

**EFFECT OF FINANCIAL AUDIT ON PERFORMANCE OF NON-GOVERNMENTAL
ORGANISATIONS IN NAIROBI CITY COUNTY, KENYA.**

BY

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MASTER OF SCIENCE IN COMMERCE (FINANCE AND ACCOUNTING)

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE
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COMMERCE (FINANCE AND ACCOUNTING) IN THE SCHOOL OF BUSINESS AND
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DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that it contains no material written or published by other people except where due reference is made and author duly acknowledged.

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ABSTRACT

The performance of Non-Governmental Organisations has attracted scholarly attention for a while. This study therefore sought to establish the effect of financial audit on performance of Non-Governmental Organisations in Nairobi County. Three theories anchored the study: institutional theory, agency theory and auditor's theory of inspired confidence. The researcher assessed the impact of four independent variables against performance of the NGOs in Nairobi County. The variables included audit quality, auditor' independence, auditor size and audit practices. The study adopted a descriptive research design in carrying out the analysis. The researcher targeted a total population of more than 1700 NGOs based in Nairobi County. The Yamane (1967) formula was used to establish the sample size of 324 for the study. Structured questionnaires were employed in collecting data from the respondents. From the findings, audit quality has the strongest ($r=0.711$, $p=0.012$) impact on performance of the NGOs, followed by audit practice ($r=0.651$, $p=0.000$), then auditor independence ($r=0.604$, $p=0.025$). The weakest relationship was established to be between audit firm size and performance of NGOs ($r=0.432$, $p=0.007$). A significant relationship was established to exist between audit quality, auditor independence, audit size and audit practices on organisational performance. The study recommends that the NGOs enhance the quality of their audit thus their performance through developing and implementing ways to evaluate the likelihood of the auditors to unravel and report a misstatement in the organisation' financial system.

Key words: Financial Audit, Organisational Performance, Non-Governmental Organisations, Audit Quality, Auditor' Independence, Auditor Size and Audit Practices

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ACRONYMS AND ABBREVIATIONS

CBOs	Community Based Organisations
EU	European Union
FASB	Financial Accounting Standards Board
FCAM	Financial and Compliance Audit Manual
FRC	Financial Reporting Council
IA	Internal Audit
IAC	Internal Audit Characteristics
ICPAK	Institute of Certified Public Accountants of Kenya
IFRS	International Financial Reporting Standards
ISO	International Organisation for Standardization
NGOs	Non-Governmental Organisations
NSE	Nairobi Securities Exchange
ROA	Return on Asset
ROE	Return on Equity
SMEs	Small and Medium Enterprises
SPSS	Statistical Packages for Social Sciences
TQM	Total Quality Management

OPERATIONAL DEFINITION OF TERMS

Accounting: The art of recording, classifying, summarizing in a significant manner and in terms of money, transactions and events which are at least in part of financial character (AICPA, 1941).

Audit: An independent and documented process of evaluating and obtaining evidence of the level of objectivity attained by an organisation (Heil, 2012).

Financial Audit: A monitoring mechanism that assists in curbing financial information asymmetry while protecting the interests of the various stakeholders through offering sufficient assurance that an organisation' financial statements are devoid of material misstatements (Musa & Shehu, 2014).

Non-Governmental Organisation: A non-profit entity which is independent of governmental influence and contributes to or participate in education, training, or other humanitarian progressive or watchdog activities (NGO Council, 2016).

Organisational Performance: The real yield or after effects of an association as assessed against an organisation' expected goals and/or objectives (Lisa, 2016).

Performance measurement in NGOs: Effectiveness and efficiency in achieving mutually arrived at social goals between a Non-Governmental Organisation and its intended beneficiaries (Kareithi & Lund, 2012).

CHAPTER ONE: INTRODUCTION

This chapter introduces the entire study. It captures the background of the study that include financial audit, concept of organisational performance and measurement of performance in Non-Governmental Organisations in Kenya. This section also presents statement of the problem, objectives of the study, research questions, scope of the study and significance of the study as well as the justification.

1.1 Background of the Study

Scott (2018) defined accounting as the art of recording, classifying, summarizing in a significant manner and in terms of money, transactions and events which are at least in part of financial character. He added that accounting not only records financial transactions and convey the financial position of a firm but also analyses and reports information in financial documents. Matengo (2017) asserted that there is a fundamental recognition of the fact that the financial structure for an NGO is different from that of a commercial firms in that NGOs have no requirements for return on investment, no reference to cost or servicing of debt and equity and seek to strike a balance between transparency and accountability. Matengo further adds that commercial firms on the other end focus on profit maximization therefore impacting their accounting method to one that revolves around income. Besides, the for-profit organisations seek to enhance the value of the shareholders through maximizing profits and transferring these profits to the company owners (Mohammed & Elio, 2015).

Notwithstanding, International Financial Reporting Standards (IFRS) have proved to be a more consistence framework hence gained a worldwide recognition (Bare, 2016) such that in 1998, ICPAK embraced the IFRS standards both in preparation of accounting statements and

auditing in Kenya. Besides, the majority of these standards remain applicable in the NGO sector with some adjustment particularly in the area of disclosure of accounting statements. According to Oluwagbemiga (2010), a number of qualitative characteristics act as a measure of good accounting information. These characteristics as developed by the Financial Accounting Standards Board (FASB) include understandability, relevancy, credibility, comparability, timeliness, consistency, neutrality and verifiability.

A 2014 report by the EU Twinning project defined an audit as an independent and documented process of evaluating and obtaining evidence of the level of objectivity attained by an organisation. The organisation further lists the different types of audits that exist; statistical process and product audits, IT audits, Iso norms audits, TQM audits and financial audits. Increased concerns relating to corporate accountability have been linked with the requirement for audits (Musa & Shehu, 2014). They add that the need for reliable and accurate financial reporting was strongly highlighted after the effects of the global financial crisis. According to Oluwagbemiga (2010), financial auditors in any organisation are loaded with the sole duty of preventing, detecting and reporting fraud or other illegal undertakings and errors. This responsibility stands as one of the most controversial matters in auditing and forms one of the most debated areas among interest groups such as auditors, politicians, regulators and the public. Oluwagbemiga also asserts that these debates are mostly anchored on the fact that both big and small corporations have underperformed and collapsed all across the globe.

In recent past, a mixture of a number of forces has resulted to a great revolution in the entire process of financial audit (Ondieki, 2013). He further points out these forces as the need for organizations to depict accountability in the utilization of its shareholders money and efficiency in the delivery of services; increasing demand for high competency and

professionalism from auditors; in availability of sufficient resources alongside increasing need for organisations to be more efficient and minimize and manage risks; technological advancement that results to ease in tracking and analyzing data. Lecyet et al. (2009), asserted that the performance of Non-Governmental Organisations has attracted scholarly attention for a while. Besides, Mohammed and Elio (2015) pointed out that in the past, the duties of Non-Governmental Organisations (NGOs) were founded majorly on ethical-social motivation and technical professionalism by engaging the services of physicians, doctors, teachers, engineers, among others with most of NGOs being involved in international cooperation for development, natural disasters and humanitarian emergencies.

1.1.1 Financial Audit

Musa and Shehu (2014) defined financial audit as a monitoring mechanism that assists in curbing financial information asymmetry while protecting the interests of the various stakeholders through offering sufficient assurance that an organisation' financial statements are devoid of material misstatements such as fraud that include over or under estimation of revenue and expenses. The duo add that financial audits play an important role in an organisation seeking to attain quality financial reporting. According to FCAM (2012) report, the process of financial audit includes the assessment of the effectiveness of internal control systems that are concerned with the reliability of accounts and preventing, detecting and correcting irregular incomes and expenditures. An argument by Heil (2012) confirmed that the societal responsibility of auditors needs to be a vital contribution towards financial performance, in connection with the reduction of risks of significant misstatements and also ensuring that the statements are presented in relation to the preset rules and regulations.

An organisation' external financial statement users who include the existing and potential investors, donors, creditors and others demand quality financial information upon which facilitates their resolutions in allocating their resources (Miettinen, 2011). In the case of NGOs, when donors gain confidence and trust in the audited financial report of an organization, they are highly likely to pour in more funds into the organization that further results to increased financial performance (Kerine, 2015). For instance, a report by the Internal Audits Board (2011) asserted that external audits undertaken as per the high quality auditing standards can help enhance the implementation of accounting standards through reporting entities and further ensure that their financial statements are dependable, transparent and useful. On the other hand, Heil (2012) argued that conducting internal financial audits plays a critical role in assessing an organisation' risk profile and pointing out areas to enhance risk management. In a study conducted on Australian and New Zealand firms, Coram and woodliff (2011) unearthed that organizations that conduct internal financial audits have a higher likelihood of detecting and self-reporting fraud through misappropriation of assets as compared to those that do not.

Sound Financial audits assist reinforce strong corporate governance, risk management and internal control within an organisation, hence adding to financial performance (Internal Audits Board, 2011). The report adds that statutory audit also enhance confidence since auditors are looked upon to avail an external but objective view on the preparation and presentation of an organisation' financials. According to Epstein and McFarlan (2011), auditors are therefore required to be independent in the view they express whereas the duty they have to undertake in order to establish their opinions is greatly reliant on and grounded in the real world and sometimes may prove challenging in some business environments such as the NGOs. Basically,

auditing assists in improving an organization' efficiency and effectiveness by criticizing it constructively.

1.1.2 Performance of NGOs

The term performance is widely used but there exists no common definition. The performance of an organisation so hugely points at the real yield or after effects of an association as assessed against its expected goals and/or objectives (Lisa, 2016). Chiggai (2016) posited that an effective NGO is that which records admirable performance and is fulfilling its goals while adequately executing the correct procedures. Most auditors generally argue that successful financial audit practices are linked with enhanced organizational performance. As asserted by Beyanga (2013), the administration of a financial audit may reduce an NGO's overhead, distinguish approaches to improve proficiency and increase presentation to conceivable misfortunes from minimal defended organization resources all of which can greatly impact the attainment of the organization' objectives.

A similar argument is advanced by Venables and Impey (2010) who expressed that financial audit is a key instrument that can be employed in enhancing organizational performance. Coram and woodliff (2011) also pointed out that auditors run an organization proficiently and viably to enhance its shareholders' expectations. Besides, Bare (2016) affirmed that the presence of a viable internal audit capacity in an organisation can be directly associated to effective organisational performance. In the case of NGOs, when donors gain confidence and trust in the audited financial report of an organization, they are highly likely to pour in more funds into the organization that further results to increased organisational performance.

1.1.3 Performance Measurement in NGOs

According to Kareithi and Lund (2012), the idea of performance measurement in NGOs is very key since it facilitates these organizations in the utilization of the performance information in decision making. And hence assessing performance in NGOs is treated as the pre-requisite for the organizations' strategic planners to enhance their functions or performance. Kareithi and Lund also point out that, performance measurement is closely linked to the budgetary system inside NGOs since most of their activities are founded on fundraising initiatives. A number of Scholars have defined performance measurement in NGO perspective. The differences in the definitions has left little consensus on how to describe and measure performance in NGOs since these organizations operate under unclear objectives and unknown association between programs' activities and outcomes (Mohammed & Elio, 2015). Moxham (2010) viewed performance measurement in NGOs as the demonstrated ability of the organisation to attain the required resources for its survival. However, attaining these resources is not the only measure for NGO performance. Ferreira and Otley (2009) viewed performance measure in NGOs as a method of assessing individuals, groups and the overall organization while Kareithi and Lund (2012) asserted that the sole objective for NGOs focuses on the targeted beneficiaries hence their performance should be measured by assessing their effectiveness and efficiency in achieving mutually arrived at social goals.

One vital and long standing concern relating to NGOs performance measurement has been to comprehend the most appropriate indicators that are to be considered when assessing NGOs performance (Epstein & Buhovac, 2009). The study on NGOs performance evaluation examined two key aspects: internal and external indicators (Mohammed & Elio, 2015). They further asserted that internal indicators of evaluating NGO performance entail access to funding,

budgeting efficiency, expenses and costs while the external indicators address the association between the NGO and its environment which defines its ability to obtain benefits from the surroundings that results to attainment of financial needs and demand for their survival (Ferreira & Otley, 2009). General, NGOs can measure their performance through developing performance indicators and then collecting information connected to these indicators. In the most recently identified performance measurement parameters, Carman (2007) pointed out efficiency, effectiveness, fundraising, costs, audits and beneficiaries' satisfaction as the most commonly utilized performance indicators. With the consideration of financial performance of NGOs, the most utilized parameter is fundraising efficiency. A definition by Andreassen and Kotler (2008) perceived fundraising efficiency as the process of collecting money for NGOs survival. Andreassen and Kotler also argued that aspects such as the amount of funding costs and the response rate to funding proposals can be utilized in assessing fundraising efficiency According to Epstein and McFarlan (2011), the variable is assessed using donors dependency ratio while Lewis (2009) argued that resource generation ratio can be used to measure fundraising efficiency.

1.1.4 Financial Audit and Performance of NGOs

An argument by Mohammed and Elio (2015) asserted that nowadays and also walking into the future of NGO operations, the ethical-social motivation and technical professionalism are not and will not be enough for these organisations as they are faced with the need to assess how the limited financial and non-financial resources can be efficiently and effectively utilized. Furthermore, the nature of the working environment of NGOs drags these organizations into assessing and enhancing their strategies and performance (Kareithi & Lund, 2012). The environment is viewed as being very dynamic and risky while the general effectiveness of the

NGOs demands that the various demands of stakeholders be met. These organisations are therefore required to effectively manage and evaluate their performance while assessing a number of perspectives and considering aspects such as the projects/programs performance, the agenda of donors, the needs of beneficiaries (Mohammed & Elio, 2015). These aspects are directly and heavily linked to the organizations' abilities to effectively manage their financial resources hence the need for quality financial audit.

A number of scholars have identified several aspects of financial audit that affect organisational performance. These aspects include audit quality (Chen et al., 2013), auditor' independence (Chia-Ah & Karlsson, 2010), audit size (Chen et al., 2013) and audit practices (Ljubisavljevic & Jovanovi, 2011). In defining audit quality, Chen et al. (2013) assumed that the likelihood of identifying a misstatement is positive and constant, depicting no variation in the competency of auditors. As a result, the competence of the auditor differs from one audit firm to another depending on the varied levels of human resource possessed (FCAM, 2012). An auditor, whether internal or external must be independent of both the personnel and operational activities of an organization (Ondieki, 2013). Ondieki further indicated that the integrity of the auditor's opinions, conclusions and recommendations would otherwise not be reliable thus negatively affecting the performance of an organisation especially NGOs through eroded donor confidence. Bouaziz (2012), asserted that audit size has a key influence on the financial performance of organisations in relation to return on assets (ROA) and return on equity (ROE). Chiggai (2016) confirmed that the audit practices usually entail the personnel integrity and quality such that the employee bears two sides with the first being that they are the subjects of internal control in their organisations and control the execution of their duties while on the other side, they are the objects of internal control in the organisation regulated and controlled by the other.

1.1.5 NGOs in Kenya

Several arguments are being raised that, with the roles that NGOs play in facilitating development, NGOs can therefore make surpluses which then can be ploughed back into their financial mainstream hence increase and maintain their developmental plans (Lisa, 2016). This is a move away from the restrictive model where an NGO was seen only as social welfare provider. This diversification from the normal has resulted from pressure from the unpredictable environment that NGOs operate within therefore calling for resilient organizational structures and policy (Hamilton & Slatten, 2013). According to Kerine (2015), NGOs also suffer from challenges in their projects ranging from sustainability to reliability. Not all projects run by these NGOs are able to achieve this fete of sustainability. Given the rapidity in which NGOs are established, they are obviously too recent, as institutions, to build up capacity to manage themselves properly and professionally facing financial mismanagement (Kareithi & Lund, 2012). A study conducted by Moxham (2010) concluded that insufficient data on financial performance makes it hard to carry out a complete efficiency test of the NGO projects in Kenya. This raises the need for adopting current performance management techniques with the lack of proper data and management capacity and capabilities.

In Kenya, by 2012, the NGO sector accounted for up-to 5% of the country's gross domestic product (GDP) and one of the big employers (Kenya Bureau of Statistics, 2012). The NGOs in the country are regulated by The National Council of NGOs, also known as the Non-Governmental Organisations Council (NGO Council). It is a self-regulating and a non-partisan body made up of all registered NGOs in the country (NGO Council, 2016). The organisation was established in August 1993 under the Non-governmental Organizations Co-ordination Act of 1990 as a forum of all voluntary agencies. According to the NGO council, currently all registered

NGOs in the country are members of the council. The council has a membership of over 8,500 NGOs. Members are required to submit their annual work plan and an annual membership fee. The NGO Council membership includes international, regional and national NGOs operating in Kenya and working with a host of CBOs and groups. These NGOs serve citizens across varied sectors including: agriculture, water, education, environment, health, human rights, gender and development, children's rights, poverty alleviation, peace, population, training, counselling, small scale enterprises, disability and many others. On the other hand, the NGO Council serves as the overall leader in the NGO sector. The NGO coordination act spells a requirement to all NGOs to submit an annual return including the audited accounts for organisations with a budget of over one million; however, according to the NGO coordinating board, approximately 20% of the registered NGOs are compliant (NGO Council, 2016).

1.2 Statement of the Problem

An organisation's accounting based control practices that include auditing are hugely perceived to be key in its success as it acts as a powerful control from possible deviations from the pre-agreed organisational goals and policies (Francis, Solomon & Juma, 2014). They state that an organization that sets appropriate and adequate system of financial auditing has a greater likelihood of performing better than those that do not. In the event where auditing is conducted inadequately, the organisations involved end up being prone to fraud and financial misappropriation (Hamilton & Slatten, 2013). An argument by Ondieki (2013) stated that the recent organisational accounting scandals hence outcry for transparency and honesty in financial reporting have resulted to a number of aftermaths such as the need for internal financial auditing so as to simplify the complicated accounting maneuvers that have obfuscated financial statements and changes in regulatory action which have further reshaped the face of corporate

governance. However there is still laxity in most organisations in implementing the findings and recommendations of financial audits.

The Kenyan NGOs have also not been without crisis that range from financial scandals to being targeted by fraudsters, giving rise to disrepute (Hamilton & Slatten, 2013). This further result to these organization not having enough funds to execute their mandate as a result of a drop in donor confidence (Tyge, Kishore & Peter, 2014). Generally, loss and misappropriation of money is easier to perpetrate in NGOs than in their profit-oriented counterparts (Kerine, 2015). A number of studies have also been carried out on audit and organisational performance. However, following the complexity of the audit function, there exists some conflicting findings on the different roles played by auditing, especially internal, in enhancing organization performance. For instance, Matoke and Omwenga (2016) conducted a study on audit quality and financial performance of companies listed in NSE. The findings of the study confirmed that audit quality positively influences financial performance and the greater the degree of an auditors independence, the greater the propensity of a firm to record better performance.

A study by Mutua (2012) on the impact of risk based audit on financial performance of commercial banks in Kenya, concluded that financial performance requires appropriate risk based audit practices hence effective and efficient internal audit. Musa and Shehu (2014) limited their survey study to quoted cement companies in Nigeria in their study on audit quality and financial performance. The study concluded that audit independence influence has a greater impact on the financial performance of the firms than audit size. Ebrahim, Abdullah and Faudziah (2014) in their study on effect of the internal audit and firm performance established that the presence of an internal audit department is key as it viewed as the major element in

deploying accounting systems that influence performance. This study was however limited to only internal audit. Ondieki (2013) on the other hand sought to assess the effect of internal audit on financial performance but limited the research to commercial banks in Kenya. The study concluded that internal audit standards, independence of internal audit, professional competency and internal control had a positive relationship with financial performance of commercial banks. The impact of risk based audit on financial performance of Kenyan Commercial Banks was a study carried out by Kasiva (2010). The findings of the study established that risk based auditing enhance organisational financial performance.

The previous studies have arrived at conflicting findings on the different roles played by auditing, especially internal, in enhancing organization performance. Besides, the studies have mainly focused on the effect of audit aspects such as audit quality and financial performance in other countries and sectors other than the Kenyan NGO sector. Therefore, there exists need for research on the relationship between financial audit and organisational performance and more specifically in developing countries such as Kenya where NGOs are pushing so as to gain trust among local and global donors due to their heavy reliance on them. This study will therefore aim at bridging this knowledge gap through assessing the impact financial audit on performance of NGOs within Nairobi County.

1.3 Objectives of the Study

The study's objectives were broken down between general and specific objectives as indicated in sections 1.3.1 and 1.3.2 below.

1.3.1 General Objective

The general objective of this study was to assess the effect of financial audit on performance of Non-Governmental Organisations in Nairobi City County. The main objective was broken down into the following specific objectives.

1.3.2 Specific Objectives

- i. To determine the effect of audit quality on the performance of Non-Governmental organisations in Nairobi City County.
- ii. To establish the effect of audit firm independence on the performance of Non-Governmental organisations in Nairobi City County.
- iii. To establish the effect of audit firm size on the performance of Non-Governmental organisations in Nairobi City County.
- iv. To determine the relationship between audit practices and performance of Non-Governmental organisations in Nairobi County.

1.4 Research Hypotheses

Emerging from the conceptual model on figure 1, the following null hypothesis of the relationship in the study were formulated and tested;

H₀₁: Audit quality does not affect the performance of Non-Governmental organisations in Nairobi City County.

H₀₂: Audit firm independence does not affect the performance of Non-Governmental organisations in Nairobi City County.

H₀₃: Audit firm size does not affect the performance of Non-Governmental organisations in Nairobi City County.

H₀₄: There exists no relationship between audit practices and performance of Non-Governmental organisations in Nairobi County.

1.5 Justification of the Study

The findings of this study are significant to the management of the NGOs, policy makers and scholars and researchers.

1.5.1 Management

NGOs heavily rely on the trust of their donors for their sustainability hence overall performance. This trust is however eroded by a number of factors such as weaker internal controls, lack of business and financial expertise, and reliance on volunteer boards. The outcome of this research therefore provide the management and directors of NGOs with recommendations into the various aspects of financial audit and how they effectively influence the performance of their organisations.

1.5.2 Policy makers

The findings provide policy makers, both in the NGO sector and the government, with information that facilitate the making of policies and legislation in relation to financial audits within the sector with the aim of enhancing the sector's performance.

1.5.3 Researchers and Scholars

The study sought to enhance knowledge on financial audit and performance of NGOs and also aid further research on related topics by providing a reference platform to other researchers and scholars. The findings further advance the relevance of the theories considered by the researcher in the study which include; institutional theory, agency theory and auditor's theory of inspired confidence.

1.6 Scope of the Study

The study only focused on assessing the effect of financial audit on performance of Non-governmental organizations that are duly registered which also submit their annual returns to the NGO council. The researcher however assessed the NGOs that operate within Nairobi City County. To attain this objective, the study measured four independent variables; audit quality, auditor' independence, audit size and audit practices on the performance of Non-Governmental Organisations. The population of the study comprised of employees at management level from the finance, audit and risk management and human resources departments of the targeted NGOs.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This Chapter provides a review of the different literatures on financial audit and the performance of Non-Governmental organisations. The research reviewed literature linked to the study's independent variables, namely: audit quality, audit independence, audit size and audit practices and their effect on performance of Non-Governmental Organisations in Nairobi City County. This chapter also deals with the empirical literature, conceptual framework and summary of reviewed literature and research gaps.

2.2 Theoretical Framework

This research was anchored on three major theories that associate with the objectives of the study. The theories include the institutional theory, agency theory and auditor's theory of inspired confidence.

2.2.1 Auditors' Theory of Inspired Confidence

The theory of auditor's inspired confidence was developed in 1932 by Limperg. The theory asserts that an auditor, functioning as a confidential agent, obtains her/his wide objective from the need for expert and independent examination alongside the need for an expert and independent judgment backed by the examinations. Therefore, auditors and organisational based accountants are required to operate with the realization that the public sustains the expectation of a low rate of audit failures. This further demands that the auditors need to organize and execute their audit functions in a manner that will reduce the risk of undetected material misstatements. The auditor is also expected to carry out his work in a way that does not betray the trust they bear (Limperg, 1932).

The criticality of the auditor' theory of inspired confidence is founded on the fact that the duties and responsibilities of the auditors emanate from the confidence that is bestowed by their clientele on the success of the audit process and the assurance that the opinion of the accountant conveys (Matoke & Omwenga, 2016). They further argue that with the confidence determining the continuity of the process, shattering of the confidence logically implies a termination of the process or function. Besides, when the confidence that society has in the efficiency of the audit process and the report thereof is misplaced, the entire relevance of that audit process is laid to waste. In this backdrop, auditors are looked at in providing reasonable quality assurance keeping in mind that an audit failure is effectively a career-ending event. Audit avails confidence to the shareholder, managers of a firm, investors and stakeholders, and along with financial reporting, corporate governance and regulations, supports confidence in the capital markets. This theory therefore associates to the current study as it anchored the research objective on the effect of audit quality on the performance of NGOs in Nairobi County.

2.2.2 Institutional Theory

This theory was propounded by Fogarty (1997) who asserts that the theory views an organization in a manner that its functions satisfy the social requirements and the operations are generally clear to the public. Subsequently, the size of the operation process of an organisation and the technology it adopted influence the external view of the organization. Fogarty further states that the key contribution of the theory lies in the comprehending of the exact achievements of a firm. Institutional theory considers strategies through which organisational structures that include plans such as guidelines, measures, and schedules, get to be set up as legitimate regulations for social conduct (Scott, 2004). Generally, the genuine and normal achievements of an organisation are regularly extraordinary. While size of the structures kept up for correspondence with outcasts

don't cumulatively add to the firm's net revenue, most organisations deal with internal procedures that are not overly unmistakable to untouchables.

Organizations can avoid scrutiny by external parties through adopting the right structures (Fogarty, 1996). However, Chiggai (2016) argued that loose technological coupling provides room for the organizations to depict success in external problems alongside allowing flexibility in operational processes. As a result, firms need to be positioned to meet the high cost of adopting various technologies in the audit process and also ensure that the employees are qualified so that the department can function effectively. From the financial auditing practices, firms work with internal processes that are not ordinarily noticeable to those outer to it. Investigation by external parties can sustain a strategic distance if the correct structures are adopted by associations. Therefore, the firm needs to accommodate auditing practices in order to improve its performance. In this research, institutional theory highlights the relationship between the size of the audit firm, in relation to its internal structures, and the performance of NGOs based in Nairobi County. It further takes into consideration the methods through which structures are developed as authoritative guidelines in carrying out audits.

2.2.3 Agency Theory

The theory was propounded by Jensen and Meckling (1976). Agency theory seeks to explain the association between two groups of separate interest; the principal and the agents. In this is relationship, the principal delegates work to the agent (Francis et. al, 2014). As Eisenhardt (1989) noted, the theory of agency revolves around problems in a relationship with conflict of interest and risk sharing with attitudes towards risk diverge. The economic aspect of this theory stresses on the costs and benefits arising from the association between the principals and the agent relationship. It is also identified that while an advantageous agency cost is one that

improves a shareholder's value, an uncalled for agency cost may emerge when the management decisions differ with the shareholder's interests. Jensen and Meckling (1976), opined that in agency theory, agents bear more information compared to the principals and this information asymmetry greatly impacts the principals' capacity to check whether or not their interests are being adequately served by the agents.

Drawing this in the context of auditing, Musa and Shehu (2014) opined that agency theory argues that an auditor is brought on board with the interests of both the shareholders and also the management. According to Matoke and Omwenga (2016), in order to manage the likelihood of the moral hazard, principals and agents relate through contracting to attain optimality, entailing the developing of monitoring processes such as auditing. The principal-agent association as depicted in agency theory is key to comprehending how the duties of an auditor have developed. Besides, they add that the organization is pictured as a web of agreements. It is also asserted that a number of segment groups which entail among others, suppliers, bankers, customers, and employees, may make some sort of contribution to the organisation at a specific price. The firm's management is weighed with linking these groups and contracts and establish advantage for all groups concerned. This therefore depicts that supplies that are bought are priced lowly, while goods that are sold are priced highly. In the relationships hitherto mentioned, the management is the "agent" that tries to gain contributions from "principals" such as bankers, shareholders, employees and others. The agency theory supports the study's objective on the relationship between audit practices and performance. The internal business environment is viewed as being impacted with the existing relationship between the principals and agents.

2.3 Empirical Review

This study reviewed and summarized a number of literature relating to the independent variables; audit quality, auditor' independence, audit size and audit practices against performance of NGOs in Nairobi County. This was represented in the following sub-sections.

2.3.1 Audit Quality and Performance

Within the auditing profession, service quality implies audit or auditor quality (Chen et al., 2013). In 1981, De Angelo defined audit quality as the cumulative likelihood that the auditors will unravel and report a misstatement in their clients' financial system. However, according to FCAM (2012), no one agreed perception of audit quality presents itself as a standard against which true organisational performance can be tested (FCAM, 2012). With audit quality being unobservable, after De Angelo (1981), researchers have identified several parameters for assessing it; auditor litigation (Ferreira & Otley, 2009), audit size and discretionary accruals (Epstein & Buhovac, 2009). All these perceptions of audit quality emanate from either the outside of an audit firms or the audit client view. A handful of other prior studies assess audit quality through using measures from inside audit firms.

For instance, Ferreira and Otley (2009) theoretically assessed the association between audit quality and auditor's size. He argued that large auditors are in a position to absorb the loss of a client and therefore are in a position to provide higher quality of audit. On the other hand, Epstein and Buhovac (2009) asserted that large auditors will have more clients and their cumulative fees will be assigned among those clients. He also viewed that the findings of some empirical studies have provided more support for using audit size as a measure of audit quality. Chen et al., (2013), used an indirect method to support the assertion that audit size is a good parameter to measure audit quality. They argued that organisational leaders have incentives to

illegally adjust the reported revenues in order to meet the analyst's forecasts which hampers the overall performance of the organisation. As a result, if large auditing firms avail higher-quality audits than small auditing firms, there may be an expectation that the forecast errors in big auditing firms' clients will be larger than those of small auditing firms' clients.

Audit firms are a professional service organization offering services to organisations through professional auditors and therefore Thomson (2010) indicated that the greatest specialized input in partnerships is basically the knowledge and skill of workers that refers to the quality of their human resources. The quality of human resource of audit firms is encapsulated in the level of skill and experience of auditors and is a key input in establishing their audit quality. In defining audit quality, Chen et al. (2013) assumed that the likelihood of identifying a misstatement is positive and constant, depicting no variation in the competency of auditors. As a result, the competence of the auditor differs from one audit firm to another depending on the varied levels of human resource possessed (FCAM, 2012). The organisation adds that audit organisations with skilled and proficient auditors will presumably be in a position to bring closer concordance of the reported earnings with the Generally Accepted Accounting Principle (GAAP) and are viewed as being high audit quality firm. In line with this, some studies have identified some human capital factors such as auditor's education level and experience as aspects that impact audit quality (Chen et al., 2013).

2.3.2 Audit firm independence and Performance

De Angelo (1981) viewed audit independence as the conditional likelihood of the auditor disclosing any misstatement in financial records in the event that this misstatement was identified in advance. Any threat to this independence is many at times very significant and hence reduce the auditor's efficiency in offering the auditing services (Chia-Ah and Karlsson,

2010). It proves to be even more challenging when an auditor stays for long with a client as overstaying have proved to interfere with their independence (Prawitt, Smith & Wood, 2009). A near similar view is given by Musa and Shen (2014) who stated that audit independence bears more impact on performance of an organisation than other factors such as audit size. An auditor, whether internal or external must be independent of both the personnel and operational activities of an organization (Ondieki, 2013). Ondieki further asserts that the integrity of the auditor's opinions, conclusions and recommendations would otherwise not be reliable.

Therefore, independence of an auditor is vital for the efficient attainment of the function and goals of an audit process. According to Prawitt et al. (2009), the independence is anchored mainly on two organisational traits; status and objectivity. Mgr Lon Bogdan Dumitrescu in his 2004 article of internal audit in banking organisations affirmed that every bank needs to have a reliable internal audit department depending on its nature of activities. The article further states that in smaller banks internal audit is mostly outsourced. Generally, the internal audit department in any organisation needs to be independent from the activities that it regulates and must also be separate from the day-to-day internal control processes for this results into objective and impartial performance of the department (Musa & Shehu, 2014). Besides, organisations need to formalize principles of audit providing for its position and powers within their framework. These principles should further expound on the scope of work of internal and external auditors, the structure of the internal audit department and the association between the internal audit and other control departments.

Hutchinson and Zain (2009) asserted that any audit process must remain objective and impartial, implying that it needs to undertake its activity free of doubts and interference. He adds that members of the internal audit team need not to engage in the firm's operations or in

identifying and implementing internal control systems. In the case of an organization's internal audit department, professional competence, alongside motivation and systematic professional development of an internal auditor are key aspects for the rightful functioning of the entire internal audit department of the organisation. On the other hand, Beyanga (2013) recommended the rotation of individual auditors within the framework of the department, so as to curb routine undertaking of work while the internal audit department manager should be responsible that the department performs its activities in accordance with the due principles of internal audit. A special care should be considered that the audit plan is drawn up formally and procedures for all members of the team are in writing. Generally, an argument by Hutchinson and Zain (2009) confirmed that the greater the level of an of an audit independence attained in an organisation, the higher the higher the likelihood of the firm to make a substantial net profit margins therefore record better performance.

2.3.3 Audit Firm size and Performance

A number of studies have concluded the existence of a positive association between audit firm size and performance (Chen et al., 2013). Prawitt et al. (2009) established that international choice of home based Big 4 or 5 specialist auditors is positively linked to the audit quality and performance of an organisation. More specifically, Bouaziz (2012), asserted that audit size has a key influence on the financial performance of organisations in relation to return on assets (ROA) and return on equity (ROE). A similar assertion is also floated by Miettinen (2011). Miettinen adds that audit size and the frequency of meetings for the audit committee can be used to determine the audit quality hence organisational performance. Internally, the size of internal audit is measured by the number of internal audit seating on the committee of the internal audit department and the size of the committee (Ghazal, 2010). He adds that larger board size result to

superior corporate performance owing to the various skills, knowledge, and expertise contributed into the boardroom debate. Additionally, large boards could also offer the diversity that would assist companies to obtain critical resources and minimize environmental risks (Ghazal, 2010).

Empirical findings reveal that the link between audit firm size and audit quality hence the performance of an organisation is significantly positive in the three classes of audit firms. The positivity in the association is higher in national audit firms in comparison to regional and local audit firms (Chen et al., 2013). On the other hand, no significant difference in the positive association has been identified in relation to regional and local audit firms. In some regions and countries, both regional and local audit firms are not allowed to provide services to public companies. They are however allowed to provide services to the same client groups that include small and medium-sized enterprises (SMEs), resulting in relatively smaller firms audited. Further, both regional and local audit firms offer homogeneous services, including corporate registration, accounting and bookkeeping, and tax services. On the flip side, firms that provide audit services can enjoy economy of scale with increase in their size. Additionally, profitable audit organisations reinvest more resources to enhance their service quality, further depicting a positive association between audit firm size and audit quality.

2.3.4 Audit Practices and Organisational Performance

Ljubisavljevic and Jovanovi (2011) viewed audit practices as the pace of the organisation through influencing the control awareness of individuals. Audit practices hones aspects such as the level of trust and moral approximation of number of employees mandated with making, managing, and checking the organisational controls; responsibility and qualification of people undertaking doled out duties; management philosophy and operating style and structure that may be an all-around sorted out structure that considers correct arranging, linkage and controlling of

operations or may be a disordered structure that just serve to befuddle the vital players (Chiggai, 2016). According to Hutchinson and Zain (2009), administration state of mind needs to target the ethical organisational hones and emulating the established control techniques. The researcher further asserts that internal environment control enhances organisational aspects include: integrity and good values; devotion to wellness; working style; and the manner in which the firm distributes authority and commitment, manages and grows its family. Control environment therefore influences the effect of implementing of internal control system and the advanced ventures need to establish an effective internal environment control (Ebrahim, Abdullah & Faudziah., 2014).

Ljubisavljevic and Jovanovi (2011) opined that these variables lay a platform where all other internal control sections can be developed. They also provide a structure in which alternate segments operate. However, these arguments have not generally stood unchanged for administration within organisations has dependably exceeded these controls. Chiggai (2016) confirmed that the audit practices usually entail the personnel integrity and quality such that the employee bears two sides with the first being that they are the subjects of internal control in their organisations and control the execution of their duties while on the other side, they are the objects of internal control in the organisation regulated and controlled by the other. Any aspect of internal control framework is influenced by the employees' trustworthiness and quality that develops, manages, executes and administers the framework. Besides, there exists an administration style and thought (Ebrahim et al., 2014). An organisation' leadership administration style and thought influence the method for managing of the undertakings, more specifically the supervisor' capacity to settle on a decision. Basically, directors control the

endeavor principally through planning the association and administration feature, approving and outlining the framework.

2.4 Summary of Literature Review

Several studies have been carried out by different researchers in relation to financial audit and organisational performance. Table 2.1 below presents a summary of these findings and the knowledge gap.

TABLE 2.1
Summary of Empirical Literature

Author	Area	Findings	Knowledge Gap	Addressing the knowledge Gap
Ebrahim, Abdullah and Faudziah (2014)	Effect of the internal audit and firm performance.	The researchers established that the presence of an internal audit department is key as it viewed as the major element in deploying accounting systems and this also assists in assessing the department's work and developing the organisation' work.	This study failed to assess other audit aspects such as audit independence and internal environmental audit qualities	To fill the existing knowledge gap, this study will assess the impact of financial audit on performance of NGOs in Nairobi county. The researcher only measured four aspects of financial audit: audit quality, auditor's independence, audit size and audit practices.
Nam (2011)	The association between audit fees as a parameter for audit independence and audit quality of firms.	The study found out that aspects such as auditor's independence, abnormal audit fee change rate negatively relates with audit quality.	The research limited itself to New Zealand companies and also did not link audit independence and audit quality to the performance of these organisations.	

Ondieki (2013)	Effect of internal audit on financial performance of commercial banks in Kenya.	The researcher concluded that internal audit standards, independence of internal audit, professional competency and internal control had a positive relationship with financial performance of commercial banks.	This study was restricted to the banking sector and failed to assess audit size and internal environmental audit practices as predictor variables
Kasiva (2010)	Impact of risk based audit on financial performance of Kenyan Commercial Banks.	The study established that risk based auditing through risk assessment and risk management, internal auditing standards and auditing staffing enhance organisational financial performance.	This study was however limited to the banking sector and never assessed the impact of financial audit on performance on NGOs.
Omwenga and Matoke (2016)	Audit Quality and Financial Performance of Companies Listed in Nairobi Securities Exchange.	The study established that audit quality impacts financial performance positively and significantly and the level of an audit independence determines the level of net revenues	This study failed to link audit quality to performance and was also limited to companies listed in NSE.

Source: Researcher (2018)

2.5 Research Gap

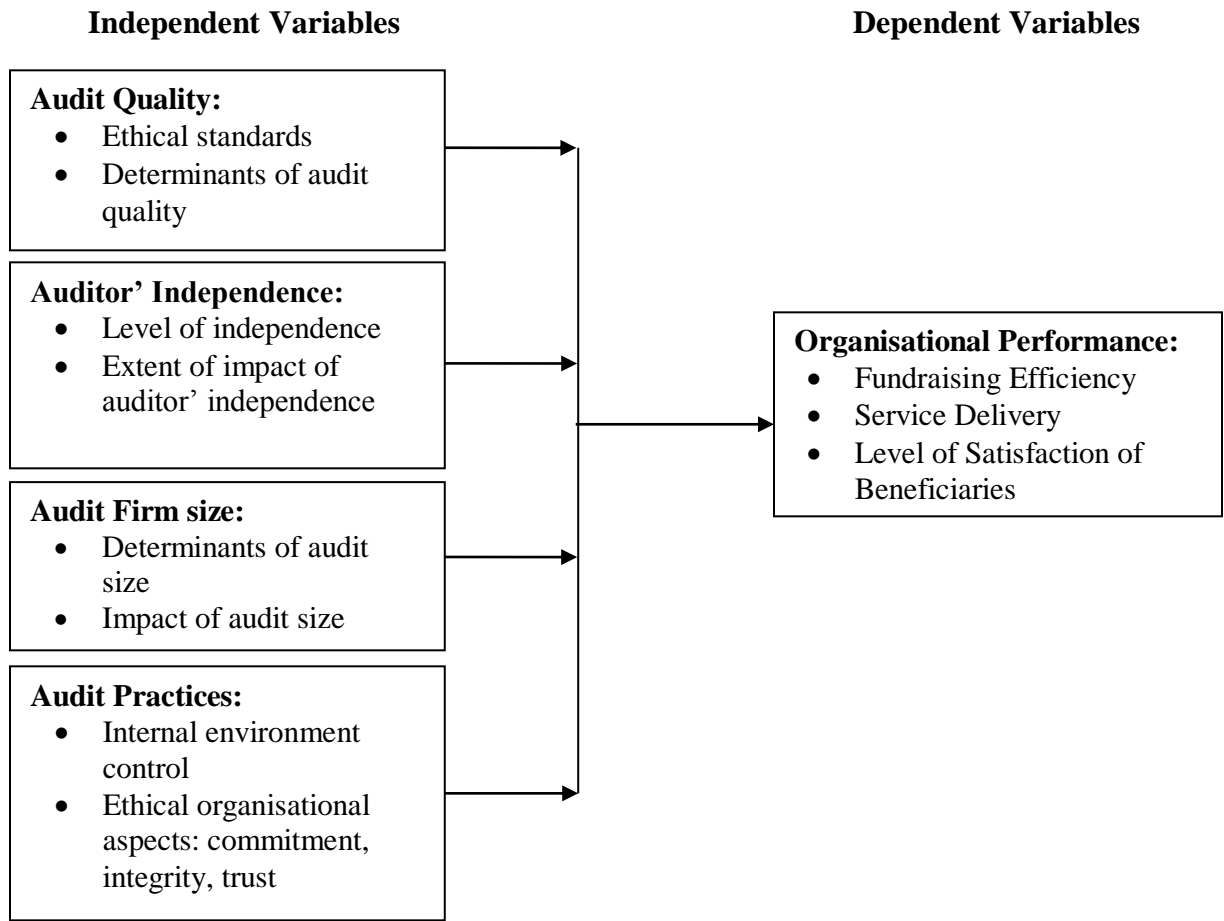
The studies conducted in relation to financial audit have majorly concentrated on determining the current state of an audit expectation gap within a number of regions while other researcher have

also assessed the details on the genesis of problems and their solutions in relation to audit quality. A few other studies have also assessed independently or cumulatively assessed the impact of one or two of the current study' independent variables on performance. Most of these studies were also restricted to organisational financial performance as the dependent variable. A further review of these literatures indicated that most of the studies have been conducted in other regions other than Kenya such as: USA, New Zealand and Nigeria among others and also concentrated on other study areas such as commercial banks and the NSE, leaving out the NGO sector. Generally, and to the best knowledge of the researcher, no studies have been conducted on the effect of financial audit on the performance of NGOs in the Kenyan perspective and more specifically the Nairobi based NGOs. This current study sought to contribute towards filling this knowledge gap by interrogating the determinants of financial audit on organisational performance. Four financial audit variables will be measured, namely audit quality, auditor's independence, audit size and audit practices.

2.6 Conceptual Framework

Mugenda and Mugenda (2008) viewed conceptual framework as the operationalization of study proxy with an intent of attaining the study goals. In this study, the independent variables are audit quality, auditor's independence, audit size and audit practices while the dependent variable is organisational performance. Figure 2.1 below represents the conceptual framework that summarizes the relationship between financial audit and organisational performance.

FIGURE 2.1
Conceptual Framework



Source: Researcher (2018)

2.7 Operationalization of Study Variables

TABLE 2.2
Operationalization of Variables

Orientation	Variable	Objective	Indicators	Measurement scale	Analysis	Question
Dependent variable	Performance of NGOs	Cumulative effect of the four variables on organisational performance.	Level of performance attained: degree of fundraising efficiency achieved (Fundraising Expenses/Total Contributions) Quality of service delivery.	Ordinal: Using 5 point likert scale questionnaire	Descriptive, Correlational and Regression.	Question 21-22 in the questionnaire
Independent variables	Audit quality	To determine the effect of audit quality on the performance of NGOs in Nairobi City County.	Ethical standards Determinants of audit quality	Ordinal: Using 5 point likert scale questionnaire	Descriptive, Regression Analysis	Question 9-11 in the questionnaire
	Audit Firm independence	To establish the effect of audit independence on the performance of NGOs in Nairobi City County.	Level of independence Extent of impact of auditor' independence	Ordinal: Using 5 point likert scale questionnaire	Descriptive, Regression Analysis	Question 12-14 in the questionnaire
	Audit Firm size	To establish the effect of audit size on the performance of NGOs in Nairobi City County.	Determinants of audit firm size Impact of audit size	Ordinal: Using 5 point likert scale questionnaire	Descriptive, Regression Analysis	Question 15-17 in the questionnaire
	Audit practices	To determine the relationship between audit practices and performance of NGOs in Nairobi County.	Internal environment control Ethical organisational aspects: commitment, integrity, trust	Ordinal: Using 5 point likert scale questionnaire	Descriptive	Question 18-20 in the questionnaire

Source: Researcher (2018)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used in conducting the study. The Chapter further presents the research design, target population sample and sampling technique data collection procedures and data analysis that were used. The chapter also illustrated the validity and reliability testing technique as well as research ethics.

3.2 Research Design

Kothari (2004) viewed a research design as the blueprint that leads the steps in a research undertaking right from the formulation of the research questions to the point of reporting the findings of the study. Besides, Creswell (2009) described a research design as being the structure of the study, and compared it to a glue stating since it holds all the aspects in a study project together. However, an argument by Lewis, Saunders and Thornhill (2009) asserted that a research design should explain the data sources and foreseen possible study limitations that include resources like time and money, availability and accessibility of data and related ethical issues.

This study therefore adopted a descriptive research design in assessing the effect of financial audit on performance of NGOs. Matoke and Omwenga (2014) opined that this study design has been successful in such studies: predictive in nature. On the other hand, an assertion by Kothari (2004), states that such a design entails the determination of likely respondents and also allows for the use of questionnaires and/or interviews so as to collect information relevant to the study' objectives. These arguments motivated the choice of the study design to be employed by the researcher. The choice of this study design emanates from this fact. According to an

argument by Kothari and Garg (2014), a descriptive study is connected to particular predictions, fact narration and characteristics of variables being studied.

3.3 Target Population

Mugenda and Mugenda (2008) defined population as a complete set of individuals, cases or objects with some common observable characteristics. On the other hand, the researchers described the target population as the population upon which a study intends to generalize its findings. The target population for this study comprised of all the 1,700 heads of finance of the registered and compliant NGOs in relation to the submission of annual returns to the NGO Council (NGO Council Register, 2016), which are also based in Nairobi. The target population is perceived to bear more precise information in relation to financial audits in their respective organisations which further enhanced the authenticity of the collected data.

3.4 Sample and Sampling Procedures

A sample is defined by Frey et al., (2000) as a subgroup of a population while sampling techniques were viewed as the process of taking a representative selection of the population and utilizing the obtained data as research information. Mugenda and Mugenda (2008) asserted that it is not mandatory to study the entire population so as to achieve accuracy and reliability in defining the traits of a population. Mugenda and Mugenda added that, in sampling, the sample is termed sufficient if it is representative of the population study or bears the same traits as the population. The study utilized a simple random sampling method in determining the sample elements from the target population. Yamane (1967)'s formula was applied in calculating the representative multistage random sample size for known population as indicated below;

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

Where;

n = The sample size

N = Population size

e = The desired level of precision

In this study e = 0.05. (Choosing 5% will provide the most conservative estimate of sample size).

The sample size was determined by:

$$n = \frac{1700}{1 + 1700 * 0.05^2}$$

$$n \cong 324$$

3.5 Instrumentation and Data Collection

Data collection as a process that entails the gathering of specific information in relation to a given phenomenon through employing the use of data collection instruments (Frey et al., 2000).

The study collected and analyzed both primary and secondary data. This sought to enhance the findings hence understanding of how financial audit impacts performance of NGOs in Nairobi.

The researcher distributed semi-structured questionnaires to respondents in seeking to collect primary data.

This data collection tool is viewed to be more appropriate considering the nature of information, quantitative data, that is to be collected and since the targeted respondents are all expected to be literate. This data instrument was also used by (Chiggai, 2016) in his study on the effect of internal audit practices on organization performance: a case of regulatory bodies in Kenya. Each specific study objective was itemized in the questionnaire.

3.6 Validity of the Research Instruments

In order for a data collection instrument to accurately measure what it was intended to measure as per the objectives of the current study, content validity was applied to determine the extent to which different items in the instruments measured the trait or phenomenon they are meant to. To check validity of the instrument, the researcher prepared the first trial instrument and sought opinion on format, content and other related issues from supervisor and other statistics experts. Their views were incorporated in the revised trial instruments before being administered to the participants.

3.7 Reliability of the Research Instruments

According to Joppe (2000), reliability is the extent to which results are consistent over time and an accurate representation of the population under study. Although there are various methods of determining the reliability of research instruments the current study adopted the Item-total correlation method. This is because it is designed to assess characteristics such as attitude. The method divides the items into halves, and scores for each of the halves compared. A correlation between the two halves was then determined by cronbach's alpha reliability co-efficient based upon the formula;

$$\alpha = rk/[1 + (k -1)r]$$

Where; k is the number of items considered and r is the mean of the inter-item correlations.

The size of alpha is determined by both the number of items in the scale and the mean inter-item correlations. George and Mallery (2003) provide the following rules of thumb:

> .9 – Excellent, > .8 – Good, > .7 – Acceptable, > .6 – Questionable, > .5 – Poor, and

< .5 – Unacceptable

3.8 Diagnostic Tests

In order to improve on the statistical inferences derived from the findings on the study, the research conducted a multicollinearity test, heteroscedasticity and serial correlation test on the data. The study utilized the detection tolerance or Variance Inflation Factor (VIF) to test for multicollinearity among the independent variables. According to Gujarati (2003), multicollinearity exists when two predictor variables are perfectly correlated. Gujarati adds that for a detection tolerance values less than 0.1, this implies the existence of multicollinearity while VIF values exceeding 10 depict multicollinearity. Gujarati (2003) also asserts that in the event that multicollinearity exists, the researcher may choose to exclude one of the variables or ignore it if the adequacy of the model remains unhindered.

A definition by Gujarati (2003) states that serial correlation is a condition where the error terms are correlated to one another or simply when the disturbance term of one variable is affected by the disturbance term that relates to another variable. The existence of serial correlation implies that the OLS estimators determined in presence of autocorrelation usually provide smaller values for standard errors than is appropriate resulting to erroneous results in testing hypothesis. To assess presence of autocorrelation, the study employed the Durbin Watson test: a Durbin Watson value of 1.5 to 2.5 depicts no autocorrelation.

Heteroscedasticity refers to a state where the variance of the residual-term changes with the variation of the independent variables (Gujarati, 2003). Gujarati argues that even though heteroscedastic data still give unbiased OLS estimators, the results are however inefficient since they do not indicate a minimum variance in the set of all non-biased estimators. This therefore gives rise to a smaller t-statistic value resulting into inaccurate test of hypothesis. The linear regression model works on the assumption that the error-term variance should be constant. To

test the level of heteroscedasticity, the study adopted the Lagrange Multiplier (LM) Test. In this test, if the test statistic: X^2 , is greater than the corresponding value from the statistical table, then there is no heteroscedasticity.

3.9 Data Analysis

The study collected and analyze both quantitative and qualitative data. Before analysis, the questionnaires were checked for completion, coded, captured and analyzed using Statistical Package for Social Science (SPSS). Quantitative data was mainly be obtained from the close-ended questions in the questionnaires while qualitative data was derived from the open-ended questions in the questionnaires and document contents. The study's data was be collected using a 5 point likert scale (1-5). The qualitative data was also be used to beef up the findings obtained from the analysis of quantitative data. The data was analysed and presented in relation to each specific objective. The presentation of the findings was done in frequency tables, graphs and pie-charts.

Descriptive analysis methods that include mean, mode, range and standard deviation measures were used to analyse the demographic characteristics of the population. The impact of audit quality, auditor's independence, audit size and audit practices on organisational performance was also analyzed using the descriptive method. The analyst utilized inferential statistics; correlation and regression analyses, in establishing the nature and strength of relationship between the dependent and independent variables. The below linear regression model was used:

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

Where; Y – Organisational Performance

β_0 - Constant

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ - Regression coefficients

X_1 - Audit Quality

X_2 – Audit independence

X_3 – Audit size

X_4 – Audit Practices

ε – Error Term

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

The study sought to assess the aspects of financial audit and performance of non-governmental organisations in Nairobi City County, Kenya. This section covers the findings, analysis and discussions on the objectives of the study. The chapter presents the findings on the background information for both the respondents and organisations under study including the variables of the study, aspects of financial audit: audit quality, auditor independence, audit firm size and audit practice and the relationship between financial audit and performance of NGOs. Percentages, frequency distributions, mean, standard deviations and Pearson's correlation were used to present and summarize the findings. The data was analysed using Statistical package for social science (SPSS) version.

4.2 Response Rate

The study issued a total of 324 questionnaires to its targeted respondents through 4 well trained research assistants. Out of the sample size of 324 NGOs, only 295 responded by submitting the filled questionnaire. This presented a response rate of 91%. Mugenda and Mugenda (2003) states that a 50% response rate is adequate. Based on this assertion the response rate of 91% is considered adequate for the purpose of the study.

4.3 Background Information

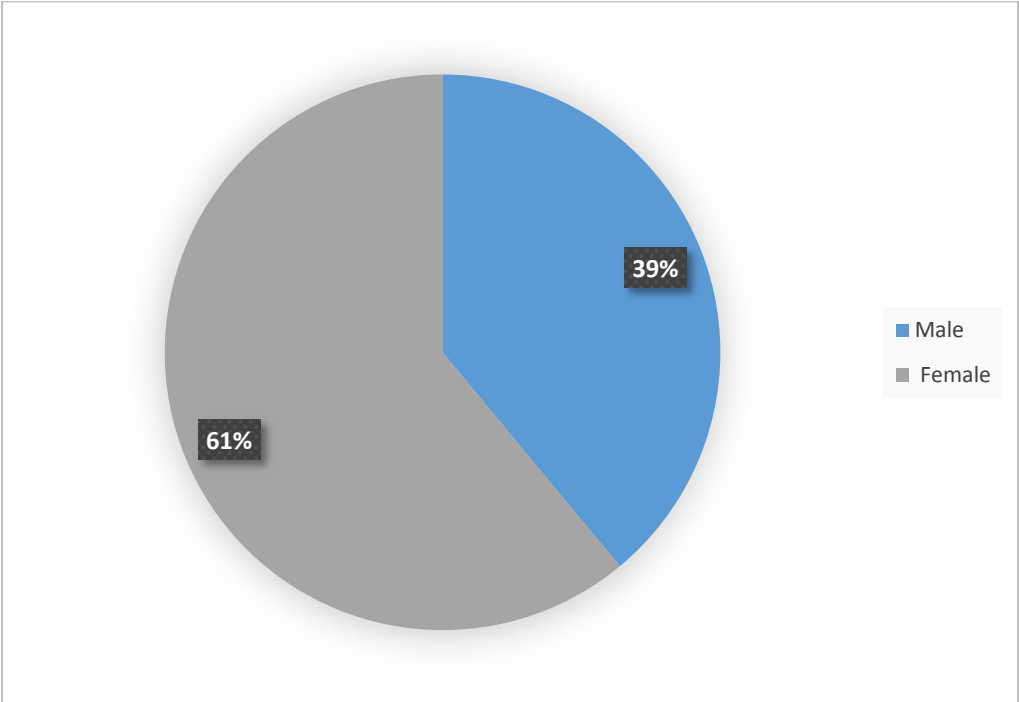
The study sought to collect demographic information from the respondents. The demographic information considered by the researcher included gender of the respondents, level of education, professional qualification and the position held in the organisation. The organisational

background information collected and analysed include activities of the organisation, years of operations and the state of financial audit.

4.3.1 Gender of the Respondents

Figure 4.1 summarizes findings on the gender of the respondents. From the responses, 180 respondents representing 61.0% of the respondents were male while 115 representing 39.0% were female. This implies that more men than women serve within the management level of the finance departments within the Kenyan NGO sector hence the sector is gender insensitive. The findings were similar to the results established by Kerine (2015).

FIGURE 4.1
Gender of the respondents



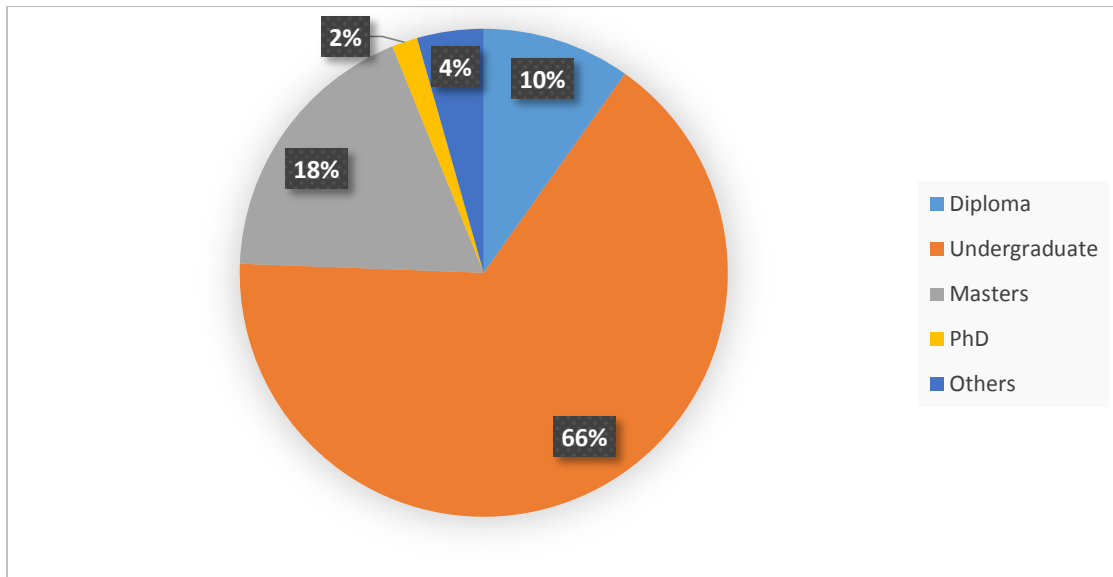
Source: Research Data (2018)

4.3.2 Level of Education

Figure 4.3 summarizes the level of education for the respondents. The findings, reveal that diploma level had been attained by 29 (9.8%) of the respondents, most (194, 65.8%) of the respondents had an undergraduate degree, while only 59 (20%) had either a masters degree or a PhD. Besides, 13 (4.4%) of the respondents indicated as having attained a higher diploma. These findings imply that most of the respondents are qualified academically hence reliable to be used as respondents in the study. Similar conclusions were established by (Mary, 2017).

FIGURE 4.2

Education level



Source: Research Data (2018)

4.3.3 Professional Qualification

From the findings summarized in table 4.1, most (238, 80.7%) of the respondents indicated that they had a professional Accounting qualification. Similar to the findings by Mary (2017), the results indicated that out of the respondents with a professional qualification only 29 (12.2%) confirmed having an ACCA qualification while more than three-quarters (203, 85.3%) had a CPA professional qualification. Only 2.5% (6) of the respondents indicated as having attained a

CFA qualification. Most of the organisations therefore consider professional qualification in employing their workers. This finding also enhances the reliability of the responses collected for analysis.

TABLE 4.1
Professional Qualification

		Frequency	Percent
Professional Qualification	Yes	238	80.7
	No	57	19.3
	Total	295	100.0
Specific qualification	ACCA	29	12.2
	CPA	203	85.3
	CFA	6	2.5
	Total	238	100.0

Source: Research data (2017)

4.3.4 Position Held within Organization

From table 4.2, only 7 (2.4%) respondents indicated that they were CEO of their various organisations, 21 (7.1%) indicated that they held the position of heads of finance in their organisations while more than one-half (152, 51.5%) of the respondents held the finance manager position. On the other hand, 115 (39.0%) of the respondents revealed that they served as finance officers, accountants, finance assistants or assistant accountants. This depicts that most of the respondents are well placed to give feedback in this study since they are well versed with the financial operations in their organisations.

TABLE 4.2

Position Held

Variable		Frequency	Percent
Position	CEO	7	2.4
	Head of Finance	21	7.1
	Finance Manager	152	51.5
	Others	115	39.0
	Total	295	100.0

Source: Research data (2018)

4.3.5 Background Information on the Organisation

The study collected information from the respondents in relation to their various organizations. The information captured included organisational activities, period the organization has been in operation and the status of financial audit in the organisations. The results were summarized in table 4.3 below.

The findings indicated that (104, 35.3%) of the organisations engage in humanitarian activities while slightly above one-quarter (79, 26.8%) (78, 26.4%) undertake advocacy and education related activities. The results obtained further depict that only 4 (1.4%) of the respondents indicated that their organizations had been in operation in the country for between 1 – 5 years, 56 representing 19.0% of the organisations had been in operation within the country for between 6 – 10 years, 138 (46.8%) had operated in the country for between 11 – 20 years, while 97 (32.9%) had more than 20 years of operation experience in the country. These findings were a near similar reflection of what was established by Mary (2017). These findings enhance the reliability of the data obtained from the sampled NGOs since most (235, 79.7%) had been in operation for more than 10 years.

On the other hand, the results revealed that all (295, 100.0%) of the organisations submit their annual returns to the NGO Council. These results are in line with the report from the NGO council. Besides, it was evident that most (181, 61.4%) of the organisations had internal audit departments. The organisations that indicated this, more than three-quarters (137, 75.7%) revealed that their internal audit departments were either effective or very effective while organisations that asserted that their internal audit departments were either ineffective or very ineffective were 31 (13.3%). Kerine (2015) however established that most of the NGOs had ineffective internal audit departments. Only 13 (7.2) respondents were not sure of the effectiveness of their organisations.

TABLE 4.3**Organisational Background Information**

		Frequency	Percent
Activities	Humanitarian	104	35.3
	Advocacy	79	26.8
	Education	78	26.4
	Others	34	11.5
	Total	295	100.0
Years of Operations	1 -5 years	4	1.4
	6 – 10 years	56	19.0
	11 – 20 years	138	46.8
	Above 20 years	97	32.9
	Total	295	100.0
Submission of Annual Financial Report	Yes	295	100.0
	No	0	0.0
	Total	295	100.0
Existence of an Internal Audit Department	Yes	181	61.4
	No	114	38.6
	Total	295	100.0
If yes, How Effective	Very Effective	29	16.0
	Effective	108	59.7
	Not Sure	13	7.2
	Ineffective	24	13.3
	Very Ineffective	7	3.9
	Total	181	100.0

Source: Research Data (2018)

4.4 Audit Quality

Information on determinants of audit quality and various aspect of audit quality was collected and analyzed. The findings were summarized and presented in sections 4.4.1 and 4.4.2 below.

4.4.1 Determinants of Audit Quality

The researcher asked the respondents to express their opinion on the extent to which a number of determinant are utilized in their organisations to measure audit quality. The respondents were to give their feedback in a scale where 1 = Very Great Extent while 5 = No Impact At All. Their findings are presented in table 4.4. A standard deviation of >1.0 implies a significant difference in the responses collected.

From the findings summarized in Table 4.4 below, the mean of 1.35 and a standard deviation of 0.305 depict that size of audit firm is used to a very great extend in measuring the quality of audit services. These findings were in line with the assertions by Ferreira and Otley (2009). Similarly, experience of auditors (1.33, 0.339) and auditor' level of education and professional training (1.43, 0.401) are determinants used to a very great extent to assess audit quality within the NGOs. Besides, in line with the findings by Epstein and Buhovac (2009), auditor litigation, number of audit adjustments and knowledge and skill of workers are to a great extend used to measure the quality of audit service within the NGOs. This is revealed by the mean of 2.41 (0.606), 2.27 (0.529) and 2.09 (0.601) respectively. The mean of 3.72 reveals that clientele base is used slightly in measuring the quality of audit service in the NGOs. The standard deviation of 0.598(<1.0) further indicates that the responses did not significantly vary.

TABLE 4.4
Determinants of Audit Quality

Determinants	N	Min	Max	Mean	Std. Dev.
Auditor litigation	295	1	5	2.41	0.606
Size of audit firm	295	1	3	1.35	0.305
Number of audit adjustments	295	1	5	2.27	0.529
Clientele base	295	2	4	3.72	0.598
Knowledge and skill of workers	295	2	5	2.09	0.601
Experience of auditors	295	1	3	1.33	0.339
Auditor' level of education and professional training	295	1	3	1.43	0.401
Valid N (listwise)	295				

Source: Research Data (2018)

4.4.2 Aspects of Audit Quality

Table 4.5 summarizes the responses on a number of aspects relating to audit quality in a five point scale that ranged from 'Strongly Agree' (1) to 'Strongly Disagree' (5). A standard deviation of >1.0 implies a significant difference in the responses collected from the respondents pertaining to these audit quality aspects.

From the findings on Table 4.5, the mean of 1.17 and the standard deviation of 0.312 depict that the respondents strongly agree that audit quality is enhanced by the likelihood of the auditors to unravel and report a misstatement in the organisation' financial system thus impacting performance. Similarly, the respondents strongly agree that audit firms with skilled and proficient auditors enhance performance through bringing a closer concordance of the surplus and deficit with the Generally Accepted Accounting Principles as depicted by the mean

of 1.39 and standard deviation of 0.464. The results also reveal that the respondents agreed that audit quality greatly impacts the overall performance of the organisation (mean 2.17, Std 0.403), timely delivery of audit reports enhances the reliability of the report hence the overall performance of the organisation (mean 1.92, sd 0.553) and that registering immaterial number of audit adjustments improves the reliability of the report hence the overall performance of the organisation (mean 2.20, Std 0.611). Contrary to what was established by Chen et al. (2013), the respondents were however not sure if the organisations were keen on the auditor's education level, professional qualification and experience and their impact on audit quality and performance through enhanced reliability of reports as depicted by the mean of 3.31 and standard deviation of 0.517.

TABLE 4.5**Aspects of Audit Quality**

Statements	N	Min	Max	Mean	Std. Dev
Audit quality greatly impacts the overall performance of the organisation.	295	1	4	2.17	0.403
Audit quality is enhanced by the likelihood of the auditors to unravel and report a misstatement in the organisation' financial system thus impacting performance.	295	1	3	1.17	0.312
Timely delivery of audit reports enhances the reliability of the report hence the overall performance of the organisation.	295	1	4	1.92	0.553
Registering immaterial number of audit adjustments improves the reliability of the report hence the overall performance of the organisation.	295	1	4	2.20	0.611
Audit firms with skilled and proficient auditors enhance performance through bringing a closer concordance of the surplus and deficit with the Generally Accepted Accounting Principles.	295	1	4	1.39	0.464
The organisation is keen on the auditor's education level, professional qualification and experience as it impacts audit quality and performance through enhanced reliability of reports.	295	2	5	3.31	0.517
Valid N (listwise)	295				

Source: Research Data (2018)

4.5 Audit Independence

The researcher was interested in establishing the level of audit independence and the relationship between audit independence and organisational performance. The findings are summarized in sections 4.5.1 and 4.5.2 below.

4.5.1 Level of Audit Independence

The study sought to establish the level of audit independence in the targeted organisations. The respondents were to give their feedback in a likert scale where 1 = High Independence, 2 = Moderate Independence, 3 = Low Independence. The results were summarized in table 4.6 below. A standard deviation of <1.0 depicts that the responses did not vary significantly.

From the results summarized in Table 4.6 below, the highest level of independence of the auditors is in their involvement in the day-to-day internal control processes of the organisations as revealed by the mean of 1.14, standard deviation of 0.356 and a rank of 1 followed by the auditor's involvement in the activities of the organisation as depicted by the mean of 1.45, standard deviation of 0.442 and a rank of 3. Contrary to the assertions by Ondieki (2013) that independence of the relationship of personnel of the organisation to the auditor is key, the mean of 1.87 (0.517) and 2.21 (0.398) ranked the relationship of personnel of the organisation to the auditor and relationship of the directors of the organization to the auditor at third and fourth places respectively in relation to auditor independence.

Table 4.6

Level of Auditor Independence

Aspect	Mean	Std Dev	Rank
Involvement of the Auditor with the day-to-day internal control process	1.14	0.356	1
Involvement in the activities of the organisation	1.45	0.442	2
Relationship of Personnel of the organisation to the Auditor	1.87	0.517	3
Relationship of the Directors of the organization to the Auditor	2.21	0.398	4
Valid N (listwise)	295		

Source: Research Data (2018)

4.5.2 Aspects of Audit Independence

The researcher sought to determine the extent to which the respondents agreed with a number of aspects in relation to audit independence. The feedback was given in a likert scale where 1 represents Strongly Agree while 5 represents Strongly Disagree. The results were summarized in table 4.7 below. A standard deviation of <1.0 depicts that the responses did not vary significantly.

From the results summarized in table 4.7 below, the results indicate that the respondents strongly agree that threat to the organisation audit independence is significant and can reduce the auditors' efficiency in offering the auditing services (mean 1.36, Std 0.400) and that the organisation utilizes the independent auditors report to enhance donor confidence in its fund raising initiatives (mean 1.19, Std 0.473). In line with the assertions by Prawitt et al. (2009), the findings also affirmed that the respondents agreed that the organisation' performance can be attributed to the level of independence of its auditors (mean 3.37, Std 0.613), organisation's both internal and external auditors are independent of personnel and operational activities of the organization (mean 2.48, sd 0.511) and that the organisation views professional competence,

motivation and systematic professional development of an internal auditor as key aspects for the efficiency and effectiveness of the department (mean 2.26, sd 0.519). These results were similar to the findings by Ondieki (2013). The results were however not conclusive as to whether lack of rotation of auditors by the organization may end up having their independence compromised (mean 3.42, sd 0.673) and if the independent and objective approach are key to auditors independence in our organization (mean 3.39, sd 0.577).

TABLE 4.7

Aspects of Audit Independence

Statements	N	Min	Max	Mean	Std. Dev
The organisation' performance can be attributed to the level of independence of its auditors.	295	1	5	2.44	0.613
Threat to the organisation audit independence is significant and can reduce the auditors' efficiency in offering the auditing services.	295	1	3	1.36	0.400
Lack of rotation of auditors by the organization may end up having their independence compromised.	295	1	5	3.42	0.673
The organisation's both internal and external auditors are independent of personnel and operational activities of the organization.	295	1	4	2.48	0.511
The organisation utilizes the independent auditors report to enhance donor confidence in its fund raising initiatives.	295	1	3	1.19	0.473
The independent and objective approach are key to auditors independence in our organization.	295	1	5	3.39	0.577
The organisation views professional competence, motivation and systematic professional development of an internal auditor as key aspects for the efficiency and effectiveness of the department.	295	1	4	2.26	0.519
Valid N (listwise)	295				

Source: Research Data (2018)

4.6 Audit Firm Size

The researcher established the various aspects used within the organisations to assess the size of the audit firm and the relationship between audit firm size and organisational performance. The results of these findings are presented in section 4.6.1 and 4.6.2.

4.6.1 Measure of Audit Firm Size

The study sought to establish the various aspects used by the targeted organisations to determine audit firm size. The results of these findings were as presented in Table 4.8 below. The results reveal that most of the organisations use the number of years in service to measure the size of the audit firm (281, 95.3%). The second most utilized measure is the number of clients the auditor has (67, 22.7%) followed by the number of branch network (43, 14.6%). The least utilized measure is the number of audit committee meetings undertaken (11, 3.7%) closely followed by the number of partners (13, 4.4%). Miettinen (2011) also established that the listed aspects are utilized within NGOs. The researcher however did not rank their level of utilization.

TABLE 4.8

Measure of Audit Size

Measure	Yes		No	
No. of years in service	281	95.3%	14	4.7%
No. of branch network	43	14.6%	252	85.4%
No. of partners	13	4.4%	282	95.6%
Number of Clients	67	22.7%	228	77.3%
Number of audit committee meetings	11	3.7%	284	96.3%
Valid N (listwise)	295			

Source: Research Data (2018)

4.6.2 Aspects of Audit Firm Size

The respondents were also requested to express their opinions on various aspects of audit size that also relate to organisational performance. The responses were to be given in a likert scale that ranged from “Strongly Agree - (1)” to “Strongly Disagree - (5)”. The findings were as shown in table 4.9.

The findings indicate that the respondents agree that audit firm size associated to the organisation has a key influence on the financial performance of organisations in relation to fundraising efficiency. This is depicted by the mean of 2.36 and a standard deviation of 0.508. Similarly, the respondents also agreed that according to their organisation, large auditors offer the diversity that would enhance quality, service delivery and fund raising (mean 2.49, sd 0.573) and that in determining the size of the auditor the organisation looks at aspects such as the clientele base and the size of the human resources of the audit firm as depicted by the mean of 2.22 and standard deviation of 0.561. These results were similar to Miettinen (2011) findings. The organisations performance is enhanced by the size of its auditors and reports as depicted by the mean of 2.34 and standard deviation of 0.735. On the other hand, the mean of 4.48 and the standard deviation of 0.709 depict that the respondents disagreed that large audit committees have assisted the organisation minimize environmental risks thus enhancing performance. Ghazal (2010) arrived at a different conclusion and asserted that large audit committees have assisted the organisation minimize environmental risks. However, it was not clear whether the organisation attributes its best performance more to national audit firms with national outlook than to regional and local audit firms as it enhances quality of reports (mean 3.33, sd 0.692).

TABLE 4.9**Aspects of Audit Size**

Statements	N	Min	Max	Mean	Std. Dev
The organisations performance is enhanced by the size of its auditors and reports.	295	1	5	2.34	0.735
Audit firm size associated to the organisation has a key influence on the financial performance of organisations in relation to fundraising efficiency.	295	1	5	2.36	0.508
According to your organisation, large auditors offer the diversity that would enhance quality, service delivery and fund raising.	295	1	4	2.49	0.573
Large audit committees have assisted the organisation minimize environmental risks thus enhancing performance.	294	1	5	4.48	0.709
The organisation attributes its best performance more to national audit firms with national outlook than to regional and local audit firms as it enhances quality of reports.	295	1	5	3.33	0.692
In determining the size of the auditor the organisation looks at aspects such as the clientele base and the size of the human resources of the audit firm.	295	1	4	2.22	0.561
Valid N (listwise)	295				

Source: Research Data (2018)

4.7 Audit Practice

The researcher established the level of effectiveness of internal environmental control aspects as a feature of audit practice and how audit practices enhance ethical organisational aspects related to performance. The findings were as presented in sections 4.7.1 and 4.7.2 below.

4.7.1 Internal Environmental Control

The respondents were asked to give their feedback on the level of effectiveness of listed internal environmental controls in their organisations using a likert scale where 1 = Very Effective and 5 = Very Ineffective. The results were presented in table 4.10 below.

The results revealed that the respondents confirmed that employee trust in managing organisational controls, employee qualification in managing organisational controls and organisational structure are effectively utilized internal environmental control aspects in enhancing performance. These findings are affirmed by the mean of 2.37 (0.670), 2.41 (0.663) and 1.79 (0.377) respectively. On the other hand, the mean of 2.89 (0.510), 3.38 (0.414) and 3.19 (0.505) reveal that respectively, the respondents indicated that the organisations are moderately effective in ensuring clarity of employee responsibility in managing organisational controls, utilizing organisational operating style and organisational structures in enhancing internal environmental controls. These arguments were similar to the results established in the study by Ebrahim et al. (2014).

TABLE 4.10**Internal Environmental Control**

Statements	N	Min	Max	Mean	Std. Dev
Employee trust in managing organisational controls.	295	1	4	2.37	0.670
Clarity of employee responsibility in managing organisational controls.	295	1	5	2.89	0.510
Employee qualification in managing organisational controls	295	1	5	2.41	0.663
Organisational operating style	295	2	5	3.38	0.414
Organisational structure	295	1	4	1.79	0.377
Assessment of internal control framework	295	1	5	3.19	0.505
Valid N (listwise)	295				

Source: Research Data (2018)

4.7.2 Aspects of Audit Practices

The study required the respondents to indicate how they agree with statements relating to audit practices that are linked up to ethical organisational aspects and performance. The feedback was to be given using a likert scale where 1 = Strongly Agree and 5 = Strongly Disagree. The findings were summarized in Table 4.11.

In line with the arguments by Chiggai (2016) and Zain (2009), the results indicated that the respondents agreed that the organisational audit practices improve the organisation' performance through enhanced integrity and good values (mean 2.10, sd 0.551), the organisation' audit practices influence its performance through enhanced employee working style (mean 2.49, sd 0.703), the audit practices impact the manner in which the organisation distributes authority and commitment thus its performance (mean 1.87, sd 0.409), the organisation' audit practices usually entail aspects of the personnel integrity and quality which influence its performance (mean 2.33, sd 0.688) and that the organisation's audit practices

improves its performance through enhanced management and growth of its family (mean 1.79, sd 0.377).

TABLE 4.11
Aspects of Audit Practices

Statements	N	Min	Max	Mean	Std. Dev
The organisational audit practices improve the organisation' performance through enhanced integrity and good values.	295	1	5	2.10	0.551
The organisation' audit practices influence its performance through enhanced employee working style.	295	1	5	2.49	0.703
The audit practices impact the manner in which the organisation distributes authority and commitment thus its performance.	295	1	4	1.87	0.409
The organisation' audit practices usually entail aspects of the personnel integrity and quality which influence its performance.	295	1	4	2.33	0.688
The organisation's audit practices improves its performance through enhanced management and growth of its family.	295	1	5	1.79	0.377
Valid N (listwise)	295				

Source: Research Data (2018)

4.8 Performance of NGOs

The researcher sought to determine the extent of impact of financial audits on organisational performance and the opinion of the respondents on various statements relating to organisational performance and financial audits. The findings were summarized in sections 4.8.1 and 4.8.2 below.

4.8.1 Impact of Financial Audits

The respondents gave their feedback in relation to the extent of impact of financial audits on organisational performance. The responses were given using a likert scale: 1 = Very Great Impact, 2= Great Impact, 3 = Not Sure, 4 = Medium Impact, 5 = No Impact. The results were summarised in Table 4.12.

The results indicate that financial audits have a very great impact on the level of satisfaction of the beneficiaries (mean 1.11, sd 0.213). The mean of 2.12 and the standard deviation of 0.430 indicate that financial audits have a great impact on fundraising efficiency. Similarly, the mean of 1.54 and standard deviation of 0.549 reveal that the organisation financial audits greatly impact the organisations service delivery.

TABLE 4.12

Impact of Financial Audits

Statements	N	Min	Max	Mean	Std. Dev
Fundraising Efficiency.	295	1	5	2.12	0.430
Service delivery	295	1	4	1.54	0.549
Level of satisfaction of the beneficiaries	295	1	3	1.11	0.213
Valid N (listwise)	295				

Source: Research Data (2018)

4.8.2 Financial Audits and Organisational Performance

The respondents were required to give their feedback on various statements relating to organisational performance and financial audits. The responses were to be given using the likert scale: 1=Strongly Agree, 2=Agree, 3=Not sure, 4=Disagree, 5=Strongly Disagree. The results were presented in table 4.13 below.

The findings reveal that the respondents strongly agree that availability of funds and related fund raising for the organization's activities have been supported by the existence of consistent and reliable audited financial reports (mean 1.12, sd 0.219). Besides, it was agreed among the respondents that the organization's undertakings of financial audits have improved its overall financial sustainability and fundraising (mean 2.47, sd 0.565) and that financial audits have resulted to the organisation attracting adequate resources to allocate towards the activities it undertakes due to enhanced donor trust and thus enhancing service delivery to beneficiaries (mean 2.20, sd 0.498). The respondents were however indifferent on whether the organisations complete their projects within the allocated budget and scheduled time due to availability of funds which in turn enhances service delivery (mean 2.91, sd 0.661) and if in undertaking projects, the organisations set aside sufficient resources in case of any contingency due to adequate financial resources (mean 3.44, sd 0.711).

TABLE 4.13**Financial Audits and Organisational Performance**

Statements	N	Min	Max	Mean	Std. Dev
The organization's undertakings of financial audits have improved its overall financial sustainability and fundraising.	295	1	4	2.47	0.565
Availability of funds and related fund raising for the organization's activities have been supported by the existence of consistent and reliable audited financial reports.	295	1	2	1.12	0.219
Financial audits have resulted to the organisation attracting adequate resources to allocate towards the activities it undertakes due to enhanced donor trust and thus enhancing service delivery to beneficiaries.	295	1	4	2.20	0.498
The organisation completes its projects within the allocated budget and scheduled time due to availability of funds which in turn enhances service delivery.	295	1	5	2.91	0.661
In undertaking its projects, the organisation sets aside sufficient resources in case of any contingency due to adequate financial resources.	295	1	5	3.44	0.711
Valid N (listwise)	295				

Source: Research Data (2018)

4.9 Diagnostic Tests

The researcher conducted diagnostic test on the data. The test conducted include; Multicollinearity test, Heteroscedasticity, Serial Autocorrelation and normality tests. The results were presented in sections 4.9.1 to 4.9.4.

4.9.1 Multicollinearity Test

The study conducted a multicollinearity test on the independent variables. Multicollinearity exists when two predictor variables are perfectly correlated. For a detection tolerance value of less than 0.1, this implies the existence of multicollinearity while also VIF values exceeding 10

depict multicollinearity (Gujarati, 2003). The results were summarized in table 4.14. From the results in Table 4.14, the values for tolerance were greater than 0.1 while the VIF values were less than 10. The study therefore concludes that there was no multicollinearity in the regression model applied.

TABLE 4.14
Multicollinearity Test

	Tolerance	VIF
Audit Quality	0.518	3.867
Auditor Independence	0.347	3.362
Audit Firm Size	0.284	0.899
Audit Practice	0.497	2.078

Source: Research Data (2018)

4.9.2 Heteroscedasticity Test

To test the level of heteroscedasticity, the study adopted the Lagrange Multiplier (LM) Test where the R^2 from the regression model is multiplied by several observations, N. The linear regression model works on the assumption that the error-term variance should be constant. Therefore, if the test statistic: X^2 , is greater than the corresponding value from the statistical table, we accept the null hypothesis; there is no heteroscedasticity. The results were as indicated in table 4.15. From the findings, the results depict that $R^2N < X^2$ ($11.72 < 24.16$). The study therefore accepts the null hypothesis and concludes that there is no heteroscedasticity.

TABLE 4.15**Heteroscedasticity Test**

R^2N	Test Statistic: $X^2(m)$
11.72	24.16

m: number of independent variables

4.9.3 Serial Autocorrelation Test

To assess presence of autocorrelation, the study employed the Durbin Watson test. A definition by Gujarati (2003) states that serial correlation is a condition where the error terms are correlated to one another. A Durbin Watson value of 1.5 to 2.5 depicts no autocorrelation. From the results summarized in table 4.18, the Durbin Watson value of 2.36 implies that the data does not have a serial autocorrelation problem.

4.9.4 Normality Test

The researcher conducted a normality test on the variables: the Shapiro-Wilk test was utilized. From the findings summarized in table 4.16 below, the p-values of 0.057, 0.062, 0.101 and 0.074 (>0.05) indicate that the data was normally distributed.

Table 4.16**Normality Test**

Variable	Kolmogorov-Smirnov ^a		Shapiro-Wilk	
	statistic	Sig.	Statistic	Sig.
Audit Quality	0.115	0.007	0.894	0.057
Auditor Independence	0.097	0.024	0.917	0.062
Audit Firm Size	0.107	0.005	0.963	0.101
Audit Practice	0.088	0.019	0.899	0.074

Source: Research Data (2018)

4.10 Inferential Statistics

The study sought to determine the relationship between the dependent (organisational performance) and independent variables (audit quality, auditor independence, audit firm and audit practices). Correlation and multiple regression analyses were carried out.

4.10.1 Correlation Analysis

The study carried out a correlation analysis on the study variables to establish whether there exists any significant relationship between Independent and dependent variables. The findings on the degree of association between the variables, both dependent and independent, were summarized as indicated in Table 4.17.

The findings reveal a positive relationship between the independent variables with the strongest relationship being between auditor independence and audit quality ($r = 0.457$, $p = 0.029$). All the independent variables had positive association with the dependent variable. This reveals that an improvement in any of the independent variable results to an improvement in organisational performance of the NGOs. The correlation between audit quality and organisational performance was strongest amongst the correlation between the dependent and independent variables. The value was $r = 0.711$ ($p = 0.012$). This further depicts that audit quality was the most important variable in NGOs while seeking to enhance financial audits so as to improve their performance. The findings also revealed a strong positive influence of auditor independence ($r = 0.604$, $p = 0.025$) and audit practice ($r = 0.651$, $p = 0.000$) on performance of NGOs while audit firm size ($r = 0.432$, $p = 0.007$) had a weak positive association with the performance of the organisations. This generally implies that NGOs should keenly consider auditor independence, audit firm size and audit practice in seeking to enhance their performance.

TABLE 4.17**Correlation Analysis**

		Audit Quality	Auditor Independence	Audit Firm Size	Audit Practice	Performance
Audit Quality	Pearson	1				
	Correlation					
	Sig. (1-tailed)					
	N	295				
Auditor Independence	Pearson	0.457	1			
	Correlation					
	Sig. (2-tailed)	0.029				
	N	295	295			
Audit Firm Size	Pearson	0.308	0.416	1		
	Correlation					
	Sig. (2-tailed)	0.018	0.033			
	N	295	295	295		
Audit Practice	Pearson	0.298	0.352	0.147	1	
	Correlation					
	Sig. (2-tailed)	0.003	0.014	0.030		
	N	295	295	295	295	
Performance	Pearson	0.711	0.604	0.432	0.651	1
	Correlation					
	Sig. (2-tailed)	0.012	0.025	0.007	0.000	
	N	295	295	295	295	295

Source: Research Data (2018)

4.10.2 Regression Analysis

To determine the overall effect of audit quality, auditor independence, audit firm size and audit practice on organisational performance, a multiple regression analysis was conducted. The

results were as presented in tables 4.18 and 4.19. Findings in table 4.18 depict that the coefficient-of-determination that describes the percentage variation in organisational performance that is explained by the changes in the independent variables (R^2) is 0.572, that is, audit quality, auditor independence, audit firm size and audit practice explain up to 57.2 percent of organisational performance leaving only 42.8 percent unexplained. The significance value of 0.001 (< 0.05) reveals that the combined effect of audit quality, auditor independence, audit firm size and audit practice on organisational performance is statistically significant.

TABLE 4.18

Regression Model Summary for Performance of NGO'S

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig.	Durbin Watson
1	0.756a	0.572	0.528	0.674	0.001	2.36

a. Predictors: audit quality, auditor independence, audit firm size and audit practice

Source: Research data (2018)

Table 4.18 presents the coefficients of the independent variables; audit quality, auditor independence, audit firm size and audit practice. From the table the regression model for the study is generated as:

$$Y = 0.913 + 0.165X_1 + 0.097X_2 + 0.063X_3 + 0.144X_4 + \varepsilon$$

From the findings in table 4.18, the constant value of 0.913 depicts that if all the independent variables (audit quality, auditor independence, audit firm size and audit practice) were rated as zero, organisational performance would be 0.913. The results further depict that with the other variables held constant, a unit increase or decrease in audit quality, auditor

independence, audit firm size and audit practice results to 0.165, 0.097, 0.063 and 0.144 units increase or decrease in organisational performance of the NGOs respectively.

TABLE 4.19
Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.913	0.473		1.11	0.001
	Audit Quality	0.165	0.057	0.042	1.45	0.023
	Auditor Independence	0.097	0.049	0.076	1.51	0.001
	Audit Firm Size	0.063	0.065	0.113	1.82	0.000
	Audit Practice	0.144	0.049	0.018	2.32	0.036
Dependent Variable: Organisational Performance						
R-Square		0.572				
Adjusted R		0.528				

The researcher used the results in table 4.19 to carry out a test on the hypothesis. The test sought to establish the of the independence variables in explaining the changes in the dependent variable. The findings were as presented below.

Null hypothesis 1:

H₀: Audit quality does not affect the performance of Non-Governmental organisations in Nairobi City County.

The results in table 4.18 indicate a p-value of 0.023 (<0.05). The study therefore rejected the null hypothesis and concluded that audit quality significantly affects organisational performance of NGOs in Nairobi County. Chen et al. (2013) also established a similar relation between these variables.

Null hypothesis 2:

H₀: Auditor independence does not affect the performance of Non-Governmental organisations in Nairobi City County.

The results in table 4.18 indicate a p-value of 0.001 (<0.05). The researcher therefore rejected the null hypothesis and concluded that auditor independence significantly affects organisational performance of NGOs in Nairobi County. This conclusion was also arrived at by Musa and Shen (2014).

Null hypothesis 3:

H₀: Audit firm size does not affect the performance of Non-Governmental organisations in Nairobi City County.

The results in table 4.18 indicate a p-value of 0.000 (<0.05). The researcher therefore rejected the null hypothesis and concluded that audit firm size significantly affects organisational performance of NGOs in Nairobi County. Bouaziz (2012) also made this conclusion in his study though a contrary assertion was made by Musa and Shen (2014).

Null hypothesis 4:

H₀: Audit practice does not affect the performance of Non-Governmental organisations in Nairobi City County.

The results in table 4.18 indicate a p-value of 0.036 (<0.05). The researcher therefore rejected the null hypothesis and concluded that audit practice significantly affects organisational performance of NGOs in Nairobi County. This was in line with the results established by Hutchinson and Zain (2009).

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings of the study, conclusions arrived at by the researcher, recommendations of the study and also captures discussions on suggestions for further studies according to the researcher and limitations encountered in carrying out the study.

5.2 Summary

The researcher summarised the results of the study as established in chapter four under this section. The summary was based on each objective.

5.2.1 Background Information

The research sought to establish the aspects of financial audit and performance of Non-Governmental Organisations in Nairobi City County, Kenya. Feedback from 295 respondents was collected and analyzed. From the analysis, the research established that more men than women serve in the management level of the Kenyan NGO sector hence the sector is gender insensitive; 61% of the respondents were men while women were only 39%. The findings also confirmed that most of the organisations' heads of finance are qualified academically since more than 90.2% had at least an undergraduate degree with 80.7% having also attained an additional professional qualification. 61% (180) of the respondents were in the management level of their organisations; finance managers, head of finance and CEOs. Most (235, 79.7%) of the targeted organisations had been in operation for more than 10 years in the country. The academic qualification and position of the respondents and number of operational years of the organisations in the country enhanced the reliability of the findings. The findings also established that all the targeted organisations submit their returns to the NGO Council with more than three-

quarters (137, 75.7%) indicating that they had internal audit departments that were effective or very effective.

5.2.2 Audit Quality

In assessing audit quality, the findings depicted that size of audit firm, experience of auditors, auditor' level of education and professional training, auditor litigation, number of audit adjustments and knowledge and skill of workers are determinants used to at least a great extent to assess audit quality within the NGOs. This finding is in line with the assertions by Epstein and Buhovac (2009). However, the organisations only slightly use clientele base in measuring the quality of audit service. The findings further revealed that audit quality is enhanced by the likelihood of the auditors to unravel and report a misstatement in the organisation' financial system thus impacting performance and that audit firms with skilled and proficient auditors enhance performance through bringing a closer concordance of the surplus and deficit with the Generally Accepted Accounting Principles. Similar to the argument by Ferreira and Otley (2009), it was also clear that audit quality greatly impacts the overall performance of the organisation, timely delivery of audit reports enhances the reliability of the report hence the overall performance of the organisation and registering immaterial number of audit adjustments improves the reliability of the report hence the overall performance of the organisation. The study was however not conclusive on how keen the organisations are on the auditor's education level, professional qualification and experience and their impact on audit quality and performance through enhanced reliability of reports.

5.2.3 Auditor Independence

The findings on audit independence revealed that the highest level of independence of the auditors is in their involvement in the day-to-day internal control processes of the organisations

followed by their involvement in the activities of the organisation. The results further revealed that the lowest independence of the auditors is in the relationship of the organizations' personnel to the auditor and relationship of the directors of the organization to the auditor. It was also clear from the findings that threat to the organisation audit independence is significant and can reduce the auditors' efficiency in offering the auditing services and that the organisation utilizes the independent auditors report to enhance donor confidence in its fund raising initiatives. These findings were also asserted by Chia-Ah and Karlsson (2010). The findings also affirmed that the organisation' performance can be attributed to the level of independence of its auditors, organisation's both internal and external auditors are independent of personnel and operational activities of the organization and that the organisations view professional competence, motivation and systematic professional development of an internal auditor as key aspects for the efficiency and effectiveness of the department. Musa and Shen (2014) also established this in their study findings. The findings did not however clarify whether lack of rotation of auditors by the organization may end up having their independence and if the independent and objective approach are key to auditors' independence in the organizations.

5.2.4 Audit Firm Size

The findings on audit size confirmed that most of the organisations use the number of years in service to measure the size of the auditor. The second most utilized measure is the number of clients the auditor has followed by the number of branch network. The least utilized measure is the number of audit committee meetings undertaken closely followed by the number of partners. These finding are however contrary to the opinions made by Miettinen (2011) who asserted that number of audit committee meetings and number of partners greatly determine the size of the auditor. It was also evident that audit firm size associated to the organisation has a key influence

on the financial performance of organisations in relation to fundraising efficiency. Besides, large auditors offer the diversity that would enhance quality, service delivery and fund raising and that in determining the size of the auditor the organisation looks at aspects such as the clientele base and the size of the human resources of the audit firm. It was also clear that the organisation's performance is enhanced by the size of its auditors and reports. These findings are similar to the assertion made by Bouaziz (2012). The results further ascertained that large audit committees have not assisted the organisations minimize environmental risks thus enhance their performance. However, it was not clear if the organisation attributes its best performance more to national audit firms with national outlook than to regional and local audit firms as it enhances quality of reports.

5.2.5 Audit Practices

The findings on audit practices revealed that employee trust in managing organisational controls, employee qualification in managing organisational controls and organisational structure are effectively utilized internal environmental control aspects in enhancing performance. On the other hand, the findings indicated that the organisations are moderately effective in ensuring clarity of employee responsibility in managing organisational controls and utilizing organisational operating style in enhancing internal environmental controls. These findings are closely related to the results established by Hutchinson and Zain (2009). In addition, the results ascertained that the organisational audit practices improve the organisations' performance through enhanced integrity and good values, the organisation' audit practices influence its performance through enhanced employee working style and that the audit practices impact the manner in which the organisation distributes authority and commitment thus its performance. Besides, it was also clear that the organisation' audit practices usually entail aspects of the

personnel integrity and quality which influence its performance and that the organisations' audit practices improve their performance through enhanced management and growth of its family.

5.2.6 Financial Audit and Organisational Performance

From the results, it was evident that financial audits have a very great impact on the level of satisfaction of the beneficiaries. Besides, financial audits also have a great impact on fundraising efficiency and organizations' service delivery. The results further indicate that availability of funds and related fund raising for the organization's activities have been supported by the existence of consistent and reliable audited financial reports and that the organization's undertakings of financial audits have improved its overall financial sustainability and fundraising. Besides, financial audits have resulted to the organisation attracting adequate resources to allocate towards the activities it undertakes due to enhanced donor trust and thus enhancing service delivery to beneficiaries. The findings were however not clear on whether the organisations complete their projects within the allocated budget and scheduled time due to availability of funds which in turn enhances service delivery and if in undertaking projects, the organisations set aside sufficient resources in case of any contingency due to adequate financial resources.

All the independent variables had positive association with organisational performance; audit quality (0.711), auditor independence (0.604), audit firm size (0.432) and audit practices (0.651). These results are in line with the findings established by FCAM (2012); Musa and Shehu (2014); Chen et al. (2013) and Ebrahim, Abdullah and Faudziah (2014) respectively. This reveals that an improvement in any of the independent variable results to an improvement in organisational performance of the NGOs. The study also concluded that there was no multicollinearity, heteroscedasticity and serial correlation in the study model applied. Besides,

audit quality, auditor independence, audit firm size and audit practice explain up to 57.2 percent of organisational performance. The combined effect of these variables was established to be statistically significant.

5.3 Conclusions

The researcher made the following conclusions;

Based on the findings, the researcher concluded that audit quality greatly impacts the overall performance of the organisation through timely delivery of audit reports and registering immaterial number of audit adjustments which enhance the reliability of the report. In addition, so as to assess audit quality, the NGOs use parameters such as size of audit firm, experience of auditors, auditor' level of education and professional training, auditor litigation, number of audit adjustments and knowledge and skill of workers.

The study also concluded that the performance of the NGOs can be attributed to the level of independence of its auditors, both internal and external auditors. The researcher further concluded that the highest level of independence of the auditors within the Nairobi based NGOs is in their involvement in the day-to-day internal control processes of the organisations and in the activities of the organisation. The independence is however low as pertains the relationship of the auditors to the organizations' personnel and directors.

In relation to audit firm size, the study concluded that the audit firm size associated to the organisation has a key influence on the financial performance of organisations. Besides, large auditors offer the diversity that would enhance quality, service delivery and fundraising efficiency. A further conclusion arrived at in this study states that the NGOs mostly use the number of years in service, number of clients the auditor has and the number of branch networks

to measure the size of the auditor. However, the organisations least use parameters such as the number of audit committee meetings undertaken and the number of partners to evaluate the size of the auditor.

The study also concluded that organisational audit practices improve the NGOs' performance through enhanced integrity, good values, employee working style, distribution of authority and commitment. The researcher further concluded that the NGOs effectively utilized internal environmental control aspects in enhancing performance such as employee trust in managing organisational controls, employee qualification in managing organisational controls, organisational structure, clarity of employee responsibility in managing organisational controls and utilizing organisational operating style.

Generally, the study concludes that the financial audit through the assessed variables of audit quality, auditor independence, audit firm size and audit practices positively affect organisational performance. The greatest impact is however from audit quality with the lowest being audit firm size. This reveals that an improvement in any of the independent variable results to an improvement in organisational performance of the NGOs.

5.4 Recommendations

The study made various policy and practical implications as well as recommendation for further study as captured in this section.

5.4.1 Policy and Practical Implications.

The researcher recommends that the NGOs can enhance the quality of their audit thus their performance through developing and implementing ways to evaluate the likelihood of the auditors to unravel and report a misstatement in the organisation' financial system. The

organisations should also seek to utilize skilled and proficient audit firms or auditors since they bring a closer concordance of the surplus and deficit with the Generally Accepted Accounting Principles.

The study also recommends that size of audit firm, experience of auditors, auditor' level of education and professional training, auditor litigation, number of audit adjustments and knowledge and skill of workers are determinants that can be used to assess audit quality within the NGOs.

The study recommends that the organisations should seek to support the independence of its internal and external auditors' which is significant to their performance. This can be attained through not involving the auditors in the day-to-day internal control processes and activities of the organisations and also ensuring relationship independence of the auditors to the organizations' personnel and directors.

With the findings indicating that the organisation's performance is enhanced by the size of its auditors and reports, the study recommends that the NGOs should utilize auditors who offer diversity that would enhance quality, service delivery and fund raising efficiency. In determining the size of the auditor, the organisations should looks at aspects such as the clientele base, size of the human resources of the audit firm, the number of years in service of the firm and the number of branch networks.

The researcher also recommends that the NGOs should effectively utilize audit practices such as employee trust in managing organisational controls, employee qualification in managing organisational controls, clarity of employee responsibility in managing organisational controls

and utilizing organisational operating style in enhancing internal environmental controls. These practices further improve the performance of the organisations.

5.5 Recommendations for Further Research

The study sought to establish the effect of financial audits on organisational performance with a keen look at the Non-Governmental Organisations based in Nairobi, Kenya. Similar studies can be carried out on other financial audit variables such as internal or external audits, frequency of audits, rotation of auditors and experience of auditors and their influence on organisational performance. Other studies can also be done on other sectors or industries other than the Non-Governmental Sector such as the public or private sectors while considering the variables assessed in this study.

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APPENDIX I: QUESTIONNAIRE

Questionnaires Code: **Date:**

Instructions

Any Information provided in this questionnaire will be used for purposes of research only and will not be divulged or availed to unauthorized persons.

Please take a few minutes to complete the questionnaire and answer all questions by ticking the appropriate answer in the boxes provided.

SECTION A: BACKGROUND INFORMATION

1. Kindly indicate your gender.

Male Female

2. Level of Education

Diploma Undergraduate Masters PhD Other (Specify)

.....

3. Have you undertaken any professional course?

Yes No

If yes, please specify: CPA ACCA CFA

4. Please indicate your position in the organization?

CEO Head of Finance Finance Manager Other.....(please specify)

5. What activities does your organisation engage in?

Humanitarian Education Advocacy Others (Please Specify).....

6. How many years has the organization been in operation?

1-5yrs 6-10yrs 11-20yrs Above 20yrs

7. Does your organisation regularly submit annual financial reports to the NGO council?

Yes No

8. Does your organisation have an internal audit department?

Yes [] No []

If yes, how effective is the department ?

Very effective [] Effective [] Not sure [] Not effective [] Very Effective []

SECTION B: AUDIT QUALITY

9. Listed below are determinants of audit quality. Indicate the extent to which they are utilized in your organisation to measure quality of audit service using the scale: 1 = Very Great Extent, 2 = Great Extent, 3 = Moderate Extent, 4 = Slight Extent and 5 = Not At All.

Statement	1	2	3	4	5
Auditor litigation					
Size of audit firm					
Number of Audit adjustments					
Clientele base					
Knowledge and skill of workers					
Experience of auditors					
Auditor' level of education and professional training					

10. Below statements relate to a number of aspects on audit quality in your organisation. Indicate your opinion using the provided scale: [1=Strongly Agree, 2=Agree, 3=Not sure, 4=Disagree, 5=Strongly Disagree].

Statement	1	2	3	4	5
Audit quality greatly impacts the overall performance of the organisation.					
Audit quality is enhanced by the likelihood of the auditors to unravel and report a misstatement in the organisation' financial system thus impacting performance.					
Timely delivery of audit reports enhances the reliability of					

the report hence the overall performance of the organisation.					
Registering immaterial number of audit adjustments improves the reliability of the report hence the overall performance of the organisation					
Audit firms with skilled and proficient auditors enhance performance through bringing a closer concordance of the surplus and deficit with the Generally Accepted Accounting Principles.					
The organisation is keen on the auditor's education level, professional qualification and experience as it impacts audit quality and performance through enhanced reliability of reports.					

11. List other ways in which audit quality impacts performance of your organisation.

.....

.....

SECTION C: AUDITOR INDEPENDENCE

12. Indicate the level of audit independence in your organisation in relation to the below aspects.

Use the following scale: 1 = High Independence, 2 = Moderate Independence, 3 = Low Independence.

Organisational aspect	1	2	3
Relationship of Personnel of the organisation to the Auditor			
Relationship of the Directors of the organization to the Auditor			
Involvement in the Activities of the organisation			
Involvement of the Auditor with the day-to-day internal control			

process			
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13. Below statements relate to a number of aspects relating to audit independence. Please indicate your opinion in the given scale: [1=Strongly Agree, 2=Agree, 3=Not sure, 4=Disagree, 5=Strongly Disagree].

Statement	1	2	3	4	5
The organisation' performance can be attributed to the level of independence of its auditors.					
Threat to the organisation audit independence is significant and can reduce the auditors' efficiency in offering the auditing services.					
Lack of Rotation of auditors by the organization may end up having their independence Compromised.					
The organisation's both internal and external auditors are independent of personnel and operational activities of the organization.					
The organisation utilizes the independent auditors report to enhance donor confidence in its fund raising initiatives.					
The independent and objective approach are key to auditors independence in our organization.					
The organisation views professional competence, motivation and systematic professional development of an internal auditor as key aspects for the efficiency and effectiveness of the department.					

14. Please indicate other organisational performance aspects that are influenced by audit independence in your organisation.

SECTION D: AUDIT FIRM SIZE

15. Indicate as provided below the aspects that your organisation uses to determine audit size.

No. of years in service	Yes []	No []
No. of branch network	Yes []	No []
No. of partners	Yes []	No []
Number of Clients	Yes []	No []
Number of audit committee meetings	Yes []	No []

16. Below statements relate to aspects of audit size and organisational performance. Please indicate your opinion in the given scale [1=Strongly Agree, 2=Agree, 3=Not sure, 4=Disagree, 5=Strongly Disagree].

Statement	1	2	3	4	5
The organisations performance is enhanced by the size of its auditors and reports.					
Audit firm size associated to the organisation has a key influence on the financial performance of organisations in relation to Fundraising efficiency.					
According to your organisation, large auditors offer the diversity that would enhance quality, service delivery and fund raising.					
Large audit committees have assisted the organisation minimize environmental risks thus enhancing performance.					
The organisation attributes its best performance more to national audit firms with national outlook than to regional and local audit firms as it enhances quality of reports.					
In determining the size of the auditor the organisation looks at aspects such as the clientele base and the size of the human resources of the audit firm.					

17. Please indicate other ways in which audit firm size affects organisational performance.

.....

SECTION E: AUDIT PRACTICE

18. The below listed internal environmental control aspects relate to audit practices that can be utilized to enhance organizational performance. Using a scale of 1 = very effective, 2= effective, 3 = moderately effective, 4 = Ineffective and 5 = Very Ineffective, indicate how effective they are in your organisation.

Aspects	1	2	3	4	5
Employee trust in managing organisational controls.					
Clarity of employee responsibility in managing organisational controls.					
Employee qualification in managing organisational controls					
Organisational operating style					
Organisational structure					
Assessment of internal control framework					

19. The following statements relate to audit practices and how they enhance ethical organisational aspects related to performance. Give your opinion on how you agree with the statements using the provide scale: 1=Strongly Agree, 2=Agree, 3=Not sure, 4=Disagree, 5=Strongly Disagree.

Statement	1	2	3	4	5
The organisational audit practices improve the organisation's performance through enhanced integrity and good values.					
The organisation's audit practices influence its performance through enhanced employee working style.					
The audit practices impact the manner in which the organisation distributes authority and commitment thus its performance.					
The organisation's audit practices usually entail aspects of the personnel integrity and quality which influence its performance.					
The organisation's audit practices improves its performance through enhanced management and growth of its family.					

20. Please indicate other ways in which audit practices in your organisation affect performance.

.....

.....

SECTION F: PERFORMANCE OF NGOS

21. Listed below are some of the performance aspects in your organisation that are impacted by financial audits. Please indicate the extent of impact on each using the scale: 1 = Very Great Impact, 2= Great Impact, 3 = Not Sure, 4 = Medium Impact, 5 = No Impact.

Statement	1	2	3	4	5
Fundraising Efficiency					
Service delivery					
Level of satisfaction of the beneficiaries					

22. The following statements relate to financial performance within your organisation. Please indicate your opinion using the following dimensions [1=Strongly Agree, 2=Agree, 3=Not sure, 4=Disagree, 5=Strongly Disagree].

Statement	1	2	3	4	5
The organization's undertakings of financial audits have improved its overall financial sustainability and fundraising.					
Availability of funds and related fund raising for the organization's activities have been supported by the existence of consistent and reliable audited financial reports.					
Financial audits have resulted to the organisation attracting adequate resources to allocate towards the activities it undertakes due to enhanced donor trust and thus enhancing service delivery to beneficiaries.					
The organisation completes its projects within the allocated budget and scheduled time due to availability of funds which in turn enhances service delivery.					
In undertaking its projects, the organisation sets aside sufficient resources in case of any contingency due to adequate financial resources.					

THANK YOU