EFFECT OF FINANCIAL MANAGEMENT POLICY IMPLEMENTATION ON FINANCIAL PERFORMANCE OF NGOs IN NAIROBI COUNTY

By:
Njiru Josiah Mugendi
MBA/NRB/8297/14

This dissertation is submitted in partial fulfillment of the requirements for the award of a Master of Business Administration (MBA) from St. Paul's University

April 2018

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Supervisor: Mary Githinji

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DECLARATION

This dissertation is a product of my own work and is not the result of anything done in collaboration. It has not been previously presented to any other institution. I agree that this dissertation may be available for reference and photocopying, at the discretion of the university.

SIGNATURE OF STUDENT_____ Date _____

Word Count: _____

I confirm that the work presented in this thesis has been done by the student under my supervision.

SIGNATURE OF SUPERVISOR_____ Date_____

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I thank the almighty God for giving me strength, good health, guidance and wisdom to successfully complete this project.

I sincerely thank and acknowledge my supervisor Mary Githinji for her immense support and patience and also devoting her time to review my work and providing guidance to ensure successful completion of this project.

Special thanks and appreciation to my fellow colleagues at St. Paul's University for their support and encouragement during the course of writing this project.

I also extend my sincere gratitude to all the respondents who took time to respond to the questionnaires.

DEDICATION

I dedicate this project to my family and friends for their inspiration and encouragement during the course of the entire MBA programme and especially during the preparation of this research project.

ABSTRACT

Financial management policies are used by organizations as tools for ensuring that their finances are managed in proper manner in all areas of their operations. Lack of implementation of proper management policy exposes NGOs to threats like loss of assets, production of financial reports which are incorrect and unreliable for decision making purposes. This may also lead to application of accounting policies by an organization which are not consistent with the applicable governing laws and regulations. However NGOs that have implemented proper financial management policies are generally known to record improved financial performance. Therefore, the overall objective of this study was to establish the effect of financial management policy implementation on financial performance of Non – Governmental Organizations in Nairobi County. The study adopted a descriptive research design. A sample of 45 NGOs was selected from a population of 1,775 NGOs in Nairobi County both local and international. Data was obtained through the use of questionnaires and analyzed using both descriptive and inferential statistics. Multiple regression analysis results showed that financial planning (β = 0.541), financial monitoring (β = 0.644), accounting records (β = 0.148) and internal controls (β = 0.504) affects an organization financial performance. The study recommends that managers should be trained on how to conduct more efficient financial monitoring by placing emphasis on all important aspects of monitoring in order to reap the full benefits of financial monitoring in their organizations. A feedback system should be put in place ensuring corrective measures are taken to enable organizations respond urgently to emerging risks.

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ABBREVIATIONS

CBO	Community Based Organization
COSO	Committee of Sponsoring Organizations
IASB	International Accounting Standards Board
ICAEW	Institute of Chartered Accountants of England and Wales
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
KPLC	Kenya Power & Lighting Company
NGO	Non-Governmental Organization
PBO	Public Benefits Organization
SAS	Statements of Auditing Standards
SMEs	Small and Medium – sized Enterprises
SOX	Sarbanes Oxyles Act
SPSS	Statistical Package for Social Sciences

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CHAPTER ONE

INTRODUCTION

1.1. Introduction

This chapter focuses on the study background and puts into perspective the financial management policy as well as its effect on financial performance. The chapter provides the purpose of the study which is to examine the relationship between financial management policy and financial performance. It also shows the specific study objectives established as determining the implementation of financial management policy among NGOs. The chapter also focuses on the scope of the study covering NGOs in Nairobi County. It also handles the rationale behind the study in establishing a linkage between financial management policy and financial performance

1.2. Background of the Study

Public Benefits Organizations (PBOs) commonly known as non-governmental organizations (NGOs) or non- profit organizations, role in economic development and growth has increased steadily over the years. Non-Governmental Organizations have increasingly been accepted by governments as key partners in national building and development and also as a force in promoting development of democracy (Wafukho, 2010).The recognition of NGOs as important actors in economic development has brought about the debate of their use of financial resources focusing on financial management practices. Efficiency of an organization's financial management is the back bone of its survival and growth (Fiador, 2013).

Financial resource is well known to be an important asset to many organizations and institutions (Allis et al, 2004), this calls for proper management of this resource in order to beat the purpose for which the resources were provided. However, sometimes this much needed capital is not put into proper use by the persons in charge (Wakariba, Ngahu & Wagoki, 2014). Therefore, NGOs should maintain a system of financial management that guarantee proper utilization of resources and ensure smooth implementation of projects and running the organization.

According to the NGO report (2013), NGOs in Kenya face significant policy risks and challenges although various measures have been implemented to enhance proper management.

This has been a major hindrance to the operations of NGOs. For instance in 2014, the NGO Co-ordination Board deregistered 15 NGOs for being involved in financing terrorist activities while a further 510 NGOs were deregistered for failure to file their audited reports as required by the law. In 2015, the Board issued a notice to cancel registration certificates of 959 NGOs on the grounds of misappropriation of funds, money laundering, diversion of donor money and failing to file their audited accounts as required by the law.

In order for organizations to manage their financial resource in a proper manner, the management develops a financial management policy and ensures that it is implemented. A financial management policy is a policy developed by an organization establishing the organization's financial controls. The design of a financial control procedure aims to protect the assets of an organization and ensure proper recording of all financial transactions hence preventing and reducing fraud and errors (Block & Geoffrey, 2008). Financial management controls are the policies and procedures put in place to protect organizational assets, ensure reliability in financial reporting, enhance compliance with the laid down rules and regulations as well as achieve efficiency and effectiveness in organizational operations (Mugo, 2013).

The adoption of good financial management policies tends to be critical for the success of organizations in today's environment which is dynamic and result oriented. NGOs have several stakeholders such as financiers, members, recipient of services, regulators among others and they demand for accountability on the use of financial resources and better performance from the management of these organizations (Serem, 2013). Organizations that have the ability to implement strong financial management policies are almost guaranteed of performance because without financial resources, projects cannot be developed (Wanjiru, 2013). Financial management is therefore a key component in every organization since it controls one of the most valuable asset of an organization which financial resource.

Literature on financial management of organizations identify the components of financial management practices crucial to their performance as financial planning, control, analysis, financial and management accounting (pricing and costing), working capital management and budgeting (Osman, 2007). Studies have been carried out in relation to financial management

both locally and globally: Financial practices among Small and Medium-sized enterprises in Sri Lanka were studied by (Karunananda & Jayamaha, 2011). It was found out that there is an impact of financial practices on business performance. A study was carried out by (Byarugaba et al. 2014), examining the effect of financial management practices on delivery health services in Rukungiri District in Uganda. The study results revealed that budgeting, financial accountability and financial controls had a strong significant relationship with service delivery.

Another study was carried by (Kamwana and Muturi, 2014) examining the effects of financial management on performance of World Bank funded projects in Kenya. The study found out that financial control, financial planning, financial monitoring, and financial evaluation improves project performance. An analysis of factors influencing financial control practices in community based organizations in Baringo County was carried out by (Evans, 2013). The study revealed that CBO officials technical skills, auditing, bookkeeping, internal control and budgeting were positively correlated with financial control practices.

Financial management policies are developed and implemented by organizations as a tool for ensuring proper management of financial resources in all areas of their operations. These financial management policies include ensuring that organizations have well laid down financial plans, financial monitoring systems, accounting systems as well as internal controls. The lack of implementation of proper management policy exposes NGOs to threats such as loss and misappropriation of assets, production of unreliable financial statements, incorrect and unreliable accounting data which may lead to reduced organizational confidence including application of accounting policies and procedures which are not consistent with the laid down laws and regulations. However there is a general view that implementation of a proper financial management policies may lead to better financial performance of NGOs.

A proper financial control system contributes greatly towards ensuring that stakeholder's investments are safeguarded together with the organization's assets. Strong financial controls improve on the data being issued to the management and help safeguard the assets of the organization (Kamwana & Muturi, 2014). It also emphasizes on accountability which need to be accurate to aid timely sound decision making. Therefore it is important that an organization

should document, review, revise and test its financial controls on a regular basis and strengthen them where necessary. The study focused on financial planning, financial monitoring, accounting records and internal control as independent variables and how they affect organizational financial performance.

Performance measurement was foremost intended for the business sector but since the gap between business and non – profit sectors has narrowed considerably in the last decade, the interest in performance measurement in the non – profit sector has increase among researchers and practicians (Serem, 2013). According to (Ramadan & Borgonovi, 2015), the working environment of NGOs is dynamic and risky and the overall effectiveness of these organizations requires meeting the various demands of stakeholders through building realistic performance measurement and management systems. This study endeavors to establish the effects of financial management policy implementation on performance of NGOs in Nairobi County.

1.3. Profile of the Study Industry

Non-Governmental Organizations in Kenya are established through the Non-Governmental Organizations Co-ordination Act of 1990, an Act of parliament that makes provisions for the registration and coordination of NGOs in Kenya. The Non-Governmental Co-ordination Board popularly known as the NGO Board is a state corporation established by the Act with its mandate being to register, coordinate and facilitate the activities of all national and international NGOs operating in Kenya including maintaining a register on their precise sectors and affiliations and location of their activities. The NGO Board is also responsible for receiving and analyzing annual reports from the NGOs and providing policy guidelines to help NGOs harmonize their activities with national development plans (NGO Co-ordination Board, 2014). NGOs are required to submit their annual reports to the NGO Board together with their audited financial statements which have been prepared in accordance with the International Financial Reporting Standards and the Kenyan Non-Government Co-ordination Act.

For the past three decades, Kenya like any other country across the world has experienced unprecedented growth in number and activities of not- for- profit organizations commonly referred to as NGOs. NGOs started in the Kenya in 1960s as self-help groups just before

independence as a way of encouraging growth at local community level by people come to work together in what was commonly known as the spirit of Harambee. This has kept most of the community help groups growing at grass root level (Wanjohi, 2010).

In 1970s and 1980s, NGOs mushroomed in the country to intervene in emergencies resulting from drought, mitigate effects of famine and provide alternative delivery machinery owing to the apparent failure of direct bilateral or multilateral aid programs (Serem, 2013). Some of these organizations have been formed to complement services that are provided by the government as a way of responding to declining capacity of the government to provide essential services to its citizens while others have been formed to provide alternative services to what the government is providing.

There are approximately 7,083 NGOs that are registered and operation in Kenya covering the various sectors of the economy and spread all over the country (NGO Co-ordination Board, 2014). Nairobi County has 1,775 registered NGOs. The selection of Nairobi County is because the County has a comparative high number of NGOs operating in close proximity at both local and international level with diverse activities. NGOs in Nairobi and the country at large gather their membership from both local and international NGOs operating in Kenya and working with a variety of CBOs and groups to provide goods and services in areas such as health, education, environment protection, improving local water and sanitation system and general improvement in human welfare among others (Mwangi, 2014).

1.4. Statement of the Problem

Non-Governmental organizations are in nature non-profit organizations and are not part of government as their name suggests. These organizations continue to play a vital role in the development of the country contributing approximately 80 billion Kenya Shillings on average per year to the Kenya economy and operating under the sectors of youth empowerment, social welfare, emergency relief, agriculture economic empowerment and health among other thematic areas (NGO Co-ordination Board, 2014). NGOs in Kenya are required by the Non-Governmental Organizations Co-ordination Act of 1990 to maintain an adequate system of recording and presenting all their financial transactions incurred during their course of implementing their

projects and also running their organizations. One way of achieving this is by maintaining and implementing a financial management policy, a manual that covers the applicable accounting policies, systems and operational procedures of an organization (Okinda, 2013).

The activities of NGOs has been on the increase over the past years due to the increase in funding that has been channeled to the NGOs by different donors. According to (Wanjiru, 2013), many NGOs have failed to secure funds from donors due to their financial management practices that are wanting thus making it difficult for them to perform. It is the role of the management to ensure that funds are used in an effective and efficient manner. According to the NGO report (2013), NGOs in Kenya face significant policy risks and challenges notwithstanding the various measures that have been placed to enhance proper management of finances. This has been a major hindrance to the operations of NGOs. For instance in 2014, the NGO Co-ordination Board deregistered 15 NGOs for being involved in financing terrorist activities while a further 510 NGOs were deregistered for failure to file their audited reports as required by the law. In 2015, the Board issued a notice to cancel registration certificates of 959 NGOs on the grounds of misappropriation of funds, money laundering, diversion of donor money and failing to file their audited accounts as required by the law. This has motivated this study aiming to establish the degree with which NGOs implement financial management policies on their operations.

Financial management policies are developed and implemented by organizations as a tool for ensuring proper management of financial resources in all areas of their operations. The lack of implementation of proper management policy exposes NGOs to threats such as loss and misappropriation of assets, production of unreliable financial statements, incorrect and unreliable accounting data which may lead to reduced organizational confidence including application of accounting policies and procedures which are not consistent with the laid down laws and regulations. However there is a general view that implementation of a proper financial management policies may lead to better financial performance of NGOs.

Studies have been carried out in relation to financial management both locally and globally:
Financial practices among Small and Medium-sized enterprises in Sri Lanka were studied by (Karunananda & Jayamaha, 2011). The study found out that there is an impact of financial

practices on business performance. A study was carried out by (Byarugaba et al. 2014), examining the effect of financial management practices on delivery health services in Rukungiri District in Uganda. The study results revealed that budgeting, financial accountability and financial controls had a strong significant relationship with service delivery.

Another study was carried by (Kamwana and Muturi, 2014) examining the effects of financial management on performance of World Bank funded projects in Kenya. The study found out that financial control, financial planning, financial monitoring, and financial evaluation improves project performance. An analysis of factors influencing financial control practices in community based organizations in Baringo County was carried out by (Evans, 2013). The study revealed that CBO officials technical skills, auditing, bookkeeping, internal control and budgeting were positively correlated with financial control practices.

Most of the studies carried out have placed focus on public and private sector not on NGOs and thus, it is evident that there is a gap between the financial management policy and financial performance of NGOs. Therefore this research is determined to fill this gap by furthering the scope in the area of financial management policy implementation and its effect on financial performance of organizations with specific focus on NGOs in Nairobi County.

1.5. Objective of the Study

1.5.1. General Objective of the Study

The purpose of this study was to establish the effect of financial management policy implementation on financial performance of Non – Governmental Organizations in Nairobi County.

1.5.2. Specific Objectives of the Study

The specific objectives of the study were to:

i. To establish the effects of financial planning on financial performance of in NGOs in Nairobi County.
ii. To investigate effects of financial monitoring on financial performance of NGOs in Nairobi County.

iii. To establish the effects of maintaining proper accounting records on financial performance of NGOs in Nairobi County.
iv. To assess the effect of internal controls on financial performance of NGOs in Nairobi County.

1.6. Research Questions

In order for the study to meet the stated objectives, this study sought to answer the following research questions:

i. Do NGOs in Nairobi County prepare proper financial plans ensuring that adequate funds are available to meet the needs of the organizations?
ii. Do NGOs in Nairobi County have financial monitoring systems that enable comparison between set plans and actual performance?
iii. Do NGOs in Nairobi County maintain accurate records of financial transactions to enable preparation of reliable financial statements?
iv. Are the systems of internal controls maintained by NGOs in Nairobi County adequate to ensure their operations are running in a proper manner to safeguard their assets?

1.7. Significance of the Study

The study would be of help to the NGOs' board of directors and the entire management in their duty as policy makers as it would help in sensitizing employees on the importance of financial monitoring as a key aspect of financial management including instituting trainings on how to conduct efficient financial monitoring. It would also help NGOs in improving their internal controls especially ensuring that there is constant review and update of internal controls including ensuring that there is a feedback system in place. This would enable them respond timely to emerging risks arising from factors within the organization and also to changes in the business environment Through the findings of the study, donors and other stakeholders would be enlightened on areas of their input for financial management capacity building activities. Finally the study would be of importance to institutions of research as well as academicians as it would provide a basis for advancing their knowledge and literature on organization financial management policies.

1.8. Rationale of the Study

Financial management in organizations is one that has been widely explored world over and has been researched on extensively. A large amount literature has been produced on financial management practices but focusing on the public sector and thus there is a gap between the financial management policy and financial performance of NGOs. The study will thus focus on establishing a link between financial management policy implementation and financial performance of NGOs.

1.9. Limitation of the Study

The researcher was likely to encounter various limitations that would hinder access to information needed for the study. The major limitation was the unwillingness of the respondents to divulge information regarding implementation of financial management policies in their organizations due to confidentiality requirements of staff involved in financial activities in organizations. The researcher addressed this through an assurance that information that was obtained during the study was used for educational purpose only.

Delay in responding to the questionnaire was another limitation in collecting the data required for the study. This was as a result of reservations held by the target population. The researcher countered the limitation by making prior arrangements with the respondents as well as making personal calls, emails and visits to remind the respondents to fill in the questionnaire.

1.10. Scope of the Study

The study covered Non- Governmental Organizations in Nairobi County that are active and registered by the NGO Coordination Board. The target population was 1,775 NGOs. A sample of 45 NGOs was derived. The study was carried out in April 2017. The study investigated effects of financial management policy implementation and on financial performance.

1.11. Operational Definition of Terms

1.11.1. Financial Control

Financial controls are systems of policies and procedures that protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations (Munene, 2013).

1.11.2. Financial Management Policy

Financial Management policy is the whole framework of financial management comprising of systems, processes, procedures and internal controls regarding the means within which an organization manages its income, expenses, assets and liabilities (Golda, 2013.)

1.11.3. Internal Control System

Internal control system is the process designed and effected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations (ISA) 2015.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter includes some studies dealing with financial management as practiced in organizations. The chapter specifically deals with areas such as the development and implementation of financial management policy in organizations and how they are performing financially. It also shows the conceptual framework highlighting the relationship of the variables used in the study. This chapter also identifies the research gap that exists between what other researchers have done and what this study aims to tackle.

2.2. Theoretical Orientation

2.2.1. The Agency Theory

Agency theory relates firms as important structures to maintain contracts and therefore, it is possible to exercise control which curtails opportunistic behavior of agents. It assumes that firms are made up of a nexus of contacts that are made between the economic resource owners (the principals) and the managers (the agents) who are tasked with the responsibility of utilizing and managing those resources. Moreover, agency theory is based on the premise that agents are in possession of more information about the relationship, interest or work performance than the principal described as adverse selection and moral hazard. This information asymmetry adversely affects the principals' ability to establish whether the agents are performing exactly what they are engaged to do and that they have the required knowledge about how to perform their duties. It also assumes that both the principals and the agents will act in a rational manner aiming to maximize their wealth.

NGOs play a vital role in economic development of a country through provision of services where the government lacks capacity to do so or by providing alternative services to those being provided by the government. For these organizations to achieve this objective, they source for financial resources. The board of directors of NGOs being the principals engages the services of agents comprising of managers and task them with the responsibility of utilizing and managing the financial resources. However, the objectives of the organization may not be realized because

the managers (agents) with whom the board of directors (principals) have entrusted the organization operations will act in an opportunistic manner to achieve their own interest rather than the interest of the principals thus creating agency conflict. In order to alleviate the agency problem, the principal – agent risk bearing mechanisms are designed monitored through contracts. This necessitates an organization to incur agency costs aimed at ensuring that the activities of managers are aligned with the goals and objectives of the organization (Kimungunyi, Memba & Njeru, 2015).

In the NGO sector, the propositions of the agency theory are shown by how well the management adheres to the mission and vision of the organization. Legally, NGOs are responsible to fulfill a duty of obedience, which effectively means that the board of directors is in charge of ensuring that the organization realizes its public responsibility as stated in its mission (Mwangi, 2014). The board of directors ensures managers do not get involved in activities outside the organization's constitution and the laid down laws and regulations. Therefore the board is not only concerned with the performance of the organization but also on the welfare of the organization as a whole in order to guarantee its survival.

Financial controls are one of the many ways used to tackle the agency problem in business. Others are; budgeting, audit committees, external auditing and financial reporting, (Wakiriba, Ngahu & Wagoki, 2014). Presence of sound financial management policies in organizations has helped in reducing agency costs with some arguing that organizations gain some economic benefits by reporting on financial controls. Weakness in financial control has direct mapping to growing levels of earning management (chan et al., 2008). Earnings management is the agency problem that led to the development of SOX legislation after manipulation of earnings by firms like WorldCom and Enron among others.

Reduction of the agency problem in organizations has partially been owed to presence of financial controls over the years achieved through implementation of a sound organizational financial management policy. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) indicates that for controls to be effective, they need to be part of the entity's infrastructure to enable urgent response to the ever changing conditions and also to avoid

unnecessary costs. This is because financial management policies are developed and implemented by organizations to help them achieve their objectives.

2.2.2. Theory of Financial Control

The theory of financial control was advanced by Ostman (2009). The theory takes into account the personal functions of humans, both in present day and future, as its underlying point of reference. This theory holds that an organizations existing and possible functions of financial tools for organizations are most essential. It also states that, payments, financial instruments, accounting, control models, economic calculations, and related considerations, both within and outside of the organization, ought to be discussed with regard to inner characteristics but also considering possible effects. It is noted that determining the relationships between various activities and financial processes, from a financial control point of view, is a general and basic issue (Ostman, 2009).

The theory of financial controls places a natural focus on the organizations such that they are looked at from a number of latitudinal areas. The first relate to the human beings functions of what is accomplished through organizations, their activities and output. The second area involves the structure of the organization and activities, and of transactions and relations that various parties hold with each other. The third latitudinal area covers the control systems being the recurring procedures and methods that are employed to relate present and future functions to resources both externally and internally. The aforementioned financial control tools are argued to be critical from an individual organization's perspective and also for larger economic systems. The fourth and final latitudinal area shows the specific processes of individual organizations for certain issues.

The theory further states that structure and financial control system works together (Ostman, 2009).The financial control theory is very relevant to the present study in that it gives a better understanding of financial controls which is an important aspect of financial management policy for implementation in an organization.

2.3. Empirical Review

The adoption of good financial management policies tends to be critical for the success of organizations in today's environment which is dynamic and result oriented. Organizations also have several stakeholders such as financiers, members, recipient of services, regulators among others are also demanding for accountability on the use of financial resources and better performance from the management (Serem, 2013). Literature on financial management of organizations identify the components of financial management practices crucial to their performance as financial planning, control, analysis, financial and management accounting (pricing and costing), working capital management and budgeting (Osman, 2007).

Financial practices among Small and Medium-sized enterprises were studied by (Karunananda & Jayamaha, 2011). The study sought to ascertain the comprehensiveness of financial practices adopted by SMEs and evaluate whether they have an impact on performance of organizations. Distributive statistics were used to analyze data gathered through questionnaires. The results revealed that financial systems ($p = 0.524$), financial audit ($p = 0.489$), historical financial reporting practices ($p = 0.212$), future – oriented financial reporting practices ($p = 0.332$) and historical financial statement analysis practices ($p = 0.375$) had a significant positive correlation with enterprise performance. The study concluded that there is an impact of financial practices on business performance of SMEs.

A study was carried out by (Byarugaba *et al*. 2014), examining the effect of financial management practices on delivery health services in Rukungiri District in Uganda. The study explored the effect of budgeting, financial accountability and financial controls (independent variables) on health service delivery (dependent variable). The study adopted a case study survey design using both quantitative and qualitative approaches. The survey data was analyzed using descriptive statistics, correlation and regression analysis.

The study revealed that there is a relative weak positive significant effect of budgeting on health service delivery where $r = 0.305$ at 0.01 significant, positive significant relationship between financial accounting and service delivery where $r = 0.249$ significant at 0.01 and a moderate positive significant relationship between financial controls and service delivery where $r = 0.433$

at 0.000 significant. Regression analysis showed budgeting, financial accountability and financial controls as strong significant predictors of service delivery at adjusted R^2 = (0.085, 0.054 and 0.180) and (0.001, 0.007 and 0.000) significance respectively. The study results also had a level of significance at $\alpha = 0.05$ for budgeting, financial accountability and financial controls deducing that budgeting and financial controls have a strong contribution to the service delivery and maintaining a strong financial accountability systems will significantly improve service delivery. The study concluded that the management should put in place strong budgeting systems, strengthen financial accountability and reinforce financial controls to enhance financial management practices hence improved health service delivery.

A study was carried by (Kamwana and Muturi, 2014) examining the effects of financial management on performance of World Bank funded projects in Kenya with particular reference to KPLC projects. A descriptive research design was used targeting 500 employees of Kenya Power in Nairobi handling implementation of projects. Questionnaires were applied to obtain primary data from employees. Financial management was studied from the perspective of the following four independent variables; financial control, financial planning, financial monitoring, and financial evaluation whereas project performance focused on cost, time and management.

The study results of the linear multiple regression analysis revealed that the independent variables explain 89% of the project performance practices and project performance as represented by the R^2. At 5% level of significance and 95% level of confidence, financial planning had a 0.002 level of significance, financial monitoring showed a 0.005 level of significant, financial evaluation showed a 0.013 level of significant while financial control had a 0.032 level of significant, and hence the most significant factor was financial monitoring. The study concluded that financial control, planning, monitoring, and financial evaluation improves project performance.

A study was conducted by (Evans, 2013) on CBOs in Baringo County in order to analyze factors that influence their financial control practices. The study targeted 142 management staff of 220 CBOs using survey research design. Data was collected using questionnaires and analyzed using both descriptive and inferential statistics. The findings revealed that technical skills of the CBO

officials (r = 0.478, α = 0.01), auditing (r = 0.435, α = 0.01), bookkeeping (r = 0.268, α = 0. 05) and internal control systems and budgeting (r = 0.220 α = 0.05) were positively correlated with financial control practices respectively. The study results of the multiple linear regression analysis showed that technical skills (β = 0.347) and auditing (β= 0.285) are significant while internal control systems and budgeting (β = 0.095) and bookkeeping (β = 0.024) are not significant. The study finally concluded that CBO officials technical skills, auditing, bookkeeping, internal control and budgeting were positively correlated with financial control practices.

2.3.1. Financial Management Policy Implementation

The framework of financial management comprises of systems, processes, procedures and internal controls regarding the means within which an organization manages its income, expenses, assets and liabilities (Golda, 2013). In order for organizations to manage their financial resource in a proper manner, the management develops and implements a financial management policy. A financial management policy is a policy developed by an organization establishing the organization's financial controls.

According to (SAS, 2002), financial control undertakings include development of policies and procedures that guarantee execution of management directives. These procedures and policies are instituted by management and directors to ensure the objectives of the organization are met including ensuring the organization conducts its business in an orderly manner, implementation of internal policies, assets are safe guarded, awareness of fraud and errors in the system and guaranteeing that accounting data produced is accurate and complete for production of financial statements (Walters and Dunn, 2001).

The issue of financial control systems is the most important in financial management (Evans, 2013). According to Block and Geoffrey (2008), controls are the procedures developed and implemented in order to protect the assets of an organization and ensure that errors and fraud in financial transactions are detected and dealt with. These control activities are the laid down procedures and policies that are adopted by an organization aimed at assisting them achieve the

objectives of the organization. They are instituted to ensure that organizational finances are well handled.

A well implemented system of financial control provides the management with an assurance that accounting data generated is reliable for decision making. Management decisions become organizational policies and for them to be effective, communication is to all stakeholders is important in the organization and they must be adhered to consistently. Internal controls are meant to provide an assurance of financial information being reported, ensure the organization complies with the laws and regulations while upholding good corporate practices thus playing a crucial role in influencing the performance of the management (Mawanda, 2008). However, organizational success largely depends on how the internal control designed.

A proper financial control system contributes greatly towards ensuring that stakeholder's investments are safeguarded together with the organization's assets. Strong financial controls improve on the data being issued to the management and help safeguard the assets of the organization (Kamwana & Muturi, 2014). It also emphasizes on accountability which need to be accurate to aid timely sound decision making. Therefore it is important that an organization should document, review, revise and test its financial controls on a regular basis and strengthen them where necessary. This study will focus on financial planning, financial monitoring, accounting records and internal control and how they affect organizational performance.

2.3.2. Financial Planning

Financial planning is a laid down plan to guarantee that adequate funding is available when required to meet the short, medium and long-term capital needs of the organization (Mwaura, 2013). Financial planning forms part of the budgeting system of an organization and is linked to the organization's strategic and operational plans. A budget takes part in an important role of monitoring the use of finances and hence regarded as the cornerstone of any financial management system. Planning involves engaging in selection of objectives that need to be met and devising actions to be taken in order to accomplish them. It is being in the fore front and being ready for it (Serem, 2013). An entity is able to gauge where it is going in terms of goals and objectives through planning.

Sound planning starts with laying down priorities and the cycle of planning. Due to the high number of activities to be performed, it is necessary to list them in order of importance. Budgets are prepared in advance taking into account anticipated activities or operational environment. The organization benefits as a whole from budgeting when both short term and long term repercussions are put into consideration (Otley, 1987). However, the process of preparing yearly budgets is followed by an evaluation of the plans, since detailed plans must be given out by managers for implementing the long term plans.

Once the budget is put into operation, feedback should be availed to the managers involved in the implementation of the budget. This is normally done through production of monthly budget reports with an analysis of the budget verses actual showing areas where variances are arising. Coordination of the budget plans must be properly done to avoid any gridlock. Coordination of individual budgets should be done to guarantee smooth implementation process hence saving on costs and time (Kimani, 2014).

2.3.3. Financial Monitoring

Financial monitoring involves the processes of monitoring the budget together with ensuring it is being controlled as a determinant of assessing its effectiveness. During implementation, budgets must be monitored and controlled to ascertain effectiveness in alignment over a specific time period (Kimani, 2014). Monitoring is the process of comparing set plans with actual performance. Proper monitoring and control of the budget together with reconciliation of accounting records in a clear and timely manner makes it simple to produce financial reports which allow the management to assess the performance of the organization.

Actual revenue or costs should be monitored on a continuous basis by comparing actual with budget performance and ensuring variances are reported to the responsible officials on a regular basis (Serem, 2013). This provides an avenue for taking corrective actions suitable to the organization after analyzing any differences between actual and budgeted figures. Information derived from the results of monitoring and evaluation helps NGOs in execution of future projects as it is taken into account while implementing new projects in order to improve on them.

Financial monitoring main aim is to improve on the management of projects, programmes and other important activities and ensuring that funds and other resources are utilized in an optimal way while providing an avenue to learn from mistakes so as to enhance the importance, ways and results of cooperative programmes (Khawanja, 2011). As stated by Fiador (2013), monitoring is crucial to the governance framework in that in perception on governance in the long run seems to imply management monitoring done to deliver on the interests and goals of the diverse project to stakeholders. Mackay (2007) indicates that monitoring and evaluation contributes to sound governance by providing evidence-based policy making, policy development, management and accountability.

According to Briston (1981), financial control and monitoring ensures that a program is implemented in an efficient and cost-effective manner within a system of accountability. However he noted that existing financial control provisions must be accompanied by further improvements in the program monitoring as a whole for better implementation of the budget in accordance with the agreed work programmes.

2.3.4. Accounting Records

Accounting records involves maintaining accounting data through designing and implementing a system of record keeping which may be electronic or a manual system. Different NGOs implement different systems of record keeping that will meet their operational needs and resources that are available. An accounting system includes procedures, personnel, technology and records that are used by an organization to prepare and present financial information and communicate the same to the various stakeholders. The main aim of an accounting system is meet the needs of an organization through provision of efficient information needed for decision making.

A good accounting system is one that promotes existence of controls that help safeguard the assets of an organization (Wanjiru, 2013). As noted by Iddrisa and Anang (2010), in order for financial data to be accurate and reliable, there should be some control measures developed by the management to guarantee that transactions are completely and accurately recorded. The system should be able to show that a transaction was actually made and ensure that it is able to

produce accurate and complete financial reports on a timely basis. It also ensures reliability and relevance of the financial data produced. The aim of financial reports is to give information about the financial performance of an organization that is required for use by a wide range of stakeholders in making economic decisions (IASB, paragraph 12).

Most NGOs either due to inadequate resources or size are faced with a challenge of maintaining a proper system of accounting leading to their inability to produce accurate financial reports. This has been the minimum requirements by donors where they carry out financial assessments of NGO's accounting system to establish their effectiveness before they release any funds to them. NGOs need to maintain accurate record of financial transactions that are taking place as a way of showing how funds are being utilized. Accurate accounting records give valuable information about how the organization is being managed and whether it is achieving its goals and objectives. NGOs are expected to be good stewards of the resources made available to them by their financiers. In this regard, their financial management policies need to be properly developed and implemented by the management to ensure the appropriate utilization of funds and other resources. An NGO utilizes resources owned by others to achieve mission and planned objectives. Those who finance these operations must have courage that the organization's operations will be done as per plan, and with necessary responsibility (Evans, 2013). This calls for proper maintenance of accounting records.

A proper accounting system provides a chart of accounts which sorts out the different source of income and expense accounts and classifies then into different related categories e.g. income and expenditure assets liability. The same categories as recorded in the chart of accounts should be used in budgets for consistency in reporting. All levels of approval should be sought before payment is made as per the procedures outline in the organization financial management policy. All staff should be conversant with the financial management policy manual to ensure correct procedures are followed. Every NGO should have proper accounting records due to the fact that managing the funds no matter how small or much it maybe becomes a tedious exercise which will affect the financial performance of the organization.

2.3.5. Internal Controls

Internal controls are the laid down systems and procedures aimed at ensuring that organizational operations are running in a proper manner thus help safeguard the organizational asset. According to the Institute of Chartered Accountants of England and Wales (ICAEW), internal control is the whole system of control established by the management with an aim of carrying on the business of organizations in an orderly manner, thus safeguarding its assets and guarantee accuracy and reliability of its financial data (Kumar and Sharma, 2011).

According to the International Standards on Auditing (ISA) 315, internal control is the process designed and effected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As such internal control plays an outright role by influencing performance of the management who are tasked with the responsibility of ensuring reliability of financial reporting, adherence to set laws and regulations and to sustain good corporate governance (Abdulkadir, 2014).

Internal controls are designed and implemented to help in identifying and dealing with risks that are likely to pose a threat to performance of organizations in terms of achieving their objectives. Internal control is the terms basically applied to describe how management provides an assurance that the organization is able meet its financial and non-financial objectives (Mugo, 2013). A system of internal control including internal audits is meant to primarily ensure reliability of financial performance, by directly or indirectly enhancing accountability among those who provide information in an organization (Jensen, 2003).

However, for an organization to be successful the standard of the design of internal controls is crucial and management should always pay particular attention to it. To ensure internal controls operate in an efficient manner, managers must be careful with the design of internal controls (Yang, 2012). The management should ensure that internal controls are used to enhance achievement of organizational objectives by helping in management of risks, ensuring

compliance with organizational policies, laws and regulations. Organizations must internalize internal controls as part and parcel of their governance and risk management structures.

The board should institute proper policies on internal controls and ensure that they are reviewed and updated regularly to obtain an assurance that they are working appropriately to enable monitoring of risks to which the organization is exposed to. This will also enable that systems are placed to effectively reduce those risks to acceptable levels. In this regard, the board ought to be in the forefront by sending a clear message to all in the organization that implementation of the set internal controls must be taken seriously in order to guarantee performance.

Financial statements derived from financial data are used to communicate to a range of diverse interested parties the financial standing of the organization. Disclosures made in the financial statements will help organizations gain trust from the community, send relevant information to donors and other stakeholders (Saxton & Guo, 2011).

2.4. Financial Performance

Organizational performance consists of the actual output or results as measured against its planned outputs. It is an analysis of an organization's performance as compared to goals and objectives. According to the (Association of Certified Fraud Examiners 2010), performance makes reference to the ability of an organization to efficiently operate profitably, continue to exist, expand and react to the opportunities and threats arising within its environment. It means achievement of the ultimate organizational objectives as stipulated in its strategic plan. Performance is the capacity of an organization to reach its goals and objectives (Richardo, 2009).

Performance measurement was foremost intended for the business sector but since the gap between business and non – profit sectors has narrowed considerably in the last decade, the interest in performance measurement in the non – profit sector has increase among researchers and practicians (Serem, 2013). According to (Ramadan & Borgonovi, 2015), the working environment of NGOs is dynamic and risky and the overall effectiveness of these organizations requires meeting the various demands of stakeholders through building realistic performance measurement and management systems.

Organizations in the profit sector have three primary outcomes analyzed: financial performance, market performance and shareholder value performance. Therefore, performance in these organizations is measured in terms of their returns to shareholders, product performance in the market as compared to those of their competitors and financial performance as reported in the financial statements. Unlike their counterparts in the profit sector, organizations in the non-profit sector operate with multiple donors and at times, these donors often have diverse interests than the shareholders of the organizations. The principal function of measuring performance in organizations is to ensure that they are accountable for their activities and actions and also to facilitate learning hence improved performance (Sharma, 2012).

A sustainable organizational performance should also include its contributions in terms of people management, social contributions and financial indicators over the years. Successful organizations have a sustainable performance realized over time rather that measured over a specific time period. For an organization to achieve an effective performance, the management should consider an assessment of its environment both internal and external followed by an analysis of its results as compared to it set goals (Wanjiru, 2013). For an organization to achieve the expected level of performance, it should measure both quantitative and qualitative factors. This will ensure achievement of positive results and feedback over a length of time. Other factors to consider in performance are organizational culture and values as held by the employees.

Organizations measure performance mainly due to the need to confirm if they are achieving their objectives and how far they are. This calls for organizations to institute performance measures since it is an ongoing process. Performance measurements involve collecting, analyzing and reporting information regarding an organization, individual, group, system or component. This involves reviewing processes and laid down strategies within an organization to establish if outputs are as per the expectations. Performance measurement helps in ensuring that intended results are achieved, establish the effectiveness and efficiency of operations of an organization, setting realistic goals, targets and objectives, identifying deviations from plans and also to prove accountability to all stakeholders both internal and external to the organization.

2.4.1. Measures of Financial Performance

Several performance measurements systems are in use today such as the Balanced Scorecard, Performance Prism, and Cambridge Performance Measurement process amongst others with the Balanced Scorecard being the most popular. However, there is no single model that has been accepted universally due to the unique and diverse requirements of different organizations.

In manufacturing firms, financial performance is achieved when the firm eradicates wastages in benefits, systems, processes and services. The critical success factor for a manufacturing firm is the degree to which it fulfills its set objectives and mission in terms of being efficient, effective and economical (Kamau, 2014). According to American Institute of Certified Public Accountants (2011), when an organization is able to register good financial performance, it is said to have obtained Value for Money. That is, whether it has gained maximum benefits arising from goods and services it purchase and/or sells, within the capital at its disposal. Other factors that constitute good value include cost, quality, utilization of resources, suitability of purpose, convenience and timeliness.

NGOs operate with little accountability as compared to their counterparts in the public sector and their survival has been delinked almost completely from performance because they are seen to be under little or no obligation to tell the truth to their stakeholders. Improvement on performance is key to their continued existence and therefore not optional for NGOs (Wanjiru, 2013). There is growing interest in performance measurements in NGOs with managers experiencing pressure to show effectiveness in service delivery and increase accountability. Performance measures in NGOs may be both financial and non-financial measures. Financial measures entail an evaluation of the quantitative parameters in the organization financial statements with an aim of providing stakeholders with an overview of the financial situation of an organization and facilitate proper planning and monitoring of activities (Sharma, 2012).

2.4.2. Accountability

In order for managers of NGOs to be able to make informed decisions, they require regular financial reports. Preparation of financial statements is one way through which managers are accountable for the financial resources entrusted to them (Mugo, 2013). Most NGOs are adopting the IFRS (International Financial Reporting Standards) in their preparation and presentation of financial statements in order to increase the quality of information thus enabling donors and other stakeholders well understand and analyze the financial situation of the organization. Availability of financial statements gives room for a quantitative analysis of data to evaluate the relationship among the financial data such as ratio analysis and trend analysis.

2.4.3. Liquidity

This involves the management of an organization's working capital on in day to day operations. According to Sanjib & Uttam (2013), there are two aspects of working capital namely; gross working capital and net working capital. Gross working capital involves the amount of funds that have been invested in current assets while net working capital refers to the surplus of current assets over current liabilities. Therefore, NGOs operate with the concept of gross working capital only since there are no current liabilities that are involved in their operations. A satisfactory current ratio indicates effectiveness in management of financial resources by an organization (Sharma, 2012).

2.4.4. Survival

Survival in organizations relates to how long an organization will continue in operation if all its finances are exhausted and there are no funds received from donors during the year. According to Mugo (2013), organizations that are considered to be strong performers are those that can stay in business for a numbers of years, hence the ability of an organization to stay in operation long enough is an indicator of good financial performance. NGOs use survival ratio which provides a comparison between the general reserves or unrestricted funds over total income in a period of one year to establish their financial standing.

2.5. Research Gap

From the above literature review, most of the studies that have been done have focused on public and private sectors not on NGOs and thus, it is evident that there is a gap between the financial management policy and financial performance of NGOs. Furthermore most of the literature about the study variables is for public sector organizations. Therefore this research undertook to further the scope of research in the area of financial management policy implementation and its effect on financial performance of organizations with specific focus on NGOs in Nairobi County.

2.6. Conceptual Framework

This describes the relationship amongst the study variables; and explains financial management policy as an independent variable while financial performance is the dependent variable. Financial management policy will be studied under the constructs of financial planning, financial monitoring, accounting records and internal control while financial performance constructs was accountability, liquidity and survival as shown in figure 1.

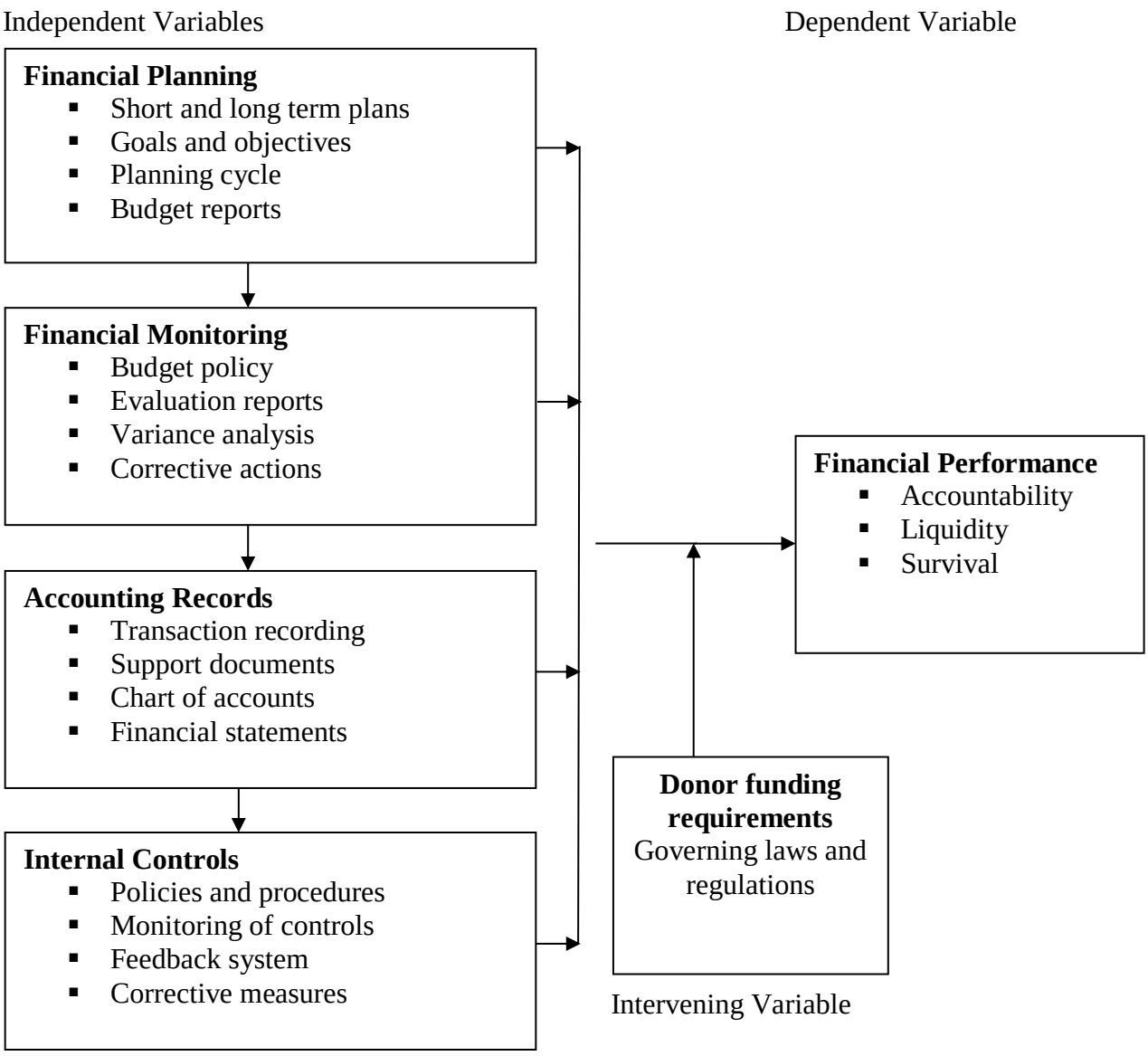


Figure 1: Conceptual Framework Source: Researcher, 2018

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This describes the research methodology that was used in order to achieve the objectives of the study. This chapter therefore describes the research design, target and accessible population, sampling design and sample size, data collection and procedures, data analysis methods and the ethical considerations that the study used.

3.2. Research Design

The researcher used a descriptive research design in the study aiming to examine the status of financial management policy implementation in NGOs in Nairobi County. This design investigates the current status and nature of the phenomena since it usually involves a large sample. A descriptive study can be applied when the aim is to show the characteristics of some items, estimate proportions of people who have in one way or another made specific predictions exploratory in nature (Churchill, 1991). It is quite often related with describing a population with respect to necessary variables emphasizing on establishing a relationship between the variables. The descriptive research design was adopted in this study based on conceptual relationship between the independent and the dependent variable.

3.3. Target and Accessible Population

According to Cooper and Schindler (2013), population is defined as the whole selection of elements about which a researcher wants to draw some conclusions. The target population consisted of 1,775 NGOs both international and local that are active and registered by the NGO Coordination Board and located in Nairobi County. The respondents were finance managers of these NGOs. The selection of Nairobi County is because according to Mwangi (2014) the county has a comparative high number of NGOs operating in close proximity at both local and international level with diverse activities.

3.4. Sampling Design and Sample Size

The study targeted 1,775 NGOs registered and active in Nairobi County. The sample size of 45 NGOs was computed using the formula below as recommended by Milton (1986):

$$n = k + 1\frac{t^2(1 - R^2)}{\Delta rj^2}$$

$$n = 4 + 1\frac{2^2(1 - 0.50)}{0.05}$$

Sample size = 45

Where: n = sample size, k = number of independent variables, t = desired level of significance (t = 2 for $p < 0.05$), R^2 = coefficient of variation and Δrj^2= explained variance attributed to j^{th} variable. Simple random sampling method was used since the target population comprises of active and registered NGOs in Nairobi County. Information was obtained from finance managers of the NGOs.

3.5. Data Collection and Procedures

The required data was collected through the use of questionnaires. Closed ended questions based on the Likert scale was used as they are easy to code and analyze while open ended questions was used to elicit more information from the respondents with an aim to achieve the objectives of the study. The benefits of using questionnaire is that it removes interviewer bias, gives respondents adequate time to go through the questions before answering them and also makes it possible to coordinate a large sample (Kothari, 2004). The questionnaires were managed through drop and later pick method at a time as agreed with the researcher. This method of administration is preferred because it has a higher response rate (Kerine, 2014).The questionnaires sought for information on the areas of focus taking into account availability of time and cost.

3.6. Reliability and Validity

3.6.1. Reliability

Reliability of an instrument measures consistency of the instrument. The questionnaires used had Likert scale items that were to be responded to. Reliability analysis Cronbach's alpha (α) was calculated by application of SPSS. The value of the alpha coefficient ranges from 0 to 1 and may be used to describe the reliability of factors extracted from dichotomous (that is, questions with two possible answers) and/or multi-point formatted questionnaires or scales (i.e., rating scale: 1 = poor, 5 = excellent).

A higher value shows a more reliable generated scale. According to (Cooper & Schindler, 2013), 0.7 is an acceptable reliability coefficient. The study involved questionnaires from 10 respondents, who were selected to participate in the pilot study. Since, the alpha coefficients were all greater than 0.7, a conclusion was drawn that the instruments had an acceptable reliability coefficient and were appropriate for the study.

Table 4.1: Reliability Results

Variable	Cronbach's Alpha	Items
Financial planning	.71	3
Financial monitoring	.73	3
Proper accounting records	.75	2
Internal controls	.77	2

3.6.2. Validity

To establish validity, the research instrument was given to 1 supervisor and 10 experts who were experienced financial management policy implementation organizations to evaluate the relevance of each item in the instrument in relation to the objectives. The same were rated on the scale of 1 (very relevant) to 4 (not very relevant). Validity was determined by use of content validity index (CVI). CVI was obtained by adding up the items rated 3 and 4 by the experts and dividing this sum by the total number of items in the questionnaire. A CVI of 0.747 was obtained. A validity coefficient of at least 0.70 is acceptable as a valid research hence the adoption of the research instrument as valid for this study (Oso and Onen, 2009).

3.7. Data Analysis Methods

Data to be obtained through questionnaires was sorted, classified and coded then tabulated for ease of analysis. Data was analyzed by use of descriptive and inferential statistics with the aid of Statistical Package for Social Sciences (SPSS). SPSS computer software was used as it is more user friendly and most appropriate for analysis of management related attitudinal responses (Newton and Jeonghum, 2010). Factor analysis and regression analysis was used to make predictions or inferences about the population. The importance of this is that data derived from the analysis was used to draw conclusions on a large population (Evans, 2013).

To determine whether the relationship between the variables are statistically significant, the researcher used the following multiple regression model.

$$y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + e$$

Where:

y = Financial performance.

a = y intercept.

b_1, b_2, b_3, b_4 = net change in y for each change in x_1, x_2, x_3 and x_4.

x_1 = Financial planning.

x_2 = Financial monitoring.

x_3 = Accounting records.

x_4 = Internal controls.

e = Error term.

3.8. Ethical Considerations

The researcher ensured that the respondents were guaranteed of maximum confidentiality on the information they divulged and the information received was used for the purpose of this study. The principal of anonymity was applied by the researcher to guarantee privacy. The researcher adhered to all the ethical standards set and no respondent was coerced into participating in the research as participation in was voluntary. The researcher took time to explain to the respondents of the importance of this study and request them to participate and provide information that is relevant to the study.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1. Introduction

This chapter presents results obtained from the analysis of data collected using questionnaires. Analysis of data collected was done using descriptive and inferential methods and the results shown in charts and tabular summaries. The objective of the study was to establish the effect of financial management policy implementation on financial performance of Non – Governmental Organizations in Nairobi County.

4.2. Response Rate

The study targeted respondents from 45 NGOs in Nairobi County. The respondents from the sampled NGOs who successfully filled and returned the questionnaire were 35 and this resulted in a response rate of 78%. According to Mugenda and Mugenda (2003), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and above is excellent. This means that the response rate for this study which was established to be 78% was excellent and therefore enough for data analysis and interpretation. The response rate is as shown in table 4.2 below.

Table 4.2: Response rate

Questionnaires	Frequency	Percent (%)
Response	35	78%
Non-response	10	22%
Total	45	100%

4.3. General Information

The study sought to establish the general information on status of financial management policy implementation in NGOs in Nairobi County. The information was presented in the section below.

4.3.1. Length of operation

The researcher sought to find out how long had the organization been in operation. The results were presented in figure 2 below.

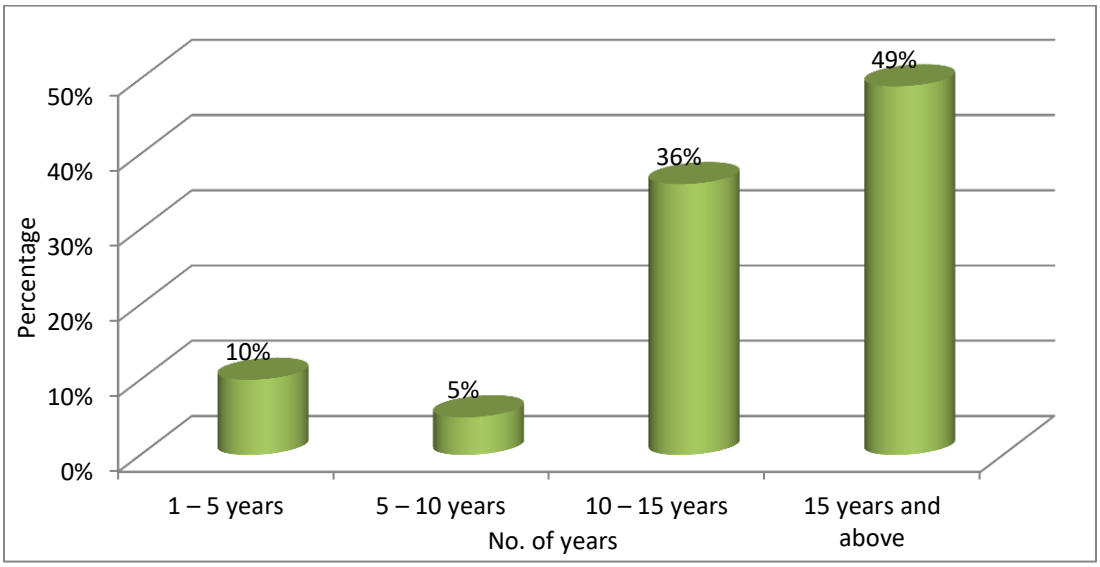


Figure 2. Length of operation

The results in figure 2 above indicates that 10% of the respondents reported that the organization was in operation for between 1 to 5 years, 5% for between 5 to 10 years, 36% for between 10 to 15 years while 49% reported that the organization was in operation for 15 years and above. As shown in figure 2 above, it is therefore apparent from the findings that majority of the NGOs (49%) were in operation for 15 years and above. This indicates that they were well acquitted how to develop and implement financial management policies.

4.3.2. Duration of Service

The study also sought to establish how long the respondents had been working in their respective NGOs under study. The results were recorded in figure 3 below.

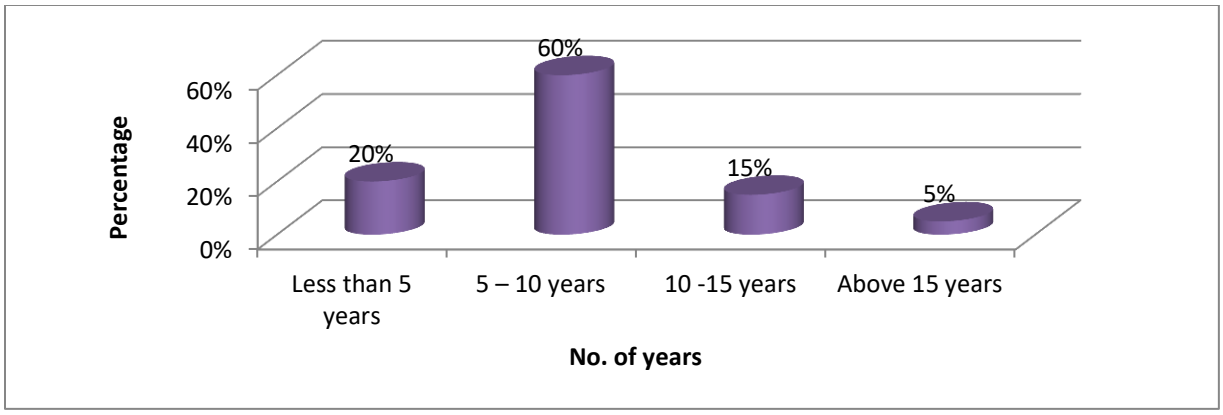


Figure 3. Duration of Service

As is evidently clear in figure 3 above, 20% of the respondents had worked for less than 5 years; the majority 60% had worked for between 5 to 10 years, 15% had worked for between 10 to 15 years while only 5% had worked for over 15 years.

From the study results above, majority of the respondents had worked for between 5 to 10 years. This was ideal to carry out the study since the respondents are well informed on the area under study. Therefore their responses enhanced credibility and reliability of the findings.

4.3.3. Category of NGOs

In order to have a clear picture of the portfolio of the targeted organizations, the study also sought to ascertain the categories of the sampled organizations in terms of the national or international status. The findings were recorded in figure 4 below.

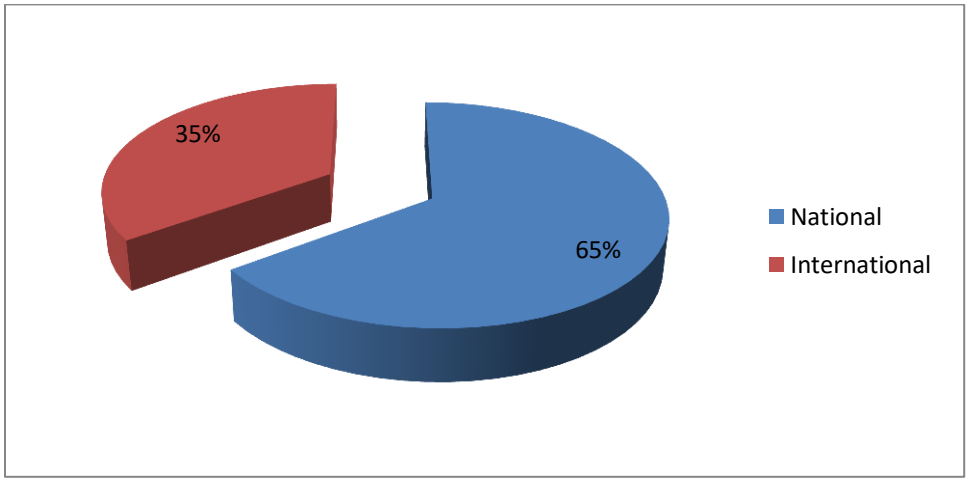


Figure 4. Category of NGOs

According to the figure 4 above, 65% of the organizations were categorized as national while 35% were categorized as international.

Whereas there was some disparity among the two categories, both were well represented and therefore ideal for drawing conclusions as well as conducting comparative analyses if required.

4.3.4. Number of projects

The study sought to establish the number of projects NGOs had successfully implemented since inception. The results are presented in figure 5.

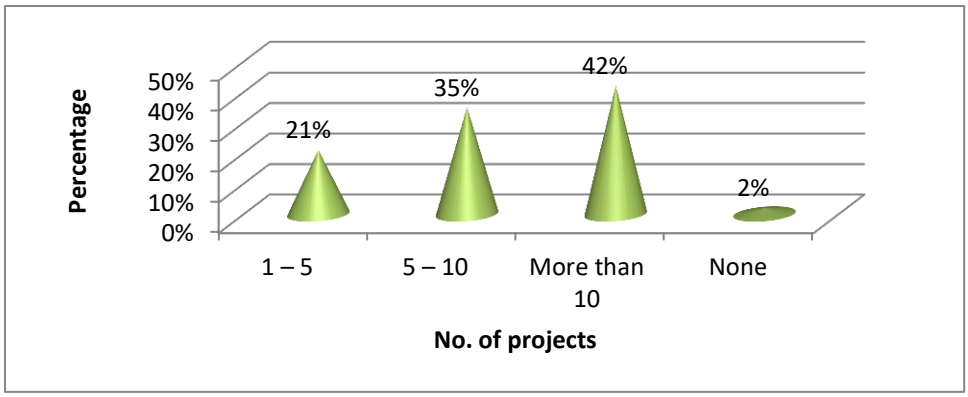


Figure 5. Number of projects

The results above shows that 21% of the respondents had implemented between 1 to 5 projects, 35% between 5 to 10 projects, and 42% had implemented more than 10 projects while only 2% had not implemented any project. The study revealed that NGOs had at least implemented a project with majority having implemented more than 10 projects. This was ideal to the present study since organizations had developed adequate financial capacity due to the increased number of projects implemented.

4.4. Tests of Normality

Statistical procedures require that the assumption of normality is tested. This is necessary to enable the graphical tests to be done about the normality of the data in order to check for skewness and kurtosis coefficients. It helps to determine if the data follows a normal distribution or it does not. If normality is not achieved, the results of the regression analysis for goodness of fit may not show the true picture of the relationship amongst the variables. In this study,

normality was tested using Kolmogorov-Smirnov test and Shapiro – Wilk tests. According to (Razali & Wah, 2011), Shapiro-Wilk test is considered to be more appropriate or powerful normality test. It is a reliable test for determining skewness and kurtosis values of normality. If it is found to be below 0.05, the deviation of data from a normal distribution is significant.

Table 4.3: Shapiro-Wilk Test of Normality

Variables	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	Df	Sig	Statistic	df	Sig
Financial Planning	0.51	1.282	0.000	.986	1.352	0.000
Financial Monitoring	0.41	1.252	0.000	.865	1.283	0.000
Accounting Records	0.40	1.351	0.000	.985	1.361	0.000
Internal Controls	0.40	1.212	0.000	.835	1.241	0.000

The results of the Shapiro-Wilk test presented in the table above reveal that financial planning, financial monitoring, accounting records and internal controls were normally distributed. Since Shapiro –Wilk test results for the four variables are (0.000) which is greater than 0.05 confirms that the data is normal. In order to determine normality graphically, output of a normal Q-Q plot was used. The results of the Q-Q plot of performance is presented in figure 6 below.

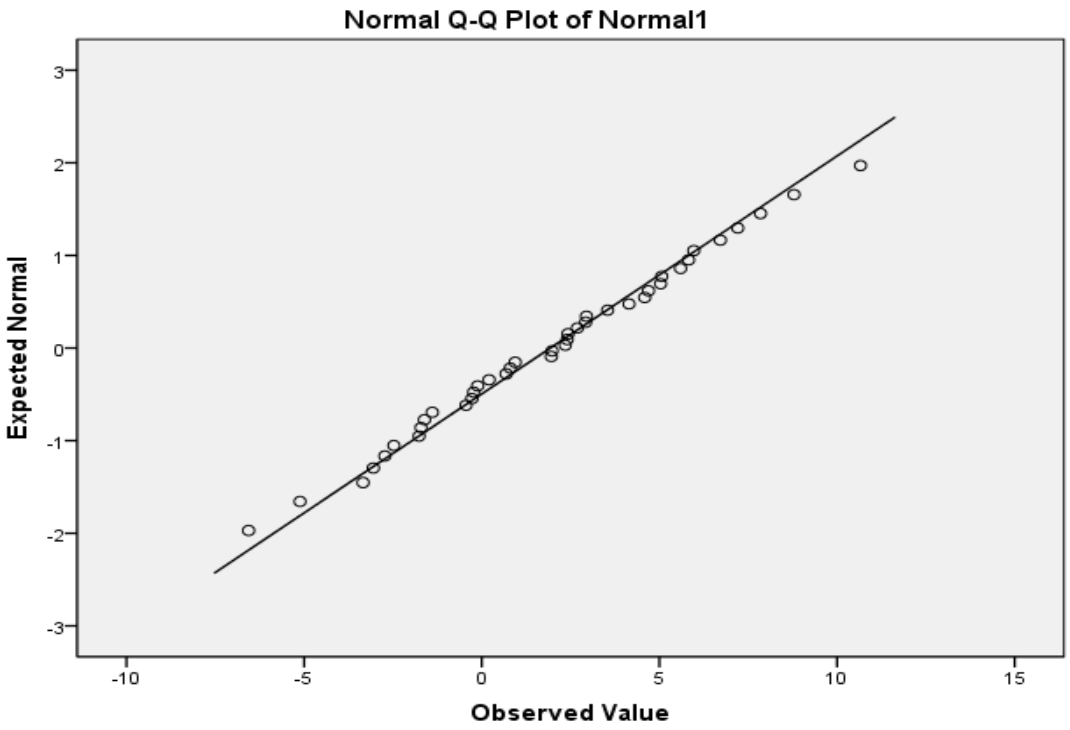


Figure 6. Q-Q plot

According to (Cooper and Schindler 2013), for a variable to be normally distributed most of the points should lie close to the diagonal line. From the results above, the normal Q-Q plot indicates that the observed data versus the expected normal data is randomly distributed along the line of best fit indicating that the dependent variable is normally distributed.

4.5. Multicollinearity Test

Multicollineality is the adverse situation where the correlation among the independent variables is high thus increasing the standard errors of the coefficients using collinearity statistics to obtain tolerance and Variance Inflation Factor (VIF). Tolerance is the variance in an independent variable that is not explained by other independent variables. It measures how much variance the regression is inflated by multicollinearity. The minimum cut off value for tolerance is (0.10) while the maximum acceptable cutoff value for VIF is (10). If two variables are not correlated, all VIFs will then be 1. If VIF for one of the variables is ≥5, then the variable is collinearly associated. The results for the four variables; financial planning, financial monitoring, accounting records and internal controls are presented in table 4.4 below and results show that all the VIFs for collinearity are below 5.

Table 4.4. Multicollinearity Test

Model	Unstandardized Coefficient		Standardized Coefficient			Collinearity Statistics	
	Beta	Std Error	Beta	t-value	Sig.	Tolerance	VIF
1) (Constant) Financial Planning	1.762	1.009		1.835	.095		1.253
2) (Constant) Financial Monitoring	-.690	.514	-.372	-1.327	.214	.957	1.003
3) (Constant) Accounting Records	.172	.186	.259	.921	.378	.997	1.013
4) (Constant) Internal Controls	.171	.126	.229	.931	.368	.987	1.014

a. Dependent Variable: Financial Performance

The results in table 4.4 above shows that all the variables had a variance inflation factor (VIF) of less than 10; financial planning (1.253), financial monitoring (1.003), accounting records (1.013) while internal controls had (1.014) implying that there was no collinearity with the variables.

4.6. Tests of Independence

Tests of independence of error terms, which implies that observations are independent, were assessed through the Durbin- Watson test. The test normally checks that the residuals of the model are not auto correlated since independence of residuals is one of the basic hypotheses of regression analysis. The range of the statistics is from zero to four. Scores between 1.5 and 2.5 reveal independent observations. The results are presented in table 4.5 below.

Table 4.5 Durbin Watson Test

Variables	Durbin Watson
Financial planning	1.885
Financial monitoring	2.084
Accounting records	2.231
Internal controls	1.887

The above results of Durbin Watson test shows that they were close to 2.0: financial planning (1.885), financial monitoring (2.084), accounting records (2.231) and internal controls (1.887). This indicates that there was no autocorrelation and the residuals were independent implying that the variables under study were independent.

4.7. Data Sampling Adequacy

In order to establish the adequacy of sampling data, Kaiser-Meyer-Olkin measure (KMO) of sampling adequacy and Bartlett's Test of Sphericity tests were conducted. KMO measure varies between 0 and 1, and values closer to 1 are better with a threshold of 0.5. A KMO of 0.50 is an acceptable degree for sampling adequacy (Williams, Brown & Onsman, 2012). Bartlett's test of sphericity tests the alternate hypothesis that the correlation matrix is an identity matrix; that is, it analyzes if the samples are from populations with equal variances.

Bartlett's test significance of 0.05 or less further indicates an acceptable degree of sampling adequacy; sample is adequate, factorable and additional analysis beyond descriptive can be done. The results of the data sampling adequacy are presented in the table 4.6 below.

Table 4.6. KMO and Bartlett's Test

Scale	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	Bartlett's Test of Sphericity		
		Approx. Chi-Square	df	Sig.
Financial planning	.733	628.302	91	.000
Financial monitoring	.585	74.437	22	.000
Accounting records	.650	429.893	22	.000
Internal controls	.523	451.21	22	.000

From the results above, KMO measures of sampling adequacy produced values between 0.523 and 0.733 while Bartlett's test of sphericity had a consistent significance of $p < .001$ for all the four variables which confirms that they are good to conduct a factor analysis for this study.

4.8. Financial Planning

The first objective of the study was to establish the effects of financial planning on financial performance of NGOs in Nairobi County. Several questions were asked regarding their budgeting systems as an important component of financial planning. The results are summarized in table 4.7 below.

Table 4.7. Financial Planning

Statements	Mean	Std. Dev.
Organization has both short term and long term plans	4.225	0.4644
Budgets have clear goals and objectives	4.201	0.5411
Budgets covers all aspects of our organization mission	4.347	0.6854
The outcomes of goals and objectives are aligned to programs	3.984	0.3204
Management committee sets priorities for the coming year	3.968	0.3964
All departments prepare individual budget plans prior to the budget year	3.862	0.3212

The results above show that organizations maintain both short term and long term plans as indicated by a mean score of 4.225. This is in line with Kimani, (2014) who noted that financial planning as part of the budgeting system involves long range, strategic and short term planning. This enables organizations to have adequate funding available when required to meet their short term, medium and long – term capital needs (Mwaura, 2013). This was also supported by the results that all departments prepare individual budget plans prior to the budget year as shown by a mean score of 3.862.

The results also revealed that organizational budgets cover all aspects of their organization mission as shown by a mean score of 4.347. This is in agreement with the fact that a budget takes

part in an important role of monitoring use of finances and hence regarded as the cornerstone of any financial management system. This was also substantiated by the result finding that the outcome of organizational goals and objectives are aligned to programs being undertaken by organizations as shown by a mean score of 3.984. This goes a long way to help identify the type and level of resources to provide in order to achieve the set objectives and goals (Nickson and Mears, 2012).

The results further revealed that organizations management committees are tasked with setting priorities for the following year as confirmed by a mean score of 3.968. Sound planning starts with laying down priorities and the cycle of planning. The results also indicated that budgets have clear goals and objectives as indicated by a mean score of 4.201. This is in agreement with Serem, (2013) who noted that financial planning involves engaging careful selection of goals and objectives that need to be met and devising actions to be taken in order to accomplish them.

These findings imply that organizations put more emphasis on financial planning aspects as they enable them utilize their financial resources in a prudent manner thus improving their financial performance. The findings agree with those of Kamwana & Muturi, (2014) who found out that financial planning contribute to project performance. Therefore, there is statistical evidence that financial planning affects the financial performance of NGOs in Nairobi County.

4.9. Financial Monitoring

The study further investigated the effects of financial monitoring on financial performance of NGOs in Nairobi County. To achieve this objective, respondents were requested to respond to various questions describing how financial monitoring was being carried out in their organizations. The results are presented in table 4.8 below.

Table 4.8. Financial Monitoring

Statements	Mean	Std. Dev.
Regular meetings are held by managers to review performance	4.206	0.541
Organization has a budget policy to check on spending	4.214	0.674
Departmental heads are responsible for the control of budget activities	4.654	0.652
Regular evaluation reports on budget performance are prepared	4.358	0.574
Significant deviations from the budget are reported to the management committee	3.974	0.974
Corrective measures are adopted when adverse budget variances are reported	3.784	0.554
Management committee conducts regular follow ups on budget plans	3.762	0.541

The findings in table 4.8 above, shows that managers of most organizations hold meetings on a regular basis to review their performance as shown by a mean score of 4.206. This is in agreement with Karanja, (2011) that regular reviews of budget performance is important in that it gives room for continuous assessment of the budget variances so that reasons for the variances between the actual and the budget are discussed in a budget conference. The findings also reveal that NGOs have a budget policy in place to check on their spending as indicated by a mean score of 4.214. A proper budget policy on financial monitoring ensures that a program is implemented in an efficient and cost effective manner within a system of accountability (Hardcastle, 2011).

Further results show that NGOs conduct regular evaluation reports on budget performance as indicated by a mean score of 4.358. This is supported by the findings that the management committee receive reports on significant deviations from the budget as shown by a mean score of 3.974. This is in agreement with Serem, (2013) that actual revenue or costs should be monitored on a continuous basis by comparing actual with budget performance and ensuring that variances are reported to the responsible officials for action on a regular basis. This is further supported by the result finding that control measures are adopted by organizations to address adverse budget variances as shown by a mean score of 3.784.

The results also revealed that few NGOs management committees conduct regular follow up on budget plans as shown by a mean score of 3.762. This is not in line with Kimani, (2014) who found out that during implementation, budget plans must be monitored and controlled to ascertain effectiveness in alignment over a specific period. The results further showed that the responsibility for the control of budget activities lies with their departmental heads as indicated by a mean score of 4.654. This is in agreement with Fiador, (2013) who noted that monitoring and control of budget activities is crucial to the management in that it is perceived that the management is doing its best to deliver on the interests and goals of the project to the diverse stakeholders.

4.10. Accounting Records

The study sought to establish the effects of maintaining proper accounting records on financial performance of NGOs in the study area. This objective was achieved by asking respondents to react to questions touching on the status of accounting records in their organizations. The results are presented in table 4.9 below.

Table 4.9. Accounting Records

Statements	Mean	Std. Dev.
The accounts department is headed by a qualified and experienced finance person	4.251	0.5421
Staff are trained to implement the accounting and financial management system	4.411	0.5451
Organization has a computerized accounting system	4.354	0.5744
Organization has a well- developed chart of accounts	4.621	0.6875
Management prepares regular financial statements	4.354	0.3454
There have not been many queries arising from audits of your organization financial reports	4.212	0.3247

According to the findings in table 4.9, it can be deduced that NGOs have well trained staff to implement both accounting and financial management systems as shown by a mean score of 4.251. This is in agreement with Wakariba, Ngahu and Wagoki, (2014) who recommended

programs of selection and training of personnel in order to enhance their capacity towards implementation of financial management systems in the public sector. This is further support by the results indicating that the accounts departments of NGOs are headed by qualified and experienced personnel as shown by a mean score of 4.411. This is a clear indication that management of organizations is committed to the effectiveness in operation of their financial management policy.

The findings also reveal that NGOs have a well - developed chart of accounts as indicated by a mean score of 4.621. Having a well-developed chart of account is both a strategic control and a financial control tool as recommended by (Schelker, 2008). The results further reveal that NGOs have computerized their accounting system as shown by a mean score of 4.354. This is in line with Wanjiru, (2013) who noted that a good accounting system is one that promotes existence of controls that help in safeguarding the assets of an organization. The presence of a computerized accounting system enables the management to prepare financial statements on a regular basis by as shown by a mean score of 4.354. The aim of financial statements is to give information about the financial performance of an organization that is required by a wide range of stakeholders in making economic decisions (IASB, paragraph 12). This is also in agreement with Bray, (2010) who observed that foundations and other donors increasingly demand access to up-to-date information about an organization's operations and finance as a way of ensuring returns on their investment.

The results also revealed that NGOs reported reduction in number of audit queries as shown by a mean score of 4.212. This is an indication that strong accounting practices have been adopted enabling organizations to well manage their financial resources thus improving on their financial performance. This is in agreement with the findings of Ondido, (2009) who found out that many organizations fail either due to lack of accountability and transparency in their use of funds or a complete lack of proper records showing how they are utilizing their funds.

4.11. Internal Controls

The last objective of this study was to establish the effect of internal controls on financial performance of NGOs in Nairobi County. In order to achieve this objective, respondents were asked to respond to questions describing the status of the internal control systems in their organizations. The results are presented in table 4.10 below.

Table 4.10. Internal Controls

Statements	Mean	Std. Dev.
Organization has a financial management policy in place	3.983	0.3415
There is commitment by the management on the operation of internal controls	4.354	0.5744
There is close monitoring of implementation of internal controls	3.689	0.4892
There is a feedback system in place on the operation of the internal control system	4.175	0.5499
Corrective measures are adopted to address weaknesses in the internal control system	4.308	0.5674
Our security system is able to identify and safeguard our assets	3.534	0.4632
Management has instituted mechanisms to mitigate risks that may arise due to error or fraud	4.175	0.5491
Organization internal control are reviewed and updated regularly	4.309	0.5673

From the results of table 4.10 above, it can be observed that organizations have a financial management policy in operation as shown by a mean score of 3.983. Financial management policies are developed and implemented by organizations as a tool for ensuring proper control of financial and non-financial resources in all areas of their operations. The results further show that there is commitment by the management to ensure internal controls systems are in operation as indicated by a mean score of 4.354. This is in agreement with Yang, (2012) who noted that for internal controls to operate in an efficient manner, the management must be careful with the design of the internal control system.

The results also show that management ensures close monitoring of implementation of internal controls as shown by a mean score of 3.689. This is in line with the fact that for an organization to be success the standard of the design of internal controls is crucial and the management should always pay close attention to it. NGOs also reported that they have a feedback system in place for reporting on the operation of internal controls as shown by a mean score of 4.175. This is supported by the findings that NGOs have adopted corrective measures to address weaknesses noted in their systems of internal controls as indicated by a mean score of 4.308.

The findings further show that NGO's have security systems with the ability to identify and safeguard assets as shown by a mean score of 3.534 and also the management has put in place mechanisms to mitigate risks that may arise due to error or fraud as shown by a mean score of 4.175. This is in agreement with Block and Geoffrey, (2008) who noted that financial controls are those procedures that have been designed by the management to protect the assets of the organization and ensure that all financial transactions are recorded to prevent and reduce errors and fraud. It also emerged that NGOs engage in review and regular updates of their internal control policies as indicated by a mean score of 4.309. Review and regular update of internal controls helps obtain an assurance that the internal controls are working appropriately to enable the management monitor risks that an organization may be exposed to.

These findings imply that NGOs have internal control systems system in place as they affect their financial performance but seem to overlook the aspects of feedback systems aimed at taking corrective actions to address weaknesses in the system including ensuring that policies are reviewed and updated on a regular basis. It should be noted that internal control system is the all system of control established by the management in order to carry on the business of an organization in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and ensure as far as possible the completeness and accuracy of the records (Millichamp, 200). This is consistence with that of Anthony and Young, (2003) who found out that an internal control system should be robust and also rigorously overseen.

4.12. Financial Performance

Finally, the study sought to establish the various aspects of financial performance in NGOs as the dependent variable. This variable was measured by asking respondents to respond to various statements describing the various aspects of financial performance in NGOs. The findings are presented in table 4.11 below.

Table 4.11. Financial Performance

Statements	Mean	Std. Dev.
Organization has adequate cash and cash equivalents to meet its obligations as they fall due	4.253	0.874
Organization generates enough administration fees to cover costs of running expenses	4.045	0.541
Organization accounting system generates reliable financial statements	3.985	0.461
Our internal control system ensures proper use of funds and assets of the organization	3.487	0.823
Financial planning affects organizational financial performance	4.254	0.451
Financial monitoring affects organizational financial performance	4.124	0.652
Accounting records affects organizational financial performance	3.846	0.354
Internal controls affects organizational financial performance	3.641	0.658

The study findings on table 4.11 above, shows that NGOs are able to generate administration income enough to cover their running costs as shown by a mean score of 4.045. This is in agreement with the findings of Mugo, (2013) who noted that organizations that are considered to be strong performers are those that can stay in business for a number of years, thus the ability of an organization to stay in operation long enough is an indicator of good financial performance. This finding is supported by the results indicating that NGOs have adequate cash and cash equivalents to meet their financial obligations as they fall due as indicated by a mean score of 4.253.

The results also revealed that NGOs' accounting systems generate reliable financial statements for decision making as shown by a mean score of 3.985. In order for the management of NGOs to make informed decisions, they require regular financial reports. Availability of financial reports gives room for a quantitative analysis of data to evaluate the relationship among the financial data such as ratio and trend analysis. This is in agreement with Saxton and Guo, (2011) who found out that, disclosures made in the financial statements helps an organization gain trust from the community, send relevant information to donors and other stakeholders.

Further results showed that the respondents were undecided on whether their organization internal control systems ensures there is proper utilization of funds and assets in their organizations as indicated by a mean score of 3.487. This is not in line with the findings of Jensen, (2003) who pointed out that a system of internal control including internal audits is meant to primarily ensure reliability of financial performance by directly or indirectly enhancing accountability among those who provide information in an organization.

The study also required respondents to indicate their level of agreement to the statement that financial planning, financial monitoring, accounting records and internal controls affect financial performance. It was revealed that respondents agree that financial planning affect organizational financial performance as shown by a mean score of 4.254. It was also revealed that financial monitoring affects financial performance as shown by a mean score of 4.124. These findings agree with those of Kamwana & Muturi, (2014) who found out that financial planning, financial monitoring improves project performance.

The results also show that respondents agreed that accounting records affects financial performance as indicated by a mean score of 3.846. This is in agreement with Wanjiru, (2013) who found out that an organization accounting system affects their performance. Lastly, results on internal controls revealed that internal controls affect financial performance as shown by a mean score of 3.641. This is in line with the findings by Kinyua *et al,* (2015) who found out that there is a significant positive relationship between an organizations internal control environment and financial performance.

4.13. Factor Analysis

Table 4.12. Financial Planning

Factors	Initial	Extraction
Organization has both short term and long term plans	1.000	.094
Budgets have clear goals and objectives	1.000	.305
Budgets covers all aspects of our organization mission	1.000	1.000
The outcomes of goals and objectives are aligned to programs	1.000	.117
Management committee sets priorities for the coming year	1.000	1.000
All departments prepare individual budget plans prior to the budget year	1.000	.050

Table 4.13. Accounting Records

Factors	Initial	Extraction
The accounts department is headed by a qualified and experienced finance person	1.000	.093
Staff are trained to implement the accounting and financial management system	1.000	.205
Organization has a computerized accounting system	1.000	1.000
Organization has a well- developed chart of accounts	1.000	.112
Management prepares regular financial statements	1.000	1.000
There have not been many queries arising from audits of your organization financial reports	1.000	.040

The above tables help the researcher to estimate the communalities of each variance. This is the proportion of variance that each item has in common with other factors.

Table 4.14. Total Variance Explained

Component	Initial Eigenvalues[a]			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	188.717	63.373	63.373	174.601	58.633	58.633
2	101.039	33.930	97.303	115.155	38.670	97.303
3	5.040	1.692	98.996			
4	1.090	.366	99.362			
5	.662	.222	99.584			
6	.553	.186	99.770			
7	.299	.100	99.870			
8	.265	.089	99.959			
9	.122	.041	100.000			

Extraction Method: Principal Component Analysis

From the table 4.14 above, Principle Component Analysis was used, which allows for the extraction of components that have an Eigen value greater than 1. The principal component analysis was used and two factors/components extracted. From the table 4.14 above, the two components explain 97.3% of the total variation. While component 1 contributed the highest variation of 58.6%, the second component contributed 38.6% of the total variations.

The scree plot in figure 7 below helps to determine the appropriate number of principal components by graphing the eigenvalue against the component number. The "elbow" or point of inflection in the scree plot helps determine the appropriate number of components. Just as shown in table 4.14, component number is the point at which the remaining eigenvalues are relatively small and all about the same size. This study will have two components. The third and subsequent components (line is almost flat) contribute or explains little cumulative variance. However, scree plots suffer from subjectivity and ambiguity, especially where there are either no clear breaks or two or more apparent breaks; each successive factor is accounting for smaller and smaller amounts of the total variance.

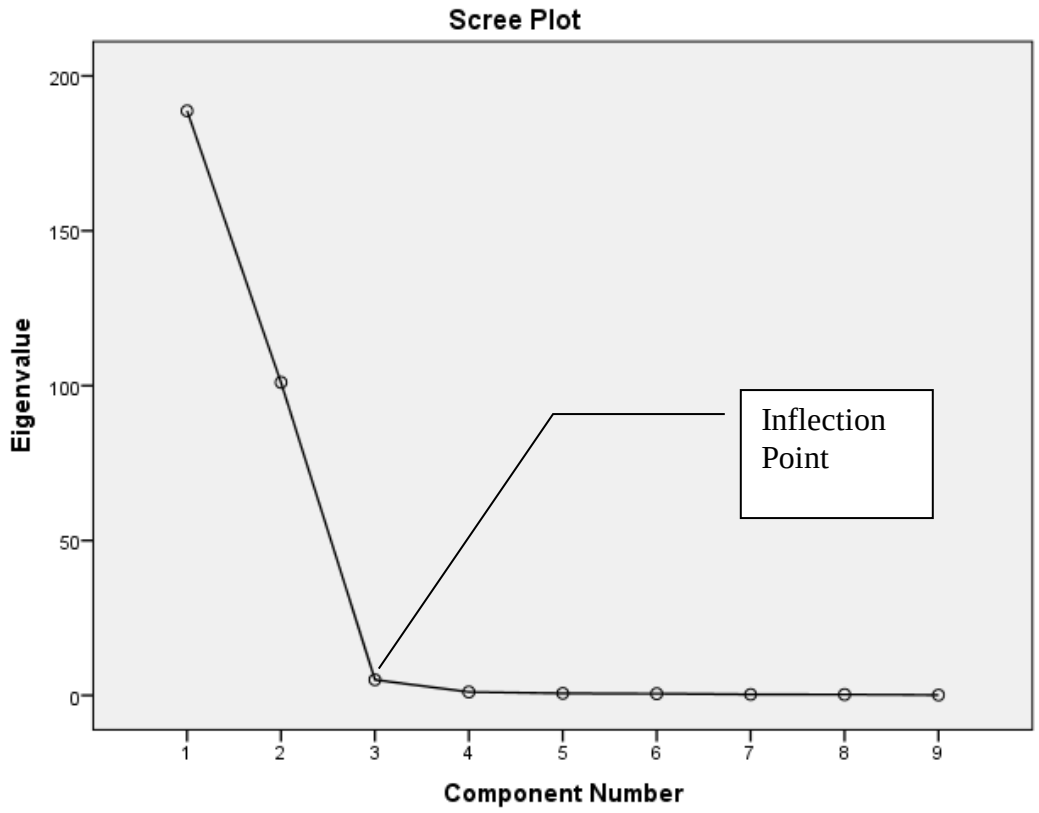


Figure 7. Scree Plot

Table 4.15. Rotated Component Matrix

Factors	Component	
	1	2
Regular meetings are held by managers to review performance	.297	
Organization has a budget policy to check on spending	.522	
Departmental heads are responsible for the control of budget activities	.917	-.400
Regular evaluation reports on budget performance are prepared		.342
Significant deviations from the budget are reported to the management committee	.395	.919
Corrective measures are adopted when adverse budget variances are reported		.218
Management committee conducts regular follow ups on budget plans	.335	

The table above contains the rotated factor loadings (factor pattern matrix), which represent both how the variables are weighted for each factor but also the correlation between the variables and the factor. The component matrix was rotated using Varimax (Variance Maximization) with Kaiser Normalization. The results below allowed the identification of what variables fall under each of the 2 extracted components (factors). Each of the 7 factors was looked at and placed to one of the two components depending on the percentage of variability (it explained the total variability of each factor). A factor is said to belong to a component to which it explains more variation than any other component.

4.14. Regression Analysis

In this study, a regression analysis was conducted so as to establish the relationship between financial planning, financial monitoring, accounting records and internal controls (independent variables) and financial performance (dependent variable). The research used statistical Package for Social Sciences (SPSS) to code, enter and compute the measurements of the multiple regressions.

Table 4.16. Model's Goodness of Fit Statistics

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.734[a]	.539	.503	.1752	1.421

a. Predictors: (Constant), financial planning, financial monitoring, accounting records and internal controls

R^2 is a statistic which is commonly used to evaluate the model fit and it is 1 minus the ratio of residual variability. The adjusted R^2 value is also called the coefficient of determination and explains the percentage variance in financial planning, financial monitoring, accounting records and internal controls (independent variables) and financial performance (dependent variable). The results of these four independent variables that were studied explain 54% of the financial performance of NGOs as represented by R^2. This presents a moderately strong relationship between dependent and independent variables. Therefore, this means other factors not included

in this study contribute 46% of financial performance, thus there is a room for further studies to establish those other factors (46%) that affect financial performance.

Table 4.17. Regression Coefficients of the relationship between financial performance and the four predictive variables

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.544	.425		8.545	.045
Financial planning	.541	.154	.656	5.574	.035
Financial monitoring	.644	.874	.241	2.486	.049
Accounting records	.148	.441	.282	1.031	.038
Internal controls	.504	.685	.257	2.412	.043

a. Dependent variable: Financial Performance

The following regression result was obtained from the equation: $y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + e$

$y = 3.544 + 0.541\ x_1 + 0.644\ x_2 + 0.148\ x_3 + 0.504\ x_4$ $P = 0.039^a$

From the regression model above, it has been established that taking all factors into account (financial planning, financial monitoring, accounting records and internal controls) constant at zero, the financial performance of NGOs in Nairobi County will be 3.544. The findings from the data above also show that taking all other independent variables at zero, a unit increase in financial planning will lead to 0.541 (P=.035) increase in financial performance while a unit increase in financial monitoring will lead to a 0.644 (P=0.049) increase in financial performance. The table above also shows that holding other factors constant, a unit increase in accounting records will lead to a 0.148 (P=0.038) increase in financial performance. The findings further, shows that a unit increase in internal controls will lead to a 0.504 (P=0.043) increase in financial performance of NGOs in Nairobi County.

Overall, financial monitoring had the greatest effect on financial performance of NGOs in Nairobi County followed by financial planning and internal controls while accounting records had the least effect on financial performance on NGOs in Nairobi County. At 95% level of

confidence and 5% level of significance, financial planning had a 0.035 level of significance, financial monitoring showed a 0.049 level of significance, accounting records had a 0.038 level of significance while internal controls had a 0.043 level of significance and therefore, the most significant factor is financial monitoring. However, all the variables were significant ($P < 0.05$).

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter analysis and concludes on the research findings as carried out. It also presents the summary of the findings and the conclusions drawn there from, and lastly the recommendations. The implications of the research are discussed and suggestions made on areas of further study. Some useful recommendations for all the stakeholders are proposed by this study at the end of the chapter to enlighten and enable them to come up viable solutions with regard to the problem statement based on the research findings. The overall objective of this study was to establish the effect of financial management policy implementation on financial performance of Non – Governmental Organizations in Nairobi County

5.2. Discussion

From the study findings, the results of data analysis are as summarized below as per the four objectives:

5.2.1. Financial Planning

The first objective of this study was to establish the effects of financial planning on financial performance of NGOs in Nairobi County. Analysis of data and interpretation of results of responses obtained through a questionnaire from finance managers of the selected NGOs in the area revealed that most NGOs have both short term and long term plans which have clear goals and objectives. It should be noted that planning as part of the budgeting system involves long range planning, strategic planning and short term planning (Kimani, 2014). The study also revealed that budgets cover all aspects of their organization mission with outcome of goals and objectives aligned to programs. This also goes a long way to help identify the type and level of resources to provide in order to achieve the set objectives and goals (Nickson and Mears, 2012). It was also established that all organizational departments prepare individual budgets plans prior to the budget year and the management committee sets priorities for the coming year. This is in line with Mwaura, (2013) who agrees with this view that budgeting is the most widely used technique for planning and control purposes.

The study found out that financial planning has a great effect on financial performance of NGOs hence an important variable that the management of NGOs should not ignore in order to improve on their financial performance. These findings agree with those of Kamwana & Muturi, (2014) who found out that financial planning contribute to project performance practices of World Bank funded projects.

5.2.2. Financial Monitoring

The second objective was to investigate the effects of financial monitoring on financial performance of NGOs in Nairobi County. Data analysis from responses obtained from questionnaires revealed that managers of majority of NGOs hold meetings to review budget performance. It was also revealed that few NGOs have laid down policies to help check on spending and also few prepare regular evaluation reports on budget performance. According to Karanja (2011), regular reviews of budget performance gives room for continuous assessment of budget variances in terms of actual versus the budget so that reasons for the variances between the actual and budgeted performance is discussed in a budget conference. The findings also showed that few NGOs report to the management committee significant budget deviations. This contradicts the findings of Ray and Pany (2001) on performance reviews where they recommended comparing actual performance with budgets, forests and prior period management. It was also noted that management committees of majority NGOs conduct regular follow ups on budget plans and their departmental heads have the responsibility for the control of budget activities in their NGOs.

It emerged from the regression results that financial monitoring had the greatest effect on financial performance of NGOs in Nairobi County. This is consistent with Marcormick and Hardcastle (2011), who noted that financial control and monitoring helps to ensure efficient and cost-effective program implementation within a system of accountability, coupled with constant program implementation for better budget implementation in accordance with agreed plans.

5.2.3. Accounting Records

The third objective sought to establish the effects of maintaining proper accounting records on financial performance of NGOs in Nairobi County. Analysis and interpretation of data from questionnaire responses from NGOs in Nairobi County showed that staff were well trained in the area of accounting with results further revealing that their account departments are headed by

personnel who are experienced and qualified in that area. This is a clear indication that management of organizations is committed to the effectiveness in operation of the financial management policy. This is in agreement with Wakariba, Ngahu and Wagoki, (2014) who recommended programs of selection and training of personnel and training of personnel in order to enhance their capacity towards implementation of financial management system in the public sector. These findings are also consistent with those of Bray, (2010) who observed that foundations and other donors increasingly demanded access to up-to-date information about an organization's operations and finances as a way of ensuring favorable returns on their investment.

The findings also discovered that majority of NGOs have a well-developed chart of accounts. Having a well-developed chart of account is both a strategic control and a financial control tool as recommended by (Schelker, 2008). The results also reveal that organizations use a computerized system of accounting which enables the management to prepare regular financial statements. This is in line with Hayles, (2005) who found out that effective financial controls which include the maintenance of proper accounting records help ensure that an organization is not unnecessarily exposed to financial risks and that the financial information is used only within the business. It also emerged that majority of NGOs reported reduction in number of audit queries arising from audit of organizational financial reports. Financial management stipulates there ought to be an audit committee or auditor to assist in ensuring the quality and reliability of financial information employed. This is in agreement with the findings of Odindo, (2009) who found out that many organizations fail either due to lack of accountability and transparency in the use of funds or lack of proper records on the utilization of funds.

Results of the regression model showed that accounting records had the least effect on financial performance of NGOs in Nairobi County as compared to financial planning, financial monitoring and internal controls.

5.2.4. Internal Controls

The study sought to establish the effect of internal controls on financial performance of NGOs in Nairobi County. Data analyzed from the responses in the questionnaires indicated that majority NGOs have an operational financial management policy and there is commitment by the management to ensure the internal control system is in operation. It was also noted that that

management ensures close monitoring of the implementation of internal controls though few NGOs have a feedback system in place for reporting the operation of the internal control system. The findings further indicated that majority of NGOs have not yet adopted corrective measures to address weaknesses in their systems of internal control. However, it was noted that majority of the NGOs have security systems in place with the ability to identify and safeguard their assets but few have mechanisms in place to mitigate risks arising from errors or fraud. This is in agreement with Block and Geoffrey, (2008) who defined financial controls as those procedures that have been designed by the management to protect the assets of the organization and ensure that all financial transactions are recorded to prevent and reduce errors and fraud. The findings also indicated that majority of NGOs do not engage in regular review and updates of their internal control policies.

It emerged from the regression results that internal controls affect financial performance of NGOs in Nairobi County. The implication of this was that NGOs were not placing emphasis on all areas of internal controls. It should be noted that internal control is the all systems of control financial or otherwise established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and ensure as far as possible the completeness and accuracy of the records (Millichamp, 2000). This finding is also consistent with that of Anthony and Young, (2003) who found out that internal control should be robust and should also be rigorously overseen.

5.3. Conclusion

The study sought to establish the effect of financial management policy implementation on financial performance of Non – Governmental Organizations in Nairobi County. Based on the findings of the study, it can be concluded that financial planning affects financial performance mainly through ensuring that that they have short term and long term plans, maintenance of budgets that have clear goals and objectives and cover all aspects of organizational mission. NGOs also ensure that their outcome of goals and objectives are aligned to programs where all departments prepare individual budgets prior to the year of budgets with the responsibility of setting priorities for the coming year being vested with the management committee.

The study also concluded that financial monitoring through holding of regular meetings to review performance by managers, departmental heads being responsible for the control of budget activities together with adopting corrective measures when adverse budget variances are reported affects financial performance. However, some NGOs did not prepare regular evaluation reports on performance of budgets with significant budget deviations not being reported to the management committee although management committees conduct regular follow ups on budget plans.

Further, the study found out majority of NGOs maintain proper accounting records as their account departments are headed by qualified and experienced staff who are trained to implement their accounting and financial management systems. NGOs also have computerized accounting systems with well-developed chart of accounts and the management prepares regular financial statements. This has led to reduced number of queries arising from audits of financial statements. The variable was also found to affect financial performance of NGOs in Nairobi County.

Finally, it was revealed that internal control affects financial performance of NGOs in Nairobi County. This is primarily through development of a financial management policy, management being committed to the operation coupled with close monitoring of implementation of internal controls, ensuring that there is a feedback system in place on the operation of the internal control system. NGOs also have systems with the ability to identify and safeguard assets while the management has instituted mechanisms to mitigate risks and ensuring that internal controls are reviewed and updated on a regular basis.

It was also established that majority NGOs reported that there was financial performance based on the findings from the financial performance indicators that NGOs were able to generate enough administration income to cover their running costs and they had adequate cash and cash equivalents to meet their financial obligations when they fall due. It was also revealed that their accounting systems generated reliable financial statements for management decision making and that they have internal control systems that endure proper utilization of organizational funds and assets.

Finally, results of the regression analysis deduced that financial monitoring had the greatest effect on financial performance followed by financial planning and internal controls while

accounting records had the least effect on financial performance on NGOs in Nairobi County. However, there are other factors that contribute to financial performance of NGOs.

5.4. Recommendations

From the conclusions drawn from the study, the following recommendations are made.

Financial monitoring is an important factor in influencing financial performance as observed from the study and therefore the management of organizations should put more efforts in sensitizing employees on the value of financial monitoring in order to enhance financial performance. Most NGOs do not conduct evaluation of reports on budget performance on a regular basis and also, significant deviations in budgets are not reported to the management committee. More training should be done to the managers on how to conduct more efficient financial monitoring by placing emphasis on all important aspects of monitoring in order to reap the full benefits of financial monitoring in their organizations.

On internal controls, the study recommended that the management of NGOs should ensure that there is feedback systems in place that will ensure corrective measures are taken to enable NGOs respond urgently to emerging risks arising from factors within the organization and also to any changes in the business environment. Also there is a need for NGOs to constantly review and update their internal controls to ensure they are aligned to the goals and objectives of the organization.

Based on the findings of this study, organizations should investigate other factors that affect financial performance apart from financial planning, financial monitoring, accounting records and internal controls in order to enhance their financial performance.

5.5. Suggestions for further study

The study suggests that further research to be carried on the effects of financial management policy implementation on financial performance of NGOs in Kenya so as to enhance better generalization of the results from the whole NGO sector in the country.

The study further suggested that research should be carried on effects of financial management policy implementation on financial performance of public organizations in order to get reliable information that portrays real situations in both private and public sector organizations in Kenya.

The study also recommends that further research should be done on the challenges to effective implementation of financial management policy on NGO sector in Kenya since organizations are bogged with myriad challenges on financial management amid demands for accountability from a wide range of stakeholders.

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APPENDICES

Appendix 1: Questionnaire

SECTION A: GENERAL QUESTIONS

1. For how long has the organization been in operation? 1 – 5 years [ ] 5 – 10 years [ ] 10 – 15 years [ ] 15 years and above [ ]
2. How long have you been working for this organization? Less than 5 years [ ] 5 – 10 years [ ] 10 -15 years [ ] Above 15 years [ ]
3. What category of NGOs does your organization fall? National [ ] International [ ]

SECTION B Part 1: Financial Planning (Please tick the appropriate answers in the boxes provided)

No.	Questions	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
	Ranks	1	2	3	4	5
1	Organization has both short term and long term plans					
2	Budgets have clear goals and objectives					
3	Budgets covers all aspects of our organization mission					
4	The outcomes of goals and objectives are aligned to programmes					
5	Management committee sets priorities for the coming year					
6	All departments prepare individual budget plans prior to the budget year					

In your own words, how does financial planning affect financial performance of your organization----------

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Part 2: Financial Monitoring (Please tick where appropriate)

No.	Questions	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
	Ranks	1	2	3	4	5
1	Regular meetings are held by managers to review performance					
2	Organization has a budget policy to check on spending					
3	Departmental heads are responsible for the control of budget activities					
4	Regular evaluation reports on budget performance are prepared					
5	Significant deviations from the budget are reported to the management committee					
6	Corrective measures are adopted when adverse budget variances are reported					
7	Management committee conducts regular follow ups on budget plans					

In your own words, how does financial monitoring affect financial performance of your organization----------

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Part 3: Accounting Records (Please tick where appropriate)

No.	Questions	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
	Ranks	5	2	3	4	5
1	The accounts department is headed by a qualified and experienced finance person					
2	Staff are trained to implement the accounting and financial management system					
3	Organization has a computerized accounting system					
4	Organization has a well-developed chart of accounts					
5	Management prepares regular financial statements					
6	There have not been many queries arising from audits of your organization financial reports					

In your own words, how does accounting records affect financial performance of your organization----------
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Part 4: Internal Controls (Please tick where appropriate)

No.	Questions	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
	Ranks	1	2	3	4	5
1	Organization has a financial management policy in place					
2	There is commitment by the management on the operation of					

	internal controls					
3	There is close monitoring of implementation of internal controls					
4	There is a feedback system in place on the operation of the internal control system					
5	Corrective measures are adopted to address weaknesses in the internal control system					
6	Our security system is able to identify and safeguard our assets					
7	Management has instituted mechanisms to mitigate risks that may arise due to error or fraud					
8	Organization internal control are reviewed and updated regularly					

In your own words, how does internal control affect financial performance of your organization ----------
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SECTION C: FINANCIAL PERFORMANCE (Please tick where appropriate)

1. How many projects has your organization successfully implemented since inception?
   1 – 5 [ ] 5 – 10 [ ] More than 10 [ ] None [ ]
2. Please tick appropriately

No.	Questions	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
	Ranks	1	2	3	4	5
1	Organization has adequate cash and cash equivalents to					

	meet its obligations as they fall due					
2	Organization generates enough administration fees to cover costs of running expenses					
3	Organization accounting system generates reliable financial statements					
4	Our internal control system ensures proper use of funds and assets of the organization					

3. To what extent do you agree with the following?

No.	Questions	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
	Ranks	1	2	3	4	5
1	Financial planning affects organizational financial performance					
2	Financial planning affects organizational financial performance					
3	Accounting records affects organizational financial performance					
4	Internal controls affects organizational financial performance					

4. Briefly comment on the overall financial performance of your organization before and after implementation of the financial management policy ----------
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Appendix II. List of Non-Governmental Organizations

1. Africa Braille Centre
2. Africa Development and Emergency Organization
3. Africa Population and Health Research Centre
4. African Council of Religious Leaders- Religions for Peace
5. Agency for Co-operation and Research in Development
6. America Friends Service Committee
7. Bible Translation and Literacy (E.A)
8. Catholic Relief Services
9. Care International in Kenya
10. Christian Partners Development Agency
11. Christian Reformed World Relief Committee
12. Community Organization Training Programme
13. Diakonia Sweden
14. Economic & Social Rights Centre (Hakijamii)
15. Family Care International
16. Feed The Children Kenya
17. Finn Church Aid
18. Grassroots Development Initiatives
19. Institute of Cultural Affairs
20. Intra Health International
21. Kenya Association For Welfare of Epileptics
22. Kenya Gatsby Charitable Trust
23. Kenya Society for the Blind
24. Kenya Society for the Protection And Care of Animals
25. Kituo Cha Sheria
26. Life and Peace Institute
27. Life Skills Promoters
28. Living Water International Kenya
29. Lutheran World Relief
33. Mediar East Africa
31. Mukuru Community Centre
32. Muungano Support Trust

33. Nairobi Peace Initiative Africa
34. Nature Kenya
35. Oasis Africa
36. Olive Leaf Foundation Kenya
37. Pamoja Trust
38. Pathfinder International
39. Poverty Eradication Network
40. Samaritans Purse
41. Shelter Forum
42. Sight Savers International
43. The Rafiki Foundation of Kenya
44. The Windle Charitable Trust
45. Women Rights Awareness Programme