

Assessment of Financial Management Practices in Local NGOs-A Case of Local NGOs in Addis Ababa)

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Abstract

Local NGOs are types of organizations those are geared toward the provision of some sort of benefits to the society and are citizen-based associations. These organizations are mobilizing financial resources from various national and international voluntary agencies to work in a coordinated manner consistent with the requirements of the society. The purpose of assessment was to assess the financial management practices of the local NGOs in Addis Ababa. Descriptive method of assessment was conducted and data were collected by applying random sampling technique, 92 respondents were selected from the total population of 1,275. The major findings were: lack of budget approval by board, common cost allocation system, records keeping for gifts in kind items, cash forecast preparation, finance staff participation in budget preparation and review, and concentration on limited projects and sources of fund, weakness in standardized financial statement preparation and delay in reporting among others. Finally, the researcher recommended: as means to discharge responsibility & accountability and to show service giving efforts, operational efficiency and effectiveness to contribution to the development endeavor of the country, they should establish a well organized financial management systems: budget management, accounts record keeping, internal control and reporting. Board should monitor regularly the financial management system, senior management shall give due attention for strengthening internal control activities.

Key Words: NGOs-associations- financial- management- fund- weakness- recommended- control

Introduction

1.1 Background of the Study

The term, "non-governmental organization" or NGO, came into use in 1945 because of the need for the UN to differentiate in its Charter between participation rights for inter governmental specialized agencies and those for international private organizations. At the UN, virtually all types of private bodies can be recognized as NGOs. They only have to be independent from

government control, not seeking to challenge governments either as a political party or by a narrow focus on human rights, non-profit-making and non-criminal.

NGOs can be identified under two groups:

The first are operational NGOs:

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They mobilize resources, in the form of financial donations, materials or volunteer labor, in order to sustain their projects and Programs. The fund obtained from donors, government, and companies require time and expertise on planning, budgeting, implementing, accounting and reporting.

The second are advocacy NGO:

They carry out much the same functions, but with a different balance between them. Fund-raising is still necessary, but on a smaller scale and it can serve the symbolic function of strengthening the donors' identification with the cause. Persuading people to donate their time is necessary, but, in addition to a small number of people giving a great deal of time, it is also necessary to be able to mobilize large numbers for brief periods. External donors may not impose administrative burdens, but supporters still have to be supplied with information on an efficient regular basis. Major events will aim to attract favorable publicity rather than raise funds, (*Iranian Studies Group at MIT, June 2005*).

The Charities and Societies Agency of Ethiopia has a mandate to register, license, regulate and support charities and societies operating in more than one Regional State, or securing most of their funds from foreign sources even if they operate only in one regional state, or operating in the City Administration of Addis Ababa or Dire-Dawa Pursuant to Article 3 (1) of the Proclamation. Currently, 1,275 local NGOs based in Addis Ababa are reregistered (*CHAS, 2013*).

Financial Management for NGOs:

Financial management is more than just keeping accurate accounting records. It also involves planning, controlling and monitoring financial resources to achieve organizational objectives. At a minimum, a financial management system should ensure that costs are properly categorized, tracked and charged to the appropriate accounts,

and that managers are able to report financial information accurately to the Board and to donors.

A good financial management system makes it easier to be accountable to donors and project beneficiaries, thereby enhancing their respect and confidence in the organization. This, in turn, helps an NGO be more competitive and can increase its chances of maintaining long-term financial health (*mango course hand book, June 2003*).

One of the key requirements for good governance is accountability. The issue this creates is to whom are NGOs accountable. At first this question may appear to have an easy answer. Obviously they are expected to account for the use of resources to the funders. This paper attempts to assess the financial management practices of local NGOs/Charities in Addis Ababa.

The local NGOs are required to have well organized and established financial management practices for successful accomplishment of its objectives. NGOs operate in a rapidly changing and competitive world. If their organizations are to survive in this challenging environment, it is required to develop well organized financial management tools:

- a. to help managers to make effective and efficient use of resources to achieve objectives and fulfill commitments to stakeholders help NGOs to be more accountable to donors and other stakeholders,
- b. to gain the respect and confidence of funding agencies, partners and those served; give the NGO the advantage in competition for increasingly scarce resources; and
- c. help NGOs prepare themselves for long-term financial sustainability, (*Stephenson, 2003*).

1.2. Statement of the Problem:

The role of Non-Governmental Organizations is to supplement the government agencies in providing services to the people. NGOs are formed as a result of certain needs identified by individuals or groups of individuals. Financing of NGOs is largely by donors while management is by individuals who oversee the programs of the organization. The donors rely on the managers of these programs for the full management of their finance and implementation of the programs. In the application and sources of fund, the NGOs as project implementing partners are required to have well organized financial management systems and timely submission of financial and activities reports to the donors.

The NGOs are required to comply with donors and government rules and regulations in the financial management activities and project implementation. To achieve success, NGOs have to continually improve and professionalize their work, which puts more and more demand on the management and leadership of an organization.

Challenges facing NGOs:

A. Challenges at NGO level

It is very hard to work without registering the NGO. So, registration process is the key challenging issue on the way of NGOs, whether at the time of establishment or afterwards.

The absence of well defined objectives and goals, vision, mission and even values is another issue facing NGOs. Human resource issues such as recruitment, compensation, training, promotion and etc. are often addressed as the key challenging issues. Weak performance of some NGOs has degraded the Image of other NGO and it makes difficult to persuade people to support NGOs through donation.

B. at national level

Keeping good relationship with government and private sectors to have their support is a critical success factor for every NGO. Most NGOs face problem to keep relationship with them. Sustainability and survival of every NGO is strongly dependent on a close and trusted relationship with its donors.

The most commonly identified weaknesses of the sector include; limited financial and management expertise, limited institutional capacity, low levels of self-sustainability, isolation/lack of inter-organizational communication and/or coordination, lack of understanding of the broader social or economic context (*Malena, 1995*).

1.3 Research Questions:

The assessment attempts to address the following questions on financial management practices in local NGOs in Addis Ababa:

1. Do the local NGOs comply with the CHSA, Donors, Government rules and regulation and the financial management standards and GAAP?
2. How is the strength of the internal control system?
3. Do the financial management activities have effects on project implementation?
4. What are the areas to be improved in the financial management practices?
5. What are the factors affecting the financial management activities?

1.4 Objectives of the Study:

1.4.1 General Objective of the Study:

The general objective of this study is to examine the financial management practices of non-governmental-organizations in Addis Ababa.

1.4.2 Specific Objective of the Study:

They are:

- a. To evaluate compliances issues to the CHSAs and donors rules and regulations,
- b. To assess the strength of the internal control systems in practices,
- c. To identify the effects of financial management practices on project implementation,
- d. To assess how the internal and external auditors perform auditing activities.
- e. To identify risks associated with financial management activities.
- f. To assess the financial monitoring activities run by the donors.
- g. To evaluate financial reporting practices to donors and CHSA of Ethiopia.
- h. To provide suggestions and recommendations on financial management practices based on this study.

1.5 Significance of the Study:

The results of this assessment are expected to benefit the followings:

Local NGOs: The recommendation will show the possible solutions for the identified findings. It can assist the local NGOs to use findings as input for reinforcing their financial management activities and focus on the factors that enhance effective financial management systems for donors' funded project's implementation.

The donors and other stakeholders: The recommendation and the suggested possible solutions for the identified gaps can be used as an input for capacity building activities by donors and other stakeholders

Researchers: This assessment will enhance and encourage other researchers who have interest on financial management areas of local NGOs to do further research.

1.5 Scope of the Study:

The primary focus of the assessment was on the financial management practices of local NGOs in Addis Ababa. The assessment includes the financial management activities: budgeting and planning, accounts record keeping, financial control and reporting practices of them. It focuses on the compliance issues in the accounting and reporting practices accordingly guidelines, rules and regulations required by CHSA and donors' accepted accounting standards and GAAPs. This assessment presented the major findings in financial management practices and provided recommendations.

1.6 Limitations of the Study:

The limitations that have been encountered in this assessment were the following:

- a. Time period of the study was limited and hence was difficult to conduct interviews for the selected NGOs.
- b. Unwillingness of some respondents to give necessary information and answer for the questions.

2.1 Historical Background of the Study:

“Local NGO” will be used to refer to local indigenous organizations that include national NGOs, FBOs, and CBOs that fall within the functional categories of advocacy and service delivery, and are located in developing countries. It focuses on delivering quality services and improving their individual practices rather than influencing others. For the purpose of a donor seeking collaboration with NGOs, it helps to distinguish between local NGOs that work in multiple countries, national NGOs working on countrywide issues, and community-based NGOs ,FBOs, or CBOs focused on local stakeholders and issues, (Eric Werker an Assistant Professor of Business Administration at Harvard Business School, Boston).

For organizations to be recognized as not-for-profit, they should satisfy the following criteria:

First, an NGO should be privately set up and sufficiently autonomous in its activity, that is independent of direct governmental control.

Secondly, an NGO should also be non-profit, which would clearly define its voluntary character.

Thirdly, it cannot be connected with a political party with an aim of attaining political power.

Fourthly, an NGO should support development which demonstrates its public interest character (*Schiavo-Campo et al, 2001*).

Effective management of an NGO's resources is done in a manner which is transparent, accountable, equitable and responsive to the needs of the people. Since NGOs aim at becoming sustainable, then good governance is critical to their existence. In many developing countries NGOs often lack the institutional capacity and resources to operate. Also, funds from donors are sometimes poorly managed. Thus, in order to ensure effective and proper management of resources, good governance becomes an important aspect of every NGO. One of the key requirements for good governance is accountability.

Charities and Societies in Ethiopia mean humanitarian private organization, using its own resources, not profit making and participating to fulfill government efforts with a view to eliminate poverty. The major intervention areas of CSs in Ethiopia are; general health, education, agriculture, water and sanitation, child development, eradication of HIV/AIDS, and others focused on child and women rights.

Financial statements prepared by CSs serve as a means to communicate with funding agents, government and other stakeholders. In preparing basic financial statements, CSs

in Ethiopia use both generally accepted accounting principles (GAAP) and international financial reporting system (IFRS)/IAS. US GAAP is highly applicable and there is a tendency to use IFRS/IAS in the future. Most CSs in Ethiopia keep records of non exchange transactions, prepare the three basic financial statements prescribed by FASB, and the statements are continuously validated by independent body (*Munima Siddika1, Mohammad Sarwar Jahan Rekabder2 and A.K.M. DelwarHossain3*).

2.2 The Role of NGOs:

NGOs have become major players in the field of international and national development. Since the mid-1970s, the NGOs in both developed and developing countries has experienced exponential growth. From 1990 to 2000 total development aid disbursed by international NGOs increased ten-fold. In 1992 international NGOs channeled over \$7.6 billion of aid to developing as in many African countries, the governmental efforts in the area of socio-economic development are supplemented by the activities of many non-governmental, voluntary and social organizations.

They are meant to fill the gaps that exist in the governmental efforts. The non-governmental organizations are mobilizing the resources from various national and international voluntary agencies. These organizations are to work in a coordinated manner consistent with the requirements of the society. They are regulated and controlled by the Government agencies like Charities and societies' agency, (*worldbank.org*).

There is a heavy competition among the NGOs in mobilizing financial resources, resulting in mutual bickering and mistrust. In this process, a few of the NGOs are

found lagging behind in developing required documents to ensure true and fair view of their financial dealings through the accounting and reporting procedures. Hence, this study attempts to assess how the financial management practices are being carried out in compliance with the funders, donors, government policies and acceptable standards. /generally accepted accounting principles of financial management/.

A not-for-profit organization's primary goal is to provide some socially desirable need on an ongoing basis. A not-for-profit generally lacks the financial flexibility of a commercial enterprise because it depends on resource providers that are not engaging in an exchange transaction. The resources provided are directed towards providing goods or services to a client other than the actual resource provider. Thus the not-for-profit organizations must demonstrate its stewardship of donated resources — money donated for a specific purpose must be used for that purpose. That purpose is either specified by the donor or implied in the not-for-profit's organizations stated mission.

The management and reporting activities of not-for-profit organizations must emphasize stewardship for these donated resources. The staff must be able to demonstrate that the dollars were used as directed by the donor. The shift to an emphasis in external financial reports on donor restriction has made the use of fund accounting systems even more critical.

The local NGOs are required to have well organized and established financial management practices for successful accomplishment of its objectives. NGOs operate in a rapidly changing and competitive world. If their organizations are to survive in this challenging environment, it is required to develop well organized financial management tools to.

Help managers to make effective and efficient use of resources to achieve objectives and fulfill commitments to stakeholders, (Stephenson, 2003).

2.3 Development of NGOs in Ethiopia and establishment of CHSA

In 1960 both foreign and local NGOs were established when these self-help groups could no longer suffice to support the needy of the country. The first NGOs as we know them today that were established in the country were the Ethiopian Red Cross and Swedish save the Children. Following this and the famine of 1973 and later of 1984, the number of NGOs increased and these were mostly international. Later on with the change in government in 1990 a more conducive environment was established further encouraging the growth of NGOs in Ethiopia. This time as their numbers increased more local NGOs flourished. Today 90% of NGOs operating in the country are local, (Ethiopia – Country Profile 1998, Jos van Burden, GOM, 1998).

The Agency has a mandate to register, license, regulate and support charities and societies operating in more than one Regional State, or securing most of their funds from foreign sources even if they operate only in one regional state, or operating in the City Administration of Addis Ababa or Dire-Dawa Pursuant to Article 3 (1) of the Proclamation It is known that the Agency has begun rendering a full-fledged service as from September 2009 after having made all the necessary preparations and arrangements for the last one year since commencing its official operation in June 2009 to carry out re-registration and formal registration of Charities and Societies as well as other services. Currently 1,275 local NGOs/charities in Addis Ababa are reregistered, (Data collected from Charities

and Societies Agency of Ethiopia on 10/4/2013).

Ethiopian Charities \ Ethiopian Societies are those Charities or Societies that are formed under the laws of Ethiopia, all of whose members are Ethiopians, generate income from Ethiopia and wholly controlled by Ethiopians. However, they may be deemed as Ethiopian Charities or Ethiopian Societies if they use not more than ten percent of their funds which is received from foreign country sources and Ethiopian Residents Charities\Ethiopian Residents Societies are those Charities or Societies that are formed under the laws of Ethiopia and which consist of members who all dwell in Ethiopia and who receive more than 10% of their funds from foreign country sources, (*www.chsa.gov.et*).

According to the Charities and Societies Proclamation, a Charity” is “an institution which is established exclusively for charitable purposes and gives benefit to the public”. A distinctive feature of charitable activities is the fact that they are intended to benefit the public. The law recognizes five forms of charities which include Charities and Societies Agency (CHSA)

The Proclamation provides for the establishment of an independent body called Charities and Societies Agency (CHSA) to oversee the activities of CSOs which fall under its scope.

The Director General of the ChSA is appointed by the Government. The Proclamation makes the ChSA accountable to the Ministry of Justice (but this has been changed by administrative fiat and the Agency is now under the jurisdiction of the Ministry of Federal Affairs.

The Agency has the following objectives:

- a. To enhance the development of Charities and Societies and to enable them to achieve their

purposes in accordance with the law; and

- b. To ensure that Charities and Societies are transparent, accountable, and operate lawfully.

The Agency is given broader powers in the administration of charities and societies. It has the authority, among others, to license, register and supervise legal compliance, determine the public benefit status of CSOs, provide education and training to ensure compliance, and impose sanction in case of any violation of the law.

In addition, the Agency has the responsibility to facilitate consultative forums with Charities and Societies. CSOs should therefore actively participate in these forums in order to seek solutions to challenges and problems they face, as well as to strive for a more conducive environment for their operations, (*Users' manual for charities and societies, by taskforce, and 2011*).

2.4 Requirements for Charities in Ethiopia:

Charities and societies are required to maintain day-to-day records of financial transactions. They are also required to furnish an annual statement of accounts to the Charities and Societies Agency. Despite the requirement to submit to an annual audit of accounts by certified auditor, an internal auditor or an auditor designated by the Charities and Societies Agency, an organization can be subject at anytime to an audit of accounts according to the directives of the Minister of Justice.

Furthermore, CSOs are required to submit to the Agency an annual activity report outlining their major activities and other relevant information along with a statement of accounts. They are also required to renew their license and registration every three

years, which is subject to an executive evaluation of the completeness and accuracy of their performance and audit reports.

The requirement to renew the license and registration certificate every three years, coupled with the fact that no time limit is prescribed for renewal, leaves ample scope for motivated procedural delays, (By *Mandeep S. Tiwana, Civil Society Watch Associate, and CIVICUS*).

The charities and societies agency of Ethiopia has the following objectives:

- a. to enable and encourage Charities and Societies to develop and achieve their purposes in accordance with the law;
- b. to create a situation in which the operation of Charities and Societies is transparent and accountable;
- c. to ensure that Charities and Societies operate legally

All NGOs in Ethiopia registered and revising their activities are required to use the resources for the intended purpose, in compliance with the CSA of Ethiopia and funder's rules and regulations, and to submit finance and activities reports to the charities and societies' agency of Ethiopia and the funders and the donors. Hence, all the NGOs functioning shall have well organized financial systems.

2.4.1 Accounting Records Keeping

- a. The Officers of a Charity or Society shall ensure that accounting records are kept in respect of the Charity or society which is sufficient to show and explain all the transactions and disclose at any time.
- b. The accounting records shall, in particular, contain entries showing from day to day all sums of money received and expended by the Charity or Society, and the matters in respect of which the receipt and expenditure takes place; and

record of the assets and liabilities of the Charity or Society.

- c. Charities and Societies may not receive anonymous donations and shall at all times keep records that clearly indicate the identity of donors.

The Officers of a Charity or Society shall preserve any accounting records made for the purposes of this Article for at least 5 years from the end of the financial year of the Charity or Society in which they are made.

2.4.2 Reporting:

As a means to discharge responsibility and accountability and to show their service giving efforts, operational efficiency and effectiveness and their contribution to the development endeavor of the country, Charities and Societies prepare financial Statements. The primary purpose of financial statements is to provide relevant information to meet the common interest of donors, members, creditors and others who provide resources to not-for-profit organizations. The basic financial statements issued by Charities and Societies are: a statement of financial position, a statement of activities, and statement of cash flows.

2.4.2.1 Annual Statements of Accounts

- a. Any Charity or Society shall submit to the Agency an annual statement of accounts prepared in accordance with acceptable standards.
- b. Notwithstanding sub-article (1) of this Article, Charities and Societies whose annual flow of funds does not exceed Birr 50,000.00, (fifty thousands) the statement of accounts may choose to prepare a receipts and payments account and a statement of assets and liabilities.
- c. The Officers of a Charity or Society shall preserve any statement of accounts

and related documents prepared under sub-article (1) and (2) of this Article for at least 5 years from the end of the financial year.

2.4.2.2 Annual Activity Report;

- a. The Officers of a Charity or Ethiopian Resident Society shall prepare and transmit to the Agency an annual activity report on the major activities and relevant information regarding the Charity or Society.
- b. The annual activity report required under sub article(1) of this Article shall be transmitted to the Agency within three months from the end of that financial year or within such period as the Agency may for any special reason require.
- c. Every such annual activity report shall have attached to it the annual statement of accounts

2.4.2.3 Annual Audit Requirements

An audit is an independent review and examination of an organization's systems, records and activities. Many donors require yearly audits of their grant recipients, and the U.S. Government (USG) is no different. Both prime recipients and sub recipients that receive a certain threshold of funds from the USG must conduct an annual audit.

An audit enables to verify financial numbers ensure their accuracy and identify and assess internal controls that should be in place to improve the integrity of the financial systems. It evaluates how are spending USG funds and complying with the regulations set forth in the agreement.

- a. U.S.-based nonprofit organizations that receive US\$500,000 or more in total funding from the USG either

directly or as a sub recipient, during their fiscal year.

- b. Foreign nonprofits that receive all or a majority of their USG funding from USAID (either directly or as a sub recipient), if they receive US\$300,000 or more during their fiscal year.
- c. For-profit organizations that receive all or a majority of their funding from USAID will be reviewed annually to determine if an audit is required. (U.S.-based nonprofit organizations that receive US\$500,000 or more in total funding from the USG either directly or as a sub recipient, during their fiscal year.)
- d. Foreign nonprofits that receive all or a majority of their USG funding from USAID (either directly or as a sub recipient), if they receive US\$300,000 or more during their fiscal year.
- e. Not-for-profit organizations that receive all or a majority of their funding from USAID will be reviewed annually to determine if an audit is required,(www.NGOConnect.NET).

2.5 Financial Management Guide For Non –Profit Organizations:

This guide is to those who are responsible for grant Management, including those who prepare grant proposals and those who record and report on grant project activities. It is intended only to provide practical information on what is expected from grants implementing organizations in terms of fiscal accountability

2.5.1 Financial Management:

In many NGOs financial management is given a low priority. This is often characterized by poor financial planning

and monitoring systems. But NGOs operate in a rapidly changing and competitive world. If their organizations are to survive in this challenging environment, managers need to develop the necessary understanding and confidence to make full use of financial management tools.

2.5.2 Key Pillars of Financial Management:

Although no one model of financial management fits every organization, the following components are essential to good financial management:

- a. Planning looks ahead to prepare for the future, such as developing budgets to cover activities of a program or the entire organization for a year or a longer period.
- b. Controlling establishes systems and procedures, checks and balances, to make sure that the financial resources of the organization are properly handled and that risks are managed.
- c. Monitoring compares plans with actual performance to identify strengths and weaknesses in planning and implementation and adjust as necessary (*Mango June 2003 Mango Course Handbook*).

Well organized financial management is a key to an organizational sustainability. It will impact on decision making across the organization and as such should be integrated into all aspects of an organization's operations, from managing project budgets to gathering information for strategic decision-making. Nonprofit voluntary organization must practice sound financial management and comply with a diverse array of legal and regulatory requirements. It is essential that organization successfully manage their funding and financing sources to ensure the best and most efficient use of their financial resources.

The voluntary organization should get its budget approved by the board, and its financial system should be accurate and all the financial records (accounts) are kept in time. The organizations should assure the financial resources are used in furtherance of the organization's charitable purposes. In order to establish sound governance practices we have to establish an effective structure of overall and financial management. For every voluntary organization and its members it is very much important to understand the basic concept of financial term; budgeting, financial strategy, accounting system, financial policy, social security for its staffs, internal control & internal audit. The local NGOs are required to have well organized and established financial management practices for successful accomplishment of its objectives. NGOs operate in a rapidly changing and competitive world. If their organizations are to survive in this challenging environment, it is required to develop well organized financial management tools to:

- a. to help managers to make effective and efficient use of resources to achieve objectives and fulfill commitments to stakeholders;
- b. to help NGOs to be more accountable to donors and other stakeholders;
- c. gain the respect and confidence of funding agencies, partners and those served;
- d. give the NGO the advantage in competition for increasingly scarce resources; and
- e. Help NGOs prepare themselves for long-term financial sustainability (*Stephenson, 2003*).

Effective management of an NGO's resources is done in a manner which is transparent, accountable, equitable and responsive to the needs of the people. Since NGOs aim at becoming sustainable, then good governance is critical to their

existence. In many developing countries NGOs often lack the institutional capacity and resources to operate. Also, funds from donors are sometimes poorly managed. Thus, in order to ensure effective and proper management of resources, good governance becomes an important aspect of every NGO. One of the key requirements for good governance is accountability. The issue this creates is to whom are NGOs accountable. At first this question may appear to have an easy answer. Obviously they are expected to account for the use of resources to the funders.

There are a number of ways in which NGOs can improve on their governance and management operations. These include the following:

- a. stating their mission, values and objectives clearly and ensuring that these strategies are followed
- b. better human resources development and training for their managers and staff including board members and volunteers
- c. Better management processes as well as financial management, accounting, and budget systems (University of Botswana).

2.5.3 Good Financial Management

A Good financial management involves planning, organizing, controlling and monitoring resources so that your organization can achieve its objectives and fulfill its commitments to beneficiaries, donors and other stakeholders.

Good financial management requires more than simply keeping accurate accounting records. Many NGOs may have only an accounting or bookkeeping system rather than a financial management system. Accounting is a subset of financial management. A financial management

system encompasses both administrative systems and accounting systems.

Administrative systems provide the framework for handling procurement, travel, inventory, facilities and personnel matters such as payroll and benefits. Accounting systems encompass the methods, procedures and controls established to gather, record, classify, analyze, summarize, interpret and present accurate and timely financial data, (www.worldbank.org.et, and accessed 20/5/2013).

2.5.4 Internal Controls:

Internal controls are systems of policies and procedures that protect the assets of an organization create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations. These systems are not only related to accounting and reporting but also relate to the organization's communication processes, internally and externally, and include procedures for:

- (1) Handling funds received and expended by the organization,
- (2) Preparing appropriate and timely financial reporting to board members and officers,
- (3) Conducting the annual audit of the organization's financial statements,
- (4) Evaluating staff and programs,
- (5) Maintaining inventory records of real and personal property.

(www.oag.state.ny.us/charities/charities.html).

2.6 Administrative and Operational Costs

Any charity or society shall allocate not less than 70 percent of the expenses in the budget year for the implementation of its purposes and an amount not exceeding 30 percent for its administrative activities. Notwithstanding sub article (1) of this

Article, the government may confer various incentives to a charity or society that allocate more than 80% of its total income for its operational purposes or demonstrates outstanding performance.

2.7 Cost Shared/ Allocation

Shared Project Costs—Goods and services used by multiple projects and for which a vendor cannot invoice each project separately that are charged to each benefiting project based on a pre-determined formula. An organization with more than one project incurs three categories of expenses:

Direct project costs: Costs that can be clearly attributed to a specific project, such as a dedicated staff person, office space used by project staff or specific equipment and supplies used only by a single project.

Shared project costs: Costs are required to carry out a project, but are difficult to attribute to a specific project, such as electricity or administrative support staff.

Non-project costs: Legitimate organizational expenses, but costs not related to any specific project or costs that are not “allowable.”

Most of the expenses will easily fall into the direct cost category, while non-project costs are usually self-evident. Costs that may be shared, however, may be the biggest challenge, (*www.NGOConnect.NET*).

2.8 Analysis of FASB 117 (Financial Accounting Standards Board)

Statement of Financial Position:

A statement of Financial Position must be prepared for the organization as a whole presenting the total amounts of assets, liabilities, and net assets. Either the Statement of Financial Position or the notes must provide information on liquidity, financial flexibility (i.e. restrictions) and interrelationship of assets and liabilities.

The information should be aggregated into reasonably homogenous groups. Cash or other assets that are received with donor-imposed restrictions should not be classified with cash or other assets that are unrestricted and therefore, not available for current use. Information about liquidity can be provided by listing assets and liabilities in order of liquidity, classifying assets and liabilities in accordance with ARB 43 (Accounting Research Bulletin), or disclosure in footnotes. The amounts of each of the following classes of assets, based on the existence or absence of donor-imposed restrictions, must be included:

Statement of Activities:

Like the Statement of Financial Position, the Statement of Activities should focus on the organization as a whole. Although fund accounting and reporting by fund groups is not advocated under FASB 117, the Statement does not preclude a not-for-profit entity from providing this disaggregated information by fund groups as supplemental data. The Statement of Activities must report the change in unrestricted net assets, temporarily-restricted net assets, permanently-restricted net assets and total net assets.

Revenues increase unrestricted net assets, temporarily-restricted net assets, or permanently-restricted net assets depending upon the absence or existence of donor-imposed restrictions.

Gains or losses on investments will generally increase or decrease unrestricted net assets, unless their use is limited by donor-imposed restrictions.

The removal, expiration, or satisfaction of a donor imposed condition or restriction will result in a transfer between temporarily-restricted, permanently-restricted, or unrestricted support.

Although FASB 117 does not encourage or discourage further classifications such as

operating and non operating etc., if the organization uses such terms these classifications must, at a minimum, be included in a financial statement that reports the change in unrestricted net assets for the period.

Statement of Functional Expenses:

Expenses result in decreases in unrestricted net assets. Membership - Development activities include soliciting for prospective members and memberships dues, membership relations, and similar activities. Voluntary health and welfare organizations are required to continue to report information about expenses by functional and natural classifications in matrix format in a separate financial statement.

Other not-for-profit entities are required to report functional classifications and are encouraged, but not required, to provide information about the natural classification of expenses.

Statement of Cash Flow

FASB 117 amends a number of sections of FASB 95 to require not-for-profit organizations to include a Statement of Cash Flows as a part of a complete set of financial statements. Both FASB 116 and 117 require specific disclosures for not-for-profit entities and encourage certain other financial statement disclosures.

Contributed Services - An entity that receives contributed services must describe the programs or activities for which the services were used, the nature and extent of the contributed services received during the period and the amount recognized as revenue. Entities are encouraged to disclose the fair value of contributed services received but not recognized as revenues, if it is practical to do so.

Temporarily Restricted Support - If an entity reports as unrestricted support, contributions with donor-imposed restrictions that are met in the same accounting period, it must disclose this in its accounting policy note and must apply this policy consistently from period to period. Gifts of Long-Lived Assets If an entity receives a gift of a long-lived asset that does not contain a stipulation as to how long the asset must be used, it is reported as restricted support if it is the organization's policy to imply a time restriction over the useful life of the asset. Promises to Give - Recipients of unconditional promises to give must disclose the amounts of promises receivable in less than one year, one year to five years, and more than five years as well as the amount of allowance for uncollectible promises receivable.

Board Designations - Board-designated endowments of unrestricted, assets must be classified with unrestricted net assets but disclosed either in the body of the financial statement or in the notes as board designated. Depreciation - FASB 93 requires a not-for-profit entity to provide the same information concerning depreciation as for-profit organizations do. In performing audits and preparing financial statements of not-for profit organizations (*1800Net, LLC*).

2.9 Analysis of FASB 116 (Financial Accounting Standards Board)

"ACCOUNTING FOR CONTRIBUTIONS RECEIVED AND CONTRIBUTIONS MADE"

Financial Accounting Standard Board Pronouncement No. 116 "Accounting for Contributions Received and Contributions made" covers all entities that receive or make contributions. Some key definitions included in the statement are:

Contributions - An unconditional transfer of cash or other assets to a not-for-profit entity or the settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner. **Donor - Imposed Condition** - A future or uncertain event whose occurrence or failure to occur can result in the return of the assets transferred to the promissory or the release of the promissory from an obligation to transfer assets.

Donor - Imposed Restriction - A stipulation and limitation in the use of contributed assets. These restrictions can be limited as to purpose, time, or both.

Contributions received; including unconditional promises, should be recognized as revenues in the period received. For purposes of the Statement of Financial Position, they should be recorded as increases in assets or decreases in liabilities and as either restricted support or unrestricted revenue (*1800Net.com/1800Net LLC*).

2.10 Accountability Requirements:

The National Endowment for the Arts (NEA), a Federal agency, receives annual appropriations from the Congress to be used for granting financial assistance to projects related to the arts. NEA is, therefore, charged with a fiduciary responsibility to see that the taxpayers' money is used appropriately and to require proper accountability from the recipients of its awards. Acceptance of a grant creates a legal obligation on the part of the grantee to use the funds in accordance with the terms of the grant and to comply with the grant's provisions and conditions.

2.10.1 Financial Management Standards

Many alternative methods exist for implementing financial management

systems, and the organization should choose methods appropriate for its particular scale of operations. If the grantee organization is unable to meet the standards that are covered here, funding may be terminated and the organization may be deemed ineligible to receive subsequent financial assistance or may be placed on an alternative method of funding. Recipients must have accounting structures that provide accurate and complete information about all financial transactions related to each Federally-supported project. Grant expenditure records must be at least as detailed as the cost categories indicated in the approved budget (including indirect costs that are charged to the project), (*Office of Inspector General Audit Guidelines for Financial Audits Contracted by Foreign Recipients, (June 2003)*).

2.10.2 Internal Control Standards:

Organizations must provide safeguards for all grant property, whether cash or other assets, and assure that it is used solely for authorized purposes. Control will be enhanced if the duties of the members of the organization are divided so that no one person handles all aspects of a transaction from beginning to end. The person who is responsible for the physical custody of an asset should not also have responsibility for keeping the records related to that asset. The person who has authority for placing employees on the payroll and establishing wage rates should not be the same person who signs the checks, (*Office of Inspector General Audit Guidelines for Financial Audits Contracted by Foreign Recipients, (June 2003)*).

2.10.3 Audit Standards:

Grantees are expected to maintain a state of audit readiness. This means that records pertinent to the financial and programmatic aspects of their grants must be readily

accessible for audit. Failure to provide the auditor with reliable documentation could lead to questioned costs and possibly result in cost disallowances requiring refunds.

Office of Management and Budget (OMB) Circular A-133, the definitive Federal regulation concerning audits of non-profit organizations, bases the requirements for audit on specific dollar amounts, (OMB Circular A-133).

2.10.4 Reporting Standards

The basic requirements for reporting are spelt out in the two documents, "General Terms and Conditions for Grants to Organizations" and "Reporting Requirements," both of which are included in the grant award packages furnished to all grantees. It should be noted that the failure to submit reports on a timely basis may result in delayed payments and/or denial of eligibility for future grants. In addition to the basic reporting requirements, those organizations, who are required A-133 audits, must submit the requisite audit reports within nine months following the end of the audit period, (Office of Inspector General Audit Guidelines for Financial Audits Contracted by Foreign Recipients. (June 2003).

Research Methodology

3.1 Research Design:

The descriptive method of study was used for this assessment. The gathered data were analyzed and interpreted. The secondary data was collected from reports and website of CHSA of Ethiopia .The NGOs under study were local NGOs who have to comply with rules and regulation of CHSA of Ethiopia. Hence, these rules and regulations were assessed against the financial management practices of these NGOs.

3.2 Data Collection:

The primary data were collected through questionnaires designed to address the intended assessment questions and assessment objectives. According to CHSA’s of Ethiopia data, there were 1,275 local NGOs registered in Addis Ababa (CHSA of Ethiopia, 10/4/2013).

Hence the population under this assessment is 1,275. The appropriate sample was calculated using the following formula:

$$\begin{aligned}
 N & \text{ _____} \\
 n &= 1 + N (e)^2 \\
 &= 1,275 \text{ _____} \\
 & \quad 1 + 1,275(0.1)^2 \\
 &= 92
 \end{aligned}$$

Where:

- n = is sample size
- N = total population
- (e) = allowance of random

error

The questionnaire was developed and distributed to 92 respondents using random sampling technique for those who are performing financial management activities in these local NGOs and 83 (90%) were returned by the respondents. Besides this primary data, relevant secondary data were also collected from various books, manuals, proclamation and websites.

3.3 Data Analysis:

The statistical tools like tables and percentages were used to analyze data gathered by questionnaires and then described for each survey results. The questionnaire was given to finance heads and accountants. Finally, based on the analysis, suggestions and recommendations were forwarded.

Data Analysis and Presentation

4.1 Introduction

This part of the assessment discusses about the findings based on the information gathered from the respondents for the questionnaire. The primary objective of this assessment is to analyze the financial management practices in local NGOs based in Addis Ababa.

secondary data were also collected from books, manuals, journals, reports, proclamation, research papers and in various websites.

The primary data used for this assessment was collected from the staff of local NGOs directly relevant for financial management activities using questionnaire and selected by random sampling technique. The

4.2 Data is analyzed under following headings:

1. General Information,
2. Budget management practices,
3. Accounting and Records Keeping practices,
4. Internal Control Practices and
5. Reporting practices,

On General Information

TABLE 4.2.1

1. Educational level

SL NO	Questions	Options of Responses				Total Responses
		Certificate	Diploma	BA/BSc	Masters	
1	Finance staff educational level	—	11 (13.6%)	63 (77.78%)	7 (8.64%)	81 (100%)

For educational level questionnaire two respondents did not respond.

2. Number of years of services

3.

SL NO	Questions	Options of Responses				Total Responses
		0-2	3-5	6-10	Above 10 years	
2	Finance staff years of work experiences in accounting	17 (20.48%)	28 (33.73%)	22 (26.50%)	16 (19.27%)	83 (100%)

4. Accounting method used

SL NO	Questions	Options of Responses				Total Responses
		Accrual	Cash Base	Modified cash basis	Others	
3	Method of Accounting used	19 (22.89%)	21 (25.30%)	43 (51.80%)	—	83 (100%)

5. Accounting standard in practice

SL NO	Questions	Options of Responses			
		GAAP	IAS	Others	Total Responses

4	Accounting standards used	77 (93.90%)	5 (6.10%)	—	82 (100%)
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6. Major sources of funding

SL NO	Questions	Options of Responses				Total Responses
		Donation	Grants	Membership contribution	Fund raising	
5	Main sources of funds	52 (54.17%)	33 (34.37%)	6 (6.25%)	5 (5.21%)	96 (100%)

6. Major activities of NGOs relates to :

S L N O	Quest ions	Options of Responses					Total Responses
		Edu cati on,	Agricul ture,	Water and sanitation	Child development	HIV/AIDS, alleviation	
6	Major programs being implemented	21 (16.21%)	7 (5.47%)	12 (9.37%)	24 (18.75%)	64 (50%)	128 (100%)

7. Financial statements prepared by NGOs

SL No	Question	Options of Responses				Total Responses
		Financial position	Statement of activities (revenue and expenditure report)	Cash flows	Statement of functional expenses	
7	Financial statements you prepare	42 (28.38%)	53 (35.81%)	30 (20.27%)	23 (15.54%)	148 (100%)

(Respondents' summary to the questionnaire).

As educational background and relevant work experiences are the main requirements for successful accomplishment of activities with required quality standards and quality financial management activities, the respondents were requested to provide their educational background and financial management experiences. Responses

indicate that under educational background 13.6% held Diploma, 77.78% BA degree and 8.64% Masters Degrees. Thus, most of the NGO's staff is of BA degree educational level and the smaller proportion i.e. 8.64 % are Masters Degree holders. This indicates that there is small number of staff working in financial management who

holds masters degree in local NGOs. The second question was regarding financial management/or accounting work experiences and the result indicates that 20.48% are working for 0-2 years ,33.73% for 3-5 years,26.5% for 6-10 years and 19.27% for above 10 years. This indicates that a considerable number of staff i.e. 20.48% has work experiences up to two years and majority have 3-5 years of work experiences. Methods of accounting used by the respondent were 22.89% for accrual base, 25.30% for cash base and 51.80% for modified accounting methods. These three methods are being used by the NGOs though most of the organization (51.80%) used modified accounting methods. Regarding accounting standards the result indicates that 93.90% follow GAAP and 6.10% IAS. Most of the NGOs used GAAP. One of the main objectives of these local NGOs establishment and existence is to perform projects for people’s good and to play roles in economic development activities. These projects are to address and solve the prevailing problems in health, education and other activities which require these NGOs engagement. The types of project activities are the most important thing for fund raising and attract attentions of donors and getting government support. Survey indicates main activities of NGOs are:

16.21% education, 5.47% agriculture, 9.37% water and sanitation, 18.75% for Child development and 64% for HIV/AIDS control. Main sources of fund are: 54.17% donation, 34.37% grants, 6.25% members’

On Budget Management Practices:

contribution and 5.21% other fund raising activities. The result regarding project types indicates that the majority of the NGOs (64%) are implementing HIV/AIDS Prevention projects followed by children development (18.75%) and least are for education, water , sanitation and education related projects . Thus, the main project is concerning HIV/AIDS control. Regarding the sources of fund the major sources of fund comes from donation and grants and the least from members’ contribution and other fund raising activities. The result indicates that the Local NGOs’ financial sources are heavily dependent on grants and donations and less on member contribution and fund raising activities. This implies that there is high risk for sustainability and continuity of project implementation and existence. Furthermore, these NGOs compete for donation and grants for sources of fund and hence must competent enough for compliance with the donors’ rules and procedures. The question on financial statements preparation was administered on the NGOs finance staff. The result indicates that all NGOs are preparing these required financial statements. Literature review (FASB 117) indicates that the organization must prepare Statement of financial position, Statement of Activities, Statement of Functional Expenses and Statement of Cash Flow to indicate the finical position as whole. Furthermore statement of activities is required by Charities and Societies Agency.

TABLE 4.2.2
Summary of budget related questions and responses:

SI No	Questions	Options of Responses					Total Responses
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree	
1	All grant or contract budget proposals are reviewed by finance staff	2 (2.40%)	25 (30.12%)	6 (7.23%)	31 (37.35%)	19 (22.89%)	83 (100%)

2	Cash forecast is always prepared for each month, six months and a year for cash need planning for project implementation	1 (1.20%)	7 (8.43%)	28 (33.73%)	37 (44.58%)	10 (12.05%)	83 (100%)
3	The boards formally authorizes the annual budget of the organization	1 (1.20%)	8 (9.64%)	8 (9.64%)	45 (54.21%)	21 (25.30%)	83 (100%)
4	Budget monitoring report is done at the end of every month and provided to managers to see actual expenses and performances against budget and activities planned variance analysis used for decisions	1 (1.20%)	17 (20.48%)	9 (10.84%)	25 (30.12%)	31 (37.35%)	83 (100%)
5	There are occasions that the organization does not implement activities on the planned time due to delay of fund transfer from the donor	5 (6.02%)	23 (27.71%)	12 (14.45%)	11 (13.25%)	32 (38.55%)	83 (100%)

(Respondents' summary to the questionnaire).

The budget management includes planning and control activities: Forecasting the budget required for implementation of a project, assurance of budget utilization up to the budget and used for the planned activities. Furthermore it is also important as guideline towards the achievement of planned programs and measurement of performance. Budgeting, implementing, monitoring and measuring the performance are the main activities to be done by finance and program staff and requiring the involvement and participation of staff from both technical managerial levels. Budget proposal reviewing and cash forecast preparation related questions were provided to the respondents and the 2.40% strongly disagree, 30.12% disagree, 7.23% neutral, 37.35% agree and 22.19 % strongly agree to the statement that the budget proposals are reviewed by finance staff. The responses from the respondents indicate that the finance staffs participation in budget proposal reviewing is less. This brings

about difficulties in having appropriate budget amount calculation and forecasting the required amount of budget. The budget preparation process shall be participant and the finance staff shall involve and participate in budget preparation and reviewing for better budget preparation, implementation and monitoring activities. Various financial management documents indicate the importance of finance staff participation in budgeting process activities, for instance, the finance staff review the costing of planned activities. The responses for cash forecast preparation results indicate as: 1.20% strongly disagrees, 8.43% disagree, 33.73% neutral, 44.58% agree and 12.05% strongly agree. Thus a considerable number of respondents responses indicate that no cash forecast are prepared and have no ideas on cash forecast. Cash forecast preparation is very important for smooth implementation of activities as planned. Cash forecast document is required for augmenting the required cash for activities

implementation .It is required to avoid project activities implementation due to shortage of cash at the right time.

Question was asked to respondents that how far they agree that budget is always approved by board .In this respect: 1.2% strongly disagree, 9.64% disagree, 9, 64% said they have no idea, 54.21% agreed and 25.30% strongly agreed. Here the considerable respondents indicated there was no board budget authorization or have no idea on this issue. For having better internal control system, it required budget authorization and monitoring by the board on continuous basis.

To be a good and effective NGO, Board provides a basis for successful management of its organization; familiarizes its target constituents with the activities of the NGO; help in better understanding the organizational structure of the NGO, and also assists in distributing responsibilities among the team members within the NGO organization. One of the main activities of a

board in organization leadership is authorization of annual budget in the implementation of project activities. Once the budget is prepared and approved, the implementation process is to be done. The implementation of the budget should be monitored for its day to day implementation to take appropriate decision for its deviations from the planned activities and budget amount. The respondents' results indicate that: 6.02% strongly disagree, 27.71% disagree, 14.45% neutral, 13.25% agree and 38.55% strongly agree that delay in project implementation is due to delay in fund transfer. In implementation of projects, sufficient cash must be available for activities implementation at the time of requirement. Thus due to cash shortage activities implementation should not be affected. Researcher has observed that many project implementation activities are affected due to delay of reports between the implementer and the donor. This cash flow also depends on financial management activities and the information flow between the project executor and the donor.

On Records Keeping Practices

TABLE 4.2.3

Summary of respondents:

Sl No	Questions	Options Response					Total Responses
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree	
1	The organization has written policies and guidelines sufficiently indicating the procedures and processes for accounting of revenues and applications for funds		2 (2.41%)	4 4.82%)	32 (38.55%)	45 (54.21%)	83 (100%)
2	The accounting system keep records for fixed assets and calculate depreciation expense to account it in financial	4 (4.82%)	36 (43.37%)	7 (8.43%)	29 (34.94%)	7 (8.43%)	83 (100%)

	statements						
3	The financial management system of the organization is in line with donors' requirement (if you don't agree give your comments in the last column)	2 (2.41 %)	2 (2.41 %)	6 (7.23 %)	57 (68.67 %)	16 (19.28 %)	83 (100 %)
4	The organization maintain records for monetary and in kind gifts received from volunteers' and show it in the financial statements and prepare supporting documents	2 (2.41 %)	12 (14.46 %)	13 (15.66 %)	45 (54.21 %)	11 (13.25 %)	83 (100 %)
5	There is a culture of calculating depreciation expense of fixed assets and account in the expenses reporting and indicate in financial statements	6 (7.23 %)	43 (51.81 %)	11 (13.25 %)	17 (20.48 %)	6 (7.23 %)	83 (100 %)
6	Funders /donors provide trainings on financial management activities on agreed projects	4 (4.82 %)	16 (19.51 %)	12 (14.63 %)	43 (52.43 %)	7 (8.53 %)	82 (100 %)
7	The organization has common cost allocation methods established for common expense allocation among different projects	3 (3.61 %)	18 (21.68 %)	9 (10.84 %)	41 (49.39 %)	12 (14.45 %)	83 (100 %)
8	Appropriate computer software is utilized to perform recording functions	1 (1.21 %)	4 (4.82 %)	7 (8.43 %)	49 (59.03 %)	22 (26.51 %)	83 (100 %)

(Respondents 'summary
Questionnaire).

Accounts records keeping is one of the main pillars of financial management activities. The records keeping embrace many activities like accounting systems, accounting manual and accounting software among others. Questions on these areas were put before the respondents and the results indicate regarding availability of sufficient written policies and guidelines for financial management activities and whether the accounting system is in line with the donors' requirements. Question was asked to respondents that how far they agree on the alignment of the financial management systems to donors' requirements: In this respect: 2.41% strongly disagree, 2.41% disagree, 23% Neutral, 68.6% agree and 19.28% strongly agree. The analysis indicate that about 5% of the respondents showed that the financial management system is not in line with the donors requirements and 23% have no ideas on that matter. Most of the respondents showed that the financial management system is in line with the donors requirements.

The financial management requires being in line with donors' requirement for regarding with the recording and reporting requirements. As indicate in table 3,2,4 the respondents for the question whether the accounting system keep records for fixed assets and calculate depreciation expense to account it in financial statements, the respondents gave their answers that 4.82% strongly disagree, 43.37% disagree, 8.43% neutral, 34.94% agree and 8.43% strongly agree. The result indicates most of the NGOs are not calculated depreciation for fixed assets. Some of the organization are keeping records and calculating depreciation for fixed assets. Literature review indicated that Fixed assets may represent considerable wealth held in the form of land, buildings, vehicles, machinery and office equipment and, often over-looked; require special attention to ensure their value is maintained and that they do not disappear.

TABLE 4.2.4
Analysis of Internal Control Control practices
Summary of Internal Control Questions Responses

S L N o	Questions	Options of Responses					Total Respon ses
		Strongly Disagree	Disagre e	Neutr al	Agree	Strongl y Agree	
1	The finance staff is sufficient in number and qualification to perform the financial management of the organization	3 (3.61%)	18 (21.68%)	6 (7.23%)	47 (56.62%)	9 (10.84%)	83 (100%)
2	program staffs job descriptions clarify financial management roles and responsibilities	17 (20.48%)	15 (18.07%)	4 (4.82)	37 (44.58%)	10 (12.05%)	83 (100%)

3	The organization ensures the application of existing segregation of duties and responsibilities	0%	9 (10.97%)	8 (9.75%)	23 (28.05%)	42 (51.22%)	82 (100%)
4	I know that there is board of directors for the organization	1 (1.20%)	3 (3.61%)	2 (2.40%)	52 (62.65%)	25 (30.12%)	83 (100%)
5	The board meets regularly and have schedule for meetings	3 (3.61%)	8 (9.64%)	9 (10.84%)	22 (26.51%)	41 (49.39%)	83 (100%)
6	Funders/donors review the financial management activities of projects in reasonable time	2 (2.40%)	6 (7.23%)	6 (7.23%)	28 (33.73%)	41 (49.39%)	83 (100%)
7	The financial reports are checked and reviewed against the activities reports by the management	1 (1.20%)	7 (8.43%)	3 (3.61%)	33 (39.76%)	39 (46.98%)	83 (100%)
8	Finance staff is involved in the annual budget preparation process	2 (2.40%)	8 (9.64%)	4 (4.80%)	27 (32.53%)	42 (50.60%)	83 (100%)
9	Executive Director reviews the monthly financial statements	3 (3.61%)	11 (13.25%)	11 (13.25%)	29 (34.94%)	29 (34.94%)	83 (100%)
10	'Segregation of duties' is implemented within the organization's financial management activities sufficiently	1 (1.22%)	4 (4.88%)	12 (13.63%)	32 (39.02%)	33 (40.24%)	82 (100%)

(Respondents' summary to the questionnaire).

Financial control/internal control are one of the most important parts of financial management activities. Different literature indicate it is system of controls, checks and balances – collectively referred to as internal controls – to be put in place to safeguard an organization's assets and manage internal risk. Their purpose is to deter opportunistic theft or fraud and to detect errors and omissions in the accounting records. An effective internal control system also protects staff involved in financial tasks. Internal Control/Financial Control practices related questions were submitted to local NGOs staff and their responses are summarized in table 3.2.5. The existence of sufficient number with better qualification is vital for better accomplishments of financial management activities. The respondents' response for a question existence finance staff sufficient in number and qualification to perform the financial management of the organization showed that 3.61% and 21.68% for strongly disagree and disagree respectively and 7.23% no comment while 56.62% and 10.84% for agree and strongly agree respectively. This indicates that a considerable number of

respondents Responses showed that there is gap on fulfillments of sufficient finance staff in these organizations. Job description is highly important to state at least main duties and responsibilities of staff and this also helps in application of segregation of duties and responsibilities so that it helps for strengthening of internal control systems of the organization. Two questions were provided to the respondents on whether the job descriptions for program staffs clarify financial management roles and responsibilities and the organization on ensures the application of existing segregation of duties and responsibilities.

For job descriptions clarity 20.48% and 18.07% strongly disagree and disagree respectively and 4.82% no comment, 44.58% and 12.055 for agree and strongly agree. A considerable number of responses showed that no clear job description for program staff on their financial management related responsibilities for which directly and indirectly all staff have financial management responsibilities. And for the assurance of segregation and duties and responsibilities by the organization, the response showed that 10.97% disagree and 9.75% no comment respectively and 28.07% and 51.22% agree and strongly agree receptively. Here the result indicates there are gaps on assurance of segregation of duties and responsibilities which is the most important part in internal control system. Literatures indicate that for successful and effective management of NGOs, existence of board is vital. Having a good and effective NGO Board provides a basis for successful management of its organization, hence, the existence and managerial role of board is highly required for local NGOs. Two questions were provided to local NGOs staff for their responses whether there are boards and the board members have regular/scheduled meetings for managing the organization. The responses for existence of board for management of the organization responded 1.2% and 3.61% for strongly disagree and disagree respectively and 2.4% no comment, and 62.65% and 30.12% strongly agree and agree respectively. Regarding the board meeting the reopens indicate that 3.61% and 9.64% for strongly disagree and disagree respectively and 10.84% no comment, and 26.51% and 49.39% for agree and strongly agree respectively. Here, from the responses it is clear that there are gaps on having scheduled and regular meetings by the board which is vital for better management and accomplishment of the organizations. As system of controls, checks and balances referred to as internal controls are to be place to safeguard an organization's assets and manage internal risk. Segregation of duties means that there is check and balance, that is, financial transaction activities are to be done and checked by different staff.

In relation to this three questions were provided to the respondents and their responses indicate: For funders reviewing financial management activities timely; the responses indicate 2.4% and 7.23% for strongly disagree and disagree respectively and 7.23% no comments, and 33.73% and 49.39% for agree and strongly agree respectively. The reviewing and checking of the actual practices timely by donors are required to strengthen the existence of good financial management practices. For checking and reviewing practices for reports and financial statement questions the respondents answers indicate that: For financial reports reviewing and checking against the activities 1.2% and 8.43% for strongly disagree and disagree respectively and 3.61 no comment, and 39.76% and 46.98% for agree and strongly agree and for monthly financial statement reviewing by executive director: responded 3.61% and 13.25% for

strongly disagree and disagree respectively and 13.25 no comment, and 34.44% and 34.94% for agree and strongly agree respectively. Here the result indicates that there are gaps for reviewing and checking of financial statements and reports financial against activities.

TABLE 4.2.5
Analysis of Reporting Practices:
Summary of Responses on Reporting Practices

SL No	Questions	Options of Responses					Total Responses
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	
1	Financial statements are audited every year by external auditors within the time requirement of donors, and Charities and societies agency of Ethiopia	1 (1.20%)	2 (2.40)	0%	23 (27.71%)	57 (68.67%)	83 (100)
2	Funders/donors transfer fund timely as per the original plan in the implementation of projects	1 (1.20%)	14 (16.86%)	12 (14.45%)	32 (38.55%)	24 (28.90%)	83 (100)
3	There are occasions that organization's external audit report is qualified	9 (10.84%)	19 (22.89%)	10 (12.05%)	33 (39.76%)	12 (14.45%)	83 (100)
4	Financial reports are submitted to the concerned government agency in the right format and	1 (1.20%)	4 (4.80%)	7 (8.43%)	24 (28.90%)	47 (56.62%)	83 (100)

	on time within three months from the end of the financial year						
5	The activity performance reports are analyzed and measured against budget allocated	0%	3 (3.61%)	7 (8.43%)	36 (43.37%)	37 (44.58%)	83 (100)
6	Monthly financial statements are available no later than the end of the following month	2 (2.44%)	13 (15.85%)	3 (3.66%)	30 (36.58%)	34 (41.46%)	82 (100%)
7	The Board select an independent auditor to conduct an annual audit	1 (1.20%)	9 (10.84%)	6 (7.23%)	46 (55.42%)	21 (25.30%)	83 (100)
8	The Board reviews the annual audit report for its internal controls and compliance with governmental law and regulation	1 (1.23%)	8 (9.88%)	8 (9.88%)	23 (28.39%)	41 (50.62%)	81 (100%)
9	The board ensures the fulfillment of the government's and donors requirements and evaluate the organization's activities, use of funds, record keeping, and reporting consistently	0%	15 (18.07%)	8 (9.64%)	34 (40.96%)	26 (31.32%)	83 (100)
10	The organization is at a very good status in meeting	1 (1.20%)	6 (7.23%)	15 (18.07%)	38 (45.78%)	23 (27.71%)	83 (100)

	government and donor requirements in financial management and reporting						
11	The reporting system has a mechanism of linking the financial information with the annual work plan's physical progress	2 (2.47%)	12 (14.81%)	15 (18.52%)	17 (20.98%)	35 (43.21%)	81 (100%)
12	Are financial reports are always submitted to donors on time	2 (2.44%)	6 (7.32%)	13 (15.85%)	18 (21.95%)	43 (52.44%)	82 (100%)

(Respondents' summary to the questionnaire).

As a means to discharge responsibility and accountability and to show their service giving efforts, operational efficiency and effectiveness and their contribution to the development endeavor of the country, Charities prepare financial Statements and other required reports to provide information to meet the common interest of donors, members, creditors and others who provide resources to not-for-profit organizations. As many literature reviews and the charities and societies agency, the NGOs are required to submit financial and activities implementation status reports to stake holders: to government agency and funder/donors on time as per the agreements and CHSA regulations. Questions for reports related were submitted to NGOs staff for their responses and the responses are summarized: for auditing of financial statement on time 1.2% and 2.4% responded strongly disagree and disagree respectively and 27.71 and 68.67% for strongly agree and agree. Here, some respondents show that there are gaps on timely auditing financial statement. For a question for whether the audit report is

qualified, the responses indicate 10.89% and 22.89% for strongly disagree and disagree and 12.05% no comment and 39.76% and 14.45% for agree and strongly agree. These responses showed that a considerable number of audit reports are qualified, thus there are gaps to be improved and lesser quality of financial reports. Financial reports are to be submitted on time as greed and required by donors and government bodies. Two questions were given to the respondents on financial reports submission to the concerned government agency in the right format and on time and financial statement availability no later than the end of the following month. The responses are stated here as for financial report submission 1.2% and 4.8% for strongly disagree and disagree and 8.43 for no comment and 28.90% and 56.62% for agree and strongly agree respectively. And for financial statements availability 2.445 and 15.855 for strongly disagree and disagree respectively and 3.66% for no comment, and 36.58% and 41.46% for agree and strongly agree.

The results indicate there are gaps on timely financial reports submission and availing of the monthly financial statement, thus delay for financial reports submission leads to delay of fund transfers from the donors and it also affects the project activities implementation. The management of these NGOs is required to pay more attention for timely preparation of financial statements and submission to the concerned partners. In the literature part it is indicated that charities are required to maintain day-to-day records of financial transactions. They are also required to furnish an annual statement of accounts and annual audit reports to the Charities and Societies Agency. Furthermore, CSOs are required to submit to the Agency an annual activity report outlining their major activities and other relevant information along with a statement of accounts. They are also required to renew their license and registration every three years, which is subject to an executive evaluation of the completeness and accuracy of their performance and audit reports.

Conclusion and Recommendation

5.1 Conclusion

The research questionnaire was developed and distributed to local NGOs to gather the data on the financial management practices. Based on data gathered from the respondents the following findings were realized on the financial management practices:

- ▶ One of the main objectives of these local NGOs establishment and existence is to perform projects for people benefits and play roles in economical development activities. The NGOs found most of their project is concentrated on HIV /AIDS program implementation.
- ▶ The Local NGOs' financial sources are heavily depends on grants and donations

and less in member contribution and fund raising activities. This implies that there is high risk for sustainability and continuity of project implementation

- ▶ The financial statements preparation were not as per the financial management standards for statement for financial position, Statement of Activities, Statement of Functional Expenses and Statement of Cash Flow to indicate the financial position as whole.

- ▶ Lack of participation in budget proposal review by financial staff and lack of cash forecast preparation which may bring about difficulties in having appropriate budget amount calculation and cash need proposals.

- ▶ Lack of board activities in budget approval and monitoring, for which a board activities in organization leadership, authorization of annual budget and monitoring the implementation of project activities are the most important ones for successful achievement of planned projects.

- ▶ The existence of delay in fund transfer to the project implementing partner has negative effects on project implementation timely.

- ▶ There is lack of record keeping for "in kind gifts" received,

- ▶ There is lack of common cost allocation methods for shared costs among different projects benefited from these common costs.

- ▶ There are gaps on timely financial reports submission and availing of the monthly financial statement, thus delay for financial reports submission leads to delay of fund transfers from the donors and it also affects the project implementation.

- ▶ There is gaps on the board's involvement in assuring fulfillments of CHAS and donors' requirements by the organization.

- ▶ The financial report system is lacking linkage with physical progress reports and delay in submission of financial reports to the donors.

6.2 Recommendation

Effective management of an NGO's resources is done in a manner which is transparent, accountable, equitable and responsive to the needs of the people. Since NGOs aim at becoming sustainable, good governance is critical to their existence. In many developing countries NGOs often lack the institutional capacity and resources to operate. Also, funds from donors are sometimes poorly managed. Thus, in order to ensure effective and proper management of resources, good governance becomes an important aspect of every NGO.

A good financial management system makes it easier to be accountable to donors and project beneficiaries, thereby enhancing their respect and confidence in the organization. This, in turn, helps an NGO be more competitive and can increase its chances of maintaining long-term financial health.

After analyzing the gaps in financial management practices of local NGOs, the recommendations are stated below:

► The local NGOs are required to have well organized and established financial management practices for successful accomplishment of its objectives. NGOs operate in a rapidly changing and competitive world. If their organizations are to survive in this challenging environment, it is required to develop well organized financial management tools.

► These projects are to address and solve the prevailing problems in health, education and other activities which require these NGOs engagement. Thus, the project types are the most important thing for fund raising and attract attentions for donors and get government support.

► To be competent and fulfill government and donors requirements the organization must prepare financial statement and reports as per acceptable standards like preparation

of statement of financial position, Statement of Activities, Statement of Functional Expenses and Statement of Cash Flow to indicate the financial position as whole.

► The budget management includes planning and control activities: Forecasting the budget required for implementation of a project, assurance of budget utilization up to the budget and used for the planned activities. Furthermore it is also important as guideline towards the achievement of planned programs and measurement of performance. Budgeting, implementing, monitoring measuring the performance are the main activities to be done by finance and program staff and requiring the involvement and participation of staff from both technical managerial levels.

► The budget preparation process shall be participant and the finance staff shall involve and participate in budget preparation and reviewing for better budget preparation, implementation and monitoring activities. Various financial management documents indicate the importance of finance staff participation in budgeting process activities, for instance the finance staff to review the costing of planned activities to monetary amounts.

► Cash forecast preparation is highly important for smooth implementation of activities as planned. Cash forecast document is required for availing the required cash for activities implementation. Thus it is required to avoid project activities implementation delay due to shortage of cash at the right time.

► For having better internal control system, it is required budget authorization and monitoring by the board and effective board provides a basis for successful management of its organization

► Financial and activities reports shall be submitted to the concerned government body and donors timely.

►The financial management shall include maintain records in kind gifts for implementation of its project activities.

►As a means to discharge responsibility and accountability and to show service giving efforts, operational efficiency and effectiveness contribution to the development endeavor of the country, charities shall prepare financial Statements , other required reports and provide information to donors, members and others who provide resources in time .

►Boards' involvement and decision in organizational management; auditing and audit report reviewing issues is vital. The board also at higher managing body level, required to ensure that the organization is fulfilling these requirement and follow up and evaluate the organization's activities in records keeping and reporting.

►The financial information shall relate with the activities performed, that expenses report shall indicate the activities performed using those resources. Financial reports to be reconciled and linked with physical progress. Hence, establishment of financial management system linking the activities report with the activities performance.

►Board should monitor regularly the financial management system of the organization and organization shall develop well organized financial management policies and ensure application of the established policies and procedures.

►senior management shall give due attention for financial management systems that has impacts on day to day financial management activities.

►organization shall ensure the existence of well structured segregation of duties and responsibilities that has effects on internal control system,

►The organizations should have transparent in accounting systems and recruitment

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