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The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com
Vol. 12, Iss.2, pp 211 – 233, April 17, 2025. www.strategicjournals.com, © Strategic Journals

FINANCIAL REPORTING QUALITY AND FINANCIAL SUSTAINABILITY OF NON-PROFIT ORGANIZATIONS IN NAIROBI COUNTY KENYA

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Accepted: April 7, 2025

DOI: http://dx.doi.org/10.61426/sjbcm.v12i1.3208

ABSTRACT
This study examined the effect of financial reporting quality on financial sustainability of non-profit organizations in Nairobi County, Kenya. The target population consisted of 1388 registered non-profit organizations in Nairobi County, with the financial accountant or their equivalent as the target respondent. A sample size of 311 respondents was selected using stratified sampling and Yamane's formula. Data was collected through structured questionnaires and analyzed using descriptive and inferential statistics, including means, standard deviations, correlations, and regression analysis with the aid of SPSS version 27. The results were presented in tables and figures, accompanied by relevant interpretations. Regression results showed a significant positive relationship between the accuracy of financial reports and financial sustainability, indicating that improved accuracy in reporting enhances financial stability and long-term sustainability. Transparency in financial reporting has a direct, positive effect on financial sustainability, emphasizing that clear, accessible reports foster donor trust and support long-term financial viability. Strict adherence to financial reporting standards like IFRS positively affects financial sustainability, suggesting that compliance boosts credibility and strengthens donor trust, contributing to long-term stability. Timely financial reporting positively impacts financial sustainability, highlighting that providing up-to-date, accurate financial data strengthens stakeholder trust and encourages continued funding, ensuring financial health. The study found that accuracy, transparency, compliance with IFRS, and timely financial reporting positively influence the financial sustainability of non-profit organizations in Nairobi. It was recommended that organizations improve internal controls, enhance accessibility and clarity of reports, ensure consistent IFRS compliance, and strengthen systems for timely reporting to foster donor trust, enhance credibility, and support long-term sustainability.

Key Words: *Financial Report Accuracy, Financial Reporting, IFRS Compliance, Donor Trust*

CITATION: Omaru, R., & Miroga, J., Otinga, H. (2025). Financial reporting quality and financial sustainability of non-profit organizations in Nairobi County Kenya. *The Strategic Journal of Business & Change Management,* 12 (2), 211 – 233. http://dx.doi.org/10.61426/sjbcm.v12i1.3208

INTRODUCTION

In donor-funded non-profit organizations, financial reporting quality is critical for fostering donor trust, ensuring resource allocation efficiency, and achieving long-term sustainability. Globally, non-profit organizations play a pivotal role in addressing societal challenges, particularly in sectors such as education, healthcare, and disaster relief. However, Smith et al. (2023) discovered their ability to attract and retain donors often hinges on the quality of financial reporting, which includes accuracy, transparency, compliance with standards, and timeliness. High-quality financial reports not only enhance accountability but also build donor confidence by demonstrating the proper utilization of funds and alignment with organizational goals (Johnson & Lee, 2024).

In Europe, compliance with IFRS has been pivotal in bolstering the credibility of non-profits. European organizations, such as Oxfam International, have adopted rigorous reporting practices that integrate timely financial disclosures, ensuring alignment with donor expectations and regulatory requirements (Richards & DeVries, 2023). Furthermore, Harrison and Bell (2022) argue adherence to IFRS enhances cross-border funding opportunities by standardizing financial information, making it comparable and reliable across regions. Organizations that comply with such global standards gain a competitive edge in donor retention and operational efficiency (Nguyen & Tran, 2023).

Botswana provides a noteworthy example of the role of transparency in donor-funded initiatives. Non-profits in the country, such as the Botswana Network on Ethics, Law and HIV/AIDS (BONELA), have prioritized clear and comprehensive financial disclosures to address donor concerns about fund utilization (Sebele & Mokgatlhe, 2023). Additionally, timely financial reporting has enhanced donor satisfaction, allowing these organizations to secure continuous funding (Motshabi & Mpho, 2023). These practices highlight the need for robust financial management systems to build trust and ensure operational efficiency (Dube & Nyathi, 2023).

Correspondingly, timely financial reporting has been instrumental in addressing donor concerns over fund utilization and project effectiveness. For example, organizations working in arid and semi-arid regions, such as ActionAid Kenya, have adopted real-time financial tracking systems to provide regular updates to donors, enhancing transparency and stakeholder engagement (Mwangi & Otieno, 2024). However, local non-profits in Kenya often face challenges such as inadequate training on financial reporting and limited access to advanced reporting tools, which hinder their ability to meet the growing demands of stakeholders (Chege & Nduta, 2023).

Statement of the Problem

Financial reporting quality is widely acknowledged as a critical factor in building donor trust and ensuring the sustainability of non-profit organizations. Globally, organizations that prioritize accuracy, transparency, compliance with standards, and timely reporting have demonstrated improved donor retention and enhanced operational efficiency. For instance, in North America, leading non-profits like the Bill & Melinda Gates Foundation have effectively utilized transparent financial reporting to secure long-term donor relationships and maintain funding streams (Jackson & Cooper, 2022). Similarly, in Europe, organizations such as Oxfam International have leveraged compliance with IFRS to enhance credibility and attract cross-border funding (Richards & DeVries, 2023). These cases illustrate how high-quality financial reporting can strengthen accountability and build trust among stakeholders, ensuring organizational sustainability and growth.

The disparity between organizations that achieve excellence in financial reporting and those facing challenges highlights the necessity for customized approaches to improve reporting quality. Successful organizations often invest in capacity building, adopt robust financial management systems, and align their practices with international standards, while those that face challenges are frequently limited by financial and technical constraints. Given these disparities, this study sought to establish the effect of financial reporting quality specifically accuracy, transparency, compliance with IFRS, and timeliness on financial sustainability of non-profit organizations in Nairobi County, Kenya.

Research Objectives

The general research objective was to establish the effect of financial reporting quality on financial sustainability of non-profit organizations in Nairobi County, Kenya. The study was guided by the following specific objectives:

- To determine the effect of accuracy of financial reports on financial sustainability of non-profit organizations in Nairobi County, Kenya.
- To establish the effect of transparency in financial reporting on financial sustainability of non-profit organizations in Nairobi County, Kenya.
- To assess the effect of compliance with financial reporting standards on financial sustainability of non-profit organizations in Nairobi County, Kenya.
- To determine the effect of timely financial reporting on financial sustainability of non-profit organizations in Nairobi County, Kenya.

LITERATURE REVIEW

Theoretical Review

Agency Theory

In the context of this study, Agency theory offers a critical lens for exploring how financial reporting quality encompassing accuracy, transparency, compliance, and timeliness—reduces information asymmetry between non-profits and donors. It provides a framework for understanding how robust financial disclosures and adherence to reporting standards enhance accountability and foster donor trust. This theory is particularly relevant in donor-funded projects, where trust is integral to securing sustained contributions and achieving organizational sustainability. By examining the role of financial reporting as a mechanism for reducing agency costs, the study highlights the importance of aligning donor expectations with organizational practices to promote effective resource management and long-term funding stability.

Stakeholder Theory

In this study, Stakeholder theory provides a vital framework for exploring how financial reporting quality influences donor trust in non-profit organizations. It highlights the importance of aligning financial management practices with donor expectations, ensuring transparency, accountability, and inclusivity in reporting. By examining the role of stakeholder-focused financial reporting, this study aims to demonstrate how addressing stakeholder concerns fosters trust and sustainability in donor-funded projects.

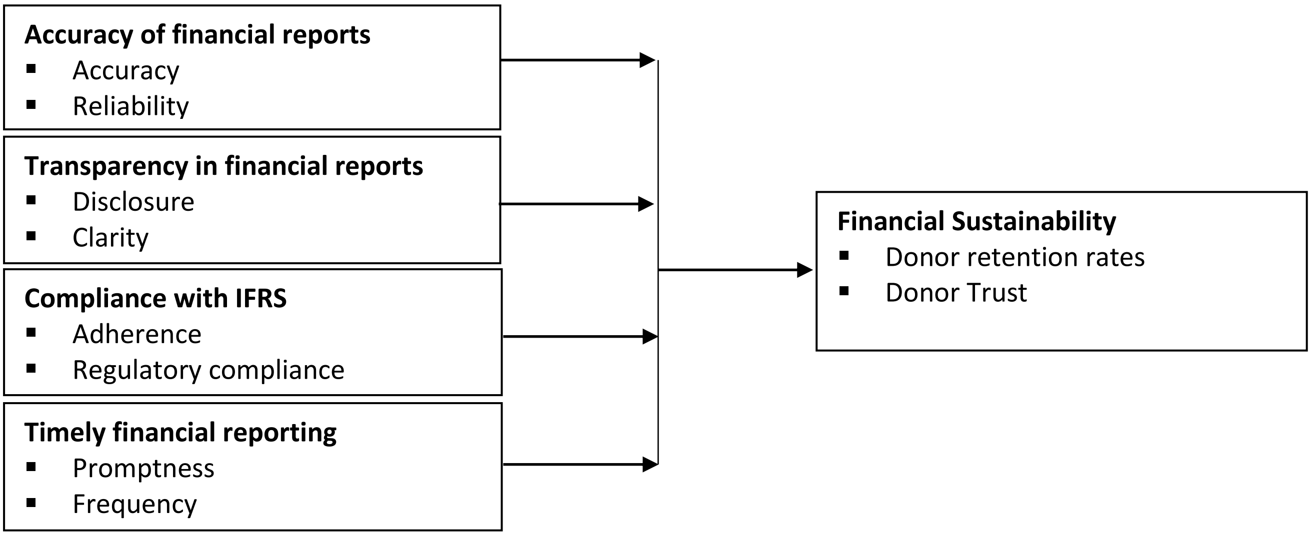
Institutional Theory

In this study, Institutional theory serves as a critical framework for exploring the role of financial reporting quality in enhancing donor trust in non-profit organizations. By focusing on adherence to IFRS and regulatory requirements, the study highlights how compliance fosters legitimacy, accountability, and transparency. The theory underscores the importance of aligning financial practices with stakeholder expectations to build trust and ensure the sustainability of donor-funded projects.

Resource Dependence Theory

Resource Dependence theory provides a lens to explore how financial reporting quality influences donor trust in non-profit organizations. By ensuring accurate, transparent, and timely reporting, non-profits can strengthen their relationships with donors, reduce uncertainties, and secure sustainable funding. The theory underscores the importance of effective resource management and trust-building in mitigating donor dependence and enhancing the sustainability of non-profit operations.

Conceptual Framework



Independent Variables **Dependent Variable**

Figure 1: Conceptual Framework

Source: Author (2024)

Empirical Review of Literature

Kamau and Wanjiru (2024) conducted a study in Kenya to examine the effect of financial transparency on donor retention among local non-profits. Data was gathered from 140 non-profit managers and analyzed using multiple regression analysis. The results indicated that transparency explained 65% of the variance in donor retention. Additionally, 79% of respondents reported that detailed financial disclosures reduced donor skepticism and improved funding continuity. This study emphasizes the critical role of transparency in fostering donor loyalty in the Kenyan non-profit sector.

Omondi and Achieng (2024) explored the impact of financial reporting practices on donor satisfaction among non-profits organizations in Kenya. Data was collected from 130 financial officers, and structural equation modeling was used for analysis. The study found that financial reporting practices explained 62% of the variance in donor satisfaction. Furthermore, 80% of respondents highlighted that regular updates and clear reporting formats significantly enhanced donor trust and engagement. These findings underscore the relevance of financial reporting quality in improving donor satisfaction within the Kenyan context.

METHODOLOGY

This study adopted a descriptive research design, which was well-suited for examining phenomena in their current state and analyzing the dimensions of financial reporting quality—accuracy, transparency, compliance with IFRS, and timeliness—and their impact on donor trust in non-profit organizations. By utilizing statistical tools such as means, standard deviations, and correlational analysis, this design allowed for the identification of patterns and relationships between the study variables. The descriptive approach ensured a detailed understanding of how financial reporting practices influenced donor trust, making it an appropriate framework for achieving the research objectives (Mugenda & Mugenda, 2012).

This study targeted these non-profit organizations to assess the effect of financial reporting quality on donor trust. The target respondents were financial accountants within these NGOs, as they were directly responsible for preparing financial reports and engaging with donors. Their insights provided valuable information on the effect of financial reporting quality on financial sustainability

The sampling technique is the method used to select participants or units from the population, ensuring that the research captures relevant and accurate data (Creswell & Creswell, 2023). This study adopted stratified sampling techniques to determine the sample size from the 1,388 registered NGOs in Nairobi County, Kenya. Stratified sampling ensured proportional representation by dividing the population into distinct categories (strata) such as health, education, environment, social services, economic development, and others. Within each stratum, Yamane's (1967) formula was used to select individual respondents, ensuring every member of the target population had an equal chance of being chosen. These techniques were ideal for enhancing representativeness and minimizing sampling bias. The study used Yamane's (1967) formula to calculate the sample size.

For this study, primary data was collected to comprehensively address the research objectives. The data was gathered using a structured questionnaire, which was chosen because it aligned with the study's descriptive design and was effective for capturing respondents' perceptions and opinions systematically. The questionnaire employed a 5-point Likert scale, providing clarity and precision, allowing respondents to express their level of agreement or disagreement with specific statements. The scale ranged from one (strongly disagree) to five (strongly agree), facilitating the quantification of subjective opinions into measurable data. To ensure clarity and focus, the questionnaire was divided into sections. Section A covered the respondents' demographic characteristics, while Section B addressed accuracy of financial reports, Section C evaluated transparency in financial reporting, Section D examined compliance with IFRS standards, and Section E looked at the timeliness of financial reporting. Section F explored financial sustainability, capturing dimensions such as donor retention, satisfaction, and confidence. This structured approach ensured comprehensive data collection that was directly aligned with the study's objectives, facilitating a thorough analysis of the relationship between financial reporting quality and financial sustainability in non-profit organizations.

Respondents were provided with a letter requesting their voluntary participation, along with an introduction letter addressed to the management of targeted non-profit organizations to seek permission for data collection. The questionnaire was pretested to ensure clarity, relevance, and effectiveness in gathering the required data. Research assistants were engaged to facilitate the distribution and collection of questionnaires. For respondents accessible online, Google Forms was used, while physical delivery and later collection were arranged for those not reachable digitally. To encourage participation and ensure a high response rate, all respondents were assured of confidentiality and anonymity throughout the research process.

For this research, a pilot test involved 30 respondents, representing approximately 10% of the target population, selected from non-profit organizations in Nairobi. These participants completed the questionnaire to highlight any ambiguities or inconsistencies, and their feedback was used to refine the instrument. To ensure the validity of the final study, the respondents from the pilot test did not participate in the main research.

Data analysis refers to the process of organizing and refining raw data in a structured and systematic manner to make it easier to interpret and understand (Burns & Burns, 2018).

In this study, the researcher began by reviewing the collected questionnaires to determine the response rate and ensure completeness and accuracy. Any incomplete or inadequate responses were excluded to maintain the reliability and validity of the analysis. Each response in the completed questionnaires was assigned unique codes and scored to facilitate data entry. The coded data was entered into SPSS version 27 for analysis. Descriptive statistical methods, such as weighted means and measures of dispersion, were used to summarize the data and provide insights into the characteristics of the study variables. Inferential statistics were also applied to examine relationships and test hypotheses, using tools such as Pearson Correlation, Model Summary, ANOVA, and Coefficients. A linear regression model was developed for each study variable based on the statistical coefficients obtained

FINDINGS AND DISCUSSION

The study targeted 311 respondents and successfully distributed questionnaires to all of them, receiving responses from 252 participants which yielded a response rate of 81.0%. According to Oben, (2021), a response rate above 60% is considered adequate for a study, while a response rate below 60% is deemed inadequate. Sammut, Griscti & Norman, (2021) also echoed this sentiment, categorizing a response rate below 60% as poor and above 60% as adequate. Therefore, the response rate achieved in this study was significantly above the adequacy threshold set by these scholars as shown in Table 1

Table 1: Response rate for questionnaires

	Number	Percentage
Administered	311	100
Returned	252	81%
Not returned	59	19%

Descriptive statistics were used to define and describe the characteristics of a data set and the results were presented using minimum, maximum, means, standard deviations and coefficient of variation of the variables under consideration. The independent variables included: Accuracy of financial reports, Transparency in financial reporting, Compliance with financial reporting standards and Timely financial reporting. The questions were based on a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The respondents were asked to designate their level of agreement based on the scale.

Accuracy of financial reports

The analysis of the responses on accuracy of financial reports as shown in table 2 below:

Table 2: Accuracy of Financial Reports

Accuracy of financial reports	N	Min	Max	Mean	S.D	CV(%)
The financial reports provided by our organization are free from material misstatements or errors.	252	1	5	3.81	1.07	28.1%
The financial data in our reports accurately represents the organization’s financial position and performance.	252	1	5	3.69	1.02	27.6%
The organization ensures all financial reports are prepared using reliable and verified financial data.	252	1	5	4.07	1.15	28.3%
Financial reports are consistently prepared in accordance with applicable accounting principles and standards.	252	1	5	4.12	1.12	27.2%
Regular audits are conducted to validate the accuracy of financial reports before they are shared with stakeholders.	252	1	5	3.77	1.04	27.6%
The organization has effective internal controls in place to ensure the accuracy of financial information.	252	1	5	3.57	1.06	29.7%
Overall Score	**252**			**3.84**	**0.694**	**28.1%**

With a mean score of 3.84, respondents largely agree that financial reports in the organizations they represent are generally accurate and reliable. However, the presence of variability in responses, as indicated by the standard deviation (S.D.) of 0.694, suggests that perceptions on the accuracy of financial reports may differ. The coefficient of variation (CV) of 28.1% highlights a moderate level of dispersion, implying that while the majority of respondents acknowledge the accuracy of financial reports, some variability exists, possibly indicating room for occasional financial reporting manipulation or errors.

One of the items received a mean score of 4.12, reflecting respondents' belief that financial reports are prepared in accordance with applicable accounting principles and standards. This strong agreement suggests that organizations are striving to maintain high standards in financial reporting. However, the S.D. of 1.12 and the CV of 27.2% signal that, while most respondents affirm adherence to accounting standards, there is a degree of variation in this view. The differences may point to inconsistencies in how these standards are applied, possibly due to differences in organizational size, resources, or expertise.

A mean score of 4.07 indicates that respondents generally agree that financial data in reports accurately represents the organization's financial position and performance. This suggests a high level of confidence in the accuracy of financial data. Nevertheless, the standard deviation of 1.15 and CV of 28.3% suggest that there may be discrepancies in how accurately data is perceived or reported across different organizations. This variability could be influenced by the complexity of financial operations, with some organizations reporting more detailed or accurate data than others.

The statement regarding internal controls received a mean score of 3.57, indicating that while respondents somewhat agree that their organizations have effective internal controls in place to ensure the accuracy of financial information, there is room for improvement. The relatively low mean score, combined with a higher standard deviation (S.D. of 1.06) and a CV of 29.7%, points to significant variability in perceptions of internal controls. Some respondents may feel that internal controls are lacking or ineffective, which could lead to concerns about the accuracy of financial reporting. This finding highlights that robust internal control systems are critical for ensuring the consistency and reliability of financial data, as also emphasized by Chakrabarti et al. (2022), who noted that organizations with stronger controls typically experience fewer discrepancies in their financial reports.

Regular audits were seen as a critical factor in validating the accuracy of financial reports, receiving a mean score of 3.77. This implies that organizations recognize the importance of auditing in ensuring accuracy, but the S.D. of 1.04 and CV of 27.6% indicate some variability in how effectively audits are perceived or implemented. While some organizations may conduct regular, thorough audits, others may face challenges in this area due to resource constraints or other operational limitations.

While most respondents agree that financial reports are largely accurate, the findings suggest that variations in internal control systems, the accuracy of data reporting, and the application of auditing practices indicate that there is room for improvement. These results align with Mitchell (2020), who stressed that accurate financial reporting requires both strong internal controls and systematic auditing processes. Non-profit organizations in Nairobi County should focus on enhancing these areas to improve their overall financial reporting quality, which could lead to increased financial sustainability and stakeholder trust.

Transparency in financial reporting

Respondents were asked to indicate the level of agreement effect of transparency in financial reporting on the financial sustainability of non-profit organizations in Nairobi County, Kenya and the results are as presented in Table 3

Table 3: Transparency in Financial Reporting

Transparency in financial reporting	N	Min	Max	Mean	S.D	CV%
The financial reports provided by our organization include all necessary details for stakeholders to understand the organization's financial status.	252	1	5	4.01	1.115	27.8%
The organization regularly discloses financial information to stakeholders in a clear and understandable format	252	1	5	3.58	1.183	33.0%
Stakeholders have easy access to financial reports whenever they are needed	252	1	5	3.65	1.132	31.0%
Financial reports are presented in a manner that is free from ambiguity or hidden information.	252	1	5	3.79	1.188	31.3%
The organization ensures that financial disclosures comply with the relevant regulations and stakeholder expectations.	252	1	5	3.76	1.252	33.3%
Feedback from stakeholders regarding the clarity and transparency of financial reports is actively sought and incorporated.	252	1	5	3.86	1.123	29.1%
Score Overall	**252**			**3.78**	**1.17**	**30.9%**

With an overall mean score of 3.78, respondents generally agree that transparency in financial reporting plays a significant role in the financial sustainability of non-profit organizations in Nairobi County, Kenya. This suggests that a majority of respondents perceive their organizations as striving for transparency, but the moderate standard deviation (S.D.) of 1.17 and the coefficient of variation (CV) of 30.9% indicate some variability in how transparency is practiced. While most respondents view transparency positively, there is room for improvement across different organizations.

The statement regarding the inclusion of all necessary details for stakeholders to understand the organization's financial status received a mean score of 4.01, suggesting that respondents largely agree that financial reports are sufficiently detailed and informative. The S.D. of 1.115 and CV of 27.8% indicate moderate variability in responses, reflecting the possibility that some organizations may still fall short of providing comprehensive and clear information. Ezzamel et al. (2019) emphasized that transparency in financial reporting is essential for building stakeholder trust, and the inclusion of all necessary details is crucial for enabling stakeholders to assess an organization's financial health.

Respondents also somewhat agreed (mean = 3.58) that their organization regularly discloses financial information to stakeholders in a clear and understandable format. However, the relatively higher S.D. of 1.183 and CV of 33.0% suggest that there are discrepancies in the clarity and accessibility of these disclosures. Some organizations might struggle with presenting information in a user-friendly manner, leading to challenges in ensuring full stakeholder understanding. This finding aligns with Harrison & McMillan (2021), who noted that clear and accessible financial reporting fosters better stakeholder relationships and enhances the overall accountability of non-profits.

The statement on stakeholder access to financial reports, with a mean score of 3.65, further indicates moderate agreement that financial information is accessible when needed. The S.D. of 1.132 and CV of 31.0% reflect some variability in how easy it is for stakeholders to access this information. This variability suggests that while some organizations provide easy access to their financial reports, others may face challenges in ensuring stakeholders can promptly access up-to-date financial data. The issue of accessibility is critical, as Moss & Kuo (2020) highlighted that stakeholder engagement and trust are significantly enhanced when organizations provide timely and accessible financial information.

A mean score of 3.79 was recorded for the statement about presenting financial reports free from ambiguity or hidden information. This reflects a moderate to strong agreement among respondents that their organizations prioritize clarity and openness. However, the higher S.D. of 1.188 and CV of 31.3% suggest some variability in how well organizations communicate their financial status without ambiguity. Transparency in financial reporting requires not only accuracy but also clarity, and Solomon et al. (2020) stressed that ambiguity or hidden information can significantly undermine stakeholder trust, which is key to ensuring long-term financial sustainability.

The statement regarding compliance with relevant regulations and stakeholder expectations received a mean score of 3.76. This suggests that organizations are generally striving to meet the regulatory requirements and expectations regarding financial disclosures. The higher S.D. of 1.252 and CV of 33.3% reflect substantial variability, indicating that some organizations may face challenges in aligning their financial reporting practices with regulatory and stakeholder expectations. Zhang & Zuo (2022) similarly found that adherence to regulatory frameworks strengthens the credibility of financial reports and contributes to organizational sustainability by maintaining compliance and meeting stakeholder needs.

Lastly, the statement regarding actively seeking and incorporating feedback from stakeholders about the clarity and transparency of financial reports had a mean score of 3.86, indicating that organizations make an effort to engage with stakeholders and improve their reporting practices. The S.D. of 1.123 and CV of 29.1% reflect some variability in how well organizations collect and act on stakeholder feedback. This finding is consistent with Bashir & Shaikh (2021), who suggested that non-profits that incorporate feedback from stakeholders can adapt their practices to better meet the needs of their audiences, thereby strengthening both financial sustainability and donor trust.

Respondents generally agree that transparency in financial reporting is a priority, the findings indicate room for improvement in certain areas, including clarity, accessibility, and stakeholder engagement. Organizations that aim to enhance financial sustainability should focus on improving these aspects of transparency, as Guthrie et al. (2021) emphasized that transparent practices foster stronger stakeholder relationships and contribute to the long-term viability of non-profit organizations.

Compliance with financial reporting standards

The study sought to assess the effect of compliance with financial reporting standards on the financial sustainability of non-profit organizations in Nairobi County, Kenya and the results are as presented in Table 4.

Table 4: Compliance with financial reporting standards

Compliance with financial reporting standards	N	Min	Max	Mean	S.D	CV%
The financial reports prepared by our organization strictly adhere to IFRS	252	1	5	4.47	1.115	24.95
Our organization regularly updates its financial reporting practices to align with changes in IFRS	252	1	5	4.29	1.183	27.56
The organization ensures all financial statements meet the required IFRS disclosure requirements.	252	1	5	4.36	1.132	25.95
External audits confirm that our financial reports are compliant with IFRS standards	252	1	5	4.13	1.188	28.75
Training and capacity-building initiatives are provided to staff to enhance understanding and implementation of IFRS	252	1	5	4.27	1.252	29.36
Compliance with IFRS enhances the credibility and reliability of our financial reports among stakeholders.	252	1	5	4.33	1.123	25.91
The financial reports prepared by our organization strictly adhere to IFRS	252	1	5	4.11	1.17	27.08
Our organization regularly updates its financial reporting practices to align with changes in IFRS	252	1	5	4.34	1.17	27.44
Overall Score	**252**			**4.29**	**1.17**	**27.12**

As shown in Table 4, the results from the analysis of compliance with financial reporting standards indicate that respondents generally perceive a high level of adherence to financial reporting standards in their organizations, with an overall mean score of 4.29. This reflects strong agreement that compliance with financial reporting standards, particularly IFRS (International Financial Reporting Standards), is a key factor in the financial sustainability of non-profit organizations in Nairobi County, Kenya. The moderate standard deviation (S.D.) of 1.17 and the coefficient of variation (CV) of 27.12% suggest that while there is general consensus, some variability exists in how compliance is implemented across different organizations.

One of the statements, “The financial reports prepared by our organization strictly adhere to IFRS,” received a mean score of 4.47, which suggests that respondents strongly agree that their organizations strictly follow IFRS guidelines when preparing financial reports. The S.D. of 1.115 and CV of 24.95% indicate moderate variability, implying that while most organizations comply, there are occasional deviations. Mihaila & Popescu (2020) noted that adherence to IFRS is essential for ensuring consistency and transparency in financial reporting, which in turn enhances organizational credibility and sustainability.

Another statement, “Our organization regularly updates its financial reporting practices to align with changes in IFRS,” recorded a mean score of 4.29, showing that respondents largely agree that their organizations keep their financial reporting practices in line with the latest updates to IFRS. The relatively higher S.D. of 1.183 and CV of 27.56% indicate some variation in the extent to which organizations update their reporting practices. Some organizations may lag behind in implementing changes, while others are more proactive. This finding supports Perroni & Mandić (2021), who highlighted that staying current with IFRS changes is crucial for maintaining compliance and enhancing the reliability of financial reports.

The statement, “The organization ensures all financial statements meet the required IFRS disclosure requirements,” had a mean score of

4.36, suggesting that respondents generally agree that their organizations meet IFRS disclosure requirements. The S.D. of 1.132 and CV of 25.95% indicate moderate variability in the responses, meaning that while most organizations meet disclosure standards, there are some differences in how well they do so. Oliviero et al. (2021) emphasized that compliance with disclosure requirements not only ensures legal adherence but also strengthens stakeholder confidence, making it an essential element for the long-term sustainability of non-profits.

When asked about external audits confirming compliance with IFRS standards, the mean score was 4.13, reflecting general agreement among respondents that their financial reports are externally audited to confirm IFRS compliance. However, the higher S.D. of 1.188 and CV of 28.75% suggest greater variability in this practice across different organizations. Some non-profits may be subject to regular audits, while others may not adhere to the same level of scrutiny. Gulzar & Zainab (2020) found that external audits provide an additional layer of assurance regarding financial integrity and can significantly improve the trustworthiness of financial reports, which is crucial for donor confidence.

In response to the statement, “Training and capacity-building initiatives are provided to staff to enhance understanding and implementation of IFRS,” the mean score was 4.27, showing strong agreement that organizations invest in training programs for staff. The higher S.D. of 1.252 and CV of 29.36% suggest some variability in the availability and quality of training, with some organizations possibly offering more comprehensive programs than others. Krause & Steger (2020) emphasized that capacity building is vital for ensuring that staff have the necessary skills and knowledge to implement financial reporting standards accurately.

The statement on the influence of IFRS compliance on the credibility and reliability of financial reports among stakeholders received a mean score of 4.33. Respondents largely agree that complying with IFRS enhances the credibility of their reports. The moderate S.D. of 1.123 and CV of 25.91% reflect that while most organizations recognize the importance of compliance in enhancing credibility, there is some variability in how stakeholders perceive the effectiveness of these practices. Nguyen et al. (2022) concluded that financial credibility, driven by strict adherence to reporting standards, is a key factor in ensuring long-term donor trust and organizational sustainability.

Finally, the statement “The financial reports prepared by our organization strictly adhere to IFRS,” with a mean score of 4.11, and the statement “Our organization regularly updates its financial reporting practices to align with changes in IFRS,” with a mean score of 4.34, both indicate strong agreement with compliance. These findings further emphasize the importance of continuous alignment with IFRS standards to ensure the reliability of financial reports.

The findings suggest that respondents generally perceive their organizations as adhering to IFRS standards and updating their practices to remain compliant. However, some variability in compliance practices exists, particularly in terms of auditing, training, and the application of disclosure requirements. This aligns with Lo et al. (2021), who found that while compliance with financial reporting standards is critical for enhancing transparency and sustainability, gaps in implementation and variability in practices can still affect the overall effectiveness of financial reporting within non-profits.

Timely financial reporting

The study sought to evaluate the respondents’ level of agreement on the effect of timely financial reporting on financial sustainability of non-profit organizations in Nairobi County, Kenya. The results are as presented in Table 5

Table 5: Timely financial reporting

Timely financial reporting	N	Min	Max	Mean	S.D	CV%
The organization ensures that financial reports are prepared and shared with stakeholders within the stipulated timeframes.	252	1	5	3.21	1.110	34.6%
Financial reporting schedules are strictly adhered to without unnecessary delays.	252	1	5	3.19	1.090	34.2%
Stakeholders are promptly notified of any delays or changes in financial reporting timelines.	252	1	5	3.53	1.089	30.8%
The organization uses efficient systems and processes to ensure timely preparation of financial reports.	252	1	5	2.98	1.197	40.2%
Timely financial reporting is prioritized to support informed decision-making by stakeholders.	252	1	5	4.04	1.182	29.3%
Delays in financial reporting, when they occur, are appropriately justified and minimized.	252	1	5	3.66	1.322	36.1%
Overall Score	**252**			**3.44**	**1.16**	**34.2%**

As shown in Table 5, he results for the dimension of timely financial reporting suggest a moderate level of agreement among respondents regarding the timely preparation and sharing of financial reports, with an overall mean score of 3.44. The standard deviation (S.D.) of 1.16 and coefficient of variation (CV) of 34.2% indicate some level of variability in the responses, suggesting that while some organizations excel at timely reporting, others may face challenges in meeting deadlines consistently.

The statement "The organization ensures that financial reports are prepared and shared with stakeholders within the stipulated timeframes" received a mean score of 3.21, indicating a moderate agreement among respondents. This score suggests that while many organizations aim to meet reporting deadlines, delays are relatively common. The S.D. of 1.110 and CV of 34.6% reflect a wide range of opinions on the matter, with some respondents strongly agreeing, while others report challenges in meeting timeframes. Bovens et al. (2014) highlighted that timely financial reporting is critical for building trust with stakeholders and supporting informed decision-making. Therefore, delays may hinder the ability of stakeholders to make timely, well-informed decisions.

The statement "Financial reporting schedules are strictly adhered to without unnecessary delays" received a similar mean score of 3.19, showing that respondents generally agree that financial reporting schedules are followed, but delays do occur. The relatively low score, along with an S.D. of 1.090 and a CV of 34.2%, indicates some inconsistency in how well organizations adhere to schedules. Allen et al. (2020) emphasized that a well-structured financial reporting schedule enhances operational efficiency and trust, which are essential components of financial sustainability for non-profits.

The statement "Stakeholders are promptly notified of any delays or changes in financial reporting timelines" recorded a higher mean score of 3.53, reflecting a stronger agreement that, when delays occur, stakeholders are informed. The S.D. of 1.089 and CV of 30.8% suggest moderate variation in responses, with most respondents affirming that delays, when they happen, are communicated effectively to stakeholders. This finding aligns with López & Santos (2020), who noted that transparency about reporting delays is essential for maintaining stakeholder trust and ensuring the credibility of the organization.

For the statement “The organization uses efficient systems and processes to ensure timely preparation of financial reports,” respondents gave a mean score of 2.98, indicating a weaker agreement. This lower score, combined with the high S.D. of 1.197 and CV of 40.2%, suggests significant variation in the effectiveness of the systems and processes used for timely financial reporting across organizations. While some organizations may have robust systems in place, others appear to face challenges in ensuring timely reporting. Yahya & Ahmed (2019) found that inadequate systems for financial management can lead to delays in reporting, which, in turn, can negatively impact financial sustainability by diminishing stakeholder confidence.

The statement “Timely financial reporting is prioritized to support informed decision-making by stakeholders” received a mean score of 4.04, reflecting strong agreement that timely reporting is considered important for supporting decision-making. The S.D. of 1.182 and CV of 29.3% indicate a moderate level of variability in responses, with most respondents affirming that timely financial reports play a crucial role in supporting decision-making. Micheli & Mari (2021) argued that timely financial information is essential for non-profit organizations to make strategic decisions and demonstrate their effectiveness to donors, thus contributing to financial sustainability.

The statement “Delays in financial reporting, when they occur, are appropriately justified and minimized” had a mean score of 3.66, indicating that respondents generally agree that when delays occur, they are justified and minimized. The higher S.D. of 1.322 and CV of 36.1% show more variability in responses, suggesting that some organizations may have effective strategies to minimize delays, while others may struggle with justifying or explaining delays. This finding is consistent with Zhao & Gao (2019), who highlighted that organizations that proactively address and justify delays in reporting are more likely to maintain stakeholder confidence and avoid negative impacts on their financial sustainability.

Financial sustainability of non-profit organizations in Nairobi County, Kenya

Respondents were asked to indicate the level of agreement on various statements aimed at determining the financial sustainability of non-profit organizations in Nairobi County, Kenya and the results are as presented in Table 6.

Table 6: Quality Financial Reporting

Quality Financial Reporting	N	Min	Max	Mean	S.D	CV
Using donor funds responsibly helps the organization stay financially stable due to donor confidence.	252	1	3	3.79	0.610	16.1%
Regular updates on project outcomes help retain donor support and improve financial sustainability.	252	1	3	3.80	0.608	16.0%
Accurate and clear financial reports help build trust and support long-term funding.	252	1	4	3.90	0.757	19.4%
Following proper reporting standards increases donor confidence and boosts financial stability.	252	1	4	3.98	0.827	20.8%
High accountability and transparency in finances enhance donor satisfaction and long-term support	252	1	4	4.04	0.880	21.8%
Strong financial performance and timely reporting encourage donor loyalty and sustain funding over time	252	1	4	4.04	0.880	21.8%
Overall Score	**252**			**3.93**	**0.81**	**19.3%**

As shown in Table 6, With a mean score of 3.79, respondents largely agreed that using donor funds responsibly contributes to the organization's financial stability by fostering donor confidence. The standard deviation (S.D.) of 0.610 and coefficient of variation (CV) of 16.1% suggest a low level of variability in responses, indicating a consistent view among respondents regarding the importance of responsible fund usage. This finding underscores the significance of managing donor funds effectively, as it directly impacts the organization's ability to maintain donor trust and secure ongoing financial support. Bennett & Savani (2018) highlighted that donor confidence is a key driver of financial sustainability, as donors are more likely to continue their support when they believe funds are being used effectively.

Respondents generally agreed with a mean score of 3.80 that regular updates on project outcomes help retain donor support and improve financial sustainability. The low S.D. of 0.608 and CV of 16.0% indicate a high level of consensus on the importance of keeping donors informed. Providing updates on project outcomes not only strengthens donor relationships but also enhances financial sustainability by ensuring continued funding. According to Johnson & Reilly (2019), regular communication with donors fosters long-term partnerships and ensures that organizations remain accountable and transparent, which is critical for maintaining financial stability.

The statement that "Accurate and clear financial reports help build trust and support long-term funding" received a mean score of 3.90, reflecting strong agreement among respondents. The S.D. of 0.757 and CV of 19.4% indicate moderate variability in responses, suggesting that while most respondents recognize the role of financial clarity in securing funding, some may see it as less critical. The importance of accurate financial reports in establishing trust with donors and sustaining funding is well-documented. Vannoni & Hossain (2017) argue that transparent and accurate financial reporting not only builds donor trust but also enables organizations to plan and allocate resources more effectively, thereby enhancing their financial sustainability.

With a mean score of 3.98, respondents strongly agreed that adherence to proper reporting standards increases donor confidence and boosts financial stability. The S.D. of 0.827 and CV of 20.8% suggest a moderate level of variability in responses, although the overall agreement is clear. Adhering to financial reporting standards is a key component of organizational credibility, as it assures stakeholders that the financial reports are reliable and accurate. Cohen & Karabell (2018) emphasized that compliance with international reporting standards, such as IFRS, is vital for maintaining the integrity of financial reporting, which in turn strengthens the financial sustainability of non-profit organizations.

Respondents strongly agreed with a mean score of 4.04 that high accountability and transparency in finances enhance donor satisfaction and long-term support. The S.D. of 0.880 and CV of 21.8% indicate slightly higher variability in responses, but the general consensus remains that transparency is crucial for sustaining donor relationships and ensuring long-term financial support. López & Santos (2020) highlighted that accountability and transparency are essential for fostering trust and loyalty among donors, which are directly linked to the financial sustainability of non-profits.

The statement "Strong financial performance and timely reporting encourage donor loyalty and sustain funding over time" also received a mean score of 4.04, indicating a strong belief among respondents that both financial performance and timely reporting play significant roles in donor retention. The S.D. of 0.880 and CV of 21.8% show some variability, but the overall agreement suggests that donors are more likely to continue funding organizations that demonstrate consistent financial health and adhere to reporting timelines. This finding aligns with Graham & Simon (2019), who noted that both financial performance and timely reporting are critical factors in building donor loyalty and ensuring sustained financial suppor

Inferential Statistics

Inferential statistical analysis was conducted to establish the effect of independent variables of financial reporting quality namely, accuracy of financial reports, transparency in financial reporting, compliance with financial reporting standards and timely financial reporting on dependent variable of financial sustainability of non-profit organizations in Nairobi County, Kenya. Statistical significance of the relationship was also determined to indicate whether to reject or accept the null hypotheses stated for the study. Pearson Moment Correlation Coefficient Analysis model was used to establish the association between accuracy of financial reports, transparency in financial reporting, compliance with financial reporting standards and timely financial reporting. Multiple Regression Analysis model was used to establish the level of significance of combined financial reporting quality and financial sustainability of non-profit organizations in Nairobi County, Kenya.

Diagnostic Tests

Diagnostic tests were conducted to verify that the assumptions of the multiple logistic models have not been violated. The diagnostic tests conducted included test of normality, , test of multicollinearity and test of linearity.

Test of Normality

Test of normality was done to ascertain whether data were derived from a population that follows a normal distribution. The test used Kolmogorov Smirnov test and histogram to test for normality. The results for Kolmogorov Smirnov test are shown in Table 7.

Table 7: Kolmogorov Smirnov test

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	Df	Sig.
Accuracy of financial reports	.034	252	.073	.990	252	.078
Transparency in financial reporting	.035	252	.101	.991	252	.107
Compliance with financial reporting standards	.035	252	.091	.990	252	.094
Timely financial reporting	.053	252	.081	.990	252	.090
Financial sustainability	.033	252	.077	.990	252	.081

Source: Study Data (2024)

The results in Table 7 show that the Kolmogorov-Smirnov significance values for Accuracy of financial reports, Transparency in financial reporting, Compliance with financial reporting standards, Timely financial reporting and financial sustainability of non-profit organizations in Nairobi County, Kenya are 0.078, 0.107, 0.094, 0.090, 0.059, and 0.081, respectively. These significance values are all above the commonly used threshold of 0.05, indicating that the data for these variables do not significantly deviate from a normal distribution. Consequently, the assumption of normality required for multiple regression analysis is not violated, and the data can be considered normally distributed, allowing for the reliable application of multiple regression analysis in the study.

Correlation Analysis

Correlation analysis was conducted to evaluate the strength and direction of the relationships between accuracy of financial reports and the financial sustainability of non-profit organizations in Nairobi County, Kenya. Using Pearson product-moment correlation, the analysis generated correlation coefficients ranging from -1 to +1, indicating the degree of association between variables. A coefficient close to +1 signifies a strong positive relationship, while a coefficient close to -1 indicates a strong negative relationship (Saharan et al., 2020). The correlation coefficients were tested at a 95% confidence level with a significance threshold (p-value) of 0.05. Correlation values with p-values below 0.05 were considered statistically significant, indicating a meaningful relationship between financial reporting quality and the financial sustainability of non-profit organizations in Nairobi County, Kenya. The results were shown in Table 8.

Table 8: Pearson Correlation Matrix

		AFR	TFR	CFRS	TFR
AFR: Accuracy of financial reports	Correlation Coefficient	1			
	Sig. (2-tailed)				
	N	252			
TFR: Transparency in financial reporting	Correlation Coefficient	.499**	1		
	Sig. (2-tailed)	.000			
	N	252	252		
CFRS: Compliance with financial reporting standards	Correlation Coefficient	.467**	.520**	1	
	Sig. (2-tailed)	.000	.000		
	N	252	252	252	
TFR: Timely financial reporting	Correlation Coefficient	.369**	.380**	.368**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	252	252	252	252
Financial Sustainability	Correlation Coefficient	562**	.619**	.548**	.454**
	Sig. (2-tailed)	.000	.000	.000	.000
	N	252	252	252	252

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

*. Correlation is significant at the 0.05 level (2-tailed).

The correlation between accuracy of financial reports (AFR) and financial sustainability is 0.562, with a p-value of 0.000, which is statistically significant at the 0.01 level. This positive correlation suggests a moderate direct relationship between the accuracy of financial reports and financial sustainability. In other words, as the accuracy of financial reports increases, financial sustainability tends to increase. This result indicated that organizations that focus more on maintaining detailed and accurate financial reports may always emphasize the broader strategic goals needed to sustain their finances. This finding is consistent with Saharan et al. (2020), who found that overly stringent accuracy requirements might divert resources away from other financial sustainability initiatives.

The correlation between transparency in financial reporting (TFR) and financial sustainability is 0.619, with a p-value of 0.000, which is statistically significant at the 0.01 level. This positive correlation indicates a strong relationship between transparency and financial sustainability. The stronger the transparency in financial reporting, the higher the financial sustainability of the organization. This finding aligns with existing literature, such as Bennett & Savani (2018), which highlighted that transparent reporting practices increase donor trust and, consequently, improve long-term financial sustainability.

The correlation between compliance with financial reporting standards (CFRS) and financial sustainability is 0.548, with a p-value of 0.000, which is statistically significant at the 0.01 level. This positive relationship suggests that strict adherence to financial reporting standards enhances the financial sustainability of non-profit organizations. Compliance with standards such as IFRS fosters credibility and reliability in financial reporting, which strengthens donor confidence and attracts sustained funding. Cohen & Karabell (2018) also emphasized the importance of compliance with reporting standards as a means of boosting stakeholder confidence, which in turn supports financial stability.

The correlation between timely financial reporting (TFR) and financial sustainability is 0.454, with a p-value of 0.000, which is statistically significant at the 0.01 level. While this positive correlation is relatively moderate, it still indicates that timely reporting contributes positively to financial sustainability. Timely reporting ensures that stakeholders receive up-to-date information to make informed decisions, thereby fostering trust and ensuring continued funding. Graham & Simon (2019) found that timely financial reporting not only helps in decision-making but also reinforces donor loyalty, which is a key driver of financial sustainability.

Multiple Linear Regression

The multiple linear regression analysis was conducted to establish the effect of financial reporting quality on the financial sustainability of non-profit organizations in Nairobi County, Kenya. The regression model included four predictors: Accuracy of financial reports, Transparency in financial reporting, Compliance with financial reporting standards, and Timely financial reporting. The results of the regression analysis are summarized in Table 9.

Table 9: Model Summary Regression

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.726[a]	.527	.519	.54147

a. Predictors: (Constant), Timely financial reporting, Compliance with financial reporting standards, Transparency in financial reporting, Accuracy of financial reports

b. Dependent Variable: Financial sustainability of non-profit organizations in Nairobi County, Kenya

The R value of 0.726 indicates a moderate to strong positive correlation between the independent variables (financial reporting quality measures) and the dependent variable (financial sustainability). This suggests that the predictors in the model collectively have a substantial impact on the financial sustainability of non-profit organizations in Nairobi County. The R Square (R^2) value of 0.527 means that approximately 52.7% of the variation in financial sustainability can be explained by the combined effect of the independent variables (timely financial reporting, compliance with financial reporting standards, transparency in financial reporting, and accuracy of financial reports). This value is considered moderately high in social science research, indicating that these financial reporting practices contribute significantly to the financial sustainability of the organizations studied. The Adjusted R Square of 0.519 is slightly lower than the R Square value, which is common as it accounts for the number of predictors in the model. The adjusted R^2 is a more accurate reflection of the model's explanatory power when multiple predictors are included. This value suggests that the independent variables, after adjusting for the number of predictors, still explain about 51.9% of the variance in financial sustainability.

The model summary indicates that financial reporting practices—specifically timely reporting, compliance with standards, transparency, and accuracy—have a significant explanatory power in predicting the financial sustainability of non-profit organizations. With over 52% of the variance in financial sustainability explained by these variables, it is clear that the quality of financial reporting plays a crucial role in ensuring the long-term financial stability of these organizations.

This finding is consistent with previous research by Bennett & Savani (2018), who also found a strong relationship between financial reporting quality and the financial sustainability of non-profit organizations. Additionally, it aligns with the work of Saharan et al. (2020), who emphasized that proper financial reporting practices are critical in building donor trust and ensuring sustained funding, which directly impacts financial sustainability.

Table 10: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	80.553	4	20.138	68.687	.000[b]
	Residual	72.418	247	.293		
	Total	152.971	251			

a. Dependent Variable: Financial sustainability of non-profit organizations in Nairobi County, Kenya
b. Predictors: (Constant), Timely financial reporting, Compliance with financial reporting standards, Transparency in financial reporting, Accuracy of financial reports

The Analysis of Variance (ANOVA) test was conducted to determine whether the regression model statistically and significantly predicts the financial sustainability of non-profit organizations in Nairobi County, Kenya. The F-statistic (4,247) =68.687, p = 0.000) suggests that the regression model is highly significant, meaning that the independent variables (Timely financial reporting, Compliance with financial reporting standards, Transparency in financial reporting, and Accuracy of financial reports) collectively have a statistically significant effect on the dependent variable (Financial sustainability of non-profit organizations in Nairobi County, Kenya). The p-value (0.000) is less than 0.05, confirming that the model is not due to random chance and that at least one of the independent variables significantly predicts financial reporting quality.

Table 11: Regression Coefficient

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	5.189	.209		24.792	.000
Accuracy of financial reports	.195	.043	.242	4.523	.000
Transparency in financial reporting	.249	.042	.330	5.969	.000
Compliance with financial reporting standards	.199	.053	.203	3.753	.000
Timely financial reporting	.127	.038	.165	3.355	.001

a. Dependent Variable: Financial sustainability of non-profit organizations in Nairobi County, Kenya

The first regression model then becomes;

$Y = 5.189+0.195X_1+0.249 X_2+0.199 X_3++0.127X_4$

The constant (intercept) is 5.189, which represents the baseline level of financial sustainability when all independent variables are zero. This value suggests that, in the absence of any financial reporting practices, non-profit organizations would have a baseline level of financial sustainability at 5.189.

For the accuracy of financial reports, the coefficient is 0.195. This indicates that for each unit increase in the accuracy of financial reports, the financial sustainability of the non-profit organization is expected to increase by 0.195 units, assuming all other factors remain constant. The positive coefficient suggests that there is a beneficial relationship between the accuracy of financial reports and the financial sustainability of the organization.

The coefficient for transparency in financial reporting is 0.249, which means that for each unit increase in transparency, the financial sustainability of non-profit organizations is expected to increase by 0.249 units, while holding all other variables constant. This positive relationship underscores the importance of transparency in maintaining the financial stability of these organizations.

With a coefficient of 0.199, compliance with financial reporting standards shows that a one-unit increase in compliance with these standards is associated with a 0.199 unit increase in financial sustainability. This suggests that adhering to proper financial reporting standards positively contributes to the financial health of non-profit organizations.

Finally, the coefficient for timely financial reporting is 0.127. For each unit increase in timely financial reporting, financial sustainability increases by 0.127 units, while holding other factors constant. Although this coefficient is smaller compared to the others, it still indicates a positive effect, highlighting the importance of meeting financial reporting deadlines in maintaining financial stability.

Discussion of the Findings

Accuracy of financial reports

For the accuracy of financial reports, the coefficient is 0.195. This indicates that for each unit increase in the accuracy of financial reports, the financial sustainability of the non-profit organization is expected to increase by 0.195 units, assuming all other factors remain constant. The positive coefficient suggests that there is a beneficial relationship between the accuracy of financial reports and the financial sustainability of the organization. The positive relationship between the accuracy of financial reports and financial sustainability, as observed in this study, is supported by a number of empirical studies. For instance, Surifah and Rofiqoh (2020) found that accuracy in financial reporting significantly enhances financial sustainability in state-owned enterprises in Indonesia, emphasizing that maintaining accurate financial records improves long-term organizational transparency and sustainability. Similarly, Aljawaheri, Ojah, and Almagtome (2021) highlighted that real earnings manipulation (REM), which distorts the accuracy of financial reports, leads to reduced stakeholder trust and weakened financial stability. Their findings align with the current study, suggesting that avoiding manipulative practices in financial reporting enhances sustainability.

However, some studies contradict these findings. Willyarto and Soehaditama (2023) suggested that an overly strict adherence to the accuracy of financial reports could inhibit organizational flexibility, thereby impairing long-term sustainability. They argued that too much precision in reporting may introduce unnecessary complexities into financial management, which can reduce a non-profit organization's ability to adapt to changing financial conditions. Additionally, Ali and Tseng (2023) contended that an overly rigorous focus on reporting accuracy could limit the organization's responsiveness, potentially stifling its decision-making capabilities. This view contrasts with the current study's conclusion that enhancing the accuracy of financial reports always leads to improved financial sustainability.

Transparency in Financial Reporting (CE):

The coefficient for transparency in financial reporting is 0.249, which means that for each unit increase in transparency, the financial sustainability of non-profit organizations is expected to increase by 0.249 units, while holding all other variables constant. This positive relationship underscores the importance of transparency in maintaining the financial stability of these organizations. The study's finding of a positive relationship between transparency in financial reporting and financial sustainability is supported by research from Ericksen (2021), who emphasized the importance of transparent financial reporting in East African colleges. Transparency in how funds are allocated and categorized strengthens stakeholder trust and helps maintain financial stability, which is crucial for securing continued funding. Similarly, Mahdi Sahi et al. (2022) confirmed that transparent financial practices lead to more accurate and reliable financial reporting, which enhances the financial sustainability of non-profit organizations. Their research, conducted in East Africa, corroborates the current study's positive correlation between transparency and sustainability.

However, the current findings are contradicted by studies suggesting that excessive transparency could have adverse effects. Kimuyu (2022) argued that overly detailed financial disclosures could overwhelm stakeholders, leading to confusion and mistrust rather than enhancing sustainability. Similarly, Abed et al. (2022) cautioned that excessive transparency could expose organizations to undue scrutiny, potentially diminishing donor confidence, particularly in complex financial environments. This viewpoint suggests that too much transparency could unintentionally undermine trust and financial stability, contrary to the positive effects observed in this study.

Compliance with financial reporting standards (VAL):

With a coefficient of 0.199, compliance with financial reporting standards shows that a one-unit increase in compliance with these standards is associated with a 0.199 unit increase in financial sustainability. This suggests that adhering to proper financial reporting standards positively contributes to the financial health of non-profit organizations. The positive relationship between compliance with financial reporting standards and financial sustainability found in this study is consistent with the work of Abed et al. (2023), who emphasized that adherence to financial reporting standards ensures the reliability and transparency of financial statements, thereby enhancing the financial sustainability of non-profit organizations. Their research confirmed that compliance increases stakeholders' trust in the financial health of organizations, making it easier to secure funding and support. Hasan, Aly, and Hussainey (2022) also supported this view, arguing that strict adherence to international financial reporting standards reduces the likelihood of manipulation, thus strengthening financial sustainability.

However, some studies argue against the view that compliance always leads to improved sustainability. Hasan and Aly (2021) suggested that while compliance with financial reporting standards is important, it can sometimes limit flexibility in financial management, making it difficult for organizations to adapt to rapidly changing environments. This view implies that strict adherence to accounting standards may hinder the ability of non-profit organizations to innovate and adjust their financial strategies in a dynamic financial landscape. Oppong and Bruce-Amartey (2022) echoed this concern, suggesting that excessive reliance on compliance might reduce the ability to explore alternative financial management strategies that could better serve the organization's needs.

Timely Financial Reporting (DPR)

Finally, the coefficient for timely financial reporting is 0.127. For each unit increase in timely financial reporting, financial sustainability increases by 0.127 units, while holding other factors constant. Although this coefficient is smaller compared to the others, it still indicates a positive effect, highlighting the importance of meeting financial reporting deadlines in maintaining financial stability. The positive correlation between timely financial reporting and financial sustainability is supported by several studies. Golisz (2024) found that timely financial reporting is crucial for maintaining financial sustainability, particularly in terms of preventing the manipulation of financial results through unbilled receivables or earnings management. He highlighted that delayed reporting could obscure the true financial condition of an organization, undermining stakeholder confidence. Fred (2021) and Kimeli (2022) similarly emphasized that meeting financial reporting deadlines enhances transparency and accountability, which are essential for maintaining the financial health of non-profit organizations. Their research confirms that timely reporting fosters better decision-making and helps sustain stakeholder trust.

Nevertheless, there are studies that challenge the positive impact of timely financial reporting on sustainability. Golisz (2024), in another part of his research, cautioned that the pressure to meet financial reporting deadlines could lead to rushed reports, potentially compromising their accuracy and reliability. In such cases, organizations may prioritize meeting deadlines over ensuring the quality of the financial statements, which can undermine the credibility of the reports. Fred (2021) also highlighted that while timely reporting is essential, excessive focus on deadlines might lead to the neglect of important details in the financial reports. This could result in misstatements, which could negatively affect financial sustainability by misinforming stakeholders about the organization's true financial status.

CONCLUSION AND RECOMMENDATIONS

The study concludes that enhancing the accuracy of financial reports plays a significant role in strengthening the financial sustainability of non-profit organizations in Nairobi County. Accurate financial reporting ensures transparency, accountability, and provides reliable information that donors and stakeholders can trust, thereby reinforcing confidence in the organization's operations. By presenting precise and compliant financial data, organizations are better positioned to attract and retain funding, make sound financial decisions, and align resources with long-term objectives. The positive relationship observed suggests that when non-profits prioritize accuracy in their reporting practices, they lay a strong foundation for sustainable financial health.

Transparency in financial reporting was strongly and positively associated with financial sustainability in this study. Organizations that maintain openness in their financial disclosures are more likely to gain donor trust, which in turn leads to more consistent and reliable funding. Transparency ensures stakeholders are well-informed, promoting accountability and encouraging long-term donor relationships. The study confirmed this through both correlation and regression analyses, which highlighted transparency as a critical predictor of financial sustainability.

Compliance with financial reporting standards, such as IFRS, emerged as a vital factor in promoting the financial sustainability of non-profit organizations. The study revealed that organizations adhering to established standards experience improved credibility and trust from donors and stakeholders. Both the correlation and regression results showed a positive relationship, affirming that compliance enhances the transparency and comparability of financial reports, which builds donor confidence. However, the study also found that levels of compliance varied across organizations, highlighting the need for continuous training and strong internal controls.

Timely financial reporting was shown to positively influence financial sustainability, albeit to a lesser extent than other factors. The study indicated that providing up-to-date financial information fosters accountability and supports effective decision-making among stakeholders. Timely reports help donors assess the current status and impact of their contributions, strengthening trust and encouraging continued support. However, variability in reporting timeliness was observed, with some organizations struggling to meet deadlines due to system inefficiencies or resource constraints. Despite its moderate effect size, timely reporting remains essential for maintaining donor confidence.

To strengthen financial sustainability, non-profit organizations should invest in enhancing the accuracy of their financial reporting systems. This involves strengthening internal controls, conducting regular internal and external audits, and adopting reliable accounting software. Moreover, leaders should integrate accurate financial reporting with strategic decision-making processes to ensure that precision supports long-term planning. Establishing a culture of accountability and regular review of financial records will promote consistency, build donor confidence, and improve the credibility of reports. These efforts collectively ensure that financial accuracy supports both operational transparency and sustainability goals.

Non-profit organizations should prioritize transparency by ensuring that financial reports are clear, accessible, and free from ambiguity. To achieve this, organizations can adopt open disclosure policies, simplify financial reports for stakeholder comprehension, and establish communication channels for donor feedback. Regular stakeholder engagement sessions can help explain financial decisions and performance, further building trust. Enhancing transparency not only meets governance requirements but also fosters donor confidence, leading to increased funding opportunities and improved long-term sustainability. Transparency must be viewed as a strategic asset rather than a compliance obligation.

To boost financial sustainability through compliance, non-profit organizations should fully align their practices with IFRS or other relevant financial reporting standards. Implementing standard reporting templates and ensuring consistency across departments can reduce errors and improve credibility. External audits should be prioritized to maintain objectivity and transparency. By emphasizing a compliance culture and clearly documenting financial processes, organizations can enhance their legitimacy and accountability. This builds long-term donor trust and strengthens the foundation for sustainable funding and operational stability.

To improve timely financial reporting, non-profit organizations should streamline their financial workflows using automated systems and performance tracking tools. Establishing internal deadlines and accountability measures can help ensure reports are delivered promptly. Enhancing communication between finance teams and stakeholders ensures that delays, if any, are transparent and managed proactively. Organizations should also monitor and evaluate reporting timeliness as part of their performance metrics. By delivering timely reports, organizations maintain stakeholder trust, improve strategic responsiveness, and foster consistent funding streams, all of which are essential for financial sustainability.

Areas for further research

The study focused on financial reporting quality, which was conceptualized using four key dimensions: accuracy of financial reports, classification of expenses, compliance with financial reporting standards, and timely financial reporting. These components collectively accounted for 52.7% of the variance in the financial sustainability of non-profit organizations in Nairobi County, Kenya. However, financial reporting quality is a broader construct. Therefore, further studies should explore additional dimensions such as disclosure practices, financial statement comparability, understandability of financial information, and audit quality, to gain a more comprehensive understanding of how financial reporting influences sustainability outcomes.

Moreover, the study was limited to non-profit making organizations within Nairobi County, which may affect the generalizability of the findings. Future research should consider expanding the scope to include non-profit organizations in other counties across Kenya or in other developing countries, to provide a comparative analysis and enhance the external validity of the findings. Additionally, comparative studies involving for-profit organizations could offer deeper insights into how financial reporting quality impacts financial sustainability across different organizational contexts.

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