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MODERATING EFFECT OF FINANCIAL REPORTING ON THE RELATIONSHIP BETWEEN GOVERNANCE AND PERFORMANCE OF NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUNDS IN KENYA

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Abstract

The performance of most National Government-Constituencies Development Funds (NG-CDFs) has been poor and the role of financial reporting on the relationship between governance and NG-CDFs performance has been lacking. The study sought to establish the moderating effect of financial reporting on the relationship between governance and performance of NG-CDFs in Kenya. A census survey was carried out on all the 290 NG-CDFs performance in Kenya. A positivistic research philosophy and a descriptive cross-sectional survey design were used. Structured and unstructured questionnaires were used to collect primary data. Secondary data from 2014 to 2018 was obtained from the National Treasury, Kenya National Bureau of Statistics, the General Auditor's reports and NG-CDF website. Stepwise analysis was used to test the hypothesis at 95 percent confidence level. From the findings, financial reporting as a moderating variable had a significant effect on the relationship between governance and NG-CDFs performance. The study benefits policy makers in the NG-CDF regarding governance and financial reporting. The study suggests to the managerial practitioners especially in NG-CDF to consider strengthening governance interactions with financial reporting to enhance performance. The study made contributions to knowledge in the use of DEA technique to measure performance in NG-CDFs. Future studies need to use similar variables in the other funds such as youth fund, women fund among others to test similar hypothesis.

Key words: Financial reporting, Governance, National Government Constituencies Development Funds (NG-CDFs) Performance.

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Introduction

Many organizations require accurate and timely communicated financial reporting results for budget planning, innovation and bench marking for enhanced performance (Musili & Wepukhulu 2019). From the literature reviewed, there is enough empirical evidence that governance influences organizational performance. However, governance alone may not adequately explain variation in performance of organizations. Other variables are needed to mediate or moderate the relationship between governance and organizational performance. The variable is financial reporting which is important in moderating the relationships between governance and organizational performance. Financial reporting is a formal way of reporting financial performance and progress of organizations which captures Income statement, financial statement of assets and liabilities, cash flow statement, owners' statement of equity that are published periodically and dispatched via electronic and print media to the stakeholders to enable them make informed decision in their relationship with the organization (Gaitho, 2018)

Financial reporting communicates results which are free, fair and sufficient which help the management to measure performance and compare it from period to period and with similar organizations in the same industry (Mayne, 2017) hence encourage the entity to benchmark for improved budget planning, innovation and formulate strategies that result to enhanced performance. Finally, financial reporting motivates NG-CDFs to carry out self-performance evaluation appraisal using balanced score card to minimize resource wastage in order to achieve their objectives in provision of quality services (GoK, 2016).

Governance are policies, laws and regulations that direct the way an organization is managed and controlled resulting to improved performance and it is mainly concerned with the rule of law, participation of the relevant parties, full disclosure, transparency, installation of structures, equity and inclusiveness, accountability, efficiency and effectiveness (Buallay et al., 2018). According to Aluoch et al., (2018) governance is the proper management that requires strategies of information disclosure, transparency, organizational structure, accountability, legal frame work and sufficient and dependable information public service delivery and efficient resource allocation.

Governance is important to an organization because it installs organizational structures and procedures for making decisions, accountability, regulation and behavior at the organizations (Armstrong et al., 2005). Good governance for example motivates various stakeholders in their respective constituencies to contribute positively in project formulation and implementation. It also motivates local communities to form vigilant groups such as 'Nyumba kumi' which enhances security and instills discipline in the NG-CDFs.

According to Lee and Nowell (2015) performance is value addition to an entity's output which shows the organization's results. Organizational performance may be measured by cost effective analysis and the Data Envelopment Analysis (DEA) as suggested by Tavana et al. (2016). DEA measures performance using various inputs and outputs (Kimanzi et al., 2018). DEA evaluates performance of Decision Making Units (DMU) as per ratios that utilize several inputs to generate numerous output (Emrouznejad et al., 2010). Performance of NG-CDFs in Kenya is measured using DEA model based on consumer rights and standards requirements by the Constitution of Kenya (GoK, 2010). The study's DEA Model inputs were budget allocations, projects approved, operational costs incurred and employee remunerations while output included projects completed, projects efficiency, employee efficiency and operational efficiency. Customer satisfaction in NG-CDFs is achieved through the provision of quality education and security services to the citizens. Education and security quality services are measured for example by the number of projects completed as per schedule and reduction in crimes. Performance of NG-CDFs is computed to reflect efficiency in terms of the output- input ratio.NG-CDF was started by the CDF Act of parliament (2003) and revised several times. Its name changed from CDF to NG-CDF by the Act of parliament 2015.NG-CDF is to finance projects with immediate positive impact on the citizens, aimed at improving lives, alleviating poverty and bringing general development. The projects shall be in respect of national government functions that cover education and security. Despite the huge national expenditure, NG-CDFs' performance has been dismal. According to Okungu (2008), 70% of the constituencies have reported mismanagement, theft, fraud and misappropriation and that NG-CDFs issues are of political nature. These unacceptable performances of NG-CDFs have been attributed to widespread corruption and poor financial management which results from dismal adherence to financial reporting role and poor governance leadership practices (Okungu, 2008).

Research Problem

Financial reporting has a great influence on governance in terms of management of information disclosure in annual reports (Gaitho, 2018). Contextually, many state funds in Kenya such as water fund, Youth fund, and sports fund among others face financial crisis due to poor management of information disclosure, poor governance, improper financial reporting, fraud and corruption (Auditor General's Report, 2018). The 290 NG-CDFs are meant to initiate and implement projects in every community that cover education and security and ensure that the benefits reach all the citizens. However, the performance has been wanting despite of huge financial expenditure due to immense financial scandals, fraud, corruption and poor governance leading to public outcry (Okungu, 2008). For example, Auditor General report (2017) on the National Government constituencies fund (NG-CDF) thirteen constituencies cannot account for shs 571.7 million. According to NG-CDF Act each of the 290 constituencies gets a flat rate figure of shs105 million, with a certain percentage going towards administrative expenses. With sh1.36 billion as the cumulative figure for the 13 constituencies, the absence of 571.7 million means that about 800 million was spent, even though Kenyans did not get value for their money. Alego Usonga, Suna West, Homabay Town, Bomachoge Chache, Keiyo North, Nyatike, Uriri, Khwisero, and Rongo, South Mugirango, Nyando, Kuria East and Mbita were some of the constituencies that irregularly used taxpayers' money. The above challenges can be minimized through credible financial reporting and good governance.

Empirically, studies on the moderating effect of financial reporting on the relationship between governance and performance of NG-CDFs have not yet to come out with authoritative relationship between the two variables. There is an empirical gap since most researches concentrated on determining the association between governance and organizational performance. Also, it is evident that outcomes of these studies are conflicting. While some studies found out that good governance enhances performance (Dehaene et al, 2001) others found that governance had an inverse relationship between governance and entity's performance (Buallay et al., 2018). Some researchers found that financial reporting is related to organizational performance (Onakoya, 2014).

The effect of financial reporting as a moderating variable on the relationship between governance and NG-CDFs performance in Kenya is lacking. There are studies on NG-CDFs in Kenya but none exist on the relationship between governance and performance of NG-CDFs as moderated by financial reporting (Wamugu & Ogolla, 2017). Some studies used case study and longitudinal studies (Kibebe & Mwirigi, 2014, Onakoya, 2014). Therefore, the current study addressed the gaps demonstrated along conceptual, contextual, methodological and theoretical by answering the questions, what is the effect of financial reporting as moderating variable on the relationship between governance and NG-CDFs performance in Kenya?

Literature Review

Theoretical Review

The study was anchored on two main theories. They include agency and stewardship theories. The founders of the agency theory are Jensen and Meckling (1976). It alludes that agent problem is caused as a result of separation of ownership from the shareholders in which the agents manage the organization in regard to their selfish interests but not the principal's objectives (Jensen & Meckling, 1976). This behaviour escalates the cost of the company thus leading to principal agent conflict (Fama & Jensen, 1983). The theory suggests that the appointment of professional managers by the owners with strong mechanism to monitor the agents' misconducts will enhance performance (Power, 2000). Modovean and Mihrea (2001) suggests that the owners should install internal structures to monitor and oversight against management failure. The agent principal conflict can be minimized through proper remuneration of board of directors and installation of governance structures to lower agency costs (2010).

Power (2000) suggests that the major way of monitoring is through the final annual accounts whose credibility is enhanced by the audit report and financial reporting as well as employing different corporate mechanisms such as internal controls for monitoring purpose as a result of information asymmetry. The internal controls monitor and assures the stakeholders that all is well and watches the management's activities and advices the board on the same. Organizational controls ensure compliance with the regulatory laws and regulations. The weakness of agency theory however is that it only caters for the shareholders excluding the other stakeholders such as financial experts who might have offered their financial reporting expertise at no cost thus enhances performance.

The second theory that supports the study is stewardship theory as proposed by Donaldson and Davis (1991). Unlike agency theory, it states that directors are not driven by personal concern but by the principal's goals (Davis et al., 1997). It also proposes that managers who run organizations should be credible (Siebels & Knyphausen-Aufseb , 2012). The theory further alludes that the aim of governance is, precisely, to establish the mechanism and structures that ensures the most efficient coordination between the two groups (Letza et al., 2004). Additionally, the theory suggests that a steward protects and boosts the performance of the owners' wealth (Davis et al., 1997). Thus managers discharge their duties whole heartedly since their interests are non-financial since they are guided by work ethics for the achievement of the organization's goals.

The theory is relevant to the variables of the study in the sense that governance install organizational structures, upholds transparency and disclosure that reduce agency costs, mitigate monitoring and cost resulting to enhanced performance (Siddiqui et al. 2013). Internal controls ensure good governance in the organization through checks and balances thus the management strives to produce quality financial reporting information. Quality financial reporting aids users to make informed decisions for example the management uses the financial reporting information as a measurement of performance which eventually motivates it to carry out benchmarking for the benefit of formulating new budget plans and strategies meant to enhance performance.

The stewardship theory motivates NG-CDFs management committee in the 290 constituencies in Kenya to be good managers of the resources entrusted to them since the theory embraces servant leadership. The weakness of the theory is that stewards are not altruistic since in certain instances where managers believe that serving principals' interest also serves their own interest in which case the agents tend to think that the achievements of the entity directly impacts on the individual careers of the managers.

Empirical Review

Musili and Wepukhulu (2019) assessed the effect of financial reporting on organizational performance of public corporations under the ministry of Tourism in Kenya using descriptive research design. The sample size was 103 staff working in finance and auditing department which was obtained by use of Slovin's formula. Primary data was collected by use of semi-structured questionnaire. Data was analyzed using SPSS version 22. Pearson correlation analysis and multivariate regression were used to establish relationship among variables. The study found that financial reporting has significant effect on organizational performance of state corporations under the ministry of Tourism in Kenya. Studies carried out by Al-Dmour et al., (2018) examined the relationship between the quality of financial reporting and performance of non-financial business in public listed companies in Jordan and to investigate the impact of their demographic attributes (type, size and experience) on the quality of financial reporting. A questionnaire was administered to 239 respondents at public listed companies in Stock Amman Market database (2017). The findings were that the quality of financial reporting significantly influenced the performance of non-financial business and their demographic attributes positively impacted on the quality of financial reporting.

Buallay et al., (2018) investigated the impact of Corporate Governance on Firm performance of 171 listed companies in Saudi stock exchange (TADAUWL) for the period 2012 to 2014. Firm performance was measured using ROA, ROE and Tobin's Q. as well as controlling five variables in measuring the relationship between Corporate Governance and Firm Performance. The results were that governance level was 61.4% in Saudi stock exchange which was high in comparison to previous studies and that there was no significant impact of corporate governance on firm performance in the listed companies in Saudi stock exchange. Finally, the Tobin's Q had no significant impact on ownership of the largest shareholder and independency of Board of Directors on firm's market performance. Significant impact was found for the ownership and the size of the Board of Directors on firm's performance. Dehaene et al. (2001) investigated the relationship between board composition (number of directors, percentage of outside directors, chief executive (CEO) duality) and company performance (Return on asset (ROA) and return on equity (ROE)). The study used a sample of 122 Belgian companies and it analyzed the secondary data. The study found a significant positive relationship between percentage of outside director and ROE that is the more external performance.

The study by Onakoya (2014) on investigating the impact of corporate governance practices on bank performance in Nigeria examined nine banks from 2006 to 2010 and analyzed data by using regression test. The findings were that ownership structure and the board size are positively affected by the return on equity and negative effect return on assets as well as no effect of board structure on corporate governance practice. Wamugu and Ogollah (2017 investigated the Role of Stakeholders Participation on the Performance of Constituency Fund Development Projects in Mathira East Constituency, Nyeri county, Kenya using a descriptive research design. The study collected both quantitative and qualitative data via questionnaire. The population sample size was 85 local committee members in the financial year 2013/2014 obtained using stratified and simple random sampling techniques. The findings were that participation in initiation, participation in planning, participation in implementation and participation had a positive and significant effect on performance of CDF projects. Mwangu and Iravo (2015) did a study to establish whether the project monitoring and control efforts of the contractors and project supervisors contribute to an improved project outcome. A field survey was conducted on a population of a sample size of 45 respondents who were selected by stratified random sampling. Data was collected using structured questionnaires from contractors, beneficiary clients and consultants (Engineers from the ministry of public works who acted as project supervisor) and analyzed using Statistical Package for Social Sciences (SPSS, Version 16.0). The questions were ranked using likert scale. The results were that contractors and project supervisors apply monitoring tools to a certain level in their project operations thus yielding satisfactory levels of success and most constituency development fund projects were completed within the stipulated time frame and budget thus contributing to improved outcome

A case study done by Kibebe and Mwirigi (2014) in Kimilili constituency, Bungoma County, Kenya examined the selected factors that influence the implementation of constituency development fund development projects in Kimilili Constituency specifically to examine managerial factors and determine the social factors influencing effective implementation of CDF developed projects in the area. The methodology used was descriptive survey. A questionnaire was used to collect primary data from the target population of 103 households who were the beneficiaries of CDF developed projects in the area. The findings were that there was a significant relationship between managerial factors, and social factors and implementation of CDF projects in Kimilili Constituency.

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Conceptual Framework

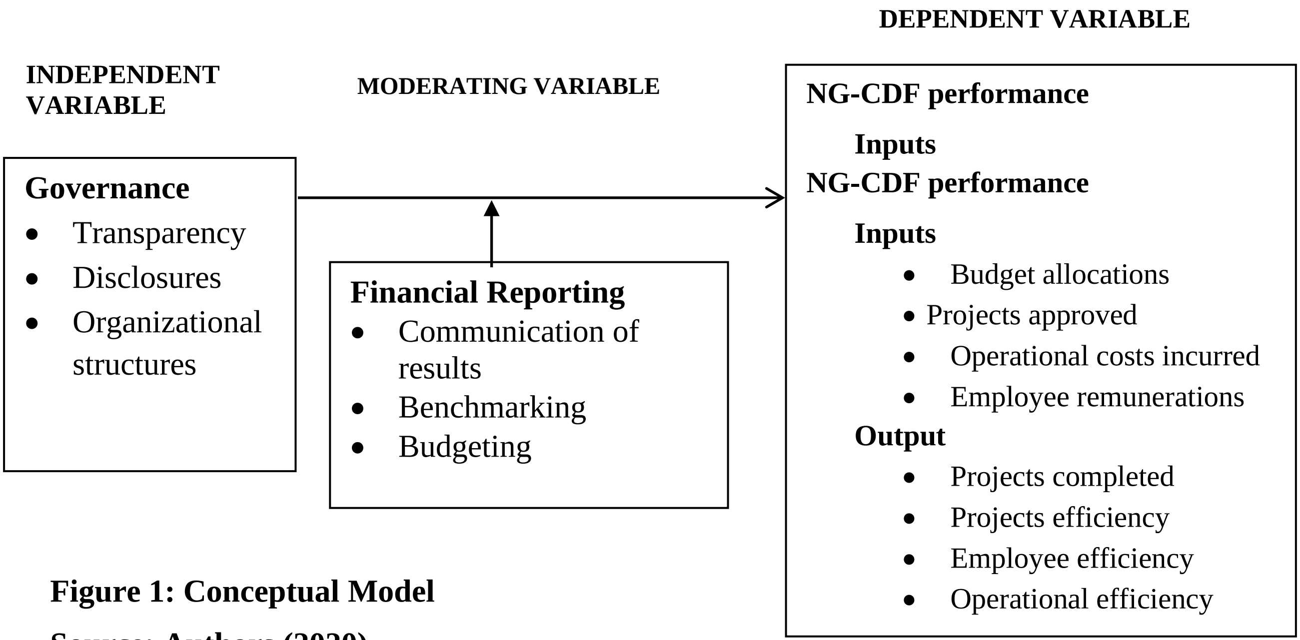

Figure 1: Conceptual Model

Source: Authors (2020)

Research Methodology

This study adopted cross-sectional survey design which is ideal for this study since it has clearly stated hypotheses (Cooper & Schindler, 2006). Data collection and other relevant costs were minimal as most of the secondary data was easily accessible from the National Treasury, Kenya National Bureau of Statistics, the General Auditor's reports and NG-CDF website.

The target population comprised of all the constituencies in Kenya that is the two hundred and ninety (290) NG-CDFs. In this case, the unit of analysis was NG-CDFs management. Either the chairperson or the secretary or the treasurer or the Fund account manager answered the questions resulting to one hundred and eight five respondents. The research study used both secondary and primary data collection mechanisms for triangulation purposes (Cooper & Schindler, 2006). Primary data was collected by self-administered questionnaire. The questionnaires consisted of both structured and unstructured questions prepared in line with the goals, theories upon which the study was anchored and empirical studies. The instruments were administered by a drop and pick later technique by research assistants who were recruited and trained. The data collection instruments were delivered to either the Chairperson or the Secretary or the Treasurer or the Fund Account Manager who were considered as best placed to have the required information. Secondary data on performance of NG-CDFs was collected for the period 2014 to 2018 from NG-CDFs reports which was computed and analyzed.

Information was sorted, coded and put into the Statistical Package for Social Sciences (SPSS) version 22 and analysed through descriptive and inferential statistics. Qualitative data was collected using Likert scale where composite indices were computed to enable determining the relationship of the independent variable, moderating and dependent variables. Data Envelopment Analysis (DEA) was used to examine performance of NG-CDFs in Kenya using input/output relationship. A decision-making unit where a score less

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than 100% is considered inefficient compared to other units. Main diagnostic tests including normality, multicollinearity, linearity and heteroscedasticity were undertaken to valid the proposed model(s).

Hierarchical regression model was used in line with suggestions of Baron and Kenny (1986) to establish the moderating effect of financial reporting on the relationship between governance and performance of NG-CDFs in Kenya was established. First a regression model (step 1) predicted performance of NG-CDFs in Kenya from both the predictor in this case governance and the moderator in this case financial reporting. Here we expect, a significant effect. Step 2, regression involving governance, financial reporting and performance of NG-CDFs. Here the moderator need to be insignificant. Step 3, add the interaction effect. If both moderator and interaction term are significant, then moderation is occurring. However, observe the following, if the predictor and moderator are not significant given addition of the interaction, then complete moderation is reported. Also, if the predictor and moderator are significant with the interaction term added, then moderation has occurred, however the main effects are also significant. The models tested in this hypothesis are as follows;

Y= f (Governance, Financial Reporting)

$Y= \alpha+ \beta_1X + \varepsilon$

$Y= \alpha+ \beta_1X+ \beta_2Z+\varepsilon$

$Y= \alpha+ \beta_1X+ \beta_2Z+\beta_3 X.Z + \varepsilon$

Where α =constant (intercept), $\beta_1, \beta_2, \beta_3$ are the regression coefficients. Y = Performance ; X= Aggregated score for governance, Z=financial reporting, X.Z = the interaction term of governance and financial reporting; ε -is an error term.

Data Analysis and Findings

The study targeted 280 respondents; however, the researcher received response from 185 respondents forming 66.07% response rate, which was considered to be adequate. This response rate is considered satisfactory to make conclusions for the study. Mugenda and Mugenda (2003) observed that a 50% response rate is adequate, 60% good while 70% rated very well. Such a high response rate for this study can be as a result of the use of trained research assistants who were equipped with skills on how to build rapport with respondents.

Table 1 and table 2 show the descriptive statistic of the variables under study which include number, mean, standard deviation, coefficient of variation for governance and financial reporting. The relationship between variables was tested by descriptive and inferential statistics. Stepwise analysis was used to test the hypothesis at 95 percent confidence level.

The financial reporting findings are presented in Table 1 in terms of mean scores, standard deviation, and coefficient of variation.

Table 1: Financial Reporting

	N	*Mean*	*Standard Deviation*	*CV %*
Communication	185	2.836	1.026	36
Bench marking	180	2.736	1.123	41

Budgeting	180	2.496	1.099	45

The average mean score of the statements depicting the manifestations of communication as the sub-variable of financial reporting was 2.836, standard deviation of 1.026 and CV of 36 percent. The statements depicting bench marking gave an average mean score of 2.736, standard deviation of 1.123 and coefficient of variation of 41. The average mean score of the statements depicting the manifestations of budgeting was 2.496, standard deviation of 1.099 and coefficient of variation of 45.

Table 2 below shows the descriptive statistic of governance in terms of numbers, mean, standard deviation, and coefficient of variation. The relationship between variables was tested by descriptive and inferential statistics.

Table 2: Governance

	N	*Mean*	*Standard Deviation*	*CV %*
Transparency	185	3.34	1.05	33
Disclosure	185	3.42	1.068	31
Organizational structure	184	3.36	1.121	34

The average mean score of the statements depicting the manifestations of transparency as the sub-variable of governance was 3.34, standard deviation of 1.05 and CV of 33 percent. The statements depicting disclosure gave an average mean score of 3.42, standard deviation of 1.068 and coefficient of variation of 31. The average mean score of the statements depicting the manifestations of organizational structure was 3.36, standard deviation of 1.121 and coefficient of variation of 34 percent.

Performance of NG-CDFs in Kenya

DEA Model inputs included: budget allocations, projects approved, operational costs incurred and employee remunerations. The outputs were: projects completed, projects efficiency, employee efficiency and operational efficiency. The findings are shown in Table 3.

Table 3: Performance of NG-CDFs in Kenya

Range/Statistic	*Frequency*	*Value*
0.0 to 0.3	81	43.78%
0.31 to 0.6	85	45.95%
0.61 to 0.9	17	9.18%
0.91-1	2	1.08%
Mean		0.37368

Standard Error	0.0214
Median	0.333523
Mode	0.454532
Standard Deviation	0.182824
Sample Variance	0.025175
Kurtosis	0.063122
Skewness	0.543802
Range	0.94742
Minimum	0.05054
Maximum	1
Sum	105.8571
Count	185
Confidence Level (95.0%)	0.032132

Source: Researcher (2020)

The findings shown in table 3 indicates that (45.95%) of NG-CDFs were moderately inefficient with efficiency score of between 0.31 and 0.6. It was also established that 43.78% of NG-CDFs were inefficient with efficiency score of 0.3 and below. Further findings indicate that the performance of 9.18% of NG-CDFs was above average with efficiency score ranging from 0.61 and 0.9. Only 2 NG-CDFs representing 1.08% were found to be efficient with efficiency score of 1. The mean efficiency score was 0.37368 which is below average. In order to increase efficiency, NG-CDFs should decrease the level of resources and investments and/or increase the production factors.

Hypothesis Testing

Table 4 show the findings of moderating effect of financial reporting on Governance and NG-CDFs Performance. The step wise regression was employed comprehensively.

Table 4: The Moderation effect of financial reporting on relationship between Governance and NG-CDFs Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.447[a]	.215	.202	.17543
2	.453[b]	.249	.208	.17407
3	.459[a]	.326	.256	.16325

a. Predictors: (Constant), Governance

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b. Predictors: (Constant), Governance, Financial Reporting

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.895	1	1.895	49.868	.000[b]
	Residual	6.901	181	.038		
	Total	8.796	182			
2	Regression	1.826	2	.913	50.722	.000[c]
	Residual	3.202	180	.018		
	Total	5.028	182			
3	Regression	.307	3	.102	2.040	.026[d]
	Residual	8.95	179	.050		
	Total	9.257	182			

a. Dependent Variable: Performance (Efficiency Score)

b. Predictors: (Constant), Governance

a. Predictors: (Constant), Governance, Financial Reporting

b. Predictors: (Constant), Governance, Financial Reporting, Interaction Term

Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	.286	.017		16.824	.000
	Governance	.049	.007	.398	7.062	.000
2	(Constant)	.238	.019		12.526	.000
	Governance	.356	.015	.163	23.733	.000
	Financial reporting	.104	.062	.089	1.677	.082
3	(Constant)	.097	.016		6.063	.000
	Governance	.765	.394	.287	1.942	.056
	Financial reporting	-.198	.118	-.078	-1.680	.087

Interaction Term (G*F)	-.062	.051	-096	-1.223	.125

a. Dependent Variable: Performance (Efficiency Score)

Source: Researcher (2020)

The result in Table 4 on the moderating effect of financial reporting on the relationship between governance and NG-CDFs performance was computed using three steps. In model one the result shows that the association between governance and NG-CDFs performance was moderate and significant (R=.447[a,] R^2=0.215, F=49.868, P-value<0.05). In model two (R= .453[a,] R^2=.249, F=50.722, P-value<0.05) which was strong and significant and in model three (R= .459[a,] R^2=0.326, F=2.04, P-value<0.05) which is strong and significant at 5% level, suggesting presence of a moderating effect in model three after an interaction term is introduced.

The value of the interaction term (G*F) had a negative and non-significant influence (β=- .062, t=1.223, P>0.05). In addition, the respective effects of governance and financial reporting in the third model after introduction of an interaction term turned to be statistically insignificant thus confirming a presence of complete moderation effect of financial reporting. This finding fails to support the null hypothesis that there is no significant moderating effect of financial reporting on the association between governance and performance of NG-CDFs in Kenya.

CONCLUSION

From the literature, financial reporting transparency reduces governance-related agency conflicts among managers, directors, and shareholders. This triggers performance of the respective organizations. The study sought to establish the moderating effect of financial reporting on the relationship between governance and performance of National Government-Constituencies Development Funds (NG-CDFs) in Kenya. The study was anchored on agency and stakeholder theories. Primary and secondary data were collected from NG-CDFs. From 280 questionnaires issued to the respondents, 185 were returned forming 66%. Stepwise analysis was used to test the hypothesis at 95 percent confidence level which led to the rejection of the null hypothesis and concluded that financial reporting had significant moderating effect on the association between governance and performance of NG-CDFs in Kenya.

Recommendations

Based on the study findings, the study recommends to the CDF board to ensure that all NG-CDFs have homogeneous governance practices and adherence to financial reporting mechanisms that ensure performance in the NG-CDFs that improves the citizens' welfare. The government can as a result develop policies that ensures NG-CDFs focus more of their resources in these areas to ensure enhanced performance. For improved performance of NG-CDFs the management should ensure existence of sound financial reporting practices that include timely communication of the financial reports, proper budget planning and innovation. Financial reporting when properly modeled and incorporated in the analysis has a potential significant effect on performance in organizations.

Areas for Further Study

The study dwelt on establishing the moderating effect of financial reporting on the relationship between governance and performance of NG-CDFs in Kenya. It prompted matters that could be considered for further research. The study applied both primary and secondary data through the administration of a questionnaire and analyzing the books of accounts and the financial reports. There is need to consider other primary sources of data such as observation, interviewing, video recording and photographing. In addition, a longitudinal study would also likely to produce complimentary results to this study. Similar variables can be observed within functional categorizations of the other funds such as National Hospital Insurance Fund Water Fund, Youth Fund and Women Fund among others.

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