well being of enterprises of all types. Studies of reasons for development NGOs failure inevitably show poor or careless financial management to be the most important cause (Berryman, 1983).

All NGOs according to Jacobs (2004) require a financial management system to manage the resources entrusted to them. Financial management systems can be broken down into administrative systems and accounting systems: Administrative systems assist all NGO managers in decision-making, planning, communicating, controlling and evaluating. Accounting is concerned with identifying financial information, expressing the information in numeric terms and communicating this information to interested parties. An accounting system provides the framework for this to happen. Administrative and accounting systems may be required to change over time in relation to changes within the NGO and changing information needs. However, many NGOs may only have an accounting or bookkeeping system which are a subset of financial management.

Peoria (2000,2001) stated that financial Management practices and policies are also central to the flow of influence and information. An organizations response to changes in environmental factors according to Peoria (2001), is filtered through the organizational factors and results in the financial factors. In many respects, financial management practices and policies are the most critical influences upon financial condition because these are the factors over which an organization has control. Some NGOs do not have internal financial policies and depends on the dictates of donor funding conditions and availability of funds in execution of financial management policies.

There is a debate that takes place within a set of broad terminological stock phrases that imply certain shared assumptions about NGOs and their role in society. Key terms such as "civil society," "participatory development," "efficiency," "self sustainability," "democratization," and "reaching the poorest of the poor" are used continuously as though everyone were in agreement about their merits. The terms themselves seem to have evolved a life of their own, and some academics and development practitioners have noted a disturbing tendency for such "key terms" to be rapidly incorporated into proposals and annual reports when very little real change in NGO behaviour appears to have taken place

(Elliot, 1987). While these terms have been occasionally questioned, generally this has taken the form of "how" and "which" questions: Questions about how they can be implemented, and which of them are more important are answered through financial planning, budgeting and control processes.

There is a growing sense of unease, particularly among leftists in the academic community, about the way that NGOs are funded while in practice the very process of donor funding may be reducing the extent to which NGOs can even meet themselves their financial commitments. This has led to some NGOs remaining dormant and resurfacing only when a donor funds a project. (Edwards and Hulme 1996; Foley 1996; Rigg 1991).

The popularity of NGOs has been based on the argument that they provide a number of benefits on economic, political and social levels. Indeed, NGOs sometimes seem to be the modern panacea of development-a cure-all wonder drug that is prescribed for any number of social ills: Poverty, disempowerment, unsustainability, inefficiency, and authoritarianism. Like the "patent medicines" of old, sold by travelling doctors from town to town, the miraculous properties of NGOs are sold by heavy doses of anecdotal evidence and "success stories." While it is certainly not the point to denigrate such successes, nor to argue that NGOs are necessarily detrimental, the over-generalization of such successes by implication to the entire NGO sector is more of a fantasy than a reality (Cross, 1997).

NGOs may be assumed to be less bureaucratic, wasteful or corrupt than governments, but under-scrutinised groups can suffer from the same chief failing: they can get into bad ways because they are not accountable to anyone. Critics also suspect some aid groups are used to propagate western values, as Christian missionaries did in the 19th century. Many NGOs, lacking any base in the local population and with their money coming from outside, simply try to impose their ideas without debate. For example, they often work to promote women's or children's interests as defined by western societies, winning funds easily but causing social disruption on the ground (Economist, 2000).

Some African governments remain critical of certain NGOs. The Tanzanian government condemns what it terms "briefcase NGOs," saying it will not tolerate those set up to funnel public funds to private ends. Former President Daniel arap Moi had warned that any NGO in Kenya found dabbling in politics would be de-registered, and accused some NGOs in the country of corruption and financial indiscipline. NGOs do in fact have their own weaknesses.

Many are fragile and tend to depend excessively on external financing, making them at times unsustainable or liable to manipulation (Chege, 1999).

Vaknin (2002) observed that all NGO's claim to be not for profit - yet, many of them possess sizable equity portfolios and abuse their position to increase the market share of firms they own. Conflicts of interest and unethical behaviour abound.

Onyando (1999) asserted that claims of mismanagement and lack of accountability and transparency have dogged the NGOs sector. Some of these claims may be justified and may arise from the fact that many NGOs do not have proper institutional structures and therefore cannot function properly. This he attributed to the way in which NGOs are constituted. Many of these organisations were formed to respond to a certain perceived need. Institutional development is usually not a priority for many NGOs. Many donors do not also support institutional capacity building, which would include the development of structures and accountability systems. To many NGOs, accountability and transparency have been narrowly interpreted to mean periodically furnishing donors with narrative and financial statements.

1.2 Statement of the problem

In Kenya, a case of financial mismanagement in 2005 prompted the government of Kenya to dissolve the NGO Council and replaced it with a caretaker committee that was, among other things, to preside over elections within sixty days. The dissolution came hot on the heels of allegations of corruption within the ranks of Non-governmental organizations. Most unsettling were the claims that money from donors that was meant to go into helping HIV/Aids victims has over the years been plundered, (Munene, 2005).

Mbote (2002) affirmed that the problems of accountability in some NGOs exist. Despite what some think of corruption in governments, there is also fraud in the private sector and NGOs are not above corruption. At times cost effectiveness is not prioritised. It is not unusual to find NGOs with too large staff and very high salaries. One of the most asked questions is: To who are NGO leaders accountable? Various arguments have been advanced suggesting accountability to such authorities as the boards of trustees, Government, donor agencies, staff and even project partners. Onyando (1999) also ask over whether NGOs should seek to only satisfy the requirements of those who fund them and not those on whose behalf they accept funds.

Onyando (1999) stated that the lack of institutional structures has contributed to mismanagement and irregularities. He also observed that it is not uncommon to find NGOs that are run like private business concerns or family enterprises or that are plagued by what has become known as the Founder Member Syndrome (FMS) which often leads to mismanagement of funds, nepotism and cronyism and can disrupt the normal functioning of an organization. The principle question that comes into focus is: how do these development NGOs manage the financial resources entrusted to them?

It is not unreasonable to ponder whether this attention has had a visible impact on the way in which NGOs are operated in regard to financial management. It seems appropriate to review, and attempt to integrate, available empirical research findings to the financial management practices of NGOs in a developing country such as Kenya.

1.3 Objectives of the Study

The objectives of the study are:

- 1. To identify financial management practice of development NGOs.
- 2. Determine the strengths of the practices in ensuring sound financial management.

1.4 Justification of the study

This will assist policy makers in understanding the financial environment in which development NGOs operate and the possible impact of policies directed at these NGOs. Over the past decade there has been a significant increase in donor sponsored development NGOs and programs run by these NGOS interest the government, donors, the civil society policy makers.

This study is also suitable for development NGOs staff who are responsible for managing their organization's financial resources both at operational and strategic levels.

Scholars and researchers may find this study important for the purposes of further research based on the findings of the current study as a source of reference.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

Over the past two decades, non-governmental organisations have increased in number, size and scope and established themselves in pivotal positions in social, economic and political landscapes across the globe. Their role in the development world specifically has been transformed. Originally situated on the periphery of the development community and often directly opposed to its mainstream, NGOs are now central to contemporary development discourse and practice. They have also been heralded as new agents with the capacity and commitment to make up for the shortcomings of the state and the market in promoting development (Jamali, 2003).

According to Wikipedia virtual encyclopedia, NGOs are not legal entities under international law, like states are. An exception is the International Committee of the Red Cross which is considered a legal entity under international law, because it is based on the Geneva Convention. I would disagree and qualify this statement however, NGOs are recognised under the United Nations Charter Article 71 and Kofi Annan has said that there is a need to speed up the recognition process.

To a great extent the law lags behind increasing NGO diversity. This raises problems due to the negative attitude of the law toward control and management of NGOs, ambivalent/restrictive laws relating to political activism, fundraising and the general absence of laws in certain areas (Mbote, 2002).

Mbote (2002) adds that at the regional level, the East African Community (EAC) Treaty captures the spirit of promoting a conducive operational environment for NGOs. The Treaty provisions enjoin the states parties to facilitate and ensure public participation and civic involvement in decision-making both at the national level and at the community (regional) level. Equally encouraging is the EAC's Memorandum of Understanding (MoU) on the Environment through which the three East African Community Partner States commit themselves to enhancing the participatory role of the civil society in the environmental management field. Procedural rights are indispensable in implementing and enforcing substantive rights. Thus they are critical especially in relation to the role of civil society in

environmental management, which is receiving growing recognition within the East African Community. These procedural rights of access to information, participation in decision-making, freedom of association and access to justice are particularly indispensable to environmental advocacy. A window of opportunity lies in the Memorandum of Understanding on the Environment. The challenge is at the doorsteps of the civic organizations to secure and enforce these rights.

The Constitution of Kenya (1998) has provisions of direct relevance for NGOs. These are mainly the provisions dealing with the freedoms of speech, assembly and association. These fundamental rights and freedoms of the individual are protected under Chapter V of the Constitution. Of particular significance is Section 80, which provides for the protection of the freedom of association and assembly. Under this section every person is guaranteed the right to assemble freely and associate with other persons. This includes the right to form or belong to associations. There are, however, certain constitutional limitations on those freedoms. These limitations must be provided for under the law. Such law must be reasonably justifiable in a democratic society. Thus the freedom of assembly and association may be curtailed for the protection of public defence, public safety, public health, public order, public morality, rights and freedoms of other persons or for imposition of reasonable conditions relating to, say, registration and martial law.

These limitations have been used to impinge on the operation of NGOs in Kenya. Environmental advocacy is considered political activism, environmental gatherings broken up and policy-focused environmental NGOs activities restricted. The attack on the Green Belt Movement members and other environmental leaders in 1999 amply testifies to this fact. These leaders were involved in the fight against environmental injustices and were reportedly attacked by state security forces for attempting to protect the Karura Forest that had been allocated to private developers (Kameri, 2000).

There are some tax laws that affect the operation of NGOs in Kenya. These include provisions on income tax, sales tax/value added tax (VAT), customs duties, exemption from taxation or deductions or credits for gifts and donations. The government has on a number of occasions made statements that this privilege had been abused (Ruhweza, 1997).

2.2 NGO Financial Management Practices

It makes sense to approach financial management at both an operations and macro level. On the macro level, it's asking yourself if your organization has the right "kind" of money to support the programs that you want to provide. In other words, one needs to look at their organization's funding sources to be sure that your mix of restricted and unrestricted funds, individual (including major) donors, foundation and government funding sources align with your program initiatives. The latter may be direct services, education, technical assistance, outreach or advocacy. For instance, government and foundation funding may limit the amount of advocacy your organization can do and how you do advocacy. Unrestricted funds from individual donors provide more opportunities for advocacy. Similarly, most grants and even government contracts don't cover what it really takes to run a program. So you really want to make sure that you have a mix of private and public grant money and other sources of funding to deliver a financially healthy, viable program (Linnell et al, 2002).

To make sure an NGO is financially healthy, Peters (2001) noted that one needs to know the details, ask questions, demand answers and understand the big picture. The benefits thus to one will be to be more entrepreneurial though understanding where to be creative, how to can invest, and where to get the freedom to pay for programs or activities not covered by most funders.

Mostashari, (2005) asserted that all organizations need money. Alongside staff, money is the one thing that takes up most management time. Good financial management involves the following four building blocks: keeping records, internal control, budgeting, and financial reporting.

A quick insight by Jacobs (2004) into financial management detailed that organization's should have procedures, such as accounting policies, cash management, budgeting and budgetary control, travel, procurement of goods and services, payroll, reporting requirements.

It has long been accepted that good governance and financial management requires effective systems of internal control. For the benefit of all, organizations should be encouraged and supported in implementing good internal control systems. There are a number of key internal control frameworks but there is a need for support in the practical implementation of internal control systems. However, whatever form this support may take, it should take a principles and market-based, risk-focused approach in recognition of the

need for an organization to develop an internal control system particular to its internal and external environment. Prescriptive and legislative requirements are often not recommended as a means of encouraging good internal control systems, as under these circumstances organizations are more likely to view internal control as merely a compliance exercise rather than an integral part of good business practice (IFAC, 2006).

Financial educators promote the use of financial management practices by organizations, families and individuals to improve their financial well-being. Simply increasing knowledge of financial management principles does not insure that a person will be a more effective financial manager. Knowledge must be applied (Gorham et al, 1998).

A few studies (DeVaney, Gorham, Bechman & Haldeman, 1995, 1996; Jeries & Allen, 1991; Titus, Fanslow & Hira, 1989; Varcoe & Wright, 1989) have shown the positive effects of using selected financial management practices. Effective financial management as defined by Schnittgrund and Baker (1983) combines financial management practices and outcome results such as the type of budget used, the frequency of saving, and the frequency of financial management problems in the family. Research shows that consumers believe financial management practices like budgeting and saving are valuable (Davis, 1987; Godwin & Carroll, 1986; Mullis & Schnittgrund, 1982; Schnittgrund & Baker, 1983). But, most studies relating to financial management practices identify the audience using recommended financial management practices rather than the results of using the practice.

Beutler & Mason (1987) studied factors associated with using formal budget planning. They found that young, married, and well-educated households with high demand on available resources were more likely to adopt the practice of written budgets. Level of income did not significantly affect the practice of budgeting, according to Beutler and Mason. More families who budgeted their money, compared to families who did not budget, believed that they could increase their satisfaction with financial management by planning expenditures (Mullis & Schnittgrund, 1982).

Rosenfeld and Neese-Todd (1993) showed that most aspects of the quality of satisfaction with financial status are related to the individual's perception of their control over finances. Even though financial management practices have been proven to increase net worth and satisfaction with financial resources, there is evidence of resistance and failure of consumers to adopt such practices (Beutler & Mason, 1987; Davis, 1988; Godwin & Carroll,

1986; Schnittgrund & Baker, 1983). Davis (1988) suggests that "even affluent households do not see the balance sheet as a useful financial tool".

Davis (1987) found that lack of time and knowledge were the two reasons most often given for not using recommended practices of budgeting, record keeping, comparing records to the budget, and preparing a balance sheet. The need for budgeting financial resources and wise use of credit are most often felt by those with low personal incomes or who are in debt. To encourage adoption of financial management practices, (Walker, 1984) recommend that educational programming be inexpensive, uncomplicated, and readily accessible. The purpose of this study was to determine those characteristics of financial management education that promote adoption of recommended financial practices.

2.3 Challenges to Development NGOs Financial Management

The reliance on philanthropy may reveal more fundamental issues. More of philanthropic organizations are set up by mega-successful business elites, where millions of dollars are donated to seemingly worthy causes. However, the fact that such donations are needed also serves as an indication that development policies and globalisation policies in their current form are not sustainable (Brendan, 2000).

NGOs faced great institutional and political difficulties in the process of participation. Many NGOs did not have either the institutional capabilities or the financial autonomy to influence the process of policy-making effectively. Moreover, most NGOs did not have mechanisms of accountability to inform the program's intended beneficiaries of the state of implementation (Pedlowiski, 1997).

In many countries, many people regard development NGOs with some suspicion. Yet their experiences and values make them ideally suited to take a lead in social development, (Vadakan, 2001).

Many of an NGOs' work is done through sub-committees or groups, and provisions need to be made for such committees. Record-keeping and financial reporting responsibilities in many countries are necessary for the maintenance of the tax-exempt status of an NGO these committees may not have (Mostashari, 2005).

McNamara, (1999) stated that non-profit leaders and managers have to develop at least basic skills in financial management. Expecting others in the organization to manage

finances is clearly asking for trouble. Basic skills in financial management start in the critical areas of cash management and bookkeeping, which should be done according to certain financial controls to ensure integrity in the bookkeeping process. Financial analysis shows the reality of the situation of a business - seen as such, financial management is one of the most important practices in management.

In the final week before Afghanistan's first free parliamentary elections, a former minister Bashar Dost, emerged as a leading candidate on a call for hundreds of Western NGOs to be expelled from the country accusing the majority of NGOs in Afghanistan of being poorly disguised profit-making enterprises that are creaming off money intended for reconstruction. He has also accused the United Nations of wide-ranging corruption (Hugger, 2005).

Corruption in NGOs occurs in the name of poor with more than 40 million people in poverty, not with per capita incomes above twenty thousand dollars. While corruption in rich countries may be tolerable, in NGOs of poverty stricken Kenya, it is a crime against humanity. It is development dynamite when the majority of the population cannot meet their basic needs while a few make fortunes through corruption in funds obtained in their name. Corruption in NGOs does not lead to simply Cabinet portfolio shifts or newspaper headlines, but to massive human deprivation and even more extreme income inequalities. Combating corruption in NGOs is not just about punishing corrupt politicians and bureaucrats but about saving human lives (Edwards, 2001).

In the areas of development, the environment and human rights, NGOs have added a new dimension to traditional politics and have helped humankind find new forms for addressing our problems. However, corrupt practices of a few are threatening the existence of the whole NGO sector. Unless the corrupt ones are appropriately identified and dealt, all the rest would face the risk of losing funds from overseas companies and donors (Sandberg, 1996).

NGOs need systems such as clear guidelines and codes of ethics as means of minimising corruption. NGOs should have transparency and honesty so that they gain the trust of the community and avoid running the risk of being irrelevant. Mismanagement cannot be pushed under the rug for far too long. The marginalized people are now getting aware of the corrupt NGOs tactics. The powerful voice of the ordinary people is surely but steadily making an impact on public opinion and decision-making (Kameri, 2000).

Cases of corruption in the NGO sector are simply brushed aside by the government or addressed in a careful fashion so as not to annoy the donor community. This approach undermines the legitimate interests of those affected by the concerned NGO's corrupt practices. And the legitimacy of not-for-profit organisations is further weakened simply because such instances show their concerns do arise out of self-interested profit-orientation, like others who do not genuinely care about the public interest (Kameri, 2000).

Insufficient evidence

In recent years we have witnessed a powerful reaction against corruption. Often the anger and frustration of society has been spontaneous and unstructured. Corrupt elites have been swept away in Europe, Africa, Asia, and Latin America. "Zero tolerance" with corruption has become the driving force of civil society elsewhere. In Kenya, however, the NGOs have yet to clearly reflect over their practices and compatriots for cleansing their own ranks of corrupt elements. The challenge to fighting corruption calls for a mobilisation also of technical and professional resources and interests that can form effective partners in coalitions against corruption (Onyando, 1999).

2.4 Causes of Financial Mismanagement in NGOs

An analysis by Kameri, (2000) on corruption in NGOs indicates that NGOs are managed from the one-man-show to the high profile, bureaucratically run organizations and identified a number of causes, including the limited government power and donors' indifference.

In the face of international pressures to keep hands off NGOs, the government has no system, regulation, mechanism or even the required will to tackle the challenge of corruption in NGOs effectively, innocent beginning, disappointed community concerns about insufficient evidence, and the absence of commitment in NGOs. Mid level professionals in NGOs may wish to effect change but are severely restricted by an absence of commitment at the leadership level (Chege, 1999).

Chege (1999) asserted that the NGOs are overly ambitious and makes promises leading to unrealistic and unachievable expectations, thus the NGOs, which promise what they cannot deliver quickly, lose the confidence of those around them and those looking to them for effectiveness.

Chege (1999) are enumerated as causes of NGOs financial mismanagement as the donors' indifference, some very corrupt NGOs are able to continue to acquire more and more grants despite common knowledge of financial anomalies. This is made possible because

donors' coordinators and aid bureaucrats will rarely admit they made a mistake in giving money to a scoundrel because this would suggest incompetence. So in a way, they are blackmailed to continue supporting the corrupt; For the innocent beginning, corruption in NGOs starts out quite innocently. People innocently try to protect the boss or a colleague. Eventually though, their own interests are placed on line since they're enmeshed in too many irregularities, The government and outsiders most of the time suffer from the problem of having insufficient evidence.

Muhweza, (1997) stated that whether the on financial funding to NGOs are being adequately met, the credibility for example by the propagandists of great development programmes sitting in their posh offices in Nairobi and having meetings on the fate of the poor, is questionable. Our government has been reluctant in taking an initiative to look into the corrupt affairs of the NGOs, particularly those where the signs are much clear.

The population comprised of the 1627 development NGOs in Nairobi area. In a survey conducted in the mid 1990s it was revealed that 75% of all registered NGOs were located in Nairobi (Musebe, 2002). Musebe (2006) found that out of 2541 registered NGOs, 1627 were located in Nairobi area forming 64% of the total population of NGOs in Kenya. Only 914 were located elsewhere in the country. Thus the population of NGOs in Nairobi area was selected due to its representation of the total population of NGOs in Kenya, its proximity to the researcher and cost implications in terms of time frame and funds.

3.2 Sample

The researcher selected a sample of 50 development NGOs in Nairobi area. (see Appendix 1) The sample was selected randomly from the NGOs directory 2006 using self generated random numbers. The NGO 2006 directory is an annual publication which has all NGOs registered by the end of 2005 listed in two sections: alphabetical and category sections. The researcher utilized the category section.

3.3 Data collection

The researcher utilized primary data through the use of a questionnaire, which had closed ended questions. The questionnaire main intention was to gather information to identify financial management, fiscal policies and financial oversight, financial records, reporting and

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Research Design

The research adopted a descriptive study design in the form of a survey. The study was concerned with “how” of financial management practices of development NGOs in Kenya. The objectives of the study were to identify financial management practice of development NGOs and determine the strengths of the practices in ensuring sound financial management which was fitted in the descriptive framework.

3.2 The Population

The population comprised of the 1627 development NGOs in Nairobi area. In a survey conducted in the mid 1990s it was revealed that 75% of all registered NGOs were located in Nairobi (Mbote, 2002). Musebe (2006) found that out of 2541 registered NGOs, 1627 were located in Nairobi area forming 64% of the total population of NGOs in Kenya. Only 914 NGOs were located elsewhere in the country. Thus the population of NGOs in Nairobi area was selected due to its representation of the total population of NGOs in Kenya, its proximity to the researcher and cost implications in terms of time frame and funds.

3.3 Sample

The researcher selected a sample of 50 development NGOs in Nairobi area, (see Appendix III). The sample was selected randomly from the NGOs directory 2006 using self generated random numbers. The NGO 2006 directory is an annual publication which has all NGOs registered by the end of 2005 listed in two sections: alphabetical and category sections. This study utilized the category section.

3.4 Data collection

This study utilized primary data through the use of a questionnaire, which had closed ended questions. The questionnaire main intention was to gather information to identify financial management, fiscal policies and financial oversight, financial records, reporting and

administration. The respondents were the executive/managing directors of these NGOs or the chief financial officers. A method of drop and pick was used in the collection of data.

DATA ANALYSIS, FINDINGS AND INTERPRETATIONS

3.5 Data analysis

Introduction

Data was analysed through content analysis and presented in tabular form. The first research objective of identification of financial management practice of development NGOs was achieved by establishing the existence of an institutional financial framework in respondent NGOs and the financial policies to support the financial management practices through questionnaire responses in part 1 of the questionnaire. which was 88 % response

The second objective of determination of the strengths of the practices in ensuring sound financial management was achieved by examining the strengths of the internal control systems in the respondent NGOs in part 2 of the questionnaire. To establish the financial management practices, the data was analysed through descriptive statistics with the aid of statistical package for social sciences (SPSS).

Out of the 100 respondent institutions, 88% of the sampled development NGOs were registered to operate under the NGO Act as shown in table 2, while 9% were registered as CBOs as shown in table 3 and 3% as a trust (table 4). The primary purpose of development NGOs is to design and implement development community based projects.

General Organizational Financial Management

The following table below shows the frequency distribution of the organizations responses on general financial management. The respondent organizations were principally accountable to the donor community by 91% while only 9% were accountable to a board of trustees as shown in Table 2.

Accounting and Financial Statements

Amongst the sampled respondent NGOs, 97% used accrual method of accounting and as shown in table 3, while 3% used cash method as shown in table 4. The financial statements for the respondent NGOs were found to be prepared monthly by 74% respondents (table 2), quarterly by 18% (table 3) and annually by 8% (table 4). Only 4% of the respondent NGOs did not prepare the financial statements at all (table 1).

CHAPTER FOUR

4.0 DATA ANALYSIS, FINDINGS AND INTERPRETATIONS

4.1 Introduction

The findings of the research were analyzed in accordance with the objectives of this study as set out in section 1.3. A total of 50 questionnaires were sent out to respondents. 36 responses were received. Two of the responses were unusable due to incompleteness of the responses by the respondents. 34 responses were used which was 68 % response rate. This was considered adequate for the analysis. The analysis and interpretations were based on these responses.

4.2 Sample Characteristics

The sample consisted of development NGO's with headquarters in Nairobi area. Out of the 34 respondent institutions, 88% of the sampled development NGO's were registered to operate under the NGO Act as shown in table 2, while 9% were registered as CBOs as shown in table 3 and 3% as a trust (table 4). The primary purpose of development NGOs operations is to design and implement development community based projects.

4.21 General Organizational Financial Management

Table 1 below shows the frequency distribution of the organizations responses on questions on general financial management. The respondent organizations were principally accountable to the donor community by 91% while only 9% were accountable to a constituted board of trustees as shown in Table 2.

4.22 Accounting and Financial Statements

In the sampled respondent NGOs, 97% used accrual method of accounting and as shown in table 2 while 9% used cash method as shown in table 4. The financial statements for internal purposes were found to be prepared monthly by 74% respondents (table 2), quarterly by 18% (table 3) and annually by 3% (table 4). Only 4% of the respondent NGOs did not prepare the financial statements at all (table1).

Table 1		Freq.			
Question No.	Variables	(a)	(b)	(c.)	(d)
1.	Organization Registration	30	3	1	
2	My organization principal accountability	31		3	
3	Accounting method:	33			1
4	Frequency of Financial statements for internal purposes	25	6	1	2
5	Preparation of Financial statements for external purposes	12	11	5	6
6	Reporting of Revenue and expenses	1	31	2	
7	Direct costs of products or services are identification	12	15	7	
8	Profit and Loss categories for the expenses presentation	6	25	3	
9	Comparison of Budgets to actual costs	10	23	1	
10	Revenue forecasts and budgets Preparation	17	13	4	
11	Financial reports are produced	13	16	5	
12	The accounting software for financial information:	3	24	7	
13	Management of finances in the organization	25	9	0	
14	Keeping of Monthly financial reports	9	23	2	
15	Top management and staff financial communication	16	17	1	
16	Forecast of revenue and expenses accurately:	12	7	15	
17	Staff views on information for financial management	30	4		

Source : Research Data

Table 2		Frequency	Percentage	Ranking
Question No.	Variables	(a)	%	
3	Accounting method:	33	97	1
2	My organization principal accountability	31	91	2
17	Staff views on information for financial management	30	88	3
1.	Organization Registration	30	88	3
13	Management of finances in the Organization	25	74	5
4	Frequency of Financial statements for internal purposes	25	74	5
10	Revenue forecasts and budgets Preparation	17	50	7
15	Top management and staff financial communication	16	47	8
11	Financial reports are produced	13	38	9
7	Direct costs of products or services are identification	12	35	10
5	Frequency of Financial statements for external purposes	12	35	10
16	Forecast of revenue and expenses accurately:	12	35	10
9	Comparison of Budgets to actual costs	10	29	13
14	Keeping of Monthly financial reports	9	26	14
8	Profit and Loss categories for the expenses presentation	6	18	15
12	The accounting software for financial information:	3	9	16
6	Reporting of Revenue and expenses	1	3	17

Source: Research Data

Financial statements for external reporting were prepared 35% by a certified public accountant (table 2), 32% by a semi qualified accountant (table 3), 15% by outside bookkeeper and 2% bookkeeper on staff (table 1).

Table 3

Q.		Frequency	Percentage	Ranking
No.	Variables	(b)	%	
6	Reporting of Revenue and expenses	31	91	1
8	Profit and Loss categories for the expenses presentation	25	74	2
12	The accounting software for financial information:	24	71	3
9	Comparison of Budgets to actual costs	23	68	4
14	Keeping of Monthly financial reports	23	68	5
15	Top management and staff financial communication	17	50	6
11	Financial reports are produced	16	47	7
7	Direct costs of products or services are identification	15	44	8
10	Revenue forecasts and budgets Preparation	13	38	9
5	Frequency of Financial statements for external purposes	11	32	10
13	Management of finances in the organization	9	26	11
16	Forecast of revenue and expenses accurately:	7	21	12
4	Frequency of Financial statements for internal purposes	6	18	13
17	Staff views on information for financial management	4	12	14
1.	Organization Registration	3	9	15
3	Accounting method:		0	16
2	My organization principal accountability		0	16

Source: Research Data

Revenue and expenses were reported 91% by source of revenue and expenses categories, (table 3). Direct costs of products or services were identified 44% on company basis while 35% of the respondents identified direct costs for each product or service area (table 3).

The preparation and presentation of profit and loss statement by categories of expenses was done by 74% of the respondents (table 3). Comparison of budgets to actual costs consisted of 68% of respondents comparing for some services/products (table 2), while only 3% of the respondents compared budgets to all actual costs (table 4).

The preparation of financial statements was done by 47% of the respondents using different software packages operating independently while 38% used one comprehensive software. Only 15% produced financial reports manually, (table 4). However 74% of the respondents asserted that the accounting software used met their needs of the organization financial information (table3).

Table 4

Question		Frequency	Percentage	Ranking
No.	Variables	(c.)	%	
16	Forecast of revenue and expenses accurately:	15	44	1
7	Direct costs of products or services are identification	7	21	2
12	The accounting software for financial information:	7	21	3
11	Financial reports are produced by:	5	15	4
5	Frequency of Financial statements for external purposes	5	15	5
10	Revenue forecasts and budgets Preparation	4	12	6
2	My organization principal accountability	3	9	7
8	Profit and Loss categories for the expenses presentation	3	9	8
14	Keeping of Monthly financial reports	2	6	9
6	Reporting of Revenue and expenses	2	6	10
1.	Organization Registration	1	3	11
4	Frequency of Financial statements for internal purposes	1	3	12
15	Top management and staff financial communication	1	3	13
9	Comparison of Budgets to actual costs	1	3	14
13	Management of finances in the organization	0	0	15
3	Accounting method:		0	16
17	Staff views on information for financial management		0	17

Source: Research Data

In 74% of the sampled NGOs, the management of organization finances was done by an experienced financial manager or the chief executive officer, and 26% by a bookkeeper (table 3).

Monthly financial reports on specific departments/projects or services were sometime kept by 68% of the respondents (table 3), 26% at all the time and 6% never (table 4). Top management communicated to one another 50% regularly on financial performance information (table 3), 47% on adhoc basis (table 2) and 3% never (table 4).

TABLE 5

Question		Frequency	Percentage	Ranking
No.	Variables	(d.)	%	
5	Frequency of Financial statements for external purposes	6	18	1
4	Frequency of Financial statements for internal purposes	2	6	2
3	Accounting method:	1	3	3
2	My organization principal accountability		0	4
17	Staff views on information for financial management		0	5
1.	Organization Registration		0	6
13	Management of finances in the organization		0	7
10	Revenue forecasts and budgets Preparation		0	8
15	Top management and staff financial communication		0	9
11	Financial reports are produced by:		0	10
7	Direct costs of products or services are identification		0	11
16	Forecast of revenue and expenses accurately:		0	12
9	Comparison of Budgets to actual costs		0	13
14	Keeping of Monthly financial reports		0	14
8	Profit and Loss categories for the expenses presentation		0	15
12	The accounting software for financial information:		0	16
6	Reporting of Revenue and expenses		0	17

Source: Research Data

The organizations had 50% respondents asserting that their capacity to forecast revenue and expenses accurately was less than 50% (table 4) while 35% could forecast more than 75% of the time accurately (table 2), 21% could forecast less than 50% of the time accurately (table 4).

The organization staff viewed provision of accurate information on financial management 88% as necessary and important, (table 2) while only 12% viewed this as an impediment to getting their job done.

4.3 Fiscal Policies and Financial Oversight

The respondent NGOs were asked after short descriptive statements to indicate policy statements as they relate to their organization by ticking the options stated below namely: “Yes/OK- The policy is in place and working satisfactory” , “YES/But: The policy exists but is not effective for whatever reason” and “NO : there is no policy of this kind in existence”,. For questions with Yes/But responses, the respondent were asked to give a brief account of

why the policy existed but was not effective for whatever reason. The frequencies of the responses are shown below in frequency table 6 and ranked in tables 7, 8 and 9.

Table 6

		FREQUENCIES		
QST.		YS	YEB	NO
1	Maintenance of accounting practices in accordance with accepted principles and practices such as the International Financial reporting standards. (IFRS).	17	10	7
2	Achievement of client's / societies goals in a manner that is effective, efficient, and appropriate to the resources.	24	9	1
3	Achievement of donors' goals in a manner that is effective, efficient, and appropriate to their donated resources.	21	8	5
4	Matching of long-term donor goals with long-term resources	7	8	19
5	Achievement of goals in a manner that society considers effective, efficient, and appropriate for resources.	12	18	4
6	All the oversight groups involved with our organization acutely understand accountability and governance issues relating to us.	19	8	7
7	Conduct of an analysis of service costs on a regular basis	14	12	8
8	Presence annual audit performed by an external accountant or accounting firm	30	3	1
9	Implementation by organizations of the audit recommendations for systems and procedural improvements that covers financial compliance.	10	22	2
10	Presence of a system of internal controls	9	24	1
11	Reviewing the system periodically to determine its continued effectiveness.	7	16	11
12	Projection of future revenues and expenditures at least three years in advance and update the projections annually.	5	7	22
13	Establishment of productivity and performance indicators that are used in preparing the annual budget.	7	8	19
14	Conduct of a mid-year review of the budget	10	7	17
15	Updating revenue forecasts at least quarterly and challenge assumptions regarding revenue flows	1	6	27
16	Conduct an annual review of fees and charges to assure they cover full costs of goods or services delivered	2	12	20
17	Investing idle funds on a continuous basis as permitted by law	11	10	13
18	Establishment guidelines that emphasise safety and liquidity in idle fund investments	14	3	17
19	Soliciting of competitive bids on all substantial purchases	24	9	1
20	Reconciliation all deliveries against invoices	25	3	6

Source: Research Data

Table 7

		FREQUENCIES		
		YS	%	Ranking
8	Presence annual audit performed by an external accountant or accounting firm	30	88	1
20	Reconciliation all deliveries against invoices	25	74	2
2	Achievement of client's / societies goals in a manner that is effective, efficient	24	71	3
19	Soliciting of competitive bids on all substantial purchases	24	71	3
3	Achievement of donors' goals	21	62	5
6	All the oversight groups involved with our organization	19	56	6
1	Maintenance of accounting practices in accordance with accepted principles and practices	17	50	7
7	Conduct of an analysis of service costs on a regular basis	14	41	8
18	Establishment guidelines that emphasise safety and liquidity in idle fund investments	14	41	8
5	Achievement of goals in a manner that society	12	35	10
17	Investing idle funds on a continuous basis as permitted by law	11	32	11
9	Implementation by organizations of the audit recommendations for systems.	10	29	12
14	Conduct of a mid-year review of the budget	10	29	13
10	Presence of a system of internal controls	9	26	14
4	Matching of long-term donor goals with long-term resources	7	21	15
11	Reviewing the system periodically to determine its continued effectiveness.	7	21	15
13	Establishment of productivity and performance	7	21	15
12	Projection of future revenues and expenditures at least three years in advance	5	15	18
16	Conduct an annual review of fees and charges	2	6	19
15	Updating revenue forecasts at least quarterly	1	3	20

Source: Research Data

4.31 Policies in Place and Working Satisfactorily.

The respondent organizations were asked short description statement on fiscal policies and financial oversight and frequencies of the respondents are tabulated in table 6. Among the policies which the organizations responded as working and satisfactory were the presence of annual audit performed by external auditors (88%), reconciliation of deliveries against invoices (74%), achievement of societal goals in a manner that is effective, efficient and appropriate to the resources (71%), soliciting of competitive bids on all substantial

purchases (71%) , achievement of donor goals in an effective , efficient and appropriate manner (62%), understanding of oversight groups involved with the organization on accountability and governance issue (56%) and maintenance of accounting practices according to accepted principle and practices such as (IFRS) as shown in table 7.

4.32 Existence of policies which are not effective

The policies which the respondent asserted that they existed in their organization but for whatever reasons weren't effective ranked 1 to 6 are: presence of a system of internal controls (71%), implementation by organization of audit recommendations (65%) , achievement of societal goals in a manner that the society considers efficient and appropriate for resources (53%), review of the system periodically to determine continued effectiveness (47%) , conduct of annual review of fees and charges to ensure they cover full cost of goods and services delivered (35%) and conduct of an analysis of cash on regular basis (35%) as shown in table 8.

4.33 Non Existent Policies

The policies which were depicted in the responses as non existence ranked from number 1 to 6 in table 9 are enumerated as follows: Updating revenues forecast at least quarterly (79%), projection of future revenue at least 3 years in advance and updating the projection annually (65%), conduct annual review of service fees and (charges 59%), matching of long term donor goals with long- term resources (56%) and establishment of productivity of guidelines that emphasizes safety and liquidity of idle funds investment (50%).

Table 8

• **YES/But:** The policy exists but is not effective for whatever reason.

	FREQUENCIES		
	Percentage	Ranking	
YES	%		
Presence of a system of internal controls	24	71	1
Implementation by organizations of the audit recommendations for systems and procedural improvements that covers financial compliance.	22	65	2
Achievement of goals in a manner that society considers effective, efficient, and appropriate for resources.	18	53	3
Reviewing the system periodically to determine its continued effectiveness.	16	47	4
Conduct of an analysis of service costs on a regular basis	12	35	5
Conduct an annual review of fees and charges to assure they cover full costs of goods or services delivered	12	35	6
Maintenance of accounting practices in accordance with accepted principles and practices such as the International Financial reporting standards.(IFRS).	10	29	7
Investing idle funds on a continuous basis as permitted by law	10	29	8
Achievement of client's / societies goals in a manner that is effective, efficient, and appropriate to the resources.	9	26	9
Soliciting of competitive bids on all substantial purchases	9	26	10
Achievement of donors' goals in a manner that is effective, efficient, and appropriate to their donated resources.	8	24	11
Matching of long-term donor goals with long-term resources	8	24	12
All the oversight groups involved with our organization acutely understand accountability and governance issues relating to us.	8	24	13
Establishment of productivity and performance indicators that are used in preparing the annual budget.	8	24	14
Projection of future revenues and	7	21	15
Conduct of a mid-year review of the budget	7	21	15
Updating revenue forecasts at least quarterly and challenge assumptions regarding revenue flows	6	18	17
Presence annual audit performed by an external accountant or accounting firm	3	9	18
Establishment guidelines that emphasise safety and liquidity in idle fund investments	3	9	18
Reconciliation all deliveries against invoices	3	9	18

Source: Research Data

Table 9

• NO: There is no policy of this kind in existence.		NO	Percentage	Ranking
			%	
15	Updating revenue forecasts at least quarterly and challenge assumptions regarding revenue flows	27	79	1
12	Projection of future revenues and expenditures at least three years in advance and update the projections annually.	22	65	2
16	Conduct an annual review of fees and charges to assure they cover full costs of goods or services delivered	20	59	3
4	Matching of long-term donor goals with long-term resources	19	56	4
13	Establishment of productivity and performance indicators that are used in preparing the annual budget.	19	56	4
14	Conduct of a mid-year review of the budget	17	50	6
18	Establishment guidelines that emphasise safety and liquidity in idle fund investments	17	50	6
17	Investing idle funds on a continuous basis as permitted by law	13	38	8
11	Reviewing the system periodically to determine its continued effectiveness.	11	32	9
7	Conduct of an analysis of service costs on a regular basis	8	24	10
1	Maintenance of accounting practices in accordance with accepted principles and practices such as the International Financial reporting standards.(IFRS).	7	21	11
6	All the oversight groups involved with our organization acutely understand accountability and governance issues relating to us.	7	21	11
20	Reconciliation all deliveries against invoices	6	18	13
3	Achievement of donors' goals in a manner that is effective, efficient, and appropriate to their donated resources.	5	15	14
5	Achievement of goals in a manner that society considers effective, efficient, and appropriate for resources.	4	12	15
9	Implementation by organizations of the audit recommendations for systems and procedural improvements that covers financial compliance.	2	6	16
2	Achievement of client's / societies goals in a manner that is effective, efficient, and appropriate to the resources.	1	3	17
8	Presence annual audit performed by an external accountant or accounting firm	1	3	17
10	Presence of a system of internal controls	1	3	17
19	Soliciting of competitive bids on all substantial purchases	1	3	17

Source: Research Data

4.4 Financial Records and Reporting

4.4.1 Introduction

The respondent development NGOs were subjected to Yes/ No question to determine the strength of the financial practices with respect to financial records and reports in ensuring sound financial management. Responses of the questions were ranked in the categories as elucidated in the questionnaires with the existing “Yes” factors ranked highest in a descending order.

4.4.2 General Ledger (Journal)

The responses on maintenance of the general ledger as shown in table 10 were as follows: accounting of all funds in compliance with funding agency ranked first with 97% through to existence of an adequate audit trail from the ledger so source documents 57% ranked 10th as shown in table 10. However, safeguarding of ledger adequately from fire and theft (32%) and the entry of budget data in the general ledger (9%) ranked 11 and 12 respectively. These scores were too low compared to the rest of the responses on maintenance of general ledger.

TABLE 10

Question	A. <u>General ledger (journal)</u>	FREQ.		
		Yes	%	Ranking
	7(c) Funding agency requirements?	33	97	1
2	Is there a written chart of accounts?	32	94	2
8	Are the checking accounts maintained in compliance with the appropriate state law, grant contract, etc?	32	94	3
1	Is a separate, self-balancing ledger maintained for each fund as defined by general accounting and auditing standards?	30	88	4
	7(b) Local or national laws?	29	85	5
10	Are all the general ledgers audited annually?	29	85	6
3	Is a written journal entry form prepared for all postings to ledgers?	26	76	7
	7(a) Generally accepted accounting and auditing standards?	26	76	7
4	Does a responsible official approve journal entries before posting?	23	68	9
5	Is there an adequate audit trail from the ledger to the source documents?	20	59	10
6	Are the ledgers adequately safeguarded from fire, theft?	11	32	11
9	Is the budget data entered in the general ledger?	3	9	12
7	Are all funds accounted for in compliance with:			

Source: Research Data

4.4.3 Reports

Financial reports were ranked with high frequencies according to the respondents. Usefulness of reports and their meaningfulness ranked 1st with 94% though to the reports indicating precisely where the program stands relative to the budget (56%) ranked 5th. However the reports were found to be less timely 32% as shown in table 11.

TABLE 11

	Freq.		Ranking
	Yes	%	
Are the reports useful and meaningful?	32	94	1
Are the reports accurate?	30	88	2
If your program(s) receives grant or contract funds, do you prepare periodic and separate statements of the status of each grant or contract?	30	88	3
Are monthly financial reports of actual expenses distributed for each program(s)?	26	76	4
Do the reports indicate precisely where the program stands relative to the budget?	19	56	5
Are the reports timely?	11	32	6

Source: Research Data

4.5 Financial Administration

4.5.1 Billing for Services

On billing for services, the questionnaires required the respondents to answer question on invoicing and debt recovery. There were high frequencies from the respondents on preparation of invoices accurately of 94%, (ranked 1st) through to safeguarding to ensure that all customers are charged by 50%, (ranked 4th). This indicated a presence of strong system of billing for services with only 47% of respondents not having a system to generate a receivable sub-ledger for each customer as shown in table 12 below.

TABLE 12**(i) Billing for services**

		Freq.		
		Yes	%	Ranking
2	Are invoices prepared accurately?	32	94	1
1	Are invoices prepared promptly?	28	82	2
5	If the average number of invoices per month is over 500, is a customer name and address list maintained mechanically or on computer?	24	71	3
4	Are there adequate safeguards to assure all customers will be invoiced?	17	50	4
3	Does the system generate a receivable sub-ledger for each customer?	16	47	5

Source: Research Data**4.52 Disbursements**

Accounting procedure were found flexible enough to handle specific problems in disbursements by 85% of the respondents (ranked 1st), with few errors in processing invoices by 53% (ranked 2nd) and invoice were generally found to be paid on time by 38% as shown in table 13.

TABLE 13**Disbursements**

		FREQUENCIES		
		Yes	Percentage	Ranking
3	Are the accounting procedures flexible enough to handle specific problems?	29	85	1
2	Are errors in processing invoices, i.e., wrong amounts paid or wrong accounts charged?	18	53	2
1	Are invoices generally paid on time?	13	38	3

Source : Research Data**4.53 Payroll**

The pay cheques were found 94% to be distributed on schedule with 3% errors on employee pay or deduction as shown in table 14 below.

TABLE 14**(iii) Payroll**

		FREQUENCIES		
		Yes	Percentage	Ranking
1	Are pay cheques distributed on schedule?	32	94	1
2	Are there errors on employee pay or deductions?	1	3	2

Source: Research Data

4.54 Supplies and Material Inventory

Continuous records were found to be maintained 85% by the respondents and stock out often kept at minimum by 62% of the respondents. However, information on turnover of item, control over stationery and supplier, inventory status, valuation of inventory and obsolescence were below the mean rating from 47% to 35% depicting loose supplier and materials inventory control system as shown in table 15 below.

4.55 Cash Receipts

The use of sales book or receipt book to proper physical safeguard such as safes ranked highly numbering from 1 to 6 with percentage of 97% to 91%, control of and cash receipts and existence of policies ranked above the mean of 50%. However responses on the existence of written statement which identifies collection responsibilities and existence of proper accounts to apply cash receipts were both 44%.

Presence of mechanical or cash register to record receipts was 41% existent among respondent's organizations. Promptness in depositing receipts to the bank was 21%, office routine arrangements to do deny cashiers from accounts receivable ledgers was 12% present and for the organization use of machines, only 6% respondent organization were checked by an accounting program as shown in table 16 below.

TABLE 15

(iv) Supplies and materials inventory

		FREQ.		
		Yes	%	Ranking
4	Are ongoing inventory records maintained?	29	85	1
2	Are stock outages kept to a minimum?	21	62	2
	7(b) Turnover of items?	16	47	3
6	Is a reasonable degree of control maintained over stationery and other supplies?	16	47	4
5	Is the inventory periodically counted and adjustments made to the book and ongoing records?	15	44	5
	7(a) Inventory status?	15	44	6
3	Are excessive amounts of specific inventory items rare?	14	41	7
1	Is the inventory adequately protected from theft /misuse?	14	41	8
7	Is there adequate management information on:	14	41	9
	7(c) Value of inventory?	14	41	10
	7(d) Obsolescence?	12	35	11

Source: Research Data

TABLE 16**Cash receipts**

Q.		FREQ.		
		Yes	%	Ranking
15	Are sales books or receipt books used?	33	97	1
25	Is the cashier responsible for the cash receipts from the time they are received until they are sent to the bank?	33	97	2
5	Are there adequate procedures for over-the-counter receipts including pre-numbered cash receipt forms?	32	94	3
16	Are the slips or receipts pre-numbered?	32	94	4
18	Are unused receipt books safeguarded?	32	94	5
26	Are proper physical safeguards such as safes, vaults and facilities?	31	91	6
17	Are the daily totals and numerical sequence checked independently by the accounting program?	25	74	7
2	If cash, such as fees for service, is collected by a person other than the cashier	24	71	8
6	Is there a periodic reconciliation of cash subsidiary ledgers with the general ledger accounts?	23	68	9
12	Is this record compared with the cash receipts book regularly?	23	68	10
9	Does someone open the mail other than the cashier or accounts receivable bookkeeper?	22	65	11
1	Are there written policies and procedures covering cash receipts?	21	62	12
4	Does the system adhere to the central government statutes?	21	62	13
24	Are rents, dividends, interest, and similar revenues adequately	20	59	14
21	Does someone other than the cashier or accounts receivable bookkeeper take the deposits to the bank?	18	53	16
8	Is there a written statement identifying collection responsibility?	15	44	15
7	Is there an effective system to identify the proper account to apply the cash received?	15	44	18
13	Do cash registers or other mechanical devices record receipts?	14	41	19
3	Is appropriate action taken to collect from past due accounts?	13	38	17
20	Are each day's receipts deposited in the bank intact and without delay?	7	21	20
10	Is a record of the money and checks received prepared by the person opening the mail?	6	18	21
11	If so, is this record given to someone other than the cashier for independent verification	5	15	22
22	Does an employee who is not from the cashier's program post the general ledger?	5	15	23
19	If neither of the above methods, cash register or receipt book, is in use	4	12	24
23	Is the office routine so arranged that the cashier is denied access to the accounts receivable ledgers and monthly statements?	4	12	25
14	If so, are the machine totals checked independently by the accounting program?	2	6	26

Source: Research Data

4.56 Purchasing

Major items purchased were covered by complete specification by 94% respondents and ranked 1st with practical and quantity of purchasing utilized to achieve per unit savings by 56% (ranked 14th). The factors which fell below the mean of 50% were: Pre-numbering of purchase order and controlling (47%), presence of formal process for evaluating and selecting bids (41%), presence of open file to identify over due purchase (35%), assurance of order with delivery requirements (26%), presence of periodic evaluation of vendor performance (12%) and presence of definite responsibility for checking invoices regarding prices and terms (12%) as shown in table 17 below.

TABLE 17

(vi) Purchasing

		Freq.		
		Yes	%	Ranking
5	Are major items purchased covered by complete specifications?	32	94	1
10	d. Does a responsible official approve invoices for payment?	28	82	2
1	Are purchase orders prepared promptly?	27	79	3
4	Is there a formal list of personnel authorised to approve purchase requisitions?	27	79	4
3	Have those responsible for purchasing demonstrated economies and savings resulting from their buying procedures?	25	74	7
	9 (b) Unit of measure?	25	74	7
10	h. For larger purchases, are multiple quotations always requested?	25	74	7
10	f. Does a responsible official review all purchases ordered to assure conformance with the budget?	23	68	5
	9 (a) Accurate descriptions?	23	68	10
	9 (c) All elements of price?	23	68	11
10	b. Is competitive bidding required to purchase certain items?	21	62	12
8	Is there a formal written purchase order procedure with copies for accounting, the vendor, and receiving?	20	59	13
2	Do those responsible for purchasing generally locate vendors with the most favourable prices and terms?	19	56	6
6	When practical, are quantity purchases utilised to achieve per unit savings?	19	56	14
10	a. Are purchase order forms pre-numbered and controlled?	16	47	15
10	c. Is there a formal process for evaluating and selecting bids?	14	41	16
10	g. Is there a filing system of open purchase orders to readily identify overdue shipments?	12	35	17
	9 (d) Delivery requirements?	9	26	18
7	Is there periodic evaluation of major vendors' performance?	4	12	19
10	e. Is there a definite responsibility for checking invoices regarding prices and terms, Extensions, Freight and charges?	4	12	20
9	Are orders issued with all important data including:			

Source: Research Data

TABLE 18

		Freq Yes	Percentage %	Ranking
	Property control and management		%	
8	Is there an effective procedure to assure that property physically retired is removed from the records and that proceeds from salvage are accounted for?	30	88	1
	2(c) Vendor or supplier?	27	79	2
	2(a) Date acquired/date disposed of?	24	71	3
9	Is the responsibility for overseeing the maintenance of major asset items formally assigned to one employee?	24	71	4
6	Are the assets adequately insured?	23	68	5
	2(b) Adequate description to identify the asset?	21	62	6
1	Is there an accurate asset records file for all fixed assets?	20	59	7
	2(f) Asset identification number?	15	44	8
7	Is the asset records file periodically reconciled to the general ledger?	15	44	9
5	Are adequate files maintained for titles of ownership?	14	41	10
	2(d) Location and changes of location?	11	32	11
10	Are maintenance records being kept in accordance with the manufacturer's recommendations and requirements?	11	32	12
	2(e) Purchase price?	6	18	13
4	Are tags utilized to identify certain assets such as desks, chairs,	6	18	14
	2(h) Preventative maintenance schedule?	3	9	15
3	Is there a formal procedure to reconcile physical counts to the asset records?	3	9	16
	2(i) Actual time and material maintenance costs?	2	6	17
	2(g) Estimated life?	1	3	18
2	Does the asset records file include:		0	19

Source: Research Data

4.57 Property Control and Management

The respondent organizations had an effective procedure to assure that properly physically retired is removed from the records by 88% (ranked 1st). The date of acquisition, disposal, insurance assets register were above the mean of 50% with at least 59% while the following factors fell below the mean as follows, presence of asset identification number was 44% and periodic asset ledger reconciliation being 44%.

Responses on location and changes in location, maintenance of assets according to manufactures requirements were both 32% while the purchase price and identity of the assets were 18%. The responses on presence of preventive maintenance schedule and presence of formal procedures to reconcile physical counts to assets records were both at 9%. The actual time and maintenance costs in the assets records file responses were 6% present while the availability of information on estimated life of the assets was the least factor with 3% ranked 18th as shown in table 18 below.

CHAPTER FIVE

5.0 CONCLUSIONS, LIMITATIONS AND RECOMMENDATIONS

5.1 Conclusions

The study findings indicated that 88% respondent organizations were registered under the NGOs Act and 91% principally accountable to the donor community as shown in table 2. The NGOs Act largely concentrates on the operational and legal framework on how the NGOs operate in Kenya with scarce mention on governance and financial management framework (Mbote, 2002). A study by Gakuo, (2003) also revealed that governance structures in NGOs operating in Nairobi excluded all the stakeholders specifically the consumers of products and services of NGOs who are the communities on the ground.

The accrued accounting method was found to be satisfactorily used by all the respondent organization by 97% as shown in table 2. This method matches expenses to incomes to give a fair view of organization operations. The frequency of preparation of financial statements was satisfactory. Preparation of these statements by officers were evenly distributed below the mean of 50% with only 35%, (table 2) prepared by a Certified Public Accountants whose responsibilities and ethical standards are governed by institute of public accountants ICPAK and Accountants Act cap 531. The level of responsibility of semi qualified accountants bookkeepers may be limited due to lack of experience and qualification. Budgets and revenue forecasts were adequately prepared. The preparation of reports with different software packages operating differently or manually has its own limitation of meeting organization need for financial information partially 71% (table 2).

The lack of information and capacity to forecast revenue and expenses accurately by at least 50% of the time or less, (table 3) has implications on financial planning which is a first building block in financial management. This results to poor financial management or mismanagement of financial resources.

Fiscal policies and financial oversight had frequencies less than the mean on conducting of analysis of service cost on regular basis, establishment of guidelines to invent idle funds, implementation of audit recommendations for systems and procedural improvements that

covers financial compliance and conduct of a mid year review of budgets review of system periodically to determine continued efficiency (table 7).

Financial administration had several internal control weaknesses as depicted in the following areas: General ledger, journal reports, binding for services disbursement, supplier and materials inventory, cash receipts, purchasing and properly control and management. These internal control weaknesses are also responsible for poor financial management (table 11 to 18).

The researcher proposes a review of regulatory framework under which the NGOs operate including salient reporting requirements on NGOs financial management of filling the financial reports annually with a regulatory body whereby these reports may be made available for public scrutiny and an establishment of standard internal control systems for the NGOs.

5.2 Limitations of the Study

Due to time and financial constraints, the analysis was limited to 34 responses. If more time was available together with more funds, more responses would have been obtained with the results being more robust.

The issue of questionnaire bias could not be overlooked. Since the researcher relied on primary data from drop and pick questionnaire, it is possible that some respondents misunderstood some questions hence gave unintended answers or gave biased opinions.

Some people had a negative attitude towards filling the questionnaire and treated the questionnaires with a lot of suspicion making it difficult to obtain a higher response rate.

5.3 Suggestions for further research.

A further study can be done to compare financial performance of local development NGOs registered under the NGOs Act in Kenya with the established international development oriented NGOs.

A further study can be done to compare different governance structures existing in locally indigenous NGOs and the financial performance with respect to achievement of their objectives.

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Part I.A

General Organizational Financial Management

For each question, select one answer by ticking the letter next to your
answer. Please answer as honestly as possible about our organizational
financial management practices.

1. My organization is registered as
 - (a) An NGO under the NGOs Act
 - (b) A Community based Organization (CBO)
 - (c) A trust
 - (d) Other (specify) _____
2. My organization is principally accountable to
 - (a) The donor community
 - (b) The government
 - (c) A constituted board of directors/trustee
 - (d) The society/client it serves (specify) _____
3. My organization uses the following accounting method:
 - (a) Accrual method
 - (b) Modified accrual method
 - (c) Cash method
 - (d) No standard method
4. Financial statements for internal purposes are prepared:
 - (a) Monthly
 - (b) Quarterly
 - (c) Annually
 - (d) Not at all

Appendix I

RESEARCH QUESTIONNAIRE

(Please freely answer the questions below. The information provided will be treated with the highest degree of confidence. When the questionnaire is completed, it should be submitted to the researcher)

Part 1.A

General Organizational Financial Management

For each question, select one answer by ticking the letter next to your answer. Please answer as honestly as possible about our organizational financial management practices.

1. My organization is registered as
 - (a) An NGO under the NGOs Act
 - (b) A Community based Organization (CBO)
 - (c) A trust
 - (d) Other (specify) _____
2. My organization is principally accountable to
 - (a) The donor community
 - (b) The government
 - (c) A constituted board of directors/trustee
 - (d) The society/client it serves (specify) _____
3. My organization uses the following accounting method:
 - (a) Accrual method
 - (b) Modified accrual method
 - (c) Cash method
 - (d) No standard method
4. Financial statements for internal purposes are prepared:
 - (a) Monthly
 - (b) Quarterly
 - (c) Annually
 - (d) Not at all

5. Financial statements for external purposes are prepared by:
 - (a) Certified Public Accountant-CPA
 - (b) An semi qualified accountant
 - (c) Outside bookkeeper
 - (d) Bookkeeper on staff
6. Revenues and expenses are reported by:
 - (a) Product and service areas
 - (b) Sources of revenues and expense categories
 - (c) Both
7. Direct costs of products or services are identified:
 - (a) For each product or service area
 - (b) On a company basis
 - (c) Not at all
8. The Profit and Loss Statement includes the following categories for the presentation of expenses:
 - (a) Direct costs, operating expenses or other income/expenses
 - (b) Expenses and other income/expenses
 - (c) Expenses Only
9. Budgets are used in the accounting system for comparison to actual costs:
 - (a) For all services/products
 - (b) For some services/products
 - (c) For few or none
10. Revenue forecasts and budgets are prepared:
 - (a) For all services/products
 - (b) For some services/products
 - (c) For few or none
11. Financial reports are produced by:
 - (a) One comprehensive software package
 - (b) Different software packages operating independently
 - (c) Manually

12. The accounting software used by my company meets its need for financial information:
- (a) Completely
 - (b) Partially
 - (c) Not at all or have none
13. My company's finances are managed by:
- (a) An experienced financial manager or the chief Executive officer
 - (b) Bookkeeper
 - (c) No identified staff
14. Monthly financial reports are kept on specific departments, projects, or services:
- (a) All the time
 - (b) Sometime
 - (c) Never
15. Top management and staff:
- (a) Communicate their needs for financial performance information to one another regularly
 - (b) Share information on an adhoc irregular basis
 - (c) Speak different languages and rarely communicate
16. My organization has the information and capacity to forecast revenue and expenses accurately:
- (a) More than 75% of the time regularly
 - (b) At least 50% of the time
 - (c) Less then 50% of the time
17. My organization staff view providing accurate information for financial management as:
- (a) Necessary and important to the company
 - (b) An impediment to getting their job done

Part 1 B

FISCAL POLICIES AND FINANCIAL OVERSIGHT

After short descriptive statements of each policy are four potential responses namely:

- **Yes/OK:** The policy is in place and working satisfactory.
- **YES/But:** The policy exists but is not effective for whatever reason.
- **NO:** There is no policy of this kind in existence.

Please indicate policy statements as they relate to your organization by ticking the above options below. If Yes /But please indicate briefly the reason in the space provided below the responses in each question.

Yes/OK

Yes/But

No

1. We have and maintain accounting practices in accordance with accepted principles and practices such as the International Financial reporting standards.(IFRS).

1. Yes/OK ()

2. Yes/But()

3. No()

2. We have achieved client's / societies goals in a manner that is effective, efficient, and appropriate to our resources.

1. Yes/OK ()

2. Yes/But()

3. No()

3. We achieved donors' goals in a manner that is effective, efficient, and appropriate to their donated resources.

1. Yes/OK ()

2. Yes/But ()

3. No ()

4. We have matched long-term donor goals with long-term resources.

1. Yes/OK ()

2. Yes/But ()

3. No ()

5. We have we achieved our goals in a manner that society considers effective, efficient, and appropriate for our resources.

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6. All the oversight groups involved with our organization acutely understand accountability and governance issues relating to us.

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9. The audit covers financial compliance and recommendations for systems and procedural improvements are implemented by our organization

1. Yes/OK () 2. Yes/But() 3. No()

10. We have a system of internal controls 1. Yes/OK () 2. Yes/But() 3. No()

11. The system is reviewed periodically to determine its continued effectiveness.

1. Yes/OK () 2. Yes/But() 3. No()

12. We project future revenues and expenditures at least three years in advance and update the projections annually.

1. Yes/OK () 2. Yes/But() 3. No()

13. We have established productivity and performance indicators that are used in preparing the annual budget.

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18. We have established guidelines that emphasise safety and liquidity in idle fund investments 1. Yes/OK () 2. Yes/But() 3. No()

19. We solicit competitive bids on all substantial purchases
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20. We reconcile all deliveries against invoices 1. Yes/OK () 2. Yes/But() 3. No()

Part 2

Financial records and reporting

A. General ledger (journal)

1. Is a separate, self-balancing ledger maintained for each fund as defined by general accounting and auditing standards? Yes () No ()

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3. Is a written journal entry form prepared for all postings to the ledgers? Yes () No ()

4. Does a responsible official approve journal entries before posting? Yes () No ()
5. Is there an adequate audit trail from the ledger to the source documents? Yes () No ()
6. Are the ledgers adequately safeguarded from fire, theft, etc.? Yes() No()
7. Are all funds accounted for in compliance with:
 - (a) Generally accepted accounting and auditing standards? Yes() No()
 - (b) Local or national laws? Yes() No()
 - (c) Funding agency requirements? Yes() No()
8. Are the checking accounts maintained in compliance with the appropriate state law, grant contract, etc? Yes() No()
9. Is the budget data entered in the general ledger? Yes() No()
10. Are all the general ledgers audited annually? Yes() No()

B. Reports

1. Are monthly financial reports of actual expenses distributed for each program(s)? Yes() No()
2. Are the reports timely? Yes() No()
3. Are the reports accurate? Yes() No()
4. Are the reports useful and meaningful? Yes() No()
5. Do the reports indicate precisely where the program stands relative to the budget? Yes() No()
6. If your program(s) receives grant or contract funds, do you prepare periodic and separate statements of the status of each grant or contract? Yes() No()

C. Financial Administration

(i) Billing for services

1. Are invoices prepared promptly? Yes() No()
2. Are invoices prepared accurately? Yes() No()

3. Does the system generate a receivable sub-ledger for each customer? Yes() No()

4. Are there adequate safeguards to assure all customers will be invoiced? Yes() No()

5. If the average number of invoices per month is over 500, is a customer name and address list maintained mechanically or on computer? Yes() No()

(ii) Disbursements

1. Are invoices generally paid on time? Yes() No()

2. Are errors in processing invoices, i.e., wrong amounts paid or wrong accounts charged? Yes() No()

3. Are the accounting procedures flexible enough to handle specific problems? Yes() No()

(iii) Payroll

1. Are pay cheques distributed on schedule? Yes() No()

2. Are there errors on employee pay or deductions? Yes() No()

(iv) Supplies and materials inventory

1. Is the inventory adequately protected from theft and misuse? Yes() No()

2. Are stock outages kept to a minimum? Yes() No()

3. Are excessive amounts of specific inventory items rare? Yes() No()

4. Are ongoing inventory records maintained? Yes() No()

5. Is the inventory periodically counted and adjustments made to the book and ongoing records? Yes() No()

6. Is a reasonable degree of control maintained over stationery and other supplies? Yes() No()

7. Is there adequate management information on:

(a) Inventory status? Yes() No()

(b) Turnover of items? Yes() No()

(c) Value of inventory? Yes() No()

(d) Obsolescence? Yes() No()

(v) Cash receipts

1. Are there written policies and procedures covering cash receipts? Yes() No()

2. If cash, such as fees for service, is collected by a person other than the cashier, are there adequate safeguards to assure that all cash collected is received by the cashier?

3. Is appropriate action taken to collect from past due accounts? Yes() No()

4. Does the system adhere to the central government statutes? Yes() No()

5. Are there adequate procedures for over-the-counter receipts including pre-numbered cash receipt forms?

6. Is there a periodic reconciliation of cash subsidiary ledgers with the general ledger accounts?

7. Is there an effective system to identify the proper account to apply the cash received?

8. Is there a written statement identifying collection responsibilities? Yes() No()

9. Does someone open the mail other than the cashier or accounts receivable bookkeeper?

10. Is a record of the money and checks received prepared by the person opening the mail?

11. If so, is this record given to someone other than the cashier for independent verification of the amount recorded?

12. Is this record compared with the cash receipts book regularly?

13. Do cash registers or other mechanical devices record receipts?

14. If so, are the machine totals checked independently by the accounting program?

15. Are sales books or receipt books used? Yes() No()

16. Are the slips or receipts pre-numbered? Yes() No()

17. Are the daily totals and numerical sequence checked independently by the accounting program? Yes() No()
18. Are unused receipt books safeguarded? Yes() No()
19. If neither of the above methods, cash register or receipt book, is in use, is some other adequate system of control in force? Yes() No()
20. Are each day's receipts deposited in the bank intact and without delay? Yes() No()
21. Does someone other than the cashier or accounts receivable bookkeeper take the deposits to the bank? Yes() No()
22. Does an employee who is not from the cashier's program post the general ledger? Yes() No()
23. Is the office routine so arranged that the cashier is denied access to the accounts receivable ledgers and monthly statements? Yes() No()
24. Are rents, dividends, interest, and similar revenues adequately controlled in such a manner that their non-receipt would be readily noted and promptly investigated? Yes() No()
25. Is the cashier responsible for the cash receipts from the time they are received until they are sent to the bank? Yes() No()
26. Are proper physical safeguards such as safes, vaults and facilities employed to protect cash and cash transactions? Yes() No()

(vi) Purchasing

1. Are purchase orders prepared promptly? Yes() No()
2. Do those responsible for purchasing generally locate vendors with the most favourable prices and terms? Yes() No()
3. Have those responsible for purchasing demonstrated economies and savings resulting from their buying procedures? Yes() No()
4. Is there a formal list of personnel authorised to approve purchase requisitions? Yes() No()
5. Are major items purchased covered by complete specifications? Yes() No()
6. When practical, are quantity purchases utilised to achieve per unit savings? Yes() No()

7. Is there periodic evaluation of major vendors' performance? Yes() No()
8. Is there a formal written purchase order procedure with copies for accounting, the vendor, and receiving? Yes() No()
9. Are orders issued with all important data including:
- (a) Accurate description? Yes() No()
 - (b) Unit of measure? Yes() No()
 - (c) All elements of price? Yes() No()
 - (d) Delivery requirements? Yes() No()
- 10.
- a. Are purchase order forms pre-numbered and controlled? Yes() No()
 - b. Is competitive bidding required to purchase certain items? Yes() No()
 - c. Is there a formal process for evaluating and selecting bids? Yes() No()
 - d. Does a responsible official approve invoices for payment? Yes() No()
 - e. Is there a definite responsibility for checking invoices regarding prices and terms, Extensions, Freight and charges? Yes() No()
 - f. Does a responsible official review all purchases ordered to assure conformance with the budget? Yes() No()
 - g. Is there a filing system of open purchase orders to readily identify overdue purchases? Yes() No()
 - h. For larger purchases, are multiple quotations always requested? Yes() No()

(vi) Property control and management

1. Is there an accurate asset records file for all fixed assets? Yes() No()
2. Does the asset records file include:
- (a) Date acquired/date disposed of? Yes() No()
 - (b) Adequate description to identify the asset? Yes() No()
 - (c) Vendor or supplier? Yes() No()
 - (d) Location and changes of location? Yes() No()
 - (e) Purchase price? Yes() No()

- (f) Asset identification number? Yes() No()
- (g) Estimated life? Yes() No()
- (h) Preventative maintenance schedule? Yes() No()
- (i) Actual time and material maintenance costs? Yes() No()
3. Is there a formal procedure to reconcile physical counts to the asset records? Yes() No()
4. Are tags utilized to identify certain assets such as desks, chairs, tables, etc.? Yes() No()
5. Are adequate files maintained for titles of ownership? Yes() No()
6. Are the assets adequately insured? Yes() No()
7. Is the asset records file periodically reconciled to the general ledger? Yes() No()
8. Is there an effective procedure to assure that property Physically retired is removed from the records and that proceeds from salvage are accounted for? Yes() No()
9. Is the responsibility for overseeing the maintenance of major asset items formally assigned to one employee? Yes() No()
10. Are maintenance records being kept in accordance with the manufacturer's recommendations and requirements? Yes() No()

End

Thank you, may the almighty God Bless you

Appendix I

RESEARCH QUESTIONNAIRE

(Please freely answer the questions below. The information provided will be treated with the highest degree of confidence. When the questionnaire is completed, it should be submitted to the researcher)

Part 1.A

General Organizational Financial Management

For each question, select one answer by ticking the letter next to your answer. Please answer as honestly as possible about our organizational financial management practices.

1. My organization is registered as
 - (a) An NGO under the NGOs Act
 - (b) A Community based Organization (CBO)
 - (c) A trust
 - (d) Other (specify) _____
2. My organization is principally accountable to
 - (a) The donor community
 - (b) The government
 - (c) A constituted board of directors/trustee
 - (d) The society/client it serves (specify) _____
3. My organization uses the following accounting method:
 - (a) Accrual method
 - (b) Modified accrual method
 - (c) Cash method
 - (d) No standard method
4. Financial statements for internal purposes are prepared:
 - (a) Monthly
 - (b) Quarterly
 - (c) Annually
 - (d) Not at all

5. Financial statements for external purposes are prepared by:
 - (a) Certified Public Accountant-CPA
 - (b) An semi qualified accountant
 - (c) Outside bookkeeper
 - (d) Bookkeeper on staff
6. Revenues and expenses are reported by:
 - (a) Product and service areas
 - (b) Sources of revenues and expense categories
 - (c) Both
7. Direct costs of products or services are identified:
 - (a) For each product or service area
 - (b) On a company basis
 - (c) Not at all
8. The Profit and Loss Statement includes the following categories for the presentation of expenses:
 - (a) Direct costs, operating expenses or other income/expenses
 - (b) Expenses and other income/expenses
 - (c) Expenses Only
9. Budgets are used in the accounting system for comparison to actual costs:
 - (a) For all services/products
 - (b) For some services/products
 - (c) For few or none
10. Revenue forecasts and budgets are prepared:
 - (a) For all services/products
 - (b) For some services/products
 - (c) For few or none
11. Financial reports are produced by:
 - (a) One comprehensive software package
 - (b) Different software packages operating independently
 - (c) Manually

12. The accounting software used by my company meets its need for financial information:
- (a) Completely
 - (b) Partially
 - (c) Not at all or have none
13. My company's finances are managed by:
- (a) An experienced financial manager or the chief Executive officer
 - (b) Bookkeeper
 - (c) No identified staff
14. Monthly financial reports are kept on specific departments, projects, or services:
- (a) All the time
 - (b) Sometime
 - (c) Never
15. Top management and staff:
- (a) Communicate their needs for financial performance information to one another regularly
 - (b) Share information on an adhoc irregular basis
 - (c) Speak different languages and rarely communicate
16. My organization has the information and capacity to forecast revenue and expenses accurately:
- (a) More than 75% of the time regularly
 - (b) At least 50% of the time
 - (c) Less than 50% of the time
17. My organization staff view providing accurate information for financial management as:
- (a) Necessary and important to the company
 - (b) An impediment to getting their job done

Part 1 B

FISCAL POLICIES AND FINANCIAL OVERSIGHT

After short descriptive statements of each policy are four potential responses namely:

- **Yes/OK:** The policy is in place and working satisfactory.
- **YES/But:** The policy exists but is not effective for whatever reason.
- **NO:** There is no policy of this kind in existence.

Please indicate policy statements as they relate to your organization by ticking the above options below. If Yes /But please indicate briefly the reason in the space provided below the responses in each question.

Yes/OK

Yes/But

No

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1. Yes/OK () 2. Yes/But() 3. No()

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 - (c) Vendor or supplier? Yes() No()
 - (d) Location and changes of location? Yes() No()
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- (g) Estimated life? Yes() No()
- (h) Preventative maintenance schedule? Yes() No()
- (i) Actual time and material maintenance costs? Yes() No()
3. Is there a formal procedure to reconcile physical counts to the asset records? Yes() No()
4. Are tags utilized to identify certain assets such as desks, chairs, tables, etc.? Yes() No()
5. Are adequate files maintained for titles of ownership? Yes() No()
6. Are the assets adequately insured? Yes() No()
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8. Is there an effective procedure to assure that property Physically retired is removed from the records and that proceeds from salvage are accounted for? Yes() No()
9. Is the responsibility for overseeing the maintenance of major asset items formally assigned to one employee? Yes() No()
10. Are maintenance records being kept in accordance with the manufacturer's recommendations and requirements? Yes() No()

End

Thank you, may the almighty God Bless you

Appendix III

Main Laws in Kenya Affecting NGOs

The Constitution of Kenya [1998]

The Non-Governmental Organizations Coordination Act, Act No. 19 [1990]

The Non-Governmental Organizations Coordination Regulations [1992]

The Non-Governmental Organizations Council Code of Conduct [1995]

The Companies Act, Chapter 486 of the Laws of Kenya [1959]

The Societies Act, Chapter. 108 of the Laws of Kenya [1998]

The Trustees (Perpetual Succession) Act, Chapter 164 of the Laws of Kenya [1981]

The Trustee Act, Chapter 167 of the Laws of Kenya [1982]

The Value Added Tax Act, Chapter 476 of the Laws of Kenya

The Customs and Excise Act, Chapter 472 of the Laws of Kenya

The Income Tax Act, Chapter 470 of the Laws of Kenya [1989]

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