

An Analysis of Factors Influencing Financial Control Practices in Community Based Organizations in Baringo County, Kenya

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Authors' contributions

This work was carried out in collaboration between all authors. Author EK wrote the protocol and the first draft of the manuscript. Author MW designed the tools and handled analyses of the data and reporting of findings while author SW managed the literature searches. All authors read and approved the final manuscript.

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ABSTRACT

Aims: The aim of this study was to analyze factors influencing financial control practices of Community Based Organizations (CBO) in Baringo County, Kenya.

Study Design: A survey research design was used targeting 134 management and staff members drawn from different CBOs from six sub counties in the area using stratified sampling.

Methodology: Data were collected using a structured questionnaire and analyzed using both descriptive and inferential statistics.

Research Hypotheses: Four hypotheses were tested and decisions made based on: if the p-value was less than or equal to 0.01, the null hypothesis was rejected; the claim was accepted and vice versa. The hypotheses were the following ones:

H₀₁: Technical skills of CBO officials have no significant influence on financial control practices of CBOs in Baringo County.

H0₂: Internal control systems and budgeting have no significant influence on financial control practices of CBOs in Baringo County.

H0₃: Bookkeeping has no significant influence on financial control practices of CBOs in Baringo County.

H0₄: Auditing has no significant influence on financial control practices of CBOs in Baringo County.

Results: The findings of the study show that Technical skills ($\beta = 0.347, p \leq 0.01$) and Auditing controls ($\beta = 0.285, p \leq 0.01$) were significant while Internal control systems and budgeting ($\beta = 0.095, p = 0.224$) and Bookkeeping ($\beta = 0.024, p = 0.772$) not significant factors influencing financial control practices of CBOs in the area.

Conclusions: The technical skills of the CBO officials in the area needed to be strengthened, especially with regard to spending priorities. 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 practices; capacity assessment.

ABBREVIATIONS

CBO: Community Based Organization; COBIT: Control Objectives for Information and Related Technology; GAAPs: Generally Accepted accounting Principles; ICAEW: Institute of Chartered Accountants of England and Wales; ICPAK: Institute of Certified Public Accountants of Kenya; ICS: Internal Control Systems; IFASB: International Financial Accounting standards Board; IMF: International Monetary Fund; INTOSAI's: International organization of supreme audit institutions; NGO: Non-Governmental Organization; NPO: Non Profit Organization; PTAs: Parent Teachers Associations; SMCs: School Management Committees; WVK: World Vision Kenya.

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 operation. 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 [1].

Currently, it is estimated that there are approximately 40,000 CBOs in Kenya. From the late 1980s, Kenya has witnessed increased proliferation of organizations carrying out non-profit work. The last three decades have witnessed unprecedented growth in number and activities of such organizations. The volume of resources controlled by the sector has also grown, if activities carried out by non-profits are anything to go by [2].

These CBOs play a critical role in creating a ground for individuals to share their problems

and resources in a manner meant to edify the community [3]. Moreover, these organizations serve to bridge the gap between the 'haves' and the 'have-nots' of the society, and their main sources of finances are contributions from the members of the organization, society and donors [4]. Notwithstanding this, the CBOs in the Kenya are experiencing myriad of problems that include ineffective boards, absence of strategic planning activities, poor recording practices, lack of necessary policies and procedures, high turnover of employees and volunteers and dependence on a limited number of funding sources [5]. In addition, typically, CBOs are reliant on donations from their members, the local community and at times sponsorship from government and businesses. Some get their funding from international donors such as agencies, religious organizations and even individuals [6]. Therefore, financial control practices such as budgeting and accurate reporting are essential in not only meeting the donor objectives, but also in building their confidence.

Nonprofit leaders not only perceive government and foundation support as essential for the organizations' financial viability, but they also

recognize that there are challenges associated with reliance on grants, contracts, and other sources of government or foundation funding [7]. In a study of 26 health, human services and community and economic development organizations in Mississippi, Besel, Williams, and Klak [8] found that study participants held reservations about their organizations' reliance on government funding for their operations, due to considerable restrictions on how public funds can be utilized and the relatively large amount of time and resources consumed in complying with state and federal requirements.

It is a good management practice for a good project proposal to provide the CBOs with some tools for resource mobilization and fund raising [9]. Once they have received the grant, they are accountable for its use, hence the need to always keep their accounts aligned to the objects of the project. Essentially, a good proposal contains a sound financial control plan in addition to the objectives of the project so as to ensure efficient management of resources [10]. Therefore, proper planning and controls are central to the entire process [11].

Financial control ensures that the finances of an organisation are well handled. Without financial control, assets are at risk; funds may not be spent in accordance with the organisation's objectives or donors' requirements, and the competence of managers and the integrity of the organisation may be called into question [12]. According to a study done by Odindo [7], most CBOs in Kenya are unable to cover their intended project areas with only a very small proportion (less than 2%) being able to cover over 75% or more of their planned target population within their activities. The study also found that the majority (over 50%) of the organizations reached between 25 and 50% of the planned beneficiaries while about one-third of the organizations were able to reach only 25% of the planned target population. The rest covered 51 – 75% of the beneficiaries. This situation, according to the study, was mainly influenced by lack of training and project funds. Another significant challenge was the lack of transport and poor infrastructure. However, factors that directly affect financial control practices in the CBOs; such as staff training, internal controls, bookkeeping and audit practices; have not received considerable attention in research.

According to World Vision Kenya (WVK) capacity assessment report [13], a number of water

projects' financial transactions, especially the sales of water lacked transparency due to lack of effective transactional systems. The capacity assessment report also showed that some CBOs lacked well developed financial tracking systems to enhance their performance measurement.

2. RESEARCH METHODOLOGY

This study used a survey research design method. The target population comprised 220 active CBOs in Baringo County and a sample of 142 CBOs was determined using the simplified Yamane [14] formula. Data were obtained from primary sources using copies of a questionnaire with closed and open ended questions. Reliability of the research instrument was calculated using Cronbach's coefficient alpha for either even or uneven items based on the order of number arrangement of the questionnaire items. The study obtained a Cronbach Alpha value of 0.7913 which was above the recommended minimum value of 0.70.

Data were analyzed using descriptive and inferential statistics with the aid of the Statistical Package for Social Sciences (SPSS). Pearson Product Moment Correlation analysis was used to measure the strength and direction of relationship between variables. The researchers also used multiple regression analysis to establish whether the independent variables predicted the dependent variables.

3. RESULTS AND DISCUSSION

3.1 Descriptive Statistics

The descriptive statistics used were mainly means, modes, medians and standard deviations. The descriptive statistics helped to develop the basic features of the study and form the basis of virtually every quantitative analysis of the data. These results are arranged and presented as per the objectives of the study.

3.1.1 Technical skills of CBO officials and financial control practices

The results in Table 1 indicate that the majority (25%) of the respondents thought that the training facilitators conducting training sessions for the CBO officials in financial control were knowledgeable.

However, the findings also revealed that fewer (9%) CBO officials attended training regularly in

financial management while equally few CBOs had in their workforce experienced finance personnel. This implies that a lot still needs 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.

3.1.2 Internal control systems and budgeting and financial control practices

From Table 2, the results indicate that the majority of the respondents were of the opinion that no CBO 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 number of CBOs had experienced high budget variances in the previous 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. The CBOs need to be shown how to make reasonable budgets not jumbled ones. This is in line with Jowell [15] who argues that budget is not a wish-list but a carefully worked out plan for what a project will cost an organization. A budget is also a tool of control that will guide the management of an organization as they implement their activities [15].

3.1.3 Bookkeeping and financial control practices

Viewing strongly agree and agree opinions in Table 3, as positive, 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 few 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. A gap was noted and can only be filled with proper regulations as regards financial reporting in CBOs.

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

Statements	Agree Freq (%)	Neutral Freq (%)	Disagree Freq (%)	χ ²	p-value
Cash is withdrawn only after authorization has been given	130 (97.7)	3 (2.3)	0	74.090*	0.000
No official can perform a cash transaction alone	130 (97.7)	2 (1.5)	1 (.75)	165.135*	0.000
The controls in place are adequate	103 (77.5)	23 (17.3)	7 (5.2)	101.098*	0.000
My CBO operates with a periodic budget	101 (75.6)	26 (19.6)	6 (4.5)	75.030*	0.000
My organization experienced high budget variances in the last reporting period	58 (43.5)	35 (26.3)	40 (30.1)	26.812*	0.000

*Significant at 0.01 level

Table 2. Internal control systems and budgeting and financial control practices

Statements	Agree Freq (%)	Neutral Freq (%)	Disagree Freq (%)	χ ²	P-value
My CBO uses a standard accounting system	74 (55.6)	33 (24.8)	26 (19.6)	53.429*	0.000
My CBO subscribes to the international accounting standards	31 (24.3)	30 (22.6)	72 (54.1)	28.092*	0.000
My CBO updates its accounting records regularly	115 (85.7)	10 (7.5)	9 (6.8)	160.347*	0.000
My CBO prepares timely financial reports	112 (84.2)	16 (12.0)	5 (3.7)	143.128*	0.000

*Significant at 0.01 level

Table 3. Bookkeeping and financial control practices

Statements	SA	A	N	D	SD	χ 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)	53.429*	0.000
My CBO subscribes to the international accounting standards	8 (6.0)	23 (17.3)	30 (22.6)	46 (34.6)	26 (19.5)	28.092*	0.000
My CBO updates its accounting records regularly	33 (24.8)	81 (60.9)	10 (7.5)	7 (5.3)	2 (1.5)	160.347*	0.000
My CBO prepares timely financial reports	36 (27.1)	76 (57.1)	16 (12.0)	4 (3.0)	1 (0.7)	143.128*	0.000

Key: SA=Strongly Agree; A=Agree; N=Neutral; D=Disagree and SD=Strongly Disagree, *Significant at 0.01 level

3.1.4 Auditing and financial control practices

The results in Table 4 indicate that the majority (39%) of the respondents strongly agreed that audit played a big role in controlling finances of the CBOs. There was also a general agreement on three statements regarding the performance of their CBOs in audit, that is, the CBOs were audited annually; that they had performed well in the previous 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 were of great concern. This is because good controls demand that an organization should be subjected to an audit at least once a year.

3.1.5 Financial control practices in CBOs

The findings in Table 5 show that most (78.2%) of the CBOs in the area were experiencing few incidences of misappropriation of funds within their organizations. The findings also indicate that most (63.2%) of CBOs in the area had accrued less debt in the previous two years compared to the past. This could be resulting from the training in financial controls and also the systems they had put in place to limit their expenditure. However, a sizeable proportion (37.6%) of the respondents opined that there were inadequate resources available for all activities in the CBOs. These findings suggest that the financial control practices in the CBOs were working, though they only needed to be strengthened. With regard to resource allocation, the CBOs needed to be more careful during the

planning stage when budgeting was done to ensure equitable distribution.

3.2 Correlation Analysis

Pearson product-moment correlation coefficients were computed to assess the relationship among technical skills of the CBOs officials, bookkeeping and budgeting, auditing practices adopted by CBOs, internal control systems and financial control practices of CBOs in Baringo County.

All correlation results were significant; the p-values were less than or equal to the significance level of 0.01. All the associations were positive; however some were strong while others were weak.

More specifically, the correlation between the technical skills of CBO officials and financial control practices of CBOs in Baringo County was positive and strong ($r = 0.478, \alpha = 0.001$). The association between internal control systems and budgeting and financial control practices indicated a positive, albeit weak correlation ($r = 0.220, \alpha \leq 0.05$) and the association between bookkeeping and financial control practices was also positive but weak ($r = 0.268, \alpha \leq 0.001$) Lastly, the correlation analysis results showed the existence of a positive and strong relationship between audit and financial control practices ($r = 0.435, \alpha \leq 0.001$).

3.3 Regression Analysis

Multiple regression analysis was used to determine how much the predictor variables could explain the variation in the dependent

variable. The results show that Technical skills of CBO officials, Internal controls systems and budgeting, Bookkeeping and Auditing explained 29.6% of variation in financial control practices. This means that other factors not included in the regression model accounted for 70.4%.

The ANOVA results indicated that there was a significant difference between means of factors influencing financial control practices in CBOs in Baringo County ($F_o = 14.890 > F_c = 2.37$; $\alpha < 0.05$; $df = 4, 129$; $p = 0.000$). The study, therefore, established that Technical skills,

Table 4. Auditing and financial control practices

Statements	Agree	Neutral	Disagree	χ^2	P-value
	Freq (%)	Freq (%)	Freq (%)		
Our CBO is audited annually	79 (59.4)	21 (15.8)	33 (24.8)	58.246*	0.000
Our CBO uses an appointed supervisory committee for audit purposes	76 (57.1)	24 (18.1)	27 (24.8)	56.060*	0.000
Our CBO performed well in the last audit	67 (50.4)	42 (31.6)	24 (18.1)	46.361*	0.000
The last audit recommendations have been fully implemented	75 (56.3)	32 (24.1)	26 (19.6)	49.519*	0.000
Audit plays a big role in controlling finances of the CBOs	99 (75.4)	17 (12.8)	17 (12.7)	72.256*	0.000

*Significant at 0.01 level

Table 5. Financial control practices

Statements	Agree	Neutral	Disagree	χ^2	P-value
	Freq (%)	Freq (%)	Freq (%)		
There is adequate allocation of resources for all activities in our CBO	48 (36.1)	35 (26.3)	50 (37.2)	19.293*	0.000
Projects are completed in time according to the planned budget	81 (60.9)	29 (21.8)	23 (17.3)	94.181*	0.000
Our CBO has accrued less debts in the last 2 years compared to the past	84 (63.4)	22 (16.5)	27 (20.3)	53.729*	0.000
There are fewer incidences of misappropriation of funds in our organization	104 (78.2)	6 (4.5)	23 (17.3)	89.293*	0.000

*Significant at 0.01 level; Key: SA=Strongly Agree; A=Agree; N=Neutral; D=Disagree and SD=Strongly Disagree, **Significant at 0.001 level

Table 6. Summary of correlations

		Technical skills	Internal controls	Bookkeeping	Auditing	Financial controls
Technical Skills	r	1				
	Sig. (2- tailed)					
Internal controls	r	0.192 [*]	1			
	Sig. (2- tailed)	0.027				
Bookkeeping	r	0.347 ^{**}	0.342 ^{**}	1		
	Sig. (2- tailed)	0.000	0			
Auditing	r	0.363 ^{**}	0.174 [*]	0.318 ^{**}	1	
	Sig. (2- tailed)	0.000	0.046	0.000		
Financial controls	r	0.478 ^{**}	0.220 [*]	0.268 ^{**}	0.435 ^{**}	1
	Sig. (2- tailed)	0.000	0.011	0.002	0.000	

** Correlation is significant at the 0.01 level (2-tailed)

Internal control systems and budgeting, Bookkeeping and Auditing were factors influencing the financial control practices of the CBOs in the area. This means that these factors made a notable difference in the financial control practices of the CBOs in the area and could not be ignored.

3.4 Hypotheses Testing

The multiple regression analysis results showed a significant influence of Technical Skills on financial control practices ($\beta = 0.347$, $\alpha = 0.005$; $p \leq 0.01$). This led to the rejection of the null hypothesis and implies that the management insists more on training technical skills of personnel in the CBO hence better financial management. These findings agree with those of Vincent and Emil [16] and also of Wanyama [17] who compared CBOs performance to the state as not having been as effective in service provision despite the advantages that they enjoy over the state as far as development are concerned. They attributed this to a number of factors, the chief among them being the technical skills of the CBO officials. These results showed an insignificant influence of internal control system and budgeting on financial control practices ($\beta = 0.095$, $p > 0.05$). This led to failure to reject the null hypothesis. This means that either the CBOs only emphasized on cash controls and ignored other important controls or internal controls and budgeting were no longer a concern to them. But the findings revealed a concern as regards budgetary controls whereby 43% of CBOs reported to have had budget variances in the previous reporting period. These findings are also consistent with those of Jowell [15] who found that development of credible budgets that are not out of pace with the planned

activities has always been an area of challenge for some civil society organizations. In fact CBOs were known to submit proposals with budgets way out of synchrony with the planned activities. These findings also agree with Kumar and Sharma [18] who concluded that internal control does not mean only internal check or internal audit, but the whole system of control, financial and otherwise, established by the management to run a business effectively. The insignificance of the influence of bookkeeping on financial control might be due to awareness of recording of transactions among CBOs. These findings contradicted those of Odindo [7] who found that many CBOs in Kenya fail due to either lack of transparency and accountability in the use of project funds or lack of proper records on how the funds are used. But the results of the dependent variable questions revealed that 78.2% of the respondents affirmed that there were fewer incidents of misappropriation of funds in their CBO, meaning that at least there was an element of lack of transparency and accountability.

The regression analysis showed a significant influence of auditing on financial control practices in CBOs in Baringo County. Testing the model Coefficient gave $\beta = 0.285$, and was found to be significant ($p \leq 0.001$), and this led to the rejection of the null hypothesis. These findings imply that auditing practices needed to be upheld in the CBOs in order to strengthen financial control practices. The findings are in line with those in the WVK capacity assessment report [13] which showed that some CBOs did not have well developed financial tracking systems to enhance their performance measurement. This underscores the role of auditing in making the

Table 7. Multiple regression results

	Unstandardized	Std. error	Standardized		Collinearity	VIF
	coefficients		Beta	t	statistics	
	B				Tolerance	
(Constant)	3.235	1.126	2.874	0.005		
Technical Skills	0.255	0.06	0.347	4.27	0.000	1.241
Internal controls	0.116	0.095	0.095	1.223	0.224	1.143
Bookkeeping	0.027	0.092	0.024	0.29	0.772	1.298
Auditing Controls	0.193	0.054	0.285	3.546	0.001	1.213
Model summary and ANOVA statistics						
R Square	0.318					
Adjusted R Square	0.296					
F	14.89					
Sig.	0.000					

Dependent Variable: financial control practices in CBOs

entire financial activities of the CBOs tractable, both in the short and long terms. Millichamp [19] also affirms that organizations should exercise stewardship when using the organization's resources and the work of audit will be 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.

4. CONCLUSIONS AND RECOMMENDATIONS

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. 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. Hypotheses 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 were insignificant factors.

The technical skills of the CBO officials in the area needed to be strengthened, especially with regard to spending priorities and all areas of financial control. CBOs should try as much as possible to have one member who is well trained in financial management to take an advisory role as regards financial management. Consequently, the CBO management should employ an accounting staff to oversee financial management. CBO officials can also chose to organize for bi-annual or periodic trainings in financial management where they engage experts or financial management institutions to train them.

Emphasis needs to be laid on the internal control systems and budgeting as most of the CBOs' internal control systems and budgeting techniques have not reached the desired level. Therefore, stakeholders including donors and government need to provide more training for the

CBO officials, especially in budgeting techniques. Studies revealed that budgeting is an important planning and control tool hence cannot be a statement of mere estimates.

Standardized reporting should be stipulated by the government in order to make the financial activities of the CBOs tractable through sharing of information on an acceptable and common platform. The government can borrow a leaf from South Africa where manuals have been prepared to assist CBOs in financial management. The manuals contain templates and formats of financial reporting and recording transactions. Auditing and monitoring should be routinely conducted to ensure policies are followed and plans executed in time. The state should provide free audit services to ensure the projects are well managed since the beneficiaries are communities who are members of the public.

Finally, scholars in the field of accounting need to develop easier training modules to encourage CBO officials from non-accounting professions to learn accounting and auditing comfortably. Government or NGOs can also help CBOs by providing them with resources and management assistance¹⁵. The following areas are recommended for further research: The effects of regulations governing funding of CBOs on their performance, the influence of ICT on the financial performance of CBOs and a study involving a larger sample and incorporating other sectors related to the CBOs. This will enable more generalized conclusions on the factors influencing financial control practices in CBOs.

CONSENT

In this study, the participants were given adequate information on the aims of the research, the procedures that would be followed, the possible advantages and disadvantages for the participants, the credibility of the research and the purpose for which the results were to be used. This enabled participants to make an informed decision on whether they wanted to participate in the research or not. All respondents, therefore, gave their free and informed consent to participate in this study anonymously. No form of deception or coercion was used to ensure the participation of the respondents.

ETHICAL APPROVAL

In this study, the researcher followed the following research ethics:

In order to conduct research at the CBOs, approval for conducting the research was obtained before any data were collected from the National Commission for Science, Technology and Innovation (NACOSTI) and the County Education Officers.

The researcher also sought consent from the overall management of the CBOs in the area to carry out the study. The authorities and the respondents were given the understanding that the findings were to be used to improve or strengthen the existing financial control practices and add to the body of knowledge for further research by academicians. The identity of respondents giving information was made private and confidential to prevent any victimization.

COMPETING INTERESTS

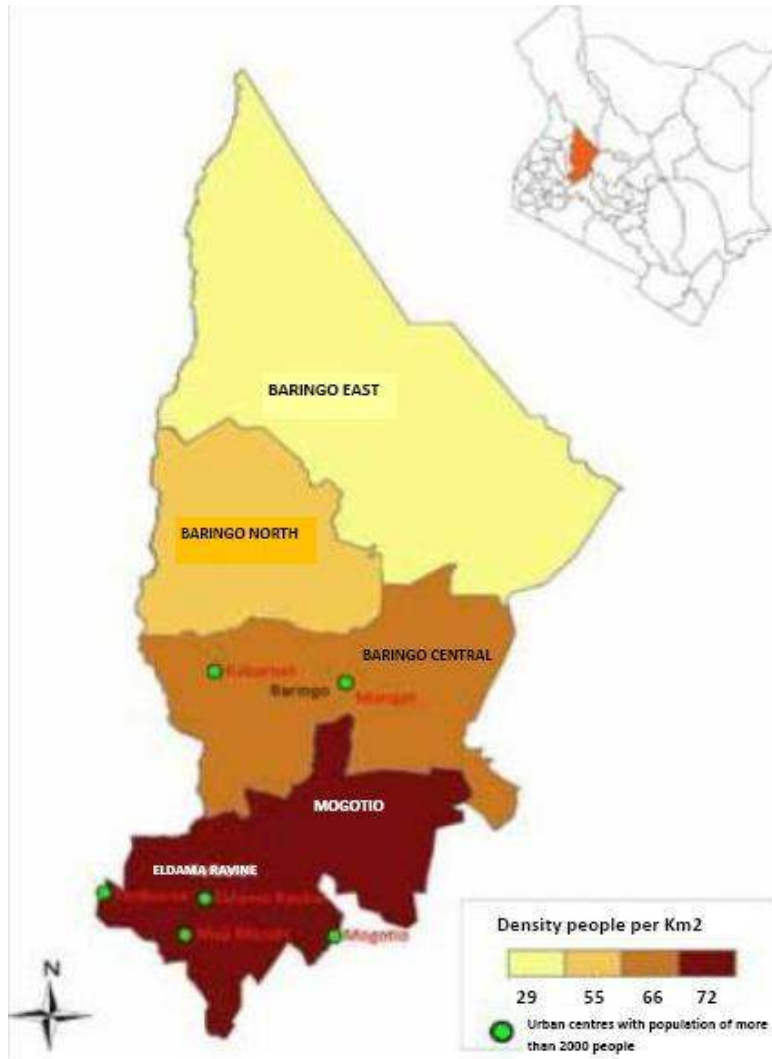
Authors have declared that no competing interests exist.

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APPENDIX

Baringo County is a county in Kenya. It has a Total Population of 555,561; 110,649 Households and covers an area of 11,015 SQ. KM. The Population density is 50 people PER SQ. KM and 58% of the population live below the poverty line.



Appendix 1. Map of Baringo County

Source: Kenya Mpya site

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