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EFFECT OF AUDIT COMMITTEE INDEPENDENCE ON THE FINANCIAL PERFORMANCE OF NON-GOVERNMENTAL ORGANIZATIONS IN RWANDA: THE CASE OF WORLD VISION RWANDA.

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Abstract

This study investigates the effect of audit committee independence on the financial performance of non-governmental organizations (NGOs) in Rwanda, with a specific focus on World Vision Rwanda. Recognizing the critical role of governance in enhancing transparency and accountability, the research examines key dimensions of audit committee independence, including the absence of financial ties, non-executive membership, and the presence of an independent chairperson. 133 employees of World Vision Rwanda made up the population of interest for this study, which used a descriptive and explanatory research approach. To determine the sample size, the study used both purposive and stratified random sampling techniques. A sample size of one hundred respondents was obtained using Slovin's statistical technique. The study included both primary and secondary data. Surveys with a semi-structure were used to gather primary data. The Statistical Product and Service Solution (SPSS) version 25 tool was used to quantitatively evaluate and verify the collected data. To ascertain the validity and reliability, Care International Rwanda conducted a pilot study. Model summary, ANOVA, and regression coefficients were used to determine regression analysis, whilst mean and standard deviation were used to determine descriptive analysis. To ascertain the type of link between the variables, correlation analysis was calculated. The majority of participants expressed agreement with statements highlighting the committee's independence from management influence, with 64.3% strongly agreeing that audit committee members operate free from such pressures (Mean = 4.63, Std Dev = 0.505). Additionally, 56.1% affirmed that the committee possesses the authority to oversee financial reporting processes independently (Mean = 4.55, Std Dev = 0.520), while 67.3% reported that members have the necessary expertise and skills to fulfill their oversight responsibilities effectively (Mean = 4.66, Std Dev = 0.496). Notably, a significant 69.4% of respondents strongly agreed that audit committee members have no financial or personal relationships with the NGO's management or stakeholders (Mean = 4.67, Std Dev = 0.513), reinforcing the committee's integrity. Furthermore, 54.1% indicated that the audit committee operates autonomously from management (Mean = 4.54, Std Dev = 0.500), and 62.2% agreed that it has the authority to hire external auditors without management influence (Mean = 4.62, Std Dev = 0.487). In conclusion, the study highlights the critical role of audit committee independence in enhancing the financial performance of non-governmental organizations, particularly within World Vision Rwanda. It is recommended that NGOs strengthen their governance frameworks by ensuring the appointment of independent audit committee members and providing ongoing training to enhance their oversight capabilities. Future studies should explore the long-term effects of audit committee independence across various NGO sectors and consider the influence of other governance factors on financial performance to develop a more comprehensive understanding of effective organizational oversight.

Keywords: *Audit Committee Independence, Financial Performance, Non-Governmental Organizations (NGOs), Governance, World Vision Rwanda*

1.1 Background of the Study

The efficiency of audit committees in guaranteeing clear financial reporting and improving financial performance in the fast-paced business world of today has attracted a lot of interest from scholars and professionals around the globe (Adams & Mehran, 2022; Ferris, Jagannathan, & Pritchard, 2023). The capacity of audit committees to successfully carry out their oversight duties is greatly influenced by their makeup and traits, such as their independence, experience, size, diligence, and communication (Carcello & Neal, 2020; Chen, Elder, & Muphy, 2017).

1.1.1 Global Perspective

In the realm of corporate governance, the role of audit committees in overseeing financial reporting and ensuring transparency has garnered significant attention globally, with particular emphasis within the United States due to its impact on financial markets and investor confidence. Audit committees serve as a vital component of the governance structure, tasked with providing independent oversight of financial reporting practices and safeguarding against fraud and mismanagement (Felo & Krishnan, 2022). Aguilera, Desender, Bednar and Lee (2017) looked at how audit committee qualities including expertise, communication, independence, and diligence affect financial performance. In light of recent corporate scandals and regulatory reforms like the Sarbanes-Oxley Act of 2002, it is of utmost importance for policymakers, regulators, investors, and corporate stakeholders to comprehend the impact of audit committee characteristics on financial performance. This underscores the relevance and significance of this field of study within the larger framework of corporate governance and financial markets.

With the increasing complexity of business operations and growing regulatory scrutiny, companies in Asia are under pressure to strengthen their corporate governance mechanisms to safeguard investor interests and maintain market credibility (Ali, Wang & Liu, 2020). Improving financial reporting quality and lowering financial risks are greatly influenced by audit committee features such as independence, experience, diligence, communication, and risk management (Jizi, Salama, Dixon & Stratling, 2014). Still, research into how these traits affect financial results in an Asian setting is in its infancy. If policymakers, regulators, and corporate stakeholders in Asia want to improve corporate governance and foster sustainable economic development, they must understand how audit committee traits affect financial performance, which is challenging due to cultural norms, different legal systems, and different business practices across the region (Sarbananda, 2018).

1.1.2 Regional Perspective

Research indicates that the effectiveness of audit committees in Sub-Saharan Africa is affected by factors including board independence, financial expertise, and oversight diligence (Afriyie, Marfo-Yiadom, & Addae, 2019). Prior studies (Abdullahi, 2018; Kabeer & Islam, 2020) have emphasized the importance of audit committee characteristics, including independence, expertise, diligence, communication, and composition, in enhancing financial reporting quality and reducing the risks of financial misstatements and fraud. In this context, audit committees have become essential in improving financial oversight and maintaining the integrity of financial reporting in organizations (Amran, Lee, & Devi, 2014).

Research by Abhayawansa Ahmad-Zaluki and Chandren (2018) indicates that South African companies must adhere to strict corporate governance standards, which encompass the structure and duties of audit committees as detailed in the King IV Report on Corporate Governance. De Klerk and Van der Merwe (2018) emphasize the significance of audit committee independence and expertise in improving the quality of financial reporting and reducing financial risks. Furthermore, research by Mumba and Chenga (2019) highlights the importance of audit committee diligence and oversight in promoting transparency and accountability in South African companies.

In Kenya, similar to other emerging economies, the importance of audit committees in corporate governance frameworks has grown due to initiatives aimed at improving transparency, accountability, and investor confidence (Maina & Odhiambo, 2015). Robust audit committees are essential for maintaining the integrity of financial reporting and reducing the risk of financial mismanagement and fraud (Kibera & Muriithi, 2017). Corporate scandals and financial irregularities present substantial challenges to investor confidence, making the role of audit committees in overseeing financial reporting and mitigating risks increasingly critical (Muturi, 2017). Research indicates that the attributes of audit committees, such as independence, expertise, and diligence, significantly contribute to the improvement of financial reporting quality, thereby affecting financial performance (Kimathi, 2019).

1.1.3 National Perspective

For Rwanda, and many other developing nations, strong corporate governance is crucial to inspiring trust among investors, drawing in capital from abroad, and ensuring long-term economic growth (UNCTAD, 2018). As part of larger efforts to enhance corporate governance frameworks, there has been a growing focus on the creation and operation of audit committees in Rwandan enterprises (Rwanda Governance Board, 2017). To effectively oversee financial reporting and internal controls in Rwandan enterprises, however, research by Bwiza & Kamikazi (2018) indicates that audit committee experience and independence are necessary. For the purpose of boosting investor trust and reducing financial risks, research like Ndikumana & Kena (2017) highlights the importance of audit committee transparency and diligence.

Robust governance systems are required to guarantee accountability and transparency in the operations of non-governmental organizations (NGOs) because of the substantial role they play in

Rwanda's socio-economic development (Makori & Nyamori, 2019). Still, non-governmental organizations (NGOs) have reason to be worried about the audit expectations gap (Bédard & Gendron, 2020), which is the difference between what the public expects from auditors and what they get. Particularly intriguing is the question of how well audit committees in Rwandan NGOs work to bridge the audit expectations gap, as these organizations are subject to a constantly changing legal landscape with ever-changing requirements for financial reporting and accountability (Cohen & Simnett, 2015). Few studies have examined the effects of audit committees on non-governmental organizations (NGOs) in Rwanda, despite the increased awareness of their value in improving governance processes (Khan, Muttakin, & Siddiqui, 2018). Thus, this examined, using the case of World Vision Rwanda, how audit committee attributes impact the audit expectations gap in Rwandan NGOs.

1.2 Statement of the Research Problem

The study addresses the significance of audit committees in upholding quality, credible, and objective financial reporting within organizations, as underscored by Gasana (2015). With their oversight role crucial in ensuring effective monitoring, particularly in financial management, as emphasized by Nkurunziza (2018), understanding the variables impacting their effectiveness—specifically, audit committee independence, meeting frequency, composition, and technical skills—is imperative. This research aims to narrow the audit expectation gap, identified as detrimental by Ghazali (2017), by examining how these variables influence the gap and, subsequently, the reliability of audit functions, ultimately contributing to the financial robustness of institutions, as highlighted by Gakure et al. (2019).

In Rwanda, Non-governmental organizations (NGOs) are vital for social development, humanitarian aid, and poverty alleviation, yet maintaining transparency and accountability is critical for sustaining public trust (Munyankumburwa & Asiimwe, 2017). However, persistent concerns surround the audit expectations gap, where stakeholders' expectations of auditors' roles diverge from actual performance (Porter et al., 2014). In the Rwandan NGO context, factors such as the unique operational nature of NGOs, complex donor funding structures, and challenges in assessing program impact exacerbate this gap (Brink, 2022). This study aims to investigate how variables including audit committee independence, meeting frequency, composition, and technical skills influence the audit expectations gap within Rwandan NGOs, elucidating pathways for enhancing transparency and accountability. However, there is a lack of research on the specific characteristics of audit committees in Rwandan NGOs and how they contribute to improving financial oversight and closing the audit expectations gap (Abbott & Parker, 2020). To fill this knowledge vacuum, this study used World Vision Rwanda as a case study to investigate how audit committee features impact the audit expectations gap across Rwandan NGOs.

2.0 Literature Review

2.1 Empirical Review - Audit Committee Independence and Financial Performance

The independence of audit committees has been a central topic in corporate governance research, with studies examining its impact on financial performance. Independence is generally characterized by the degree to which audit committee members are devoid of conflicts of interest and external pressures that may hinder their capacity to prioritize the interests of shareholders (Hermalin & Weisbach, 2021). Empirical studies indicate that increased independence in audit committees correlates with improved financial performance. A study by Klein (2022) identified a positive correlation between audit committee independence and financial performance, suggesting that independent audit committees enhance the effectiveness of monitoring financial reporting processes and ensuring regulatory compliance.

Research has emphasized the significance of audit committee independence in reducing agency conflicts and enhancing corporate transparency, which in turn positively affects financial performance. DeZoort et al. (2022) indicate that firms possessing independent audit committees exhibit a reduced likelihood of engaging in earnings manipulation or fraudulent activities, which enhances the quality of financial reporting and bolsters investor confidence. Bedard et al. (2014) provide evidence that firms with independent audit committees incur lower capital costs and achieve higher stock prices, attributable to enhanced investor trust and diminished information asymmetry.

While numerous studies indicate a positive correlation between audit committee independence and financial performance, certain research has produced inconclusive findings. Beasley (2016) found no significant relationship between audit committee independence and financial performance, indicating that additional factors may influence firm outcomes. The effectiveness of independent audit committees in improving financial performance may depend on several contextual factors, including industry dynamics, regulatory environment, and firm-specific characteristics. Audit committee independence is a vital component of corporate governance; however, additional research is necessary to investigate its complex effects on financial performance across various contexts and conditions (Agrawal & Chadha, 2015).

2.2 Theoretical Literature on Audit Committee Independence

An essential part of good corporate governance is an independent audit committee that can go at the financial reporting processes without bias and boost investor confidence (Abbott & Parker, 2020). According to DeZoort and Salterio (2022), an audit committee member is considered independent if they do not have any links that could compromise their impartiality. Research suggests that independent audit committees are more likely to fulfill their oversight responsibilities effectively by providing a checks-and-balances mechanism against management influence and potential conflicts of interest (Abbott & Parker, 2020). Moreover, independent audit committees are better positioned to engage in constructive skepticism during financial reporting processes, thereby reducing the likelihood of financial misstatements and enhancing overall audit quality (Klein, 2022). Therefore, a strong emphasis on audit committee independence is essential for promoting transparency, accountability, and investor trust in corporate financial reporting.

Various elements affect the independence of the audit committee, such as the committee's membership, the member selection procedure, and any financial connections between committee members and the organization (Abbott & Parker, 2020). Research demonstrates that audit committees comprising a majority of independent members are more inclined to apply objective judgment and effectively contest management allegations (Abbott & Parker, 2020). Additionally, the appointment of independent directors with relevant expertise in accounting, finance, or auditing can enhance the technical proficiency of audit committees and facilitate more informed decision-making (DeZoort & Salterio, 2021). Furthermore, regulatory requirements mandating a minimum level of independence for audit committee members contribute to strengthening corporate governance practices and mitigating agency conflicts between management and shareholders (Klein, 2022).

Despite the recognized importance of audit committee independence, achieving and maintaining independence can pose challenges in practice (DeZoort & Salterio, 2021). For instance, audit committee members may have prior affiliations with the organization or its management, which could compromise their independence and objectivity (Klein, 2022). Moreover, the reliance on executive search firms or existing board members for nominating audit committee members may limit the pool of independent candidates and perpetuate insider connections (Agrawal & Chadha, 2015). Additionally, concerns have been raised about the potential influence of management in selecting and compensating audit committee members, which could undermine their independence (Zattoni & Cuomo, 2018).

2.3 The Institutional Theory

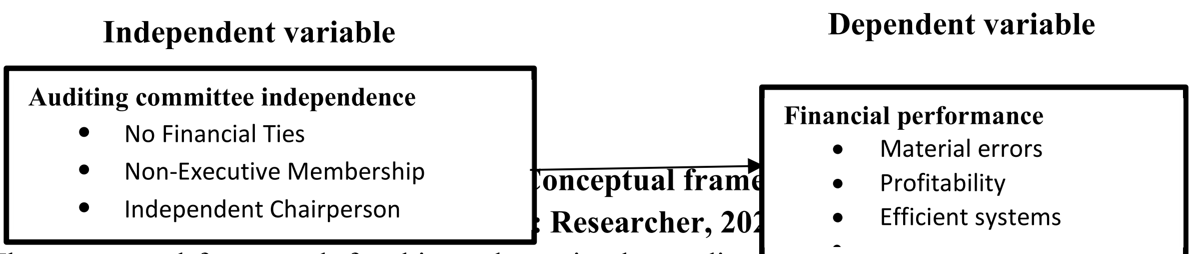
When trying to make sense of how audit committee independence affects NGOs' financial performance, the institutional theory is a great place to start. This idea posits that in order for companies to obtain legitimacy and stay in business, they give in to institutional demands from outside sources. Donors, regulators, and members of the public all have high expectations for non-governmental organizations (NGOs) and put pressure on them to demonstrate good governance, accountability, and openness. To meet these expectations, it is necessary to have an audit committee that is independent in its monitoring and oversight of financial reporting processes. Research by Mersland and Randøy (2014) demonstrated that NGOs operating in environments with greater institutional pressures tend to have more independent audit committees, as they seek to enhance transparency and accountability to gain legitimacy and maintain donor trust.

Moreover, the adoption of audit committee independence by NGOs can be viewed as a form of institutional isomorphism, where organizations mimic governance practices of their peers or conform to prevailing norms and standards in the sector. As NGOs seek legitimacy and credibility in the eyes of stakeholders, they may emulate governance structures and practices observed in other organizations, including the establishment of independent audit committees. Research by Hoque et al. (2018) illustrated how NGOs operating in similar institutional environments tend to adopt similar governance mechanisms, including audit committee independence, to signal their commitment to transparency and accountability. Thus, the institutional theory provides insights into how audit committee independence is influenced by external pressures and institutional norms, ultimately affecting the financial performance of NGOs as they navigate their regulatory and stakeholder environments.

Institutional theory offers a pertinent lens through which to understand the dynamics shaping the governance structures and practices within non-governmental organizations (NGOs) such as World Vision Rwanda. Specifically, institutional theory emphasizes the influence of external pressures, norms, and institutional environments on organizational behavior and practices. In the context of this study, institutional theory could elucidate how regulatory frameworks, donor expectations, and societal norms surrounding governance practices influence the formation and functioning of audit committees within NGOs in Rwanda. Moreover, it could shed light on how NGOs like World Vision Rwanda adapt their governance structures, including audit committees, to conform to institutional pressures while also navigating local socio-political contexts.

2.4 Conceptual Framework

The conceptual framework for examining the effect of audit committee independence on the financial performance of non-governmental organizations (NGOs) posits that independent audit committees enhance oversight and accountability, thereby influencing financial outcomes positively. According to Abou-El-Sood and Velayutham (2022), audit committee independence is critical in mitigating agency problems and improving transparency, which is essential for NGOs reliant on donor funding. This framework emphasizes the relationship between the structural attributes of audit committees—such as the proportion of independent members—and financial performance indicators like operational efficiency and fundraising effectiveness (Javed, Qureshi & Mehmood,2020). By integrating governance theories, this study aims to elucidate how independent audit committees can contribute to better financial management practices within organizations like World Vision Rwanda, ultimately leading to improved sustainability and mission fulfillment (Khan, Awan & Khan, 2021). This is shown in Figure 1.



onceptual frame
Researcher, 20

The conceptual framework for this study posits that audit committee independence significantly influences the financial performance of non-governmental organizations (NGOs). Key elements of audit committee independence include the absence of financial ties between committee members and the organization, the inclusion of non-executive members, and the appointment of an independent chairperson. These characteristics enhance the objectivity and effectiveness of the audit committee in overseeing financial reporting and risk management processes (Cohen et al., 2020; Alzeban & Gwilliam, 2014). Financial performance, as influenced by audit committee independence, is assessed through metrics such as the minimization of material errors in financial statements, overall profitability, and the establishment of efficient financial systems (Habbash, 2016; Zhang et al., 2021). This framework emphasizes the critical role of governance mechanisms in promoting transparency and accountability, ultimately leading to improved financial outcomes for NGOs.

3.0 Research Methodology

This study employs a descriptive survey approach in a triangulation of research methods. The relationship between financial performance and audit committee characteristics within the specific context of NGOs can be comprehensively examined using this approach. Structured questionnaires are distributed to key stakeholders within World Vision Rwanda, including board members, management personnel, and financial officers, in order to facilitate the collection of quantitative data using the descriptive survey method. Furthermore, qualitative data may be collected through interviews or focus group discussions to offer a more comprehensive understanding of the perceptions and experiences associated with audit committee practices and financial performance. This method contributes to a more comprehensive comprehension of the research topic by enhancing the validity and reliability of the findings through the triangulation of multiple data sources (Creswell & Creswell, 2017; Flick, 2018; Hair *et al.,* 2019).

According to Zikmund et al. (2020), the term "population" encompasses all entities within a particular domain of study. Moreover, a population can be defined as a collection of individual elements, whether finite or infinite (Lavrakas, 2018). The target population for this study comprises employees of World Vision Rwanda across various categories, totaling 133 individuals. Specifically, it includes 15 management personnel, 35 program officers, 25 administrative staff, 40 field workers, 18 finance and accounting professionals, 10 human resources staff, and 10 employees in other roles such as IT and logistics. This categorization allows for a comprehensive representation of the organizational structure and workforce diversity within World Vision Rwanda (World Vision Rwanda, 2024).

Table 1: Target population

Employee Category	Number of Employees
Management	15
Program Officers	35
Administrative Staff	25
Field Workers	40
Finance and Accounting	18
Human Resources	10
Others (IT, Logistics)	10
Total	**133**

Source: **Human Resource Department World Vision Rwanda, (**2024)

The sample size is a crucial element in study design, particularly in quantitative studies. It denotes the quantity of individuals or products (survey respondents, study participants) chosen for inclusion in a study's sample from the broader target population. Selecting a suitable sample size is a critical step in the research process, since it directly influences the validity and reliability of the findings.

Cohen, Manion, and Morrison (2021) assert that various factors, such as the studied population, the required accuracy level, the anticipated response rate, the number of variables involved, and the nature of the study (quantitative or qualitative), must be taken into account when establishing the sample size. A random sample of 100 was picked from a pool of 133 possible participants using the formula established by Yamane (1967).

$$n = \frac{N}{1 + N\,(e)^2} \quad \ldots\ldots\ldots \; Eqn\ 1$$

In this equation, n denotes the required sample size, e indicates the margin of error or desired precision (e.g., 0.05 for a 95% confidence level), and N represents the estimated population size. These characteristics are essential for establishing the suitable sample size for a research project, guaranteeing that the sample adequately reflects the population while upholding a requisite level of precision and confidence in the findings.

$$n = \frac{133}{1 + 133\,(0.05)^2} = 100$$

Table 2: Sampling Frame

Employee Category	Number of Employees	Sample size	Sampling Technique
Management	15	11	Stratified
Program Officers	35	26	Stratified
Administrative Staff	25	19	Stratified
Field Workers	40	30	Purposive
Finance and Accounting	18	14	Stratified
Human Resources	10	7	Purposive
Others (IT, Logistics)	10	7	Purposive
Total	**133**	**100**	

In order to gather information from participants, the study used a stratified random sampling method. This technique entails segmenting the target population, in this example, audit committee members of Rwandan NGOs, according to pertinent factors like organizational size and audit committee composition. Afterwards, individuals were chosen at random from each stratum in order to guarantee that all categories were represented. When there are substantial variations within the population, stratified sampling is preferable to random sampling because it provides more accurate and precise parameter estimates. This method guarantees a varied and representative sample for the examination of audit committee traits and financial performance in non-governmental organizations (Hair *et al.,* 2019), which is in line with suggestions made by previous research on sampling strategies in organizational studies.

Data collection methods are critical in research, as they dictate the quality and reliability of findings. According to Bryman (2016), researchers have a wide range of data collection techniques at their disposal, including surveys, interviews, observations, and document analysis. The approaches may be quantitative or qualitative, with the selection contingent upon the study aims and the characteristics of the data to be collected. Moreover, Johnson and Christensen (2019) underscore the necessity of synchronizing the data collection strategy with the research question and the comprehensive study design. Ensuring methodological consistency promotes the validity and credibility of the research.

The pilot test for this study involved a small-scale trial of the data collection instruments from Care international Rwanda to assess their clarity, reliability, and validity before full-scale implementation. Following the guidelines outlined by Hair *et al.* (2019) on pilot testing in research, a sample of approximately 10 individuals representing relevant stakeholders, such as audit committee members and financial managers in NGOs, were recruited from Care international Rwanda. Participants were requested to evaluate the survey questionnaire or interview protocol, focusing on the clarity of the questions, the suitability of response options, and the overall ease of completion. The pilot test also evaluated the duration needed to complete the instruments and identified any potential issues in the data collection procedures. Participant feedback was utilized to refine the instruments, ensuring their appropriateness for the target population and research objectives.

Face validity refers to the subjective inference derived from the operationalization of a construct (Bryman & Cramer, 2017). To establish the criterion of "facial validity," respondents provided feedback on the phrasing, order, and layout of the questions. The inquiries in the questionnaire were revised prior to the completion of the final study.

Data validity was determined by sample representativeness and accuracy. The sample's suitability was assessed using Kaiser-Meyer-Olkin and Bartlett's sphericity tests. The research tool's content validity was verified by industry experts, strategic leaders, and statisticians. They thoroughly evaluated the tools and rated the questionnaire's validity. The ratings were added and averaged to create an index. Reviewer comments was incorporated into the learning tool. This helped remove irrelevant questions and imprecise remarks from the learning tool. Their feedback helped translate the learning tool into simple terms that could be addressed. The purpose is to increase response rate and tool clarity for responders.

Table 3: Factor analysis - KMO and Bart

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.642
Bartlett's Test of Sphericity	Approx. Chi-Square	91.145
	df	10
	Sig.	.000

Source: **Pilot data results**, (2024)

Using the Kaiser-Meyer-Olkin (KMO) Measure and Bartlett's Test of Sphericity, the results of a factor analysis were presented in Table 3. The purpose of this study was to determine whether the data was suitable for factor analysis and whether the sampling was adequate. According to Field (2018), the KMO measure produced a value of.642, which suggests a modest level of sample adequacy that is appropriate for factor analysis. The results of Bartlett's Test of Sphericity showed that there were enough significant correlations between the items to conduct a component analysis, as indicated by a statistically significant chi-square value of 91.145 with 10 degrees of freedom ($p < .001$) (Hair et al., 2019). The findings provide credence to the validity and reliability of the constructs being studied, indicating that the data obtained from the pilot study is suitable for additional factor analysis (Pallant, 2020).

The study's conclusions were guaranteed to be reliable because of the rigorous technique it took. The stability and consistency of data or measurements across time and environments is what we mean when we talk about reliability. Findings were triangulated and cross-validated using a variety of data gathering methods, including questionnaires and financial records, in order to ensure dependability (Hair et al., 2019). Additionally, in order to standardize data collection processes and eliminate errors or biases, the study team undertook extensive training (Podsakoff *et al.,* 2019). According to Kelly (2015), a suitable Cronbach's alpha estimate value is one that is higher than 0.70. Reliability is enhanced when Cronbach's alpha is closer to 1.0.

Table 4: Reliability Analysis

Variable	Cronbach's Alpha	Comments
Audit Committee Independence	0.812	Reliable
Financial Performance	0.916	Reliable

Source: **Pilot data results**, (2024)

The reliability analysis results, as presented in Table 4, indicate that both the audit committee independence and financial performance variables demonstrate high levels of internal consistency. A Cronbach's Alpha value of 0.812 for audit committee independence suggests that the measurement items used to assess this construct are reliable and effectively capture the nuances of committee independence (Tavakol & Dennick, 2011). This finding aligns with prior studies, which emphasize the importance of independent audit committees in promoting transparency and accountability within organizations (Cohen *et al.,* 2020; Alzeban & Gwilliam, 2014). Moreover, the financial performance variable exhibits an even higher reliability score of 0.916, indicating strong consistency among the measurement items. This robust reliability is crucial, as it reinforces the credibility of the financial performance metrics used in this study, aligning with previous research that highlights the significance of accurate financial assessments for NGOs (Habbash, 2016; Zhang *et al.,* 2021).

After the data was collected from the field using a questionnaire, it was subjected to coding. Following this, the data was imported into SPSS version 25, where it underwent a comprehensive cleaning process to rectify any missing variables. The data was meticulously maintained in a prepared state, ready for further analysis. Data transformations were performed as necessary to enhance the analysis and comprehension of the data. Considering that the questionnaire utilizes a Likert scale from 1 to 5, it is essential to clarify that a response of five is interpreted as a score of five, a response of four as a score of four, and so on. The scores were compiled through data transformation methods in SPSS to produce the variables required for performing correlation and regression analyses. Upon achieving this objective, the first step in data analysis involved performing descriptive statistics, which encompasses the summarization of frequency tables and charts. Furthermore, the research included conducting regression analysis, with the main regression model expressed as follows:

$$Y = \alpha + \beta_1 X_1 + \mu$$

……………………………………………………………………………………. Equation 2.
The dependent variable, Y, in this regression model stands for Return on Assets (ROA), a measure of financial performance. If all four independent variables (X1,) are set to zero, the value of Y will be represented by the intercept, α. To account for the unexplained variance in Y, the error component μ has a mean of zero and follows a normal distribution. The influence of changes in Audit committee independence, Audit committee meetings, Audit committee composition, and Audit committee technical skills on financial performance as measured by ROA is reflected in the coefficients (β1) which indicate the effect of the corresponding independent variables (X1) on Y.

4.0 Results and Findings

4.1 Findings on Audit Committee Independence

The descriptive results pertaining to audit committee independence are presented in Table 5 illustrating respondents' views on various statements regarding this critical governance aspect. The table categorizes responses on a Likert scale from strongly disagree (SD) to strongly agree (SA), providing insights into perceptions of audit committee independence among participants. Mean scores and standard deviations are calculated, offering a quantitative overview of the extent to which respondents perceive audit committees to operate independently within their organizational contexts. These findings serve to illuminate stakeholders' perspectives on the efficacy and autonomy of audit committees in ensuring transparent and accountable corporate governance practices.

Table 5: Respondents views on Audit Committee Independence

Statement on Audit committee independence	SD	D	N	A	SA	Mean	Std Dev.
The audit committee members in our NGO are independent from management influence.	0.0%	0.0%	1.0%	34.7%	64.3%	4.63	.505
The audit committee has the authority to oversee financial reporting processes independently.	0.0%	0.0%	1.0%	42.9%	56.1%	4.55	.520
The audit committee members possess the necessary expertise and skills to effectively carry out their oversight responsibilities	0.0%	0.0%	1.0%	31.6%	67.3%	4.66	.496
The audit committee members have no financial or personal relationships with the NGO's management or stakeholders.	0.0%	0.0%	2.0%	28.6%	69.4%	4.67	.513
The audit committee operates autonomously from the management of the NGO.	0.0%	0.0%	0.0%	45.9%	54.1%	4.54	.500

The audit committee has the authority to hire external auditors without management's influence.	0.0%	0.0%	0.0%	37.8%	62.2%	4.62	.487

Source: **Primary data, (2024)**.

Table 5 presents the respondents' views on audit committee independence within their NGO, summarized using a five-point Likert scale (Strongly Disagree (SD) to Strongly Agree (SA)). The results show a strong agreement among respondents regarding the independence of the audit committee from management influence, with 64.3% strongly agreeing and 34.7% agreeing, resulting in a mean score of 4.63 and a standard deviation of 0.505. Similarly, 56.1% strongly agree and 42.9% agree that the committee can independently oversee financial reporting processes (mean = 4.55, std dev = 0.520). Regarding the expertise of committee members, 67.3% strongly agree and 31.6% agree they have the necessary skills (mean = 4.66, std dev = 0.496). Furthermore, 69.4% strongly agree that members have no financial or personal ties with management, supporting their independence (mean = 4.67, std dev = 0.513). Autonomy from management is also confirmed by 54.1% strongly agreeing and 45.9% agreeing (mean = 4.54, std dev = 0.500). Finally, 62.2% strongly agree that the audit committee has the authority to hire external auditors independently (mean = 4.62, std dev = 0.487). These findings underscore the perceived effectiveness and independence of the audit committee in enhancing governance within the NGO (DeZoort & Salterio, 2021; Abbott & Parker, 2020).

4.2 Discussion of the findings on Audit Committee Independence and Financial Performance

The regression equation defines the relationship between audit committee characteristics and financial performance in NGOs. Financial performance is expressed as follows: 0.547 + 0.259 for audit committee independence, 0.156 for audit committee meetings, 0.255 for audit committee composition, and 0.194 for audit committee technical skills. Each coefficient in the equation represents the anticipated impact of the corresponding independent variable on financial performance, under the assumption that other factors are held constant. The intercept (0.547) represents the expected financial performance when all audit committee variables are zero; however, this hypothetical scenario may not be relevant in practical organizational settings. The coefficients for Audit Committee Independence (0.259), Audit Committee Meetings (0.156), Audit Committee Composition (0.255), and Audit Committee Technical Skills (0.194) demonstrate positive correlations, indicating that improvements in these audit committee characteristics are associated with increased financial performance in NGOs.

5.0 Conclusions of the study

According to the results, audit committee independence has a major positive impact on an organization's financial performance. The audit committee can better supervise financial reporting procedures and guarantee accountability when its members are not influenced by management. Financial performance and audit committee independence have a high positive link, indicating that independent scrutiny is essential for promoting honesty and transparency in financial operations. In order to maximize financial results and protect stakeholders' interests, it is crucial to set up a strong governance framework that places a high priority on audit committee independence.

5.1 Recommendations of the study

5.1.1 Policy Recommendations

Based on the findings of this study, it is recommended that policymakers in Rwanda enhance the regulatory framework governing NGOs by instituting mandatory guidelines for audit committee independence. This includes establishing criteria for the appointment of audit committee members to ensure that they possess no financial ties to the organization and are predominantly composed of non-executive members. Such policies would not only strengthen the oversight mechanisms of NGOs but also foster a culture of accountability and transparency, which is essential for maintaining stakeholder trust and attracting funding. Furthermore, regular training and capacity-building initiatives should be implemented for audit committee members to equip them with the necessary skills and knowledge to fulfill their roles effectively.

5.1.2 Theoretical Contributions

This study contributes to the existing body of literature on audit committee independence and financial performance by providing empirical evidence specific to the NGO sector in Rwanda. The findings reinforce the theoretical underpinnings of Agency Theory, which posits that independent oversight can mitigate potential conflicts of interest and enhance organizational performance. Additionally, this research expands the understanding of governance structures within NGOs, suggesting that robust audit committee characteristics significantly correlate with improved financial outcomes. Future research can build on these theoretical contributions by exploring the dynamics of audit committees across different types of NGOs and examining the interplay between governance structures and organizational effectiveness in various cultural contexts.

5.1.3 Field Recommendations

For practitioners in the field, particularly those involved in governance and management within NGOs, this study highlights the critical importance of establishing independent audit committees. Organizations like World Vision Rwanda should prioritize the recruitment of audit committee members who are free from any financial or managerial influence, ensuring diverse representation that can bring varied perspectives to the oversight process. Additionally, NGOs are encouraged to adopt best practices in financial reporting and risk management, as these elements are closely linked to the effectiveness of audit committees and overall financial performance. Regular assessments of audit committee functionality, combined with feedback mechanisms, can further enhance their effectiveness and responsiveness to the organization's needs.

5.2 Suggestions for Further Studies

Future studies should explore the broader implications of audit committee independence on financial performance across different sectors of NGOs in Rwanda and beyond. This could include comparative analyses between NGOs of varying sizes and scopes to determine how organizational characteristics influence the effectiveness of audit committees. Additionally, longitudinal studies could provide insights into how changes in audit committee composition and practices impact financial performance over time. Researchers might also investigate the interplay between audit committee independence and other governance factors, such as the role of internal controls and stakeholder engagement, to develop a more comprehensive understanding of effective governance in NGOs. Furthermore, qualitative research could delve into the perceptions and experiences of audit committee members to identify barriers and facilitators in achieving true independence and effectiveness.

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