To Depreciate or Not to Depreciate Non Governmental Fixed Assets

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Abstract

In the last two decades Africa and particularly Kenya has experienced an exponential growth of Non-Governmental Organizations (NGOs). This is attributed to the fact that they are established to solve immediate humanitarian problems that result from war, famine, poverty and bad governance in most countries in Africa. Given the magnitude of the resultant social challenges, NGOs have in time grown to control immense amounts of financial resources. It is therefore pertinent that they not only account for their social activities but also for these financial resources.

The focus of this discussion is on the accounting of these funds and specifically in the area of depreciation. In an attempt to establish rules and regulations that ensure that NGOs account for their financial resources business accounting principles and standards have largely been prescribed for the accounting and auditing of NGOs. And this has been without due consideration of the significant differences between the nature of operation of NGOs and business enterprises. One of the major differences is that the core business of NGOs is to provide humanitarian services which are not measurable in monetary terms, while that of business enterprises is to carry out activities that will generate profit and subsequently increase the wealth of owners of the business.

Key words: Non-Governmental Organization (NGO), business enterprise, accounting principles, accounting standards, auditing, accountability.

1. Introduction

In the nonprofit sector in Kenya, the Non-Governmental Organizations (NGOs) have increased exponentially in the last two decades. This growth has not only been in numbers but also in the amount of financial resources that these organizations control. NGOs are established as solutions to short term or immediate social and humanitarian problems that result from famine, wars, poverty and sometimes bad governance. Given the fact that NGOs control colossal amounts of financial resources the NGO Coordination Act of 1990 was established in order to keep tabs on their numbers, activities as well as the amount of funds that they control. The NGO Board which is the regulatory body in this sector has introduced rules in the last decade that requires NGOs to submit annual reports together with audited accounts. The financial reporting standards used as a basis of carrying out independent financial audits of NGOs are those established for the business enterprises. Although NGOs must be made to account for both their social performance and use of financial resources, the current standards used are largely inadequate for the audit of NGOs as they are mainly developed and established for the business sector. Since NGOs can no longer be considered to be a fad or a passing cloud and will therefore be here for a long time to come, financial reporting standards should be developed for
their financial audits. These standards should be developed bearing in mind the unique nature of the operations of NGOs which is completely different from that the business enterprise sector.

In the first part of this article, we shall look at the nature of profit making organizations and that of nonprofit organizations with a focus on NGOs. In the second part we shall look at the standards and legislation that form the basis of financial audits of organizations in Kenya. The third part discusses the inadequacy of the current financial reporting standards used in the auditing and evaluation of the financial performance of NGOs. Finally, we shall have a conclusion to the discussion.

2. Problem Statement

According to Anthony (1989), one of the main reasons why business accounting principles are not entirely applicable to accounting in non-business organizations such as NGOs is that these organizations receive “equity” capital form contributors. Equity also referred to as Stockholder’s equity and it is the amount that was contributed by the owners (shareholders), Kieso et al, 2004). Furthermore, stockholders’ equity is the value of ownership by owners of the company. According to Needles et al (2008), equity financing is raised through issue of shares or stock to investors (future stockholders), usually in exchange of cash. This is a kind of financing used by business enterprises to raise funds in order to finance operations such as development of new projects or product lines, purchase of production machinery and so on. This type of equity capital in NGOs has certainly no counterpart in business and for this reason business accounting principles cannot provide guidance for all areas of accounting for NGO financial reporting.

Furthermore there is need to include accounting standards in international financial reporting standards which outline the basis of preparing and auditing NGO financial statements. There is also a need to amend the Income Tax Act Cap 470 of the laws of Kenya so that it clearly outlines the exemptions of NGOs on the basis of the nature of the activities they undertake. Currently in Kenya, the Act explicitly outlines in the Second Schedule, how business enterprises can claim capital allowances on the various classes of assets. Capital allowances are allowable deductions while computing taxable income for business enterprises. These allowances are also intended to serve as an incentive to the business sector for them to continue operations and thereby contribute to the overall economic development through activities such as employment creation and improvement of infrastructure.

Currently in Kenya, the NGO Coordination Act, 1990 is unclear with regard to the financial reporting requirements for registered NGOs in Kenya. The NGO Coordination Act needs to be amended in order to include a section that explicitly states that minimum requirements that NGOs registered under this Act must meet in the preparation of the financial statements. These requirements should be developed and established following a thorough study of the nature of operations of NGOs. They should not be an imposition of reporting guidelines from the conventional business accounting practice in Kenya. In contrast, the Companies Act Cap 486 of Kenya explicitly states the minimum financial reports that must be developed and the broad guidelines on the contents of these reports.
The problem of using financial reporting standards for business enterprises, as outlined in the Companies Act of Kenya to evaluate the performance of NGOs deserves closer attention given the significant differences in the objectives of business enterprises and NGOs. Moreover, the financial reporting standards for business enterprises are not adequate for the use as a basis of evaluating the performance of NGOs through financial audits of their financial statements. This inadequacy is highlighted by the tendency especially in financial audits to compare the features of efficiencies in completely different markets (Holtmann, 1989). The differences being that NGOs maximize quantity and quality of services provided while at the same time trying to ensure that the revenues and costs are equal at the end of the financial year, while business enterprises focus on maximization of profits through minimizing production costs and maximizing revenues.

3. Rationale

It is important to fix this problem because the current practices would be deemed to compare activities of seemingly imperfect markets—such as the NGO market—to that of services and goods of a perfect market, the business enterprises.

In this discussion, one aspect of financial accounting that brings the facts discussed above to bear is the area of depreciation of assets. This discussion will therefore inform the basis of setting up a justification for the revision of relevant legislation in order to establish financial reporting standards that adequately address the unique nature of NGO accounting and performance.

4. Nature of Profit Making Entities and Not-for-Profit Making Entities

In this section we shall compare the main objectives profit making organizations and nongovernmental or not for profit organizations. In this comparison the nature of operations for both the not for profit and profit making organizations is reviewed.

4.1 Nature of Profit making enterprises

Profit making enterprises are set up with the goal of making profit. Funds for profit making organizations are raised by individuals contributing the requisite funds to start up the profit making venture. Other ways of raising funds is through partnerships where two or more people pool resources with the objective of putting these funds into activities that will be profitable to them in money terms. For bigger enterprises, funds may be raised by issuing shares of the company to persons outside the organization in exchange of funds. That is units of the company are sold out for a specified amount per unit. All these persons who have raised funds are the bona fide owners of the business enterprise. They may engage other people or managers to carry out the day to day activities of the enterprise. Those entrusted with the task of managing the organization must ensure that funds are utilized in activities and ventures that bring a good return to the owners who are the funders of the business and will hence work with an objective of maximizing the wealth of the owners or shareholders of the enterprise (Pandey, 2001).

In brief, owners of business enterprises employ managers or directors to run them on their behalf and to invest the funds of the business enterprise in productive and hence profitable ventures. The owners of business enterprise in the profit
making organizations expect that at the end of a given period their investments will make good returns in the form of dividends, these being the residue of what remains when all expenses are deducted from the revenues. They also expect to make capital gains, when they sell their share of ownership for an amount higher than they bought units of ownership for.

4.6 Nature of Non Governmental Organizations

According to Wilson and Kattelus (2004) the financial reporting objective for a nongovernmental organization in the US is to provide information useful in making resource allocation, assessing services and ability to provide services, assessing management stewardship and performance and assessing economic resources, obligations, net resources and changes in these resources.

They further state that the reporting objectives for not-for-profit organizations emphasize decision usefulness over financial accountability needs, presumably reflecting the fact that the financial operations of not-for-profit organizations are generally not subject to as detailed legal restrictions as those of governments and those of business enterprises. In Kenya, the focus by government is more on the Non-Governmental Organization sector who it perceives to control colossal amounts of financial resources. This resonates well with the observation made by Spar and Dail (2002) that given the phenomenal growth rate and the amount of resources they have at their disposal, there is need for paying more attention to the accounting of financial performance of NGOs.

The Non Governmental coordination Act of 1990 of Kenya defines an NGO as “a private voluntary grouping of individuals or associations, not operated for profit or for other commercial purposes but which have organized themselves nationally or internationally for the promotion of social welfare, development, charity or research through mobilization of resources”.

In Kenya the origin of many NGOs may be traced to mainly philanthropy especially during the colonial times and their main activities have been welfare (Mbote, 2000). Mbote (2000) further notes that the proliferation of NGOs in the 80s and 90s in Africa and particularly in Kenya was as a result of the escalation of poverty, civil strife, internal displacements of people following war and conflicts and the general degradation or near collapse of socio-economic and political systems. Most NGOs were therefore created to offer humanitarian services such as health, food and nutrition, shelter, education, relief services, water and sanitation, environment, energy and conservation measures, setting up of income generating activities in the informal sector.

According to the NGO Coordination Bureau, the State Corporation that registers and coordinates the activities of all NGOs in Kenya, there are over five thousand registered NGOs in Kenya which in total contribute about US$1.1 billion annually. NGOs in Kenya and in almost all African countries raise funds for carrying out activities their activities by mobilizing resources through making of grants from other charity organizations from the Western countries, which in turn raise funds
from donations from well-wishers from their publics. The major sources of funding for NGOs continue to be voluntary private sources through the International NGOs in the West (developed countries) and governments.

Once an NGO receives a grant or grants they do not have to pay back the funds. However, they are required to give a report of how these funds were used and that they were used for the intended objectives. Unlike business enterprises, NGOs stay in business through the successful implementation of their program activities as outlined in the grant agreement. Moreover, NGOs have many constituents having conflicting expectations and NGOs are increasingly finding it necessary to develop mechanisms of multiple accountability. These constituents include: donors, beneficiaries, policy makers and the public. One way of accounting to these constituencies is through audited financial statements.

Clearly, NGOs are not engaged in activities that are geared towards income generation, and are therefore not in the business of profit making or wealth creation. Moreover while the operations and operational results of profit making organizations can be easily measured in monetary terms, it is difficult to measure the processes and results of NGOs in money terms. For instance it would be difficult to measure in monetary terms activities such as the promotion of the girl child, human rights awareness, behavior change in the case of advocacy on HIV/AIDS issues.

From the above we summarize that the core business of NGOs is to provide humanitarian services many of which are not measurable in monetary terms. NGOs have no shareholders who expect dividends on their grants (investments) at the end of every year or capital gains for increase in value of the organization. Instead they have grants from various donors to enable them meet the short term objectives (usually one year) and are only required to provide a financial picture of how much funds were received and how these funds were used in the program implementation.

On the other hand, profit making enterprises raise funds that are invested with the sole objective of making more money (profits). Their core business is to ensure that directors engage in activities that maximize the shareholders or equity holders' wealth and returns on their investments.

The primary focus of accounting in both business enterprise and NGOs is on the measurement of net income so as to report on the organization's success in maintaining its financial capital during an accounting period. Net income is broadly defined to include the effect of almost all changes in an organization's equity that are associated with events that happened in, or were discovered in, a given accounting period as opposed to changes in equity arising from flows of capital to and from external parties. Increase in equity (including gains) are revenues and decreases (including loses) are expenses (Anthony, 1989).

4.3 Nature of Not-for-Profit Organizations

According to Wilson and Kattelus (2004), a not-for-profit organization as outlined by AICPA and the FASB is an entity that possesses the following characteristics that distinguish it from a business enterprise:

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a) Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return.

b) Operating purposes other than at to provide goods or services at a profit.

c) Absence of ownership interest like those of business enterprises.

These organizations may display the above characteristics in varying degrees. They provide socially desirable services without the intention of making a profit.

Holtmann (1988) postulates that the reason why not for profit organizations may have emerged alongside the business enterprises and the governments is they may be a response to market failure brought about by uncertainty in the external business environment to enable business enterprises provide certain services to the public in an efficient manner and that NGOs are more flexible in terms of service provisions as opposed to public sector services. In his evaluation of the early studies on not for profit organizations Holtammm notes that the analysis of the nature of NGOs is such that the decision maker has as a main objective the maximization of quantity and quality of services provided. The only constraint to be borne in mind is that revenues must equal costs at the end of the reporting cycle. He also notes that in the US the not-for-profit sector is predominantly in the areas of education, healthcare and childcare.

In Kenya, education, healthcare, other social self help groups, are considered not for profit and are registered under different legal requirements – Ministry of health for health institutions, ministry of education for schools, colleges and universities. Most of the non-profit organizations in Kenya do have high surpluses from the services the render to the public at a fee. These kinds of non-profit organizations are in education and health sector. Unlike in NGOs, these types of non-profit plough back their surpluses into the organization and may also carry over the surpluses for as long as they stay in operation.

5. Standards and Legislation

According to Spar and Dail (2000), the world has seen a phenomenal growth in the number and variety of NGOs in the last thirty years. Moreover, most people globally thought that these organizations were a passing cloud, established to carry out some relief activities in some war torn country in the third world. With time it has been realized that NGOs are not winding up soon as they keep reinventing themselves to provide social services in a world with endless human catastrophes and this fact therefore calls for a more focused and serious attention to the accounting of financial performance of NGOs.

In fact, Spiro (2002) argues that NGOs have become powerful with the end of the Cold war and increasingly powerful with the advent of globalization. With globalization nation states have become less powerful and the communication
revolution has only fueled the increase of this power. For this reason NGOs must be made to account not only for their contributions on the social front but also for their financial resources used in carrying out these social activities. There is therefore a need to develop and establish suitable financial reporting standards for NGOs.

For business enterprises in Kenya, the Companies Act Cap 486 (1962) clearly outlines the books of account that a company must maintain in order to safeguard the interest of creditors, investors and shareholders. The Companies Act states in Section 147 (1) that “every company shall cause to be kept in the English language proper books of account with respect to:-

(a) All sums of money received and expended by the company and the matters in respect of which receipt and expenditure takes place;

(b) All sales and purchases of goods by the company

(c) The assets and liabilities of the company

The Act further states in Section 148 (1) the directors of the company shall “lay before the company in general meeting a profit and loss account…” and (2) “the director shall cause to be made out in every calendar year, and to be laid, before the company in a general meeting, a balance sheet as at the date to which the, provide and loss account….is made up”

The Act also gives a direction on the expected quality of these financial statements. In Section 149 (1) the Act states that “Every balance sheet of a company shall give a true and fair view of the state of affairs of the company as at the end of its financial year, and every profit and loss account of a company shall give a true and fair view of the provide or loss of the company of the financial year.” It further directs in Section 149 (7) (a) that “any reference to a balance sheet or profit and loss account shall include any notes thereon or document annexed thereto giving information which is required by this Act and is thereby allowed to be so given”

From the above it is evident that over time the Companies Act has explicitly outlined the details required in the financial statements of business companies.

The NGO Coordination Act of 1990 on the other hand principally outlines the nature, duties and the operations of the NGO Coordination Board which is the regulatory body of the NGOs in Kenya. Unlike in the Companies Act, the NGO Act does not give details of the books of account to be maintained by NGOs and in what manner, and who has access to these books of account. The functions of the Board are outlined in Section 7 of this Act and they include:

(a) To facilitate and co-ordinate the work of all national and international Non-Governmental Organizations operating in Kenya
(b) To maintain the register of national and international Non-Governmental Organizations operating in Kenya, with the precise sectors, affiliations and locations of their activities

(c) To receive and discuss the annual reports of the Non-Governmental Organization;

(d) To advise the Government on the activities of the Non Governmental Organizations and their role in development within Kenya;

(e) To conduct a regular review of the register to determine the consistency with the reports submitted by the Non-Governmental Organizations for harmonizing their activities to the national development plan for Kenya.

In fact, the financial information required for NGOs is only at the point of submitting an application for registration with NGO Board in order to start operations in Kenya. According to the Act this information includes among others:

- The sectors of the proposed operations
- The duration of the activities
- All sources of funding

In Section 24 (1) the NGO Act states that “the Board shall prescribe rules and procedures for the audit of the accounts of Non Governmental Organizations”. There are no further sections in the Act that outline the financial standards that govern the preparation of Non-Governmental Organizations.

There is therefore a gap in the approach to accounting for NGOs and business enterprises in Kenya.

In 1993 the US Financial Accounting Standards Board (US FASB) issued principles to guide the accounting of nonprofit organizations specifically namely Statement of Financial Accounting Standard (SFAS) 116 and 117. SFAS 116 being Accounting for Contributions Received and Contributions Made and SFAS 117 being Financial Statements of Not-for-Profit Organizations. The FASB further categorizes the not-for-profit organizations into four: colleges and universities, healthcare organizations, voluntary health and welfare organizations and “other” not-for-profit organizations. (Whittington & Delany, 2004).

The Institute of Certified Public Accountant of Kenya has adopted the International Financial Reporting Standards (IFRS) as the guidelines by which organizations in Kenya are required to prepare financial statements. The guidelines for the preparation of financial statements are elaborately explained in the IFRS. For companies in Kenya the Companies Act Cap 486 also outlines the financial information that must be incorporated in the financial statements.
for public and private limited companies as well as other forms of business structures such as partnerships. In the case of NGOs, the NGO Coordination Act 1990 does not mention any details of how financial information should be presented or what the minimum financial information should be included in the financial report.

Depreciation of fixed assets in nongovernmental organizations is an area that is not clearly addressed in the IFRS, and the NGO Coordination Act of 1990 (Kenya). The area that this paper addresses is that of depreciation in NGOs. Grinyer (1987) points out the standard setting bodies have issued unsatisfactory guidelines relating to depreciation in that the theoretical basis on which the standard is developed does not match the practice in the accounting sector.

The IFRS 16 defines depreciation as “the systematic allocation of the depreciable about of an asset over its useful life”. IFRS 16 also defines the depreciable amount as “the cost of an asset, or other amount substituted for cost, less its residual value”. The useful life is the period over which the asset – equipment, is expected to be available for use by an entity or the number of production of similar units expected to be obtained from the asset by an entity.

For the business enterprises especially those in Kenya, they have established a common ground with regard to the use of depreciation rates and methods. The practice of treating depreciation has been imposed by independent accountants who carry out the audit of financial statements without alteration on the NGO sector. The reason here could be as Grinyer (1987) states that the result of Accountants being comfortable with their set and familiar ideas of depreciation from the private sector. They therefore may opt to stick to the depreciation approaches conventionally used in the present day even with the NGOs which are completely different in operation from the profit making sector.

The Reason for Depreciation

One of the reasons why plant property and equipment is depreciated is to match the revenue earned in a period with the expense connected with earning that revenue. The other reason and this is a contentious one, for providing for depreciation is in order to maintain the capacity of a business to continue its production. This is contentious because the operating capacity of equipment is not maintained through depreciation. In the concept of depreciation the original cost is spread over several periods, while the original capital is maintained. In fact operating capacity is not maintained through depreciation because factors such as changes in prices, changes in technology and changes in consumer demand are not taken into consideration. It cannot also be guaranteed that the funds left over after depreciation charges over the several periods to replace the property and equipment (Anthony, 1989)

Depreciation is essentially a deduction from reported income. A reduction in reported income for a business enterprise means a lower corporate tax charge
and thus an increase in profits and subsequently an increase in the wealth of shareholders or owners of the business. This means that the depreciation amount reduces the net income or surplus in the case of an NGO. It is also important to note that there are various acceptable methods of depreciation which when applied would yield different figures for the depreciation charge and hence different figures of net incomes for similar organizations.

According to Grinyer (1987), “depreciation appears to be one of the most intractable problems in accrual accounting.” He attributes this issue to the divergence between practical recommendations and the theory to justify the various methods of depreciation. He further argues that pronouncements issued by standard setting bodies are not sufficient to enable practitioners to handle the issue of depreciation in a more rational and justifiable manner.

Since depreciation is based on estimates, it naturally entails an element of uncertainty. For the business enterprise this uncertainty is reduced as the actual cash flows relating to the item being depreciated is identified and recognized in the books of account (Grinyer, 1987). In the case of NGOs no cash flows can be associated with or attributed to depreciation of the long lived assets. The question then one would pose is whether the element of uncertainty hangs endlessly in the books or it is in fact nonsensical in accounting terms.

6. Inadequacies of Financial Standards (3)

Anthony (1989) further argues that standards of measurement of net income should be the same for NGOs as in business enterprises. The significance, however, of the reported amount of net income which is the bottom line on the operating statement differs for these two types of organizations.

In a business enterprise the general rule is that the larger the net income, the better the financial performance. For the NGO the financial performance is satisfactory if its net income (or surplus) is only slightly greater than zero. A large amount of surplus would indicate that the organization did not provide the services it should have provided with the available resources.

How depreciation affects this view

In lay terms, depreciation means decline in value of an asset. In accounting however depreciation entails assigning the cost of acquisition of a long-lived asset to production periods. This means that the production costs are matched with production results. Production costs being expenses and production being revenues. When an asset is purchased first the useful life of the long lived assets must be determined before we calculate the depreciation values to be apportioned in each production period. The determination of the useful life is based at best on approximation, past practice or the norm of the industry (Needles et al, 2008). Whereas the concept of depreciation is an important one for firms in terms of matching expenses with revenues in the appropriate periods, it is determined using estimates and therefore subject to all manner of inaccuracies.
One of the items that usually distort the view of almost “zerorising” the surplus in the operating results of an NGO is depreciation. The topic of depreciation in the measurement of net surplus in NGOs is a controversial one. Depreciation is applied to property, plant and equipment that the organizations use over more than one year. NGOs would normally have property and equipment for their operations that last for as long as it can be usable in the organization. Sometimes the useful life for fixed assets in NGOs goes beyond the norm in business terms. Usually motor vehicles are normally taken to a useful life of four years. However in an NGO the vehicle may be indicated to have a useful life of four years but will be used for even ten years for as long as it can be used in the organization without incurring high costs of maintenance. Another reason may be the lack of funds to replace the fully depreciated motor vehicle. With the adoption of the International Financial Reporting Standards in Kenya, all organizations are required to comply and NGOs are not left out and must be subjected to the principles and practices of depreciation methods in the business enterprise environment. The argument here is that a more thorough evaluation of the way NGOs receive and use their contributions should be carried out in order to enable overall development and establishment of acceptable standard way that long life assets should be depreciated and a reasonable justification to support it. The standard or guideline would be one that can explain the matching concept of accounting in an NGO set up, of course bearing in mind that the long lived assets of an NGO also need to be checked for wear and tear.

**How Depreciation Rates are Assigned for Assets**

In Kenya, the Income Tax Act Cap 470 prescribes the rates and the types of wear and tear that are allowable for tax purposes. With regards to wear and tear which also known as investment deductions under this Act organizations are deductions against the income for the year for capital expenditure. As an example of capital allowance on purchase of machinery, Part II of the Second Schedule Section 7 (1) states that “…during a year of income, machinery owned by a person is used by him for the purpose of his business, there shall be made in computing it against or profits for that year of income a deduction (in this Part referred to as a “wear and tear deduction)”. The classification of the machinery is also indicated as follows:

a) Tractors, combine harvesters, heavy earth-moving equipment and such other heavy self propelling machines of a similar nature. The addition to the list is at the discretion of the Commissioner of Income Tax.

b) Computers and peripheral computer hardware, calculators, copiers and duplicating machines

c) Other self propelling vehicles

d) All other machinery including ships.
The Commissioner of Income Tax in Kenya has outlined the appropriate percentages of wear and tear deductions for purposes of making claims against annual incomes. These are 37.5 per cent for machinery in class a), 30 per cent for class b), 25 per cent for class c) and 12.5 per cent for class d). It is important to note that the Act does not state that these rates must be used for determining the rate of depreciation in organizations. However, going through several financial reports from the various sectors including NGOs in Kenya the rates used for calculation of wear and tear are those prescribed for wear and tear by the Commissioner. Moreover, none of these organizations give reasons why they use these rates. This being the practice and norm this might also explain why the Accountants in Kenya expect the same rates to be used by NGOs even though they do not have income against which to make claims for wear and tear deductions or investment deductions.

The Kenyan situation differs from that of Thailand in that the Royal Decree is very specific on depreciation rates to be used the various classes of long lived assets. In the case of computers acquired by Small and Medium Enterprises (SME) the initial rate of 40 per cent is used in the first year and remaining balance can be depreciated within three accounting periods starting from the acquisition date. (http://www.pwc.com)

7. Conclusion and Recommendations

Usually most NGOs plan to approximately “breakeven”, that is to operate at neither a surplus nor a deficit. When NGOs budget, they plan for needs that they think or feel really exist, and they consider the year successful when they spend the financial resources available doing the things that they were suppose to do and hence expect to report operating results slightly under the budgeted deficit.

Grinyer (1987) notes in his conclusion that people will always prefer to stay in their comfort zones in which they are surrounded by familiar ideas and algorithms. This may explain why “practitioners may wish to cling to the crude approaches to depreciation that are conventionally used at present”.

In the absence of a clear financial guideline accountants use the IFRS in the preparation of financial statements and auditing of the same for NGOS. From the above one can clearly see that profit making organizations are in business and therefore their results are measured in quantitative terms. Those of NGOs in almost all cases can only be measured in qualitative terms. It would therefore be absurd and awkward to use tools meant for profit making enterprises to measure the qualitative work of NGOs. Independent verification by accountants (the audit process) should focus on accountability to donors and other funding partners who are the main stakeholders of the NGOs. The focus should also be on the program implementation of the NGO program plan.
As the NGOs continue to evolve or mutate with changes in social challenges, they continue to have considerable financial resources for which the public demands an accountability statement. New standards must be developed in line with the nature and needs of the NGOs and the various constituencies. There is certainly a gap in the NGOs financial reporting requirements and the standards by which independent auditors prepare audit reports for NGOs not only in Kenya but in most parts of Africa where NGOs implement their activities. The onus is on Accountants to make propositions as they carry out verification of accounts of various organizations that will provide the basis of developing and establishing these standards.

8. References


