

Factors Influencing Financial Control Practices in Community Based Organizations

A Case Study of CBOs in Migori County, Kenya

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Abstract

Studies reveal that weaknesses in financial control practices in CBOs have led to corruption, embezzlement of funds by CBO officials and even the organizations' risk to lose funding by donors. Therefore, the overall objective of this study was to analyze the factors influencing financial control practices of CBOs in Migori County. The specific objectives of the study were to: analyze the influence of technical skills of CBO officials; internal controls systems and budgeting; bookkeeping and auditing on financial control practices of CBOs in Migori County. The study used survey research design targeting CBOs in the County. Stratified sampling design was adopted targeting 142 management staff of the different CBOs from eight sub counties in the area. The sample of 142 was selected from a population of 220 CBOs in Migori County. Data was collected using questionnaires and analyzed using both descriptive and inferential statistics. The findings revealed that technical skills of the CBO officials ($r = 0.478$, $\alpha = 0.01$), Auditing ($r = 0.435$, $\alpha = 0.01$), Bookkeeping ($r = 0.268$, $\alpha = 0.05$) and Internal control systems and budgeting ($r = 0.220$, $\alpha = 0.05$) were positively correlated with financial control practices respectively. Multiple linear regression analysis results showed that Technical skills ($\beta = 0.347$) and Auditing ($\beta = 0.285$) are significant while Internal control systems and budgeting ($\beta = 0.095$) and Bookkeeping ($\beta = 0.024$) are not significant. The study further found out that most CBOs in the area were audited annually although there was need to ensure compliance among all to be subjected to an audit at least once a year. The technical skills of the CBO officials in the area needed to be strengthened especially with regard to spending priorities. The study was very important since the findings will inform the donors and other stakeholders to address the gaps in CBOs to ensure they give the best to the community. It is recommended that standardized accounting and reporting should be provided by the government in order to make the financial activities of the CBOs tractable through sharing of information on a common and acceptable platform. More studies should however be done on the effects of regulations governing funding of CBOs on their performance and on the influence of ICT on the financial performance of CBOs.

Keywords: Community Based Organizations, Financial control, Capacity assessment

1. Introduction

The evolution of community organizations in recent years especially in developing countries has reinforced the view that these grass root organizations are more effective in addressing local needs than larger charitable organizations due to their penetration, networks and perceived neutrality in their areas of operations. Consequently, many international non-governmental organizations are increasingly relying on CBOs to access the community, hence, in most cases partnering with them for greater developmental outreach (Fisher, 2002). Within community organizations, there are many variations in terms of size and organizational structure. Some are formally incorporated, with a written constitution and a board of directors (also known as a committee), while others are much smaller and more informal. Other civil society structures, for example, took the form of street committees and people's courts (Motala and Husy, 2001).

Modern CBOs emerged following the American Civil War. There was a rapid rise in the number of charitable agencies designed to lend assistance to those displaced, disabled, or impoverished by the war. Many of these organizations were progressive in philosophy, even by the standards of the early twenty-first century, and they provided services to or activities for, children and teens (Fisher, 2002). The late 1800s also saw an expansion of the public school system, along with the creation of hundreds of orphanages, hospitals, settlement houses, and other charity services. Due to the rapid rise of such organizations, and a lack of government oversight, the distribution and coordination of services soon became problematic (Speer and Perkins, 2002).

Several complaints concerning financial control in CBOs have been raised by the community and donors. For instance, quarterly financial reports submitted to World Vision Kenya (WVK) from sub grantee CBOs showed lack of proper recording of financial transactions in the system and lack of capacity as regards financial control in those CBOs (World Vision Kenya, 2013). WVK often sent back financial reports to the CBOs for corrections so as to enable them qualify for the next funding. In addition, as found by Wanyama (2005), CBOs have not been as effective in service provision due to embezzlement of funds by leaders, a factor that could be prevented by a strong financial control.

A more targeted report, as regards CBOs operating in Sori division of Migori County, done by WVK

in the region in May 2013, revealed that there were evidences pointing to lack of transparency and accountability in financial transactions in a number of cases. The researcher hypothesized that technical skills of CBO officials, internal controls systems and budgeting, bookkeeping and auditing are possible factors responsible for these problems. Therefore, this study aimed at analyzing how these factors influence financial control practices of CBOs in Migori County.

2. Technical Skills and Financial Control Practices

Non-profit organizations must get accounting expertise somehow, if they don't have strong skills in this area. Organizations should get someone on board with accounting skills to be the treasurer. An accountant should help set up the bookkeeping system, generate financial statements and do some financial analysis. The knowledge and understanding of basic accounting processes is required for the effectiveness of accounting to be guaranteed. For effective financial control, the organization's staff and board members are required to be conversant and participate in the budgeting process that affects the line items for which they were held responsible. For non-profit making organizations, planning and financial management are activities that unite rather than divide the organization. Program planning is often viewed as the domain of the executive director, program director, and the board (Vincent & Emil, 2000).

3. Internal Controls and Financial Control Practices

Internal control systems are all systems and procedures either financial or otherwise that are put in place to ensure the organization processes are run in an effective and efficient manner and to safeguard the assets of the organization. This includes procedures, processes, putting up security fences, safe custody of resources, pre-numbering of receipts, policies and manuals. These are essential as they develop an environment of orderliness and guidance in operations of an organization leading to effectiveness in financial accounting, (Malvern, 2002).

4. Bookkeeping and Financial Control practices

Financial statements and audit reports communicate, to a range of internal and external stakeholders, the financial status of the CBOs and the transparency and accountability of their financial management system. Financial statements are reports, which give an accurate picture, at regular intervals (monthly, Quarterly, semi-annually, annually), of the money received by the CBO or participating institutions and how it has been spent. The report also shows a comparison of actual income and expenditure against budgeted income and expenditure. Nonprofit organizations are responsible for two key domains of accountability: performance and finances (Brinkerhoff, 2001). By disclosing details of financial standing and social performance, non-profit organizations can build community trust, provide relevant information to donors, demonstrate their responsive to stakeholders, and generally helpful fill their "societal quid pro quo" (tax-exempt status) by providing evidence they are responsibly targeting their social mission (Saxton & Guo, 2011). The concept "financial control" forms the core of financial management. Financial control is a state of affairs that ensures that the finances of an organization are handled properly. Without financial control, assets are put in jeopardy, funds may not be spent in accordance with the organization's objectives or donor's desires, and the competence of managers and the integrity of the organization may be called into question. Financial control is achieved by designing systems and procedures to suit the particular needs of an organization, (Hendrickse, 2008).

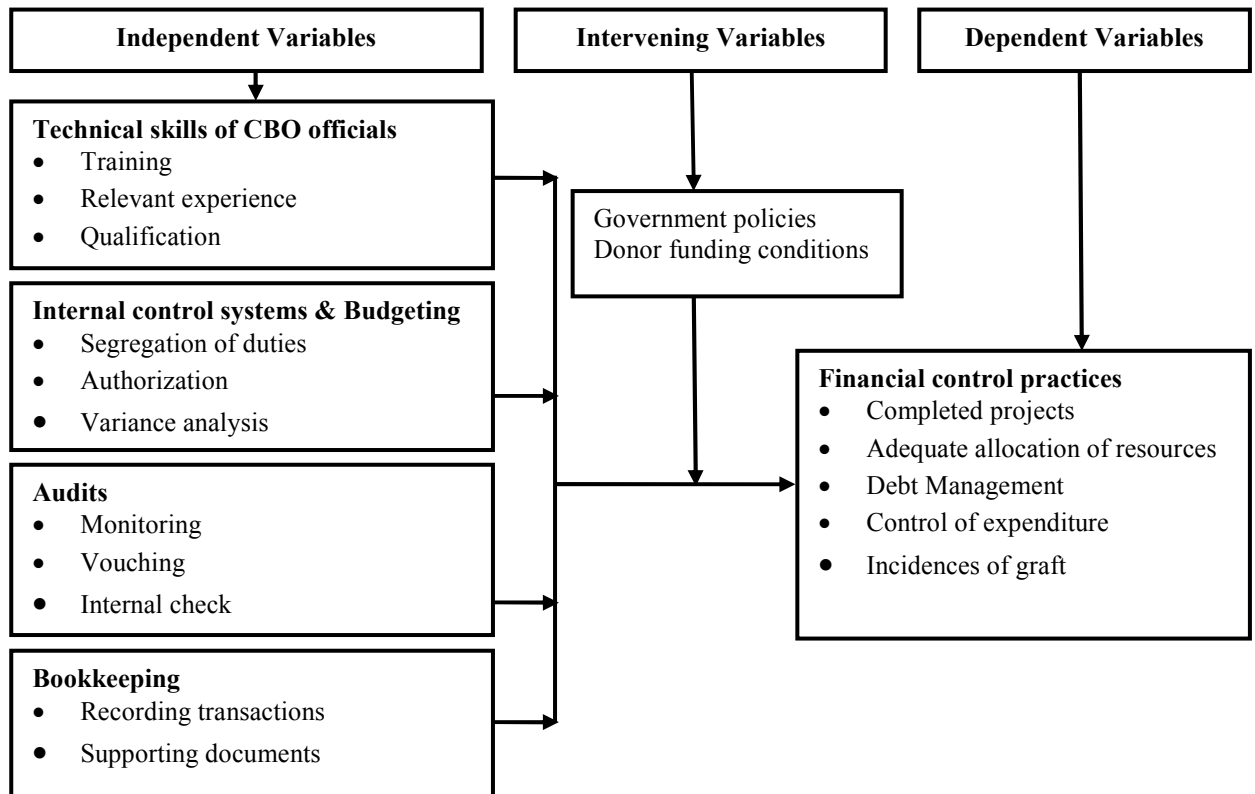
5. Audits and Financial Control Practices

An audit is a process for testing the accuracy and completeness of information presented in an organization's financial statements. In addition to the materials included in the audit report, the auditor often prepares a management letter or report to the board of directors. This report cites areas on the organization's internal control system, which the auditor evaluates as weak. Many auditors provide year-end financial accounting services, which are not part of the audit. These include preparing year-end financial based statements based on client's reports, depreciation schedules and accrual and other adjustments based on clients. This serves as an independent examination of the existing accounting systems to see whether it is effective and gives a true and fair view of an organization's state of affairs as at a particular period in time enhancing the effectiveness of financial accounting (Vincent & Emil, 2000). The CBO management should exercise stewardship when using the organization's resources and the work of audit was to scrutinize the books to establish this. The process whereby the managers of a business account or report to the owners of the business is called stewardship accounting (Millichamp, 2000).

6. Conceptual Framework

The study was based on the conceptual Framework depicted in Figure 1 below. The conceptual framework shows the factors that affect financial control practices in community based organizations. The extent, to which

the factors affect financial control practices, is however influenced by government policies and donor funding terms and conditions.



Source: Researcher, 2014)

7. Methodology

The study adopted a survey research design whereby the researcher conducted a field survey in the selected CBOs in Migori County. The target population for this study comprised of active CBOs in Migori County. The researcher used a sample frame of 220 organizations from which the sample was drawn. The respondents were CBO officials. The researcher used stratified sampling targeting only the management staff of the CBOs in the area. Data was obtained only from primary sources using questionnaires.

The data from the study was analyzed using both qualitative and quantitative techniques. Descriptive statistics such as percentages and frequencies were also used to analyze data. Data was presented using frequency tables and Correlation analyses used to measure the relationship between variables. Regression model was used to make predictions or inferences about the population from observations and analyses of a sample.

8. Findings

8.1 Technical skills of CBO Officials and Financial Control Practices

The status of technical skills of CBO officials was rated on a 5 point Likert scale ranging from; 1 = strongly agree to 5 = strongly disagree. The results on this are summarized in *table 1* below:

Table 1: Technical skills of CBO officials and financial control practices

Statements	SA		A		N		D		SD		x^2	P-value
	Freq	(%)	Freq	(%)	Freq	(%)	Freq	(%)	Freq	(%)		
All CBO Officials have knowledge in financial controls	22	16.5	73	54.9	20	15.04	14	10.5	4	3	108.5414	0.0001
All CBO Officials have attended training in financial management in the past one year	12	9.0	46	34.6	27	20	37	27.8	11	8.3	35.3835	0.0001
The training facilitators are knowledgeable in the field of study	33	24.8	68	51.1	12	9.0	13	9.8	7	5.3	95.384	0.0001
My CBO has a fully operational finance department	15	11.3	68	51.1	24	18.0	19	14.3	7	5.3	86.3609	0.0001
My CBO has experienced finance personnel	13	9.8	52	39.1	33	24.8	24	18.0	11	8.3	42.1504	0.0001

Key: SA=Strongly Agree; A=Agree; N=Neutral; D=Disagree and SD=Strongly Disagree

The results indicate that majority of the respondents thought that the training facilitators conducting training for the CBO officials in financial control were knowledgeable in their field of study (25%). However, the findings also revealed that fewer CBO officials did attend training regularly in financial management (9%). The findings also indicate that few CBOs had experienced finance personnel. This implies that a lot still needed to be done to address the competence of the CBO staff as regards financial management specifically the financial control aspect if they were to achieve enhanced control of their finances.

8.2 Internal Controls Systems and Budgeting and Financial Controls Practices in CBOs in Migori County

The responses of this variable were rated on a 5 point Likert scale ranging from; 1 = strongly agree to 5 = strongly disagree. These results are presented in the *table 2* below:

Table 2: Internal controls systems and budgeting and financial control practices

Statements	SA		A		N		D		SD		x^2	P-value
	Freq	(%)	Freq	(%)	Freq	(%)	Freq	(%)	Freq	(%)		
Cash is withdrawn only after authorization has been given	84	63.2	46	34.6	3	2.3	0	0	0	0	74.0902	0.0001
No official can perform a cash transaction alone	92	69.2	38	28.6	2	1.5	0	0	1	0.75	165.1353	0.0001
The controls in place are adequate	38	28.6	65	48.9	23	17.3	5	3.8	2	1.5	101.0977	0.0001
My CBO operates with a periodic budget	27	20.0	74	55.6	26	19.6	6	4.5	0	0	75.0301	0.0001
My organization experienced high budget variances in the last reporting period	13	9.7	45	33.8	35	26.3	24	18.1	16	12.0	26.812	0.0001

Key: SA=Strongly Agree; A=Agree; N=Neutral; D=Disagree and SD=Strongly Disagree

Looking at the table 3 above, it can be observed that majority of the respondents were of the opinion that no official could perform a cash transaction alone (69%). This is substantiated by the finding that cash was withdrawn from the CBOs only after due authorization had been made (63%). It emerged that a good CBOs experienced high budget variances in the last reporting period (43.5%) although fewer

CBOs operated without periodic budgets. However, the finding also revealed that there was uncertainty on whether the financial control measures in the CBOs were adequate (22.5%). These findings imply that the practice of internal controls in the CBOs was mainly limited to controlling financial transactions but seemed to overlook the budgeting aspect of financial controls.

8.3 Influence of Bookkeeping on Financial Control Practices in CBOs in Migori County

The status of this variable was rated on a 5 point Likert scale ranging from; 1 = strongly agree to 5 = strongly disagree. These results are presented in the *table 3* below:

Table 3: Bookkeeping and financial control practices

Statements	SA		A		N		D		SD		x^2	P-value
	Freq	(%)	Freq	(%)	Freq	(%)	Freq	(%)	Freq	(%)		
My CBO uses a standard accounting system	18	13.5	56	42.1	33	24.8	19	14.3	7	5.3	53.4286	0.0001
My CBO subscribes to the international accounting Standards	8	6.0	23	17.3	30	22.6	46	34.6	26	19.5	28.0902	0.0001
My CBO updates its accounting records regularly	33	24.8	81	60.9	10	7.5	7	5.3	2	1.5	160.3459	0.0001
My CBO prepares financial reports timely	36	27.1	76	57.1	16	12.0	4	3.0	1	0.7	143.1278	0.0001

Key: SA=Strongly Agree; A=Agree; N=Neutral; D=Disagree and SD=Strongly Disagree

According to the findings in the table above, it can be deduced that the CBOs updated the accounting records regularly (85.7%), thereby enabling them to make timely financial reports (84.2%). However, the reporting was non-standard (only 55.6%) and fewer CBOs subscribed to international accounting standards (23.3%). These findings suggest that while accountability was emphasized in the CBOs, standardization was not emphasized possibly due to the perceived lack of capacity of the CBO officials and lack of common reporting standards to all the CBOs in the country.

8.4 Influence of Auditing on Financial Control Practices

The status of this variable were rated on a 5 point Likert scale ranging from; 1 = strongly agree to 5 = strongly disagree. These results are presented in *table 4* below:

Table 4: Auditing and financial control practices

Statements	SA		A		N		D		SD		x^2	P-value
	Freq	(%)	Freq	(%)	Freq	(%)	Freq	(%)	Freq	(%)		
Our CBO is audited annually	20	15.0	59	44.4	21	15.8	27	20.3	6	4.5	58.2406	0.0001
Our CBO uses an appointed supervisory committee for audit purposes	18	13.5	58	43.6	24	18.1	27	20.3	6	4.5	56.0602	0.0001
Our CBO performed well in the last audit	21	15.8	46	34.6	42	31.6	21	15.8	3	2.3	46.3609	0.0001
The last audit recommendations have been fully Implemented	22	16.5	53	39.8	32	24.1	23	17.3	3	2.3	49.5188	0.0001
Audit plays a big role in controlling finances of the CBOs	52	39.1	47	36.3	17	12.8	16	12.0	1	0.7	72.2256	0.0001

Key: SA=Strongly Agree; A=Agree; N=Neutral; D=Disagree and SD=Strongly Disagree

The results in the table 4 above indicate that majority of the respondents strongly agreed that audit played a big role in controlling finances of the CBOs (39%). There was also a general agreement on three statements regarding the performance of their CBOs in audit, that is, the CBOs were audited annually and that they performed well in the last audit and that they had implemented the recommendations of the previous audit. This means that the respondents had high regard for auditing although the non-compliant ones (40.6%) i.e. those that were not audited annually are of great concern. This is because for good controls at least an organization should be subjected to an audit once a year.

8.5 Financial Control Practices in CBOs in Migori County

The status of this variable was rated on a 5 point Likert scale ranging from; 1 = strongly agree to 5 = strongly disagree. These results are presented in *table 5* below

Table 5: Financial Control Practices

Statements	SA		A		N		D		SD		x ²	P-value
	Freq	(%)	Freq	(%)	Freq	(%)	Freq	(%)	Freq	(%)		
There is adequate allocation of resources for all activities in our CBO	10	7.5	38	28.6	35	26.3	29	21.8	21	15.8	19.2932	0.0001
Projects are completed in time according to the planned budget	13	9.8	68	51.1	29	21.8	20	15.0	3	2.3	94.1805	0.0001
Our CBO has accrued less debts in the last 2 years compared to the past	25	18.8	59	44.4	22	16.5	16	12.0	11	8.3	53.7293	0.0001
There are fewer incidences of misappropriation of funds in our organization	42	31.6	62	46.6	6	4.5	13	9.8	10	7.5	89.2932	0.0001

Key: SA=Strongly Agree; A=Agree; N=Neutral; D=Disagree and SD=Strongly Disagree

The findings in the table 5 above show that most of the CBOs in the area were experiencing fewer incidences of misappropriation of funds within their organizations (78.2%).

The findings also indicate that most of CBOs in the area had accrued less debt in the last two years compared to the past (63.2%). This could be resulting from the training in financial controls and also the systems they had put in place to limit their expenditure. However, the respondents tended to disagree about the status of the resource allocations for the CBOs (37.6%) implying that the resources were not adequately allocated. These findings suggest the financial control practices in the CBOs were working though they only needed to be strengthened. On resource allocation the CBOs needed to be more careful during the planning stage where budgeting is done to ensure equitable distribution.

8.6 Summary of Correlations

In this subsection, a summary of the correlation and regression analyses is presented. These results are summarized in the table 6 below:

Table 6: Summary of Correlations

		Technical Skills	Internal controls	Bookkeeping	Auditing	Financial Controls
Technical Skills	Pearson Correlation Sig. (2-tailed)	1				
Internal controls	Pearson Correlation Sig. (2-tailed)	.192* 0.027	1			
Bookkeeping	Pearson Correlation Sig. (2-tailed)	.347** 0	.342** 0	1		
Auditing	Pearson Correlation Sig. (2-tailed)	.363** 0	.174* 0.046		1	
Financial Controls	Pearson Correlation Sig. (2-tailed)	.478** 0	.220* 0.011	.268** 0.002	.435** 0	1
		*. Correlation is significant at the 0.05 level (2-tailed)				
		**. Correlation is significant at the 0.01 level (2-tailed)				

A correlation analysis to determine whether the technical skills of CBO officials had an influence on financial control practices of CBOs in Migori County shows a relationship exists ($r = 0.478$, $\alpha = 0.01$). This suggests that since technical skills of the CBO officials were important in improving financial control practices, they still needed to be enhanced through capacity building.

The correlation analysis to determine whether internal control systems and budgeting practices of the CBOs had a significant influence on financial control practices of CBOs in Migori County shows a relationship exists ($r = 0.220$, $\alpha = 0.05$). This implies that a lot needs to be done on the internal control systems and budgeting as most of the CBOs do not emphasize on internal control systems and budgeting.

The study also sought to determine whether there existed a significant relationship between bookkeeping and financial control practices of CBOs in Migori County. The correlation analysis shows that a

relationship exists ($r = 0.268$, $\alpha = 0.01$). The relationship is low suggesting that it is no longer a factor of concern since the CBOs are already practicing it.

Finally, the correlation analysis to determine whether there was a significant association between Auditing and financial control practices of CBOs in Migori County shows that a relationship exists ($r = 0.435$, $\alpha = 0.01$). These findings imply that more emphasis needed to be put on auditing practices in the CBOs in order to improve on their financial control practices.

It can therefore be concluded that all the variables were significant to the study problem although the degrees of influence varied.

Conclusion

Based on the results of the study, it can be concluded that the technical skills of the CBO officials in the area played an important role in upholding good financial control practices. On the job training where the trainers were indeed knowledgeable in the field of financial management contributed significantly to the equipping the CBO officials in the area with knowledge in financial controls and needed to be strengthened especially with regard to spending priorities. Study results also revealed that the financial controls of the CBOs in the study area were adequate and care was taken to ensure that no unauthorized financial transaction on behalf the CBOs took place. Majority of the CBOs operated on periodic budgets and as a result fewer CBOs in the area were experiencing high budget variances. Timely financial reports were prepared by CBOs although the quality of the reports could not be proved to be satisfactory since the users of those reports other than the officials did not take part in the research hence the complaint raised by WVK could not be verified.

In addition to timely reporting, majority of the CBOs in the area regularly updated their accounting records. This variable was also found to be the most influential since other factors influencing financial controls in CBOs depended on it especially auditing. It was found that two thirds of the CBOs in the area were audited annually although it is advisable that all such organizations needed at least an annual audit to track their performance. However, since most of the CBOs did not have the capacity to employ full time accounting staff they appointed supervisory committees to carry out the audit. Hypothesis tests also revealed that Technical skills of CBO officials and auditing were significant factors influencing financial control practices while internal control systems and budgeting, and bookkeeping insignificant factors.

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