COMPLIANCE REVIEW AUDITS AND FINANCIAL PERFORMANCE OF DONOR FUNDED ORGANISATIONS IN NYERI COUNTY, KENYA.

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MAY, 2017
DECLARATION

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

Signature: ……………………..           Date: ………………………………..

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I confirm that the work reported in this research has been carried out by the candidate under my supervision.

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DEDICATION

I dedicate this work to my wife (Jane) and my daughter (LynnAstra) for their moral support throughout my study.
ACKNOWLEDGMENT

This research project could not have been successful were it not the support of various personalities. First and foremost, I thank God for giving me the strength to push through with the research project. I wish to thank my supervisor Dr. Job Omagwa for guiding me through the entire journey of my study. My sincere appreciation to Kenyatta University for awarding me the opportunity to undertake the degree. Am grateful to my family for their support throughout the study. May God bless you.
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OPERATIONAL DEFINITION OF TERMS

Compliance: Means conforming to a rule, such as a specification, policy, standard or law

Performance: The accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed. In this study, performance is deemed to be the fulfillment of an obligation, in a manner that releases the performer from all liabilities under the contract.

Internal Controls: The whole system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner

Audit: Ascertainment of an organization financial status at a given period

Compliance Review Audits: Audits of compliance to donor funding regulations

Financial Performance: Measurement of how well a firm can use assets and achieve objectives including generation of revenues

Donor Funded Organizations: Organizations that source funding from local or international donors

Capacity Development: Training and enhancing staff skills in donor funding regulations and financial standards compliance
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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>CBO</td>
<td>Community Based Organization</td>
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<td>FBO</td>
<td>Faith Based Organization</td>
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<tr>
<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
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<td>GAAS</td>
<td>Generally Accepted Auditing Standards</td>
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<td>IFIs</td>
<td>International Financial Institutions</td>
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<td>NGOs</td>
<td>Non-Governmental Organizations</td>
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<tr>
<td>NFIFO</td>
<td>Net Firm Income from Operations</td>
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<tr>
<td>QAIP</td>
<td>Quality Assurance and Improvement Plan</td>
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<tr>
<td>ROA</td>
<td>Return on Firm Assets</td>
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<td>ROE</td>
<td>Return on Firm Equity</td>
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<td>SGHs</td>
<td>Self Help Groups</td>
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<td>SPSS</td>
<td>Statistical Package for Social Studies</td>
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<td>VFM</td>
<td>Value for Money</td>
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ABSTRACT

The purpose of this study was to establish impact of compliance review audits on financial performance of donor funded organizations in Nyeri County, Kenya. Donor funded organizations are supposed to conform to grant and loan conditions established by donor organizations and communities. One shortfall that has greatly affected the implementation and success of the donor funded projects is accountability and poor information relays to the donors which in the end demoralizes the donors from offering more donations to organizations. The specific objectives guiding the study included: to determine the effect of compliance with rules and regulations, internal controls systems strengthening and capacity development on financial performance of donor funded organizations in Nyeri County, Kenya. The study adopted the descriptive research design and the population of the study was 2 persons in the finance/accounting department from 42 donor funded organizations, totaling 84 respondents. Purposive sampling was employed to accommodate all the targeted respondents. The selected respondents were considered to be key informants in the study area. Data was collected from primary sources using a questionnaire. Reliability of the questions and validity was tested through piloting. Ethics in research was observed and responses were handled with utmost confidentiality, while the study ensured fair gender representation of respondents. Data was analyzed by the aid of Microsoft Excel as well as the Statistical Package for Social Studies (SPSS) computer software through frequencies, means, percentages, correlation coefficient as well as regression method. Tables and graph were used for data presentation. The findings were that the funded organizations had a high dependency rate on the donor funds since their local project income generating activities lowly facilitated budgetary needs. Compliance to donor rules and regulations was significant in explaining financial performance of the donor funded organizations. The effect of knowledge levels of the donor rules and regulations on compliance was rated low, while the other factors affecting compliance to donor regulations were cited mainly as poor leadership in funded organizations, fraud and frequent regulations change. The effectiveness of the internal control systems of the donor funded organizations was rated moderate by half of the respondents. The internal controls infrastructure was found to be relatively poor, a factor enhancing propensity for errors and fraud. Capacity building programmes lowly contributed to ensure effectiveness and efficiency in financial management, and skills development of staff. Their budgetary allocations were also low in the funded organizations. In conclusion, the three factors of compliance review audits: compliance to rules and regulations, internal controls and capacity development affected the performance of donor funded organizations in Nyeri County. It was recommended that funded organizations should strengthen their policies and financial manuals to ensure that they envisage donor regulations and this information should be effectively disseminated to the project officials and/or staff. The donor funded organizations should also ensure that appropriate mechanisms are established and used to follow up management actions in response to audit recommendations.
CHAPTER ONE
INTRODUCTION

1.1 Background to the Study

The environment of donor funding for international development appears to be changing significantly. International aid agencies are generally keen to elicit beneficiary participation, do ‘capacity building’ and support local partners. CBOs and national Non-Governmental Organizations (NGOs) sometimes enter into partnerships with internationals in order to access donor funding. Big donors (including Multi-Donor Trust Funds) seem unable to provide substantial funds to local/national NGOs, unless they have international partners, (Rutherford, 2010). There are several reasons for this situation. Demands for accountability (to Western taxpayers) make major aid organizations risk-averse, and generally only willing to work with local agencies they have a track record of partnership with; donors are concerned that local agencies are often poor at administration and difficult to manage; big aid agencies have to satisfy auditors that their implementing partners are competent and legally registered; funding guidelines are applied bureaucratically rather than pragmatically, (Krivogorsky and Dick, 2011).

The role played by donor agencies in improving living standards of families/households, groups and individuals in any country cannot be underestimated. There has been a significant increase in activities from donor agencies such as Community-Based Organizations (CBO), Faith-Based Organizations (FBO) and Non-Governmental Organizations (NGOs) among others with regards to funding of various projects especially in arid and semiarid areas where the government has failed to deliver services to its people, (Kareithi and Lund, 2012). Community organizations are also valued for their potential contribution to the development of social capital and a vibrant civil
society. Moreover, indigenous organizations of the poor and disadvantaged are often seen as a form of collective action that promotes justice and equality (Soudani, 2013).

Kamande (2011) contends that women’s rotating savings and credit associations in Kenya improve women’s bargaining position within the household. By June 2010 the NGO Coordination Board had registered a total of 6,752 organizations. On average the sector has grown at the rate of 490 organizations per annum in the last ten years (NGO Board, 2010). The annual report for 2010 by the NGO Coordination Board further highlights that during the period in review (2010), most projects implemented by NGOs were in the Education followed by Health sectors.

Donor funded organizations in developing countries grapple with managing donor funded projects in particular, ensuring that the projects are managed according to agreements and accepted financial management standards. In today’s business environment, an opportunity to save money, reduce risk, identify and implement process improvements and improve controls for a relatively small investment should be enthusiastically embraced, (Strine, 2010). Donor mechanisms are flexible enough to allow CBOs to apply independently for relatively small amounts of funding, and also encourage national NGOs (and/or national NGO consortia) to apply directly for larger amounts of money. Donors have committed to (or facilitate others to) helping local partners produce full proposals and ensure relevant capacity to implement, monitor and report on the projects, (Ashley, 2012).

Machuki (2010) accords that donor wish to ensure that the budgeted items in projects are financed as accorded to achieve optimal benefit to local communities. Importantly, the capacity to manage donor funds by the local organizations contributes to satisfactory undertaking of
projects. The funded organizations are required to report periodically to the donors and to give credible reports, the recipient organizations must adhere to rules and regulations of funding, as well as have the capacity to maintain effective financial management principles and standards. The study thus sought to establish the influence of compliance review audits (in terms of rules and regulations, internal control and capacity development on the performance of the donor funded organizations in Kenya, through the case of Nyeri County.

1.1.1 Compliance Review Audits

In general, compliance means conforming to a rule, such as a specification, policy, standard or law, (Njui, 2012). Regulatory compliance describes the goal that organizations aspire to achieve in their efforts to ensure that they are aware of and take steps to comply with relevant laws and regulations. Due to the increasing number of regulations and need for operational transparency, organizations are increasingly adopting the use of consolidated and harmonized sets of compliance controls. This approach is used to ensure that all necessary governance requirements can be met without the unnecessary duplication of effort and activity from resources, (Silveira, 2012).

A compliance review audit is a comprehensive review of an organization's adherence to regulatory guidelines. The review focuses on financial systems, financial reporting, internal control systems, compliance with statutory requirements, supporting documentations in processing transactions and compliance with grant requirements, (Yang, 2012). Kamande (2011) indicates that the compliance audit seeks to: To assess if the local funded organization adheres to donor rules and regulations and as per terms of the grant agreement. This includes confirmation that expenses paid by the organization relate to the funded project, and if amounts paid are reasonable, allowable and within approved budget; to assess whether sufficient accounting
documentation is being maintained by the organization and if the financial reports submitted to the donor are accurate; and to provide the organization with assistance to improve their financial systems, and increase overall capacity of the organization to better able to get direct funding from donors.

Organizations prepare their financial statements in accordance with a framework of generally accepted accounting principles (GAAP) relevant to their country, also referred to broadly as accounting standards or financial reporting standards,(Amran, 2010). The fair presentation of those financial statements is evaluated by independent auditors using a framework of generally accepted auditing standards (GAAS) which set out requirements and guidance on how to conduct an audit, also referred to simply as auditing standards. It is therefore imperative that the management of such organizations strive to enhance financial accounting practices by developing strong guidelines as well as skilled staff.

Importantly, the management must ensure that strong internal control systems are established and implemented in accordance with accounting standards and donor regulations. Amran (2010) further contends that separate compliance audit reports may be either short form or long form reports depending on the needs of the users of the report .opinions on compliance, which may be included in the auditor's report on the financial statements, or in a separate report.

Funded organizations in developing countries are finding that compliance review audit is of greater interest to the beneficiaries as it addresses the question of value received. For example International organizations that rely on USAID funding often face challenges in effectively managing their awards, (Action Aid International Kenya, 2010). The rules and regulations associated with award management are complex and the practical application of these rules is
crucial for compliant project implementation. Organizations need staff members who understand how USAID awards work and can effectively manage USAID rules and regulations to maintain donor compliance. Performing a contract compliance audit is crucial and ensures that the agreement is being executed in accordance with the intent of all parties to the contract. Net benefits include cost recoveries, process improvement savings, fraud prevention and detection and identification of hidden risk. Contract compliance audits also satisfy the need to appropriately manage risk for companies. (Balance Risk, 2009).

1.1.2 Financial Performance

According to Ewa and Udoayang (2012) this term is used as a general measure of a firm's overall financial performance over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial performance for most donor funded organizations can be measured by net firm income from operations (NFIFO), rate of return on firm assets (ROA), rate of return on firm equity (ROE) and benefit to the beneficiaries on object of funding, (Ewa and Udoayang, 2012). Performance for not for profit organizations can be traced to income/ expenditure performance, provision of sufficient services to beneficiaries and eventual sustainability of programs. When the funded organizations are performing well, they continually receive donor support to the benefit of the local communities served.

Gateeba (2010) indicates that many donors view the NGOs as a better alternative to governmental agencies in getting services and assistance to those in need, especially in countries that are burdened by political favoritism and corruption. However, NGOs have also been involved in scandals that are as a result of having less than credible governance structure.
Ndegwa (2013) notes that measurement and evaluation of performance is central to control, and addresses three questions namely; what happened, why it happened and what to do about it.

1.1.3 Donor Funded Organizations in Nyeri County

Nyeri County is home to several donor funded organizations operating in the health education and governance sectors. Nyeri County is located in central region of Kenya. It constitutes of six constituencies namely Tetu, Kieni, Mathira, Othaya, Mukurweini and Nyeri town. Its capital is Nyeri town situated in the Central Highlands of Kenya. The town is situated about 150 km North of Kenya’s capital Nairobi, in the country’s densely populated and fertile Central Highlands, lying between the eastern base of the Aberdare Range, which forms part of the Eastern end of the Great Rift Valley, and the western slopes of Mount Kenya. It has a Latitude of -0.4167°(025’0.001”S), Longitude of 369,500° (3657’0.000”E) and an Altitude of 1,771m. Nyeri town covers an area of approx. 183.10 square km. It has a population of 119,273 people with approx. 59,753 males and 59,520 females, according to the 2009 Kenya Population and Housing Census, (Kelvin, 2012). Tourism is also significant as there are many tourist destinations nearby.

Among the donor funded organization in Nyeri County is APHI Aplus KAMILI (USAID) that deals with HIV/AIDS issues, support to Orphans and Vulnerable Children (OVC) and Home Based Care (HBC) Clients. APHIA plus Kamili project targeted 14,350 OVC in Nyeri County to reach with prioritized interventions through grants to 6 Local Implementing Partners who include: KENWA, SDNI, Eagle Neema, Karatina HBC, St. Joseph SHG and MUFOA. With regard to OVC services, the organizations working under APHI Aplus ensure that the key priority services in critical areas of need are provided. These include: Food and nutrition support, Shelter and care, Protection, Health care, Education and vocational training, Psycho-social support and Economic strengthening. This is done at household and community level through
established structures. The organizations emphasize on Quality Improvement of OVC care through; dissemination of the OVC standards, forming and training OVC QI teams and establish communities of excellence in QI.

1.2 Statement of the Problem

Most African countries heavily rely on foreign aid and assistance to sustain and provide for their citizens mostly provide basics like health care, roads and education, (Machuki, 2010). There has been one shortfall though that has greatly affected the implementation and success of the donor funded projects which is accountability and poor information relays to the donors which in the end demoralizes the donors from offering more donations to the said governments (Kaija, 2009). As Hettie (2007) states that the role and purpose of capacity building through donor funding is about change – making things better, adding value, developing new assets or talents, this seems not to have taken effect for donor funded organizations, especially in Nyeri County, Kenya.

A study by Njui (2012) on the effectiveness of internal control systems and audit in Promoting good corporate governance in the public sector reported that the donor is responsible for monitoring sub-recipients and ascertaining that all fiscal, compliance and programmatic responsibilities are fulfilled. This includes monitoring sub-recipient reporting, recordkeeping and internal operation and accounting control systems. Yang (2012) found that the supply side of capacity captures much of the traditional view of capacity as comprising material resources, technical skills, and organizational capability to make and implement appropriate policy decisions. However, the case for Nyeri County and Kenya at large has not been well documented though challenges of compliance to donor and statutory regulations abound. This study sought to fill this gap.
The public benefit organizations receive massive donor aid from various sources to fund a number of programs in the public sector. However, despite this fact, most projects experience erratic disbursement of funds from donors thereby leading to confusion and uncertainty in implementation of project activities, (Njui, 2011). One of the major influencing factor is lack of compliance to donor terms of contracting that dissuades the latter’s capacity to disburse funds.

Lack of compliance has resulted to massive waste of resources and slowed social economic development among the beneficiary communities, (Mengesha, 2014). This case has also been observed in Nyeri County. A baseline survey by the researcher found that donor funded organizations were unable to account for funds disbursed and inadequately providing services to the local community where they operate. Several empirical evidences conclude that aid has not led to increased growth and may have even worsened the economic performance of the organizations and countries receiving aid (Adedeji, 2001; Alesina and Weder, 2002; Round and Odedokun, 2003: Mengesha, 2014). This study therefore, sought to determine the effect of compliance review audits on financial performance of donor funded organizations in Nyeri County, Kenya.

1.3 Objectives of the study

The study was anchored on general and specific objectives captured here under.

1.3.1 General Objective

The general objective of the study was to determine the effect of compliance review audits on financial performance of donor funded organizations in Nyeri County, Kenya.

1.3.2 Specific Objectives

The study was informed by the following specific objectives:
To determine the effect of compliance with rules and regulations on financial performance of donor funded organizations in Nyeri County, Kenya.

To establish the effect of internal controls on financial performance of donor funded organizations in Nyeri County, Kenya.

To determine the effect of capacity development on financial performance of donor funded organizations in Nyeri County, Kenya.

1.4 Research Questions

The study sought to answer the following research questions in view of the specific objectives:

(i) How does compliance with rules and regulations affect financial performance of donor funded organizations in Nyeri County, Kenya?

(ii) How do internal controls affect financial performance of donor funded organizations in Nyeri County, Kenya?

(iii) How does capacity development affect financial performance of donor funded organizations in Nyeri County, Kenya?

1.5 Significance of the Study

This study would be significant to a number of stakeholders. The management of donor funded organizations shall learn the impact of compliance review audits on performance of their organizations hence tailor make their strategies accordingly to improve performance, attract and retain donors. Government agencies and policy makers may use the results to formulate active national policies in a framework that is relevant and sensitive to the donor funded organizations in Kenya. The study would also enhance the capacity and oversight role of NGO regulatory
institutions in Kenya to come up with appropriate regulations that enhances accountability in the sector. It would enable the financial policy makers to formulate policies that ensure that funds disbursed to NGOs are used in accountably.

Future academicians and scholars would find the recommendations of this study valuable as it would extend the level of knowledge available on the relationship between compliance to financial standards, audits and performance. In addition, the study suggested areas of further research. Finally, communities in Nyeri County would benefit, as they rest assured that certain projects meant to alleviate their suffering would be able to accomplish that goal. Community participation is enhanced and overall, the study aimed at establishing an effective accountability system on NGOs located in Nyeri County.

1.6 Scope of the study

The study was confined to the effect of compliance to donor rules and regulations, internal control systems management and capacity development on the financial performance of donor funded organizations. Compliance variable was look into the donor regulations on funds, contractual agreements and findings of past reviews on compliance levels for the funded organizations. Internal control variable focused on the control systems set, check programs and audits, and monitoring evaluation of findings and leadership responses. Capacity development focused on the human and capital resources, needs and levels of development. Through literature review and research instruments, the study would establish influence of the independent variables on financial performance of donor funded organizations. The study targeted the officers in the financial management and accounting departments of the 42 donor funded organizations in Nyeri County that were funded in the year 2015.
1.7 **Organization of the study**

This study is structured as follows: the foregoing chapter one provides the research background, research objectives, significance of the study, scope, and the limitations encountered in the course of the study. Chapter two presents literature review on the impact of compliance review audits on financial performance of donor funded organizations and a conceptual framework. Chapter three deals with the methodology employed in the study; the study findings and their interpretation are presented in chapter four. Lastly chapter five contains the summary of major findings, conclusions, recommendations for policy implications and further research.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter will aim to analyze what has been done by other researchers globally, regionally and locally in regard to the impact of compliance review audits on financial performance of donor funded organizations. It entails the theoretical review, empirical studies. The findings of the review will then be used to help the researcher realize the research gap knowledge and identify where to start the study. The chapter further contains the conceptual framework.

2.2 Theoretical Framework
The theoretical framework of a research project relates to the philosophical basis on which the research takes place, and forms the link between the theoretical aspects and practical components of the investigation undertaken. Hence, theoretical framework, therefore, has implications for every decision made in the research process, (Donna, 1998). The section reviews relevant theories upon which the study is anchored.

2.2.1 Agency Theory
The 1976 article on Theory of the firm: Managerial Behavior, Agency Costs and Ownership Structure by Jensen and Meckling helped establish agency theory as the dominant theoretical framework of the corporate governance literature, and position shareholders as the main stakeholder (Lan, 2010). Adams (1994) in his article states that agency theory can provide for richer and more meaningful research in the internal audit discipline. Agency theory contends that internal auditing, in common with other intervention mechanisms like financial reporting and
external audit, helps to maintain cost-efficient contracting between owners and managers, (Sharma, 2012).

In this study, the parties to contracting are the donor organizations and the local public benefit organizations in Kenya. Agency relationship in this case is that the donor remains the principle for social economic change support and the funded organizations are the agents for implementation. Agency theory can help to explain the existence of internal controls and internal audit in firms and also help explain some of the characteristics of the internal audit department, for example, its size, and the scope of its activities, such as financial versus operational auditing. Agency theory can be employed to test empirically whether cross-sectional variations between internal auditing practices reflect the different contracting relationships emanating from differences in organizational form. As such, through audits, the agency theory was applicable in the study as a measure for relationship through compliance reviews.

2.2.2 Policeman Theory
An auditor’s job is to focus on arithmetical accuracy and on prevention and detection of fraud, (Gallet, 2010). As proposed by justice Loez (1896), “It is the duty of an auditor to bring to bear on the work he has to perform that skill, care and caution which a reasonably competent, careful and cautious auditor would use”. He stresses that an auditor is not bound to be a detective, or, as was said, to approach his work with suspicion, or with a foregone conclusion that there is something wrong. He is a watchdog, but not a bloodhound. Up until the 1940s it was widely held that an auditor’s job was to focus on arithmetical accuracy and on prevention and detection of fraud. However, from the 1940s until the turn of the century there was a shift of auditing to mean verification of truth and fairness of the financial statements. The theory restrains the auditor’s responsibilities on “arithmetical accuracy and on the prevention and detection of fraud”
(Hayes, 2005). The auditors and the audit companies are regarded by the public as vectors of credibility increase with regard to financial standings. Recent financial statement frauds such as those at Societe Generale, Satyam, Ahold, and Enron have resulted in careful reconsideration of this theory, (Ball, 2009).

For donor funded organizations, the utilization of donor funds must conform to donor regulations and the auditor when engaged must ensure that accurate spending is undertaken according to budgets and no losses or misuse of funds is done. Where done the auditor must report this after conducting reviews on donor contract terms and conditions as well as the accounting principles and standards. Thus, according to this theory, the position of the auditor is like that of the policeman who ensures that no wrongdoing happens, in this case no errors and frauds are done in financial transactions and records. Thus the auditor is the trustee of the donors in regards to their funds and usage by funded organizations.

### 2.2.3 The Theory of Inspired Confidence

This theory was developed in the late 1920s by the Dutch professor Theodore Limperg. In contrast to the preceding theories, Limperg’s theory addresses both the demand and the supply of audit services, (Umar-Farook and Kamil, 2014). According to Limperg, the demand for audit services is the direct consequence of the participation of outside stakeholders (third parties) in the company. These stakeholders demand accountability from the management, in return for their contribution to the company. Carmichael (2004) adds that since information provided by management might be biased, because of a possible divergence between the interests of management and outside stakeholders, an audit of this information is required. In the case of donor funded organizations, the services of the audited are required to ensure that an independent assurance test is conducted on the financial transactions of the organizations.
In pursuit of transparency, the auditor inspires the confidence of donors on financial reports submitted by funded organization. The audit of organizations transactions will reveal compliance to donor organizations, the strength of internal controls as well as capacity to handle donor funds in delivering services to the community (Shapiro, 2007). With regard to the level of audit assurance that the auditor should provide (the supply side), Limperg adopts a normative approach. The auditor should act in such a way that he does not disappoint the expectations of a “rational outsider”, while, on the other hand, he should not arouse greater expectations in his report than his examination justifies. So, given the possibilities of audit technology, the auditor should do enough to meet reasonable public expectations (Krishnan, 2005). As such the auditors’ confidence in auditing process and reports will enable detection of any anomalies on contracts and regulations compliance. This theory was thus relevant to the current study.

2.3 Compliance Review Audits for Donor Funded Organizations

According to Action Aid International Kenya (2010), the compliance review methodology requires improvement across key phases of the process including planning, fieldwork, reporting, quality assurance and documentation. The function would also benefit from access to specialist investigative services to provide capacity and directly relevant expertise for the conduct of compliance investigations. The existing methodology is focused on detailed checking of the accuracy of all information already provided by the donor funded organizations in their annual disclosure returns. Amran (2010) posits that efficiencies could be gained by testing a smaller sample of transactions in this manner, and directing the additional time available towards the risk of understatement to ensure that the information presented is not missing items that require disclosure in the annual return. Testing of completeness is being performed inconsistently and
there is inadequate evidence or appropriate documentation to support whether these procedures are being adequately performed.

PROCASUR Africa Report (2012) stated that poor control systems has led to huge investments lost through fraud and misuse of assets that are used to generate revenues while members and institutions have suffered big losses. Inadequate controls have also led to corruption and collusion of management and external auditors leading to organizations failing to achieve their set objectives. Technological changes have also brought with them challenges in control systems and this has necessitated the development of new ways of controlling organizations. The effectiveness of internal controls on a firm’s financial performance should be a key concern for most firms, (Ewa and Udoayang, 2012). Since internal controls help to prevent and detect fraud in an organization, donor funded firms in Kenya should give much importance to internal audit which is generally a feature of large companies. It’s a function provided either by employees of the entity or it can be sourced from an external organization in order to assist management in achieving corporate objectives.

Okida (2011) contends that donor funding was dependent on the accountability mechanisms put in place by the implementing NGOs. It was found out that NGOs were expected to keep a minimum set of financial statements e.g. Statement of comprehensive income, statements of financial position and cash flow statements. The study revealed that community involvement in oversight of NGOs was still not adequately practiced and that satisfaction of the employees with their pay perks could not be established. Donors were keen on compliance to the laws of the country and also involved the oversight bodies in checking compliance and legitimacy of the NGOs before funding and partnering with them. It was established that donors expected performance measurements to be done and that NGOs prepared specific reports.
2.3.1 Compliance with Donor Rules and Regulations

Standardized, regular and adequate reporting, in compliance with relevant governance, financial accounting and reporting requirements (based on national laws and global good practice) represent an important aspect of NGO transparency, with the view to making basic data available to the public or oversight bodies on NGO operations, (Chenhall et.al, 2010). In some countries, such disclosure statements and reports are required by the state. For example, in the United States, NGOs applying for a tax exempt status are required to provide detailed information on finances, organizational structure and programme through an annual information return. Some donors can also impose similar conditions as part of their reporting requirements, (Ebrahim, 2003).

According to U4 Anti-Corruption resource Centre (2013), many donors have developed their own financial management standards for their NGO partners. Well established NGOs have typically developed robust financial management processes, but the challenges for donors is often to enforce minimum standards when engaging with lower capacity partners. The minimum requirements could include: Existence of basic accounting tools (book of accounts, general ledger, general journal, cash receipt book, cash disbursement book, bank account records); separation of key functions (approving officer, book keeper, cash custodian) and “four-eye” principles for expenses, requiring two signatures by relevant staff; annual financial statement of income and expenditures; and annual financial reports that conform to relevant laws and practices and which are audited by a qualified independent public accountant(s), (U4 Anti-Corruption resource Centre,2013).

Compliance is a multi-dimensional issue which can have different meaning and scope depending on the institution which it concerns, (GaKateeba, 2010). Financial institutions generally have a
compliance function due to the fact that is often required by laws and regulations. Ashley (2012) posits that for International Financial Institutions (IFIs), compliance focus is on following best practices and meeting high expectations in the market. Compliance can be defined as the adherence to laws, regulations, rules, related self-regulatory organization standards and codes of conduct in matters concerning observing proper standards of market conduct, managing conflicts of interest and specifically dealing with matters such as prevention of money laundering and terrorist financing, and investigations of alleged corrupt and fraudulent behavior.

While the demand for increased accountability and the consequent corporatization of NGOs are not altogether negative developments, some have argued that they have led to the commercialization of the NGO sector. NGOs which successfully professionalize stand a better chance of receiving funds from donors, compared to NGOs that follow a more classic donor-beneficiary model, (Jankelowitz, 2007).

2.3.2 Internal Control and Financial Performance of Donor Funded Organizations

Performance

Internal controls are simply processes, policies and procedures, effected by people that ensure our internal processes, designed to modify risk, work the way we want them to so that we achieve what we want, (GaKateeba, 2010). An organization will have hundreds if not thousands of internal controls in place. Examples of internal controls include separation of duties, authority delegations, policies, procedure manuals, work practices, passwords, account reconciliations, arithmetical accuracy checks, restricted physical access, stock counts, asset counts, budgets, plans.
Basoln (2002) notes that an internal control is a set of instructions, guidelines and procedures that a company's senior leadership establishes to prevent operating losses resulting from theft, error, technological malfunction and employee neglect or carelessness. An internal control also helps an organization/company prevent adverse regulatory initiatives, such as fines or litigation. Accounting principles and internal audit rules require that organizations or companies establish adequate and functional internal controls to improve corporate governance processes. These principles include generally accepted accounting principles and the Institute of Internal Auditors standards, (Ashley, 2012).

Bongani (2013) report that establishing internal control systems in organizations is critical to ensure the reliability of accounting records, because internal control systems can constrain management or staff’s reported and possible random errors. This ensures the authenticity of the content of financial reporting to provide reasonable assurance to stakeholders and it becomes another important system arrangement to ensure reliable financial reporting.

Wedhon (2002) argued that in order to ensure strong control over receipts, when cashier received, it should be acknowledge by means of printed receipt which should have a counterfoil or a carbon receipt. The receipt should be consecutively numbered. The unused receipt should be cancelled and must not be detached from the counterfoil. No blank counterfoils should be accepted. As soon as cash is received, it should be entered in a rough cash book or dairy. Internal audit activities help employees abide by corporate policies and regulatory guidelines.

2.3.3 Capacity Development and Financial Performance of Donor Funded Organizations

UNDP (2008) defined capacity development as the process through which individuals, organizations, and societies obtain, strengthen, and maintain the capabilities to set and achieve
their own development objectives over time. DAC (2006) defined it as the process whereby people, organizations and society as a whole unleash, strengthen, create, adapt and maintain capacity over time. The World Bank, Africa Region (2006) concluded that capacity development is the proven ability of key actors in a society to achieve socio-economic goals on their own. This is demonstrated through the functional presence of a combination of most of the following factors: viable institutions and respective organizations; commitment and vision of leadership; financial and material resources; skilled human resources. Tearfund (2009) said it is a tailor-made process which seeks to strengthen the effectiveness and impact of an organization and its programs for addressing poverty, in relation to their mission, context and resources.

Capacity development interventions using traditional approaches have had spotty results. Despite donors’ annual expenditure of some $14 billion on technical assistance (most used to finance foreign consultants), only about half of the resulting efforts are successful in transforming institutions into capable service providers, policy makers, or watchdogs of government effectiveness. Hettie (2007) states that as to the role and purpose of capacity building there is an underlying agreement that capacity building is about change – making things better, adding value, developing new assets or talents. It is about how best to develop new capabilities (i.e. institutional assets or collective skills) and new competencies (i.e. individual skills and energy or new personal behaviours). These can take place at many different levels (micro, meso and macro) with different elements or target groups. Capacity is in essence about the ability to do something.

Several studies of funded organizations practice over the past 20 years revealed that capacity building is always described as high priority – but few funded organizations have any conceptual clarity about what it means, (Krivogorsky and Dick, 2011). Hardly any have a clear capacity
building strategy. Most still follow a fairly traditional top-down, compliance-oriented, and training-dominated approach. According to Kareithi and Lund (2012), there has been some far-sighted and innovative investment in the training and formation of local consultants in many African countries in particular. Some European agencies have provided critical core support to strengthen local capacity building organizations. Capacity building is one of the few remaining roles open to international NGOs, as increasingly donors can directly fund African NGOs. Donors are therefore demanding evidence of impact in capacity building.

2.4 Financial Performance of Donor Funded Organizations

Banks and Hulme (2012) assert that performance refers to outputs produced by NGOs. Performance can be measured by analyzing the projects undertaken by NGOs in light of their original objectives. NGOs should achieve that which they set out to do and should actually attain the goals for which they received donor funding. NGOs need to develop their own internal mechanisms for measuring their performance. Through continuous appraisal, these mechanisms can help enhance the NGOs credibility. Performance can be measured against the goals that have been set by the NGO as benchmarks. Performance can also be measured based on the impact of the NGOs activities on their intended beneficiaries. In essence, performance is internally and externally motivated (Banks & Hulme, 2012). Performance measures of NGOs can be both financial and non-financial. Such an integrated view offers a comprehensive interface between several links within an NGO right from resource generation and program management units. This is a highly recommended framework (Epstein & McFarlan, 2011).

Shapiro (2007) states that financial performance is the measurement of the results of a firm’s policies and operations in monetary terms. These results are reflected in the firm’s returns and value-added. This is a subjective measure of how well a firm can use assets from its primary
mode of business and generate revenues. This term is also used as a general measure of a firm’s overall financial health over a given period of time. Donors measure their agents’ performance through expenditure items since the social performance measure may be difficult. Performance in this study is founded on level of satisfaction of the beneficiaries, prudence in funds management and compliance to projects rules and objectives.

Muio (2012) accords that internal Control Systems are very instrumental in achieving the firm’s set mission and objectives, hence Value for Money (VFM). The main approach to VFM is the firm’s control over the use of resources in order to achieve its set objectives. Heads of departments should establish sound arrangements for planning, appraising, authorizing and controlling operations in order to achieve positive Financial Performance. Financial Performance and Value for Money are used to assess whether or not a firm has obtained the maximum benefit from the goods and services it acquires and/or provides, within the resources available to it (LGIAM, 2007). The most effective way to improve Financial Performance is by reducing the level of irregularity and fraud through improvements in the firm’s systems of internal financial control. Shareholders need to be assured that their resources are being used efficiently and effectively in providing the right service at the least cost. Financial Performance analysis needs to pay attention to total risks and is related to concepts of efficiency and effectiveness.

2.5 Empirical Review

The section reviews various studies on the study variables and study relationships. Harris, Petrovitsand Yetman (2014) examined whether donors reward nonprofit organizations that report better governance from a sample of 10,846 organizations from 2008 to 2010, by first identify seven nonprofit governance dimensions using factor analysis. They found consistent evidence that donations and government grants are positively associated with six of the seven factors that
capture good governance, including formal written policies (e.g., conflict of interest), independent audits and audit committees, review and approval of executive compensation, board oversight (e.g., board independence), management characteristics (e.g., no related parties), and accessible financial information.

Vera (2013) explored financial governance as practiced by NGOs in Ghana and further examines the determinants of the financial governance structures of the NGOs. The study specifically investigates which organizational-level characteristics exhibit any link whatsoever with governance as it relates to budget preparation, budget execution and internal controls and budget monitoring. The findings of the study indicated that the most positively influential factor in explaining an NGO's adoption of a governance framework is its size. The other variables, organizational age and independence, are not significant across all three financial governance proxies and when they prove significant, the effect is negative.

Maguire (2012) conducted a survey in conjunction with the Waccamaw Community Foundation, the Chapin Foundation, and the South Carolina Association of Non-Profit Organizations. The purpose of the survey was to gauge the overall knowledge of corporate governance, accounting, and auditing policies and to determine what, if any, practices and programs these organizations currently have in place. The study found that the variables correlated and the influence of each was significance.

Muio (2012) studied the impact of internal control systems on the financial performance of private hospitals in Nairobi and established a significant relationship between internal control system and financial performance. Fjeldstad and Heggstad (2012) in their study suggest that the Internal Audit activity should assess and make appropriate recommendations for improving the
governance process in its accomplishment of the following objectives: promoting appropriate ethics and values within the organization; ensuring effective organizational performance management and accountability; effectively communicating risk and control information to appropriate areas of the organization; and effectively coordinating the activities of and communicating information among the board, external and Internal Auditors and management.

The Internal Audit activity should evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs and activities.

Ndungu (2013) found that establishing internal control systems in organizations is critical to ensure the reliability of accounting records, because internal control systems can constraint management or staff’s reported and possible random errors. This ensures the authenticity of the content of financial reporting to provide reasonable assurance to stakeholders and it becomes another important system arrangement to ensure reliable financial reporting. However, due to the inherent limitations of internal controls and pressure, opportunity and excuses by management, the credibility of controls, self-assessment report of internal management systems discoursing is still not high enough within organizations.

2.6 Summary of Literature and Research Gaps

Many studies have been done on the area of performance of donor funded organizations. The literature review provided insight into compliance requirements by donors to beneficiary organizations. Compliance review audit was also explored and how it influenced the performance of donor funded organization. Theories guiding the study constructs were reviewed as well as the empirical studies undertaken in the study variables. From the empirical review it was not clear whether the actions of the funded organizations on compliance to regulations also influence donations.
Establishing internal control systems in organizations is critical to ensure the reliability of accounting records. However, the strengths of internal controls to ensure checks and balances needs further review. Also the studies on compliance review audits by Kenyan donor funded organizations was little and there is therefore need for further research on how rules and regulations compliance, internal control and capacity development influence the financial performance in Nyeri County.

2.7 Conceptual Framework

The main role of the conceptual framework is to give relationship between the independent and dependent variables. The dependent variable was the financial performance of donor funded organizations. The influencing factors for the organizations’ financial performance including compliance to rules and regulations, internal control and capacity development composed the independent variables. Compliance to review audit in this study was conceptualized in terms of compliance to rules and regulations of donors (- whether funded firms comply to these); internal control systems (whether these comply to donor standards of financial management) and capacity development (whether funded firms have the capacity to financially manage donor funds). These factors influence on financial performance was measured. In this respect, the dependent variable was financial performance of donor organizations in Nyeri County Kenya, whereas compliance with rules and regulations, financial management systems, internal control systems and capacity development were examined as the independent variables. The conceptual model is stipulated in Figure 2.1 below.
Independent Variables

COMPLIANCE REVIEW AUDITS

- Compliance with Rules and Regulations
  - Government regulations
  - Internal policies
  - Donor requirements
  - GAAP

- Internal controls
  - Segregation of duties
  - Budgeting
  - Internal audits
  - Safeguarding of assets

- Capacity Development
  - Capacity assessment
  - Technical assistance
  - Supportive supervisions
  - Regular training

Dependent Variable

FINANCIAL PERFORMANCE

- Prudent budget utilization
- Donor retention rate
- Financial sustainability
- Expenditure control

Figure 2.1 Conceptual Framework

Source: Researcher, 2016
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter reviews the methods of conducting the study that will be employed based on; research design that shows how the information will be collected from the funded organizations. The target population describes the entire population of persons considered for the study. Sample and sampling procedure explains on how actual respondents are identified. Research instruments applied and procedure for data collection is further explored in this chapter. Testing of research instruments and data analysis methods are described besides highlighting the ethical considerations for the study.

3.2 Research Design
Sekaran and Bougie (2010) define the research design is a detailed outline of how an investigation will take place. A research design will typically include how data is to be collected, what instruments will be employed, how the instruments will be used and the intended means for analyzing data collected. The study adopted the descriptive research design. Kothari (2008) analyses descriptive research as those studies which are concerned with describing the characteristics of a particular individual, or of a group. Sekaran and Bougie (2010) describe descriptive research as a research method used to obtain information that describes existing phenomena by asking individuals about their perceptions, behaviour, attitudes or values.

3.3 Target Population
Target Population is a group of individuals, objects, or items from which samples are taken for measurement (Kombo & Tromp, 2006). For the purpose of this study, the target population was 42 donor funded organizations in Nyeri County (Dpt. Special Programs, Nyeri County, 2015).
These comprised of NGOs, FBOs, CBOs and SHGs in Nyeri County, Kenya. The target respondents from each of the organizations were two persons from finance and accounting departments of these organizations totalling 84.

3.4 Sampling technique and Sample Size

Sekaran and Bougie (2010) refer to sampling as the process of selecting a number of individuals so that the selected individuals represent the large group from which they will be selected. Purposive sampling technique was used to select 2 respondents from each of the 42 organizations. For the SHGs, the treasurer and chairperson were considered since did not have finance or accounting department. As such, 84 respondents composed the sample size. These respondents could provide credible and informed responses during data collection, since their handled donor funds.

Table 3.3 Sample Size

<table>
<thead>
<tr>
<th>Category Of Organization</th>
<th>Sample of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>NGOs</td>
<td>10</td>
</tr>
<tr>
<td>FBOs</td>
<td>28</td>
</tr>
<tr>
<td>CBOs</td>
<td>40</td>
</tr>
<tr>
<td>SHGs</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>84</strong></td>
</tr>
</tbody>
</table>

Source: Special Programs, Nyeri County (2016)
3.5. Data Collection Instrument

The study used questionnaires as the tools for data collection. A questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents, (Franklin, 2012). The study utilised questionnaires which had a structured questionnaire that contained closed and open ended questions which allowed collection of qualitative data. The data collection instrument allowed ease of data as well as save time and allow for un-ambiguity in answering questions and thus a thorough study.

3.6 Data Collection Procedure

The questionnaires were administered using drop and later pick method. The questionnaire was self-administered hence the researcher dropped them to the respondent, gave them time to complete, and then picked them at a later date. The respondents’ organizations were accessed from the department of special programmes, county government of Nyeri. The researcher contacted the management/administration of the organizations and arrange for meetings with the relevant officer to get authority for respondents’ access. A research assistant was engaged in dropping and picking the questionnaires and provides guidance without leading respondents to answer the questions.

3.7 Validity and Reliability

This is the process of presenting the instruments to a small number of respondents to test the validity and the reliability. The piloting helped the research to eliminate any ambiguity in the research instruments to ensure they generate valid and reliable data. The persons that took part in the piloting were from donor funded organizations operating in Laikipia County, which was
not part of the study sample to avoid biased results of the study. Validity is the degree to which a test measures what it is supposed to measure (Gay, 2002). In the study, the researcher used five persons from the various funded organizations to do a pre-testing. According to (Gay, 2002), pre-testing assists in determining the accuracy, clarity and suitability of the research instrument. It assists the researcher to identify the items which may be inadequate so as to make the necessary corrections, examine responses and determine the level of ambiguity of the questions and determine the percentage of responses.

Reliability refers to the consistency of a measure. A test is considered reliable if the researcher can get the same result repeatedly and an accurate representation of the total population. If the results of the study can be reproduced under a similar methodology and will not fail to perform within specified limits in a given time while working in a stated environment, the research instrument is considered to be reliable (Franklin, 2012). Reliability refers to the consistency of the research and the extent to which studies can be replicated. This was achieved using Cronbach’s Alpha. 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. Also test re test method was used to compute correlation coefficient.

3.8 Data Presentation and Analysis

Sekaran and Bougie (2010) define data analysis as the process of systematically searching and arranging completed research instruments after field work, with the aim of increasing understanding and hence enabling one to present them to others. Data collected was coded, cleaned and presented using tables, graphs and percentages. The coding involved arranging the data to show occurrence of the different responses to the matrix questions, closed ended and
open ended items. The frequencies and percentages as well as means and standard deviation were applied during the analysis. Data was analyzed using descriptive statistics (means and standard deviations), Multiple Regression Analysis and Pearson’s Simple Correlation Analysis.

The regression model is depicted as follows:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e \]

Where:

- \( Y \) = financial performance
- \( \beta_0 \) = intercept
- \( \beta_1 \) – \( \beta_3 \) = regression coefficient
- \( X_1 \) = Compliance with Rules and Regulations
- \( X_2 \) = Internal controls
- \( X_3 \) = Capacity development
- \( e \) = Error term

P-value will test relationship between each of the independent variables and the dependent variable. The hypothesis test at 95% confidence level is: all results below 0.05 (5%- critical value) indicate a significant relation. \( R^2 \) will be used to test the relationship between compliance review audits and financial performance of donor funded organizations, where \( R^2 \) nearing 1 showing that a great change in level of financial performance is caused by compliance review audit factors. Relevant interpretation, discussion and recommendations will be drawn from the analyzed data.

### 3.9 Ethical Considerations

Ethics is the norms for conduct that distinguish between acceptable and unacceptable behavior. It is a method, procedure, or perspective for deciding how to act and for analyzing complex problems and issues. Ethical norms also serve the aims or goals of research and apply to people
who conduct scientific research or other scholarly or creative activities, Sekaran and Bougie (2010). To conform to ethical standards the research ensured a full disclosure of the intended study. The participants were informed as fully as possible of the nature and purpose of the research, the procedures to be used, and the expected benefits to the participant and/or society, the potential of reasonably foreseeable risks, stresses, and discomforts, and alternatives to participating in the research. The participants were explained to and given the opportunity to ask questions and have them answered by the researcher. The participant's consent in the research was voluntary, free of any coercion or inflated promise of benefits from participation.
CHAPTER FOUR
DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents the analysis of the study findings according to the data collected from the field. It begins with instrument return rate, demographic data of the respondents, while the other sections are based on the research questions of the study. Descriptive and inferential statistics have been used to discuss the findings of the study. Discussion of and interpretation of the findings will be done to show the relationship between independent variables (rules and regulations, internal controls and capacity development) with the dependent variable (Financial performance of donor funded organization)

4.2 General Information

4.2.1 Response Rate

The response rate to the study was sought. The importance of response rate is to know the sample response rate for the purposes of making decision whether to continue with the study. The cut-offs level was at 70% which according to mugenda and mugenda (2013) is a good representation to carry out analysis and make some conclusions. Results are as stipulated below in table 4.1

Table 4.1 Response Return Rate

<table>
<thead>
<tr>
<th>Population</th>
<th>Number of questionnaires distributed</th>
<th>Number of questionnaires returned</th>
<th>Response rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>NGOs</td>
<td>10</td>
<td>10</td>
<td>100%</td>
</tr>
<tr>
<td>FBOs</td>
<td>28</td>
<td>26</td>
<td>92.9%</td>
</tr>
<tr>
<td>CBOs</td>
<td>40</td>
<td>38</td>
<td>95%</td>
</tr>
<tr>
<td>SHGs</td>
<td>6</td>
<td>6</td>
<td>100%</td>
</tr>
</tbody>
</table>
Eighty four questionnaires were distributed of which eighty were returned as shown in Table 4.1. above. This represents a response rate of 95% which is above the 70% threshold recommended by Mugenda and Mugenda, (2012). This response rate was satisfactory to make conclusions for the study.

### 4.2.2 Pre-test Results

Data collection instruments’ validity and reliability was tested. Results are as shown in table 4.2 below.

**Table 4.2: Reliability Results**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Cronbach’s Alpha</th>
<th>Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance to Rules and Regulations</td>
<td>0.712</td>
<td>4</td>
</tr>
<tr>
<td>Internal Controls</td>
<td>0.765</td>
<td>3</td>
</tr>
<tr>
<td>Capacity Development</td>
<td>0.770</td>
<td>3</td>
</tr>
</tbody>
</table>

**Source: Research Data (2016)**

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 0.869 was obtained. (Mugenda, 2005), states that 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. Thus the research instrument questions were valid and this enhanced credibility of the study results. For reliability analysis Cronbach’s alpha was calculated by application of SPSS. The study involved questionnaires from 10 respondents. 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.

4.2.3 Respondents’ Gender Distribution

Respondents’ gender was sought during the study. Results are as per table 4.3 below

**Table 4.3 Gender Distribution**

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>36</td>
<td>45</td>
</tr>
<tr>
<td>Female</td>
<td>44</td>
<td>55</td>
</tr>
<tr>
<td>Total</td>
<td>80</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source: Research Data (2016)**

The table above shows that the gender distribution of the respondents was 55% female and 45% male. This showed a fair distribution of respondents in terms of gender.

4.2.4 Age Distribution

Respondents’ age was sought during the study. Results are as shown in table 4.4 below. The respondents’ age distribution was 41.3% for 31-40 years, 25% for 41-50 years, 21.3% for 21-30 years and 51 and above years 12.4%. The results in the figure 4.1 below depicts that, many (41.3%) of the respondents in finance and accounting departments were youth who are energetic to handle finance and accounting related issues.
4.2.5 Academic Qualifications
All the respondents had post-secondary school level of education with 50% achieving university degrees, 35% tertiary level and 15% post graduate level of education. This is an indication that many (50%) of the respondents focused in this study had university degrees as their highest level of education and had knowledge of the area under study.

Source: Research Data (2016)
4.2.6 Work Experience

The study sought to establish the years worked by the respondents in their organizations. The results are as shown below in table 4.5

**Table 4.5 Work Experience**

<table>
<thead>
<tr>
<th>Years</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5</td>
<td>04</td>
<td>5</td>
</tr>
<tr>
<td>5-10</td>
<td>44</td>
<td>55</td>
</tr>
<tr>
<td>11 and above</td>
<td>32</td>
<td>40</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>80</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**Source: Research Data (2016)**

The work experience of the respondents was cited by 55% of the participants as 5-10 years, 32% above 11 years and 4% 1-5 years. This shows that majority of the participants had been in the donor funded organizations long enough to enable them respond appropriately to the study questions.

4.2.7 Compliance Review Audits

4.2.7.1 Compliance Review Audits

The study sought to establish whether the respondents’ organizations undertook compliance review audits. The findings are stipulated below in Table 4.6 below.

**Table 4.6 Compliance review audits**

<table>
<thead>
<tr>
<th>Years</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>46</td>
<td>57.5</td>
</tr>
<tr>
<td>Not Sure</td>
<td>24</td>
<td>30</td>
</tr>
<tr>
<td>No</td>
<td>10</td>
<td>12.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>80</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**Source: Research Data (2016)**

The study collected information on whether the donor funded organizations undertook compliance review audits. Results showed that: over half of the respondents concurred, though
thirty percent were not sure. Thus, compliance review audits were undertaken in some organizations, but not in all within Nyeri County.

4.2.7.2 Frequency of the compliance review audits undertaken

The frequency of the compliance review audits was cited as at least annually by a majority eighty five percent of the respondents. Thus compliance review audits were mostly done annually and after one year of operations.

![Frequency of Compliance Review Audits](image)

**Figure 4.2 Frequency of the compliance review audits undertaken**

*Source: Research Data (2016)*

4.2.7.3 Active audit department in respondent’s organization

The study sought to establish whether there was an active audit department in the respondent’s organization. The results are as stipulated in Table 4.7 below.

**Table 4.7 Active audit department in respondent’s organization**

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>50</td>
<td>61.5%</td>
</tr>
<tr>
<td>Not Sure</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>No</td>
<td>30</td>
<td>38.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>80</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: Research Data (2016)*
The table above shows that majority (61.5%) of the respondents agreed that there were active audit departments in their organizations. Thus majority of the organizations had functional audit departments.

4.2.7.4 Audits value additives in the organization

The study sought to establish whether the compliance review audits had value additives in respondent’s organization. The results are as stipulated in Table 4.8 below.

Table 4.8 Presence of compliance review audits value additives in the organization

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>44</td>
<td>55%</td>
</tr>
<tr>
<td>Not Sure</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>No</td>
<td>36</td>
<td>45%</td>
</tr>
<tr>
<td>Total</td>
<td>80</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Research Data (2016)

Majority (55%) of the respondents in the study cited that their organization had compliance review audit value additives. As such value addition for compliance review audits was not significantly undertaken in the donor funded organizations.

4.3 Financial Performance of Donor Funded Organizations

The main objective of this study was to establish the financial performance of donor funded organizations through the influence of compliance review audits. To achieve this objective the respondents responded to items on the questionnaire on financial performance. The results were presented as below:
4.3.1 Organization annual budget

The study sought to establish annual budgetary amount of the respondent’s organization. The results are as stipulated in Table 4.9 below.

**Table 4.9 Organization annual budget**

<table>
<thead>
<tr>
<th>Amount (Million Kshs)</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 1M</td>
<td>1</td>
<td>1.25</td>
</tr>
<tr>
<td>1,000,001-2.5 M</td>
<td>4</td>
<td>5.0</td>
</tr>
<tr>
<td>2,500,001-5M</td>
<td>23</td>
<td>28.75</td>
</tr>
<tr>
<td>5,000,001-7.5M</td>
<td>20</td>
<td>25.0</td>
</tr>
<tr>
<td>7.500,001 and above</td>
<td>32</td>
<td>40.0</td>
</tr>
<tr>
<td>Total</td>
<td>80</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Source: Research Data (2016)*

The annual budget of the donor funded organizations was cited as 7.5 million shillings and above according to majority of the respondents. The findings therefore show that majority of the organizations operated budgets above 2.5 million shillings. This tallies with a study by seber (2014) which shows that most of the NGOs have a huge operating budgets.

4.3.2 Proportion of annual budget spent

The study sought to establish annual budgetary amount of the respondent’s organization. The results are as stipulated in Table 4.10 below.

**Table 4.10 Proportion of annual budget spent**

<table>
<thead>
<tr>
<th>Amount (Million Kshs)</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 50%</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>50- 60%</td>
<td>4</td>
<td>5.0</td>
</tr>
<tr>
<td>60-70%</td>
<td>40</td>
<td>50.0</td>
</tr>
<tr>
<td>70-80%</td>
<td>20</td>
<td>25.0</td>
</tr>
<tr>
<td>80-100%</td>
<td>15</td>
<td>20.0</td>
</tr>
<tr>
<td>Total</td>
<td>80</td>
<td>100%</td>
</tr>
</tbody>
</table>
The proportion of annual budget spent by respondents’ organizations was cited as 60-70% by 50%, 70-80% by 25%, 80-100% by 20% and 50-60% by 5%. This showed that the organizations significantly spent budget allocations annually.

4.3.3 Number of donors the organizations had currently

The study sought to establish the number of donors the respondent’s organization had. The results are as stipulated in Table 4.11 below.

**Table 4.11 Number of donors for the organizations**

<table>
<thead>
<tr>
<th>Donors</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-3</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>4-6</td>
<td>64</td>
<td>82.5</td>
</tr>
<tr>
<td>7-9</td>
<td>2</td>
<td>2.5</td>
</tr>
<tr>
<td>10-12</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>13 and above</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total</td>
<td>80</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Table 4.11 Research Data (2016)

The donors funding the organizations were cited to be 4-6 by majority of the respondents. Thus, the donors funding a single organization were not many, ranging between one and three for each organization. This tallies with a study by ochanda 2012 that majority of NGOs operate with more than 5 employees.

4.3.4 Period donors have funded the organizations

The study sought to establish the period donors had funded the respondent’s organization. The results are as stipulated in Table 4.12 below.
Table 4.12 Period donors have funded the organizations

<table>
<thead>
<tr>
<th>Years</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-2</td>
<td>2</td>
<td>2.5</td>
</tr>
<tr>
<td>3-5</td>
<td>36</td>
<td>45</td>
</tr>
<tr>
<td>6-8</td>
<td>32</td>
<td>40</td>
</tr>
<tr>
<td>9-11</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>12 and above</td>
<td>2</td>
<td>2.5</td>
</tr>
<tr>
<td>Total</td>
<td>80</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Research Data (2016)

The duration donors had funded the organizations was cited as 3-8 years by over eighty percent of the respondents. As such, there has been a significant relationship between the donors and majority of the funded organization.

4.3.6 Number of new donors interested for future funding

The study sought to establish the number of potential donors for the respondent’s organization.

The results are as stipulated in Table 4.13 below.

Table 4.13 Number of new donors interested for future funding

<table>
<thead>
<tr>
<th>Years</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Many</td>
<td>9</td>
<td>11.25</td>
</tr>
<tr>
<td>Many</td>
<td>40</td>
<td>50</td>
</tr>
<tr>
<td>A few</td>
<td>16</td>
<td>20</td>
</tr>
<tr>
<td>Very few</td>
<td>15</td>
<td>18.75</td>
</tr>
<tr>
<td>None</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>80</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Research Data (2016)

The potential donors in the foreseeable future for the organizations were cited as many by half (50%) of the respondents. Thus, future funding by new donors was possible but opportunities not equitable for the donor funded organizations.
4.3.7. **Income generating activities the organization had**

The study sought to establish the number of other income generating activities of the organization. The results are as shown below in table

<table>
<thead>
<tr>
<th>Years</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very many</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Many</td>
<td>11</td>
<td>13.75</td>
</tr>
<tr>
<td>A few</td>
<td>24</td>
<td>30.0</td>
</tr>
<tr>
<td>Very few</td>
<td>35</td>
<td>43.75</td>
</tr>
<tr>
<td>None</td>
<td>10</td>
<td>12.5</td>
</tr>
<tr>
<td>Total</td>
<td>80</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Source:** Research Data (2016)

The other income generating activities for the organizations were cited as few by over seventy percent (30% plus 43.75%) of the respondents. This showed that majority of the organizations significantly relied on donor funds and had few income generating activities.

4.3.8 **The annual income from the income generating activities**

The study sought to establish the annual income from the income generating activities for the respondent’s organization. The results are as stipulated in Table 4.15 below.

<table>
<thead>
<tr>
<th>Income (Kshs)</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-1m</td>
<td>60</td>
<td>75.0</td>
</tr>
<tr>
<td>1-2m</td>
<td>16</td>
<td>20.0</td>
</tr>
<tr>
<td>2-3m</td>
<td>4</td>
<td>5.0</td>
</tr>
<tr>
<td>3-4m</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>4m and above</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total</td>
<td>80</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Source:** Research Data (2016)
The annual income of the income generating activities was cited to be 1 million and less by seventy five percent of the respondents. As such, the income generating activities did not earn high enough income to support budgetary requirements for the donor funded organizations

4.4 Factor Analysis

4.4.1 Rules and Regulations and Financial Performance

The first specific objective of this study was to establish the influence of compliance to rules and regulations on the financial performance of donor funded organizations. To achieve this objective the respondents responded to items on the questionnaire on compliance to rules and regulations. The results were presented as below

The study sought to establish whether there was donor rules and regulations guiding financial management. All the respondents (100%) strongly agreed that, there were donor rules and regulations that guided financial management in their organizations. This was a plus to the organizations since the respondents are highly aware of their job responsibilities and task on a daily basis.

4.4.1.1 Projects members knowledge levels on donor rules

The study sought to find out the level of knowledge of donor rules by the members. The results was summarized in the Figure 4.3 below. The knowledge levels of donor rules and regulations by the project teams was cited to be very well by 46%, well by 45%, little by 3.75%, little by 3% very little 3% and a bit by 2% respectively. As such, the project officials were well aware of the donor rules and regulations. This is an indication that many of the respondents adhere to the know donor rules which according to them keep on changing. This is consistent to a study by U4 Anti-Corruption resource Centre (2013), which found out that many donors have developed their
own financial management standards for their NGO partners. Well established NGOs have typically developed robust financial management processes, but the challenges for donors is often to enforce minimum standards when engaging with lower capacity partners.

![Project Teams Knowledge of Donor Rules](image)

**Figure 4.3 Knowledge levels to projects members in organization**

**Source:** Research Data (2016)

### 4.4.1.2 Knowledge level of the regulations on compliance

The study sought to establish the effect of knowledge level of the regulations on compliance by the organization. The results are as stipulated in Table 4.16 below.

**Table 4.16 knowledge level of the regulations on compliance**

<table>
<thead>
<tr>
<th>Knowledge level</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Much</td>
<td>5</td>
<td>6.25</td>
</tr>
<tr>
<td>Much</td>
<td>6</td>
<td>7.5</td>
</tr>
<tr>
<td>A bit</td>
<td>24</td>
<td>30</td>
</tr>
<tr>
<td>Little</td>
<td>39</td>
<td>48.75</td>
</tr>
<tr>
<td>Very Little</td>
<td>6</td>
<td>7.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>80</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

**Source:** Research Data (2016)

The effect of knowledge levels of the donor rules and regulations on compliance was lowly rated by the respondents and the findings summarized in the table above. Many (48.75%) of the respondents felt that knowledge level little affects compliance while 30% of the respondents
ageing that knowledge level on donor rules affects a bit on the compliance. From the above findings it clear that, knowledge by project staff on donor rules and regulations does not have significant effect on compliance.

4.4.1.3 Other factors also influencing compliance to donor regulations

The study sought to establish the other factors also influencing compliance to donor regulations in the organization. The results are as stipulated in Table 4.17 below.

**Table 4.17 Other factors also influencing compliance to donor regulations**

<table>
<thead>
<tr>
<th>Knowledge level</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stringent Rules</td>
<td>11</td>
<td>13.75</td>
</tr>
<tr>
<td>Donors frequent change of regulations</td>
<td>18</td>
<td>22.5</td>
</tr>
<tr>
<td>Poor leadership in funded organizations</td>
<td>19</td>
<td>32.75</td>
</tr>
<tr>
<td>Fraud</td>
<td>22</td>
<td>27.5</td>
</tr>
<tr>
<td>Total</td>
<td>80</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Source: Research Data (2016)*

The other factors affecting compliance to donor regulations were cited as poor leadership in funded organizations, fraud by, frequent regulations change by donors by, poor understanding of rules by funded organizations and stringent rules accordingly. As such institutional factors contributed significantly to compliance levels on donor rules and regulations by funded organization. Further, lack of effective policies for financial management as well as internal audit got 75% recognition by the respondents.
4.4.1.4 Donors Extent of engagement on funded organizations

The study sought to establish the extent to which donors engage funded organizations during the formulation of funding regulations. The results are as stipulated in Table 4.18 below.

**Table 4.18 Extent to which donors engage funded organizations during the formulation of funding regulations**

<table>
<thead>
<tr>
<th>Knowledge level</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Large extent</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Large extent</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Not sure</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Little extent</td>
<td>25</td>
<td>31.25</td>
</tr>
<tr>
<td>Very Little extent</td>
<td>55</td>
<td>68.75</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>80</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Research Data (2016)

The extent to which donors engage funded organizations during funding rules formulation was cited as to a low extent by all the respondents. This showed that the funded organizations were mostly excluded during donor regulations formulation, a factor influencing compliance.

The effect of donor funded organizations during the formulation of rules and regulations was cited to be much by majority of the respondents. Thus, involvement of the funded organizations was crucial in regulations formulation, compliance levels and the performance of the organizations. According to U4 Anti-Corruption resource Centre (2013), many donors have developed their own financial management standards for their NGO partners. Well established NGOs have typically developed robust financial management processes.

4.4.2 Internal Controls and Financial Performance of Donor Funded Organizations

The second specific objective of this study was to establish the influence of internal controls on the financial performance of donor funded organizations. To achieve this objective the
respondents responded to items on the questionnaire on internal controls. The results were presented as below.

**Table 4.20 Internal Controls and Financial Performance of Donor Funded Organizations**

<table>
<thead>
<tr>
<th>Factors</th>
<th>Response</th>
<th>Rating</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating of the effectiveness of internal control</td>
<td>F</td>
<td>37</td>
<td>27</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>45.7</td>
<td>34.3</td>
<td>14.3</td>
</tr>
<tr>
<td>Extent donor regulations influence the establishment of internal control systems</td>
<td>F</td>
<td>9</td>
<td>43</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>11.4</td>
<td>54.3</td>
<td>28.6</td>
</tr>
<tr>
<td>Extent the internal control systems conform to donor expectations in the organizations</td>
<td>F</td>
<td>11</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>14.3</td>
<td>22.9</td>
<td>31.4</td>
</tr>
<tr>
<td>Rating of the effect of internal controls on the management of donor funds</td>
<td>F</td>
<td>18</td>
<td>23</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>22.9</td>
<td>28.6</td>
<td>2.7</td>
</tr>
</tbody>
</table>

**Source:** Research Data (2016)
The effectiveness of the internal control systems of the donor funded organizations was rated moderate by half of the respondents. The influence of donor regulations on the establishment of internal control systems was cited as large by all, while the extent the internal control systems conform to donor expectations in the funded organizations was cited as moderate. This showed a fair recognition by the respondents. All of the respondents concurred that internal controls affected the management of donor funds. Management’s capacity in enhancing internal control in respondents organization was fairly rated. In general the infrastructure for internal controls was not very strong, with low management capacity and this had an influence on funds management, the conformity to donor standards and funding relationship. The above findings tallies with a study by Bongani (2013) which reported that establishing internal control systems in organizations is critical to ensure the reliability of accounting records, because internal control systems can constrain management or staff’s reported and possible random errors.

4.4.2.1 Frequency of donor reviews on internal controls of funded organizations

The frequency of donor reviews on internal controls for the funded organizations was cited annually (57.5%) and semiannually (26.25%). This showed that the reviews were periodic and undertaken after six months in many organizations. This is depicted by the majority of the respondents as shown in the graph below (26.5% plus 57.5%);
4.4.2.2 Other areas of internal control monitoring by the donor

The study further sought to establish whether donor organizations monitored internal controls through other stipulated areas. The results are as below

Table 4.21 Whether the donor monitor controls on the following areas

<table>
<thead>
<tr>
<th>Factors</th>
<th>Response</th>
<th>Rating</th>
<th></th>
<th></th>
<th></th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Strongly</td>
<td>Agree</td>
<td>Neutral</td>
<td>Disagree</td>
<td>Strongly</td>
<td></td>
</tr>
<tr>
<td>Accounting records</td>
<td>F</td>
<td>32</td>
<td>32</td>
<td>9</td>
<td>2</td>
<td>5</td>
<td>1.94</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.083</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>40</td>
<td>40</td>
<td>11.4</td>
<td>2.9</td>
<td>5.7</td>
<td></td>
</tr>
<tr>
<td>Segregation of duties</td>
<td>F</td>
<td>16</td>
<td>42</td>
<td>18</td>
<td>2</td>
<td>2</td>
<td>2.17</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.891</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>20</td>
<td>51.4</td>
<td>22.9</td>
<td>2.9</td>
<td>2.9</td>
<td></td>
</tr>
<tr>
<td>Reconciliations</td>
<td>F</td>
<td>14</td>
<td>50</td>
<td>9</td>
<td>2</td>
<td>5</td>
<td>2.17</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.954</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>17.1</td>
<td>62.9</td>
<td>11.4</td>
<td>2.9</td>
<td>5.7</td>
<td></td>
</tr>
<tr>
<td>Transactions approval</td>
<td>F</td>
<td>25</td>
<td>23</td>
<td>21</td>
<td>5</td>
<td>7</td>
<td>2.31</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.231</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>31.4</td>
<td>28.6</td>
<td>25.7</td>
<td>5.7</td>
<td>8.6</td>
<td></td>
</tr>
<tr>
<td>Assets Safeguard</td>
<td>F</td>
<td>37</td>
<td>27</td>
<td>11</td>
<td>0</td>
<td>5</td>
<td>1.86</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.06</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>45.7</td>
<td>34.3</td>
<td>14.3</td>
<td>0</td>
<td>5.7</td>
<td></td>
</tr>
</tbody>
</table>

Source: Table 4.21, Research Data (2016)
Monitoring of accounting records was monitored by donor and segregation of duties was said also to be done by all the respondents. Reconciliations, transactions approval as well as safeguard of assets was agreed to be monitored by majority of the respondents. As such all the factors were significant in the monitoring of donor funds since all involved funds management, accountability, responsibility and transparency in the organizations

4.4.3 Capacity Development and Financial Performance of Donor Funded Organizations

The third specific objective of this study was to establish the influence of capacity development on the financial performance of donor funded organizations. To achieve this objective the respondents responded to items on the questionnaire on capacity development. Factors relating to the capacity of the organization and the staff as well as project officials were considered. The results were presented as below.

Table 4.22 Capacity development and Financial Performance of Donor Funded Organizations
<table>
<thead>
<tr>
<th>Factors</th>
<th>Response</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are effective capacity building activities for funded organizations</td>
<td>F 20 36 0 24 0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% 25% 45% 0 30% 0</td>
<td></td>
</tr>
<tr>
<td>Staff in the organization are able to manage finances</td>
<td>F 0 42 0 20 18</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% 0 52.5% 0 25% 22.5%</td>
<td></td>
</tr>
<tr>
<td>Budgets are well implemented by the organizations</td>
<td>F 20 30 0 28 2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% 25% 37.5% 0 35% 2.5%</td>
<td></td>
</tr>
<tr>
<td>The skills level of staff enhances financial management of donor funds</td>
<td>F 0 64 0 16 0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% 0 80% 0 20% 0</td>
<td></td>
</tr>
<tr>
<td>The organization regularly conduct capacity assessments to identify and fill capacity gaps</td>
<td>F 10 40 0 24 6</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% 12.5% 50% 0 30% 7.5%</td>
<td></td>
</tr>
<tr>
<td>Staff are adequately trained to handle their functions</td>
<td>F 4 64 0 12 0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>% 5% 80% 0 15% 0</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Table 4.22, Research Data (2016)
The results above show that there were no effective capacity building activities for funded organizations. This could be that some organizations management had effective programmes while other did not have. According to over half of the respondents, staffs in the organizations were not able to manage finances, citing varied financial skills of the funded organizations’ staff. In regard to budget implementation, over half of the respondents disagreed, showing that capacities were low.

As to whether the skills level of staff enhanced financial management of donor funds, 62.5% disagreed. As such, the skills levels of the staff was not significantly high, a factor that influences proper financial management and reporting. Responses as to whether the organization regularly conduct capacity assessments to identify and fill capacity gaps were that majority disagreed, and as to whether there was adequate financial allocation in the organization budget to support capacity development, majority disagreed, meaning that some organizations had adequate capacity building funds while other did not.

The fact that staffs were adequately trained to handle their functions was disapproved by 85%. As regards to whether the donor regularly conducted trainings and provide technical assistance required to implement assigned scope of work, over half of the respondents agreed. Capacity building programmes were thus not effective to ensure skills development of staff for effectiveness and efficiency in financial management. In general capacity development had a significant effect on financial management and performance of the donor funded organizations. Several studies of funded organizations practice over the past 20 years revealed that capacity
building is always described as high priority – but few funded organizations have any conceptual clarity about what it means, (Krivogorsky & Dick, 2011).

4.5 Correlation Analysis
4.5.1 Relationship between rules and regulations and financial performance donor funded organizations

Table 4.24 Rules and regulations and financial performance

<table>
<thead>
<tr>
<th>Chi-square tests</th>
<th>Value</th>
<th>Df</th>
<th>Asymp. sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>46.741(^a)</td>
<td>12</td>
<td>.0001</td>
</tr>
<tr>
<td>Likelihood ratio</td>
<td>22.711</td>
<td>12</td>
<td>.032</td>
</tr>
<tr>
<td>Linear-by-linear Association</td>
<td>5.333</td>
<td>1</td>
<td>.024</td>
</tr>
<tr>
<td>N of Valid cases</td>
<td>80</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^a\) 18 cells (90.0%) have expected count less than 5. The maximum expected count is .06

Source: Researcher 2016

The study sought to establish whether there exists a relationship between rules and regulations and financial performance. The computed chi-square value (46.741) at 12 degrees of freedom the study found that there is a significant relationship between rules and regulations and financial performance since the computed p-value (0.0001) was less than 0.05 at 95% confidence level.

This tallies with a study by Maguire (2012) who conducted a survey in conjunction with the Waccamaw Community Foundation, the Chapin Foundation, and the South Carolina Association of Non-Profit Organizations. The study found that the variables correlated and the influence of each was significance.
4.5.2 Relationship between internal controls and financial performance of donor funded organizations

Table 4.25 internal controls and financial performance of donor funded organizations

<table>
<thead>
<tr>
<th>Chi-square tests</th>
<th>Value</th>
<th>Df</th>
<th>Asymp. sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>23.117</td>
<td>12</td>
<td>0.012</td>
</tr>
<tr>
<td>Likelihood ratio</td>
<td>22.279</td>
<td>12</td>
<td>0.005</td>
</tr>
<tr>
<td>Linear-by-linear Association</td>
<td>5.161</td>
<td>1</td>
<td>0.012</td>
</tr>
<tr>
<td>N of Valid cases</td>
<td>80</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. 18 cells (90.0%) have expected count less than 5. The maximum expected count is .09

Source: Researcher 2016

The study sought to establish whether there exists a relationship between internal controls and financial performance of donor funded organizations. The computed chi-square value (23.117) at 12 degrees of freedom the study found that there is a significant relationship between internal controls and financial performance of donor funded organizations since the computed p-value (0.012) was less than 0.05 at 95% confidence level. This findings are in tandem with a study by Muio (2012) on the impact of internal control systems on the financial performance of private hospitals in Nairobi Kenya where the study found a positive correlation between the two variables.
4.5.3 Relationship between capacity development and financial performance of donor funded organizations

Table 4.26 Capacity development and financial performance of donor funded organizations

<table>
<thead>
<tr>
<th>Chi-square tests</th>
<th>Value</th>
<th>Df</th>
<th>Asymp. sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>27.277 a</td>
<td>16</td>
<td>.005</td>
</tr>
<tr>
<td>Likelihood ratio</td>
<td>26.787</td>
<td>16</td>
<td>.032</td>
</tr>
<tr>
<td>Linear-by-linear Association</td>
<td>5.999</td>
<td>1</td>
<td>.014</td>
</tr>
<tr>
<td>N of Valid cases</td>
<td>80</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. 23 cells (92.0%) have expected count less than 5. The maximum expected count is .06

Source: Researcher 2016

The study sought to establish whether there exists a relationship between capacity development and financial performance of donor funded organizations. The computed chi-square value (27.277) at 12 degrees of freedom the study found that there is a significant relationship between capacity development and financial performance of donor funded organizations since the computed p-value (0.005) was less than 0.05 at 95% confidence level. This tallies with a study by Vera (2013) that there is a strong positive correlation between capacity building and financial governance of NGOs in Ghana.

4.6 Regression analysis

Table 4.27 Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.808 (a)</td>
<td>0.653</td>
<td>.691</td>
<td>0.6944</td>
</tr>
</tbody>
</table>

R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable, from the findings in the above table the value of adjusted R squared was 0.653 an indication that there was variation of 65.3% on the financial performance of donor funded organizations due to compliance with rules and regulations,
internal control and capacity development collectively at 95% confidence interval. This shows that 65.6% changes in financial performance of donor funded organizations could be accounted to changes in compliance with rules and regulations, internal control and capacity development. R is the correlation coefficient which shows the relationship between the study variables. From the findings shown in the table above there was a fairly strong positive relationship between the study variables as shown by 0.691.

Multi-regression analysis was used to measure the nature of the relationship between the financial performance of donor funded organizations due to compliance with rules and regulations, internal control and capacity development. The model which was adopted for this study is:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e \]

Where:-\( Y = \) The financial performance of donor funded organizations, \( \beta_0 = \) Constant, \( X_1 = \) Effects of compliance with rules and regulations, \( X_2 = \) Effects of internal control and, \( X_3 = \) Effects of capacity development, \( e = \) Error term of the model and \( \beta_1 = \) Coefficient of independent variables.
Table 4.28 Coefficients Table

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.155</td>
<td>.231</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rules and regulations</td>
<td>.204</td>
<td>.240</td>
<td>.230</td>
<td>.850</td>
</tr>
<tr>
<td>Internal controls</td>
<td>.182</td>
<td>.050</td>
<td>1.231</td>
<td>3.616</td>
</tr>
<tr>
<td>Capacity development</td>
<td>.153</td>
<td>.017</td>
<td>1.075</td>
<td>3.159</td>
</tr>
</tbody>
</table>

From the above regression equation it was revealed that holding compliance with rules and regulations, internal control and capacity development to a constant zero, financial performance would be at 0.155. A unit increase in compliance with rules and regulations would lead to increase in financial performance of donor funded organizations by a factor of 0.204 (R=0.204, P<0.05), a unit increase in internal control would lead to increase in financial performance of donor funded organizations by a factor of 0.182 (R=0.182, P<0.05), a unit increase in capacity development would lead to increase in financial performance of donor funded organizations by a factor of 0.153 (R=0.153, P<0.05). Therefore there is a significant relationships between all the independent variables and the dependent variable since all the P values a less than 0.05. Therefore if all the independent variables are significant then they can be used to predict the changes of dependent variable.
4.7 Model Testing
4.7.1 ANOVA analysis

To determine the goodness of the study model, Anova analysis was done. Table 4.16 below shows the results after the test.

Table 4.29: ANOVA analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>13.889</td>
<td>8</td>
<td>1.733</td>
<td>2.344</td>
<td>0.028&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Residual</td>
<td>16.799</td>
<td>26</td>
<td>.633</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>32.686</td>
<td>34</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regression</td>
<td>19.085</td>
<td>11</td>
<td>1.845</td>
<td>2.841</td>
<td>.014&lt;sup&gt;c&lt;/sup&gt;</td>
</tr>
<tr>
<td>Residual</td>
<td>13.601</td>
<td>23</td>
<td>.591</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>32.686</td>
<td>34</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent variable: Financial performance of donor organizations

b. Predictors: (constant), rules and regulations, internal controls, capacity development

c. Predictor: (constant), rules and regulations, internal controls, capacity development

Source: Researcher 2016

The results from table 4.4.16 indicate that the Anova analysis was significant as the P-value was less than 0.05 (sig=0.028 and 0.014) This indicate the goodness of the study model. Therefore the below indicated model was adopted;-

\[ Y = 0.155 + 0.204X_1 + 0.182X_2 + 0.153X_3 \]

The regression model used was significant with the F statistic of 2.344 was significant at P= 0.028 as
shown in the table 4.16 above which falls within the acceptable significance level of 0.05. This means that the independent variables not only have positive influence on financial performance of donor organizations but they also have a significant effect on financial performance. Based on this outcome, the prediction of the outcome of the study using this model was acceptable.
CHAPTER FIVE
SUMMARY CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study entailed the establishment of the effect of compliance review audits on the financial performance of donor funded organizations in Nyeri County. The chapter therefore recounts the summary of the major findings, the conclusions reached, recommendations and highlights of the area that require further research.

5.2 Summary of Findings

This section will discuss the findings in chapter two based on factor analysis and correlation levels for the variables under consideration.

The study sought to establish the influence of compliance review audits on the financial performance of donor funded organizations. Data was collected from finance officers in the organizations, analysed and key findings were that compliance to rules and regulations influences financial performance of donor funded organizations. Results from research questions testing showed compliance with rules and regulations would lead to increase in financial performance of donor funded organizations. The effectiveness of the internal control systems of the donor funded organizations was rated moderate by half of the respondents. All of the respondents concurred that internal controls affected the management of donor funds.

The study results showed that a unit increase in internal control would lead to increase in financial performance of donor funded organizations, a unit increase in capacity development would lead to increase in financial performance of donor funded organizations. There were no
effective capacity building activities for funded organizations, and staffs in the organizations were not able to manage finances, according to over half of the respondents. Capacity building programs thus lowly contributed to ensure effectiveness and efficiency in financial management, and skills development of staff. In general capacity development had a significant effect on financial management and performance of the donor funded organizations. From research questions testing results capacity development influences financial performance of donor funded organizations and as also as depicted in research questions testing.

5.3 Conclusions

Donor funding has played an important role in social economic development of communities world-wide. Through strategic projects, the donor community has helped manage social development especially of the poor, education, health and sanitation shelter among others. Economically, donor organizations have supported the establishment of enterprise that improves household incomes. The role played by donor agencies in improving living standards of families/households, groups and individuals in any country cannot be underestimated. There has been a significant increase in activities from donor agencies such as Community-Based Organizations (CBO), Faith-Based Organizations (FBO) and Non-Governmental Organizations (NGOs) among others with regards to funding of various projects.

The funding relationship between the donors and funded organizations is mostly contractual with stipulated rules and regulations that call for compliance, accountability and transparency. This is to ensure that the projects are beneficial to communities, and that taxpayers in donor countries see value for money and continue support. To ensure compliance to contractual engagement, review audits may be conducted at stipulated periods in the contract. These audits focus on
ensuring effective utilization of funds and benefit to communities. Importantly, they are meant to ensure conformity to budget guidelines and allocations, financial management, sound financial performance and projects sustainability. Non-compliance to donor rules, regulations and standards may contribute to withdrawal of funding by the donors, and leading to closure of funded organizations. This in turn would greatly impact on beneficiary communities. It was established in the study that the funded organizations had a high dependency rate on the donor funds since their local project income generating activities lowly facilitated budgetary needs.

The study sought to establish the influence of compliance review audits on the performance of donor funded organizations. Compliance to rules and regulations had a significant effect on the financial performance of donor funded organizations. The effect of knowledge levels of the donor rules and regulations on compliance was rated low and had no significant effect on compliance. However, other significant factors affecting compliance to donor regulations were cited as poor leadership in funded organizations, frequent regulations change by donors, poor understanding of rules by funded organizations and stringent rules.

From the study findings, internal controls strongly affect financial performance of donor funded organizations. The internal controls infrastructure was found to be relatively poor, a factor enhancing propensity for error and fraud. Monitoring of accounting records was monitored by donor, segregation of duties, reconciliations, transactions as well as safeguard of assets were all the factors significant in the monitoring of donor funds since all involved funds management in the organizations. In general the infrastructure for internal controls was not very strong, with low
management capacity and this had an influence on the conformity to donor standards and funding relationship.

Capacity development influenced financial performance of donor funded organizations. Allocation for capacity development was low in the funded organizations, a factor inhibiting skills development in financial management and affecting financial performance. Capacity building programmes thus lowly contributed to ensure effectiveness and efficiency in financial management, and skills development of staff. In conclusion, the three factors of compliance review audits: compliance to rules and regulations, internal controls and capacity development affected the performance of donor funded organizations in Nyeri County.

5.4 Recommendations

Upon analysis and conclusion, the study recommends that there is need for donors to formulate dialogue forums with funded organizations where rules and regulations to be set or already set can be evaluated in order to enhance compliance levels. The funded organizations should strengthen their policies and financial manuals to ensure that they envisage donor regulations and this information should be effectively disseminated to the project officials and/or staff. The donor funded organizations should also ensure that appropriate mechanisms are established and used to follow up management actions in response to audit recommendations.

The management of the funded organizations in collaboration with donor staff should evaluate the internal control infrastructure to enhance effective financial controls that ensure funds are expended as budgeted and all loop holes are sealed. Importantly, the internal audit function should be strengthened to have day to day controls of financial transactions. To enhance internal audit, the chief accounting officers should adopt the Quality Assurance and Improvement Plan
(QAIP) that is now globally accepted as an audit standard. It will conform to the definition of internal auditing, codes of ethics and the standards.

The donor organizations should also undertake post-engagement client surveys, lessons learned and other mechanisms supporting continuous improvement in financial management. Importantly, the context of the capacity building programmes should be reviewed to establish the effectiveness in building skills for financial management.

5.5 Suggestions for Further Studies

The study suggests that more research should be done on the institutional factors affecting the financial performance of donor funded organizations in Nyeri County. Since, from R-squared results shows that a proportion of 34.7% which is not explained by financial performance. Thus, another study needs to be done to explain the remaining proportion.

Also a similar study should be carried out in another county for comparison purposes and also can be repeated in Nyeri County some other time latter to assess the changes that might have occurred. Finally, a study should be carried out to determine the impact of income generating projects on the financial sustainability of public benefit organizations Nyeri County and Kenya at large.
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Dear Participant,

**RE: REQUEST FOR RESEARCH DATA**

Thank you for accepting to respond to this questionnaire. I am a student of Kenyatta University undertaking a Master degree in Business Administration (Finance Option). This Questionnaire is aimed at gathering information on the effect of compliance review audits on financial performance of donor funded organizations in Nyeri County, Kenya.

Please complete the questionnaire. Your accurate and frank response will be highly appreciated. All information received shall be treated with confidentiality and the study findings will be for research purposes only.

Yours Faithfully,

Murage C. Kibunja

D53/NYI/PT/28424/2014
APPENDIX II

QUESTIONNAIRE

(Tick whichever option is appropriate/applicable)

SECTION A: GENERAL INFORMATION

1. Gender: Male [ ] Female [ ]

2. Age of respondent in years
   20 and under [ ] 21-30 [ ] 31-40 [ ] 41-50 [ ] Over 50 [ ]

3. What is your level of education?
   K.C.S.E [ ] Tertiary [ ] University [ ] Post Graduate [ ]

4. How long have you worked in the organization?
   1 to 5 years [ ] 5 to 10 years [ ] 11 and above [ ]

5. Does your organization undertake compliance review audits?
   Yes [ ] Not sure [ ] No [ ]

6. If Yes above, how often are the compliance review audits undertaken?
   Monthly [ ] Quarterly [ ] Semi-annually [ ] annually [ ] After more than an year [ ]

7. Is there an active audit department in your organization?
   Yes [ ] Not sure [ ] No [ ]

8. Are there compliance review audits value additives in the organization?
   Yes [ ] Not sure [ ] No [ ]
SECTION B: FINANCIAL PERFORMANCE OF DONOR FUNDED ORGANIZATIONS

9. How much was your organization annual budget for the year 2015?

- 0 – 1,000,000 [ ]
- 1,000,001 – 2,500,000 [ ]
- 2,500,001 – 5,000,000 [ ]
- 5,000,001 – 7,500,000 [ ]
- 7,500,001 and above [ ]

10. Out of your annual budget how much were you able to spend?

- Below 50% [ ]
- 50% - 60% [ ]
- 60% - 70% [ ]
- 70% - 80% [ ]
- 80% - 100% [ ]

11. Out of the amount spent in year 2015 did your organization incur any disallowed expenditure?

- Yes [ ]
- No [ ]

Please give more information on your answer above 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Please explain your answer above ……………………………………………………………………
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16. If yes to question 9 above, what is the annual income from the income generating activities?

0 – 1,000,000 [   ] 1,000,001 – 2,000,000 [   ] 2,000,001 – 3,000,00 [   ]
3,000,001 – 4,000,000 [   ] 4,000,001 and above [   ]

SECTION C: COMPLIANCE TO RULES AND REGULATIONS AND FINANCIAL PERFORMANCE OF DONOR FUNDED ORGANIZATIONS

17. Are there rules and regulations (donor, government or internal) that guide financial management in your organizations?

Yes [   ] No [   ] Not Sure [   ]

Please explain your answer above …………………………………………………………………
………………………………………………………………………………………………………………
………………………………………………………………………………………………………………

18. How well are they known to projects members of your organization?

Very Well [   ] Well [   ] A bit [   ] Little [   ] Very little [   ]

19. How much does the knowledge level of the regulations affect compliance by your organization?

Very much [   ] Much [   ] A bit [   ] Little [   ] Very little [   ]

20. Which of these factors also influence compliance to donor regulations?

Stringent rules [   ]

Poor understanding of rules by funded organizations [   ]
Frequent change of regulations by donors [ ]
Poor leadership in funded organizations [ ]
Fraud [ ]

Others, Please Specify………………………………………………………………………………………………
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21. To what extent do donors engage funded organizations during the formulation of funding regulations?
Very large extent [ ] Large extent [ ] Not sure [ ] Little extent [ ] Very little extent [ ]

22. How much do you think the engagement above (21) influences performance of donor funded organizations?
Very much [ ] Much [ ] A bit [ ] Little [ ] Little very little [ ]

23. Does the donor monitor compliance with the following requirements?
(On the scale of 1-5, indicate 1- Strongly Disagree; 2- Disagree; 3- Neutral; 4- Agree; 5 – Strongly agree)

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<td>Supporting documentation of payments</td>
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<td>Allowable and non-allowable costs</td>
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SECTION D: INTERNAL CONTROLS AND PERFORMANCE OF DONOR FUNDED ORGANIZATIONS

Instructions: Comment the statement below by ticking the correct statement where necessary.

How much have the following important cognitive diversity factors influenced the performance of donor funded organizations?

(On the scale of 1-5, indicate 1- very little; 2- little; 3- moderate; 4- large; 5 – very large)

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<td>24. How would you rate the effectiveness of internal control systems in your organizations?</td>
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<td>25. How much do donor regulations influence the establishment of internal control systems?</td>
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<td>26. How much do the internal control systems conform to donor expectations in your organizations</td>
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<td>27. How would you rate the effect of internal controls on the management of donor funds?</td>
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<td>28. How would you rate the capacity of management in enhancing internal control in your organization?</td>
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29. How often is your organization reviewed by the donor to check the effectiveness of your internal control systems?

   Monthly [ ]   Quarterly [ ]   Semiannually [ ]   Annually [ ]   Not often [ ]

30. Does the donor monitor controls on the following areas?

(On the scale of 1-5, indicate 1- Strongly Disagree; 2- Disagree; 3- Neutral; 4- Agree; 5 – Strongly agree)

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<td>Accounting records</td>
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<td>Segregation of duties</td>
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<td>Internal audits</td>
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<td>Safeguarding of assets</td>
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**SECTION E: CAPACITY DEVELOPMENT AND FINANCIAL PERFORMANCE OF DONOR FUNDED ORGANIZATIONS**

*Instructions: Comment the statement below by ticking the correct statement where necessary.*

How have the following capacity development factors influenced the performance of donor funded organizations?

(On the scale of 1-5, indicate 1- Strongly Disagree; 2- Disagree; 3- Neutral; 4- Agree; 5 – Strongly agree)
FACTORS

31. The donor regularly conducts supportive supervisions/ site visits for continuous improvement in project implementation

32. The skills level of staff enhances financial management of donor funds

33. Your organization regularly conducts capacity assessments to identify and fill capacity gaps

34. There is adequate financial allocation in the organization budget to support capacity development

35. Staff are adequately and regularly trained to handle their functions.

36. The donor provides technical assistance required to implement assigned scope of work

37. What percentage of your annual budget is dedicated to institutional capacity development?

   0% – 20% [ ] 21% - 40% [ ] 41% - 60% [ ] 61% - 80% [ ] 81% - 100% [ ]

THANK YOU FOR YOUR COOPERATION