



St. Mary's University

Effect of Capacity Development on the Financial Management System  
of local NGO's: The case of Pact Ethiopia  
Implementing Partners

By:

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A Thesis Report Submitted to School of Graduated Studies Saint Mary's University, in Partial  
Fulfillment of the Requirements for the Degree of Master of Arts in Business Administration  
(MBA) negative

**Advisor:** Alem Hagos ( Ph.D)

January 27, 2016

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## **Declaration**

I, Meron Dessie, declare that this research study is my work and has not been presented for a degree in any other university, and that all sources of materials used for the study have been duly acknowledged.

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## **Abstract**

*This study was conducted to analyze the effect of the capacity development support of Pact on the financial management systems and practice of its implementing partners in the use of Pact grants for the implementation of the agreed up on program/project objectives. The study design was quasi experimental type of study. Both qualitative and quantitative approaches were used in the collection and analysis of data to meet the study objective. Data on the variables of interest was collected using structured management capacity assessment tool (MACT), interview guide and document review. A total of 48 employees and management bodies of the implementing partners and comparison groups as well as staffs of Pact concerned with grant management and capacity development supports were involved in study. The selection of the organizations and staffs was done via purposive sampling. The findings of the analysis result showed the capacity development support of Pact was effective in bringing about improvement in the accounting procedures, internal control, financial management, and sub grant financial management system and practice of the implementing partners. To further enhance the effectiveness of the capacity development support making grant monitoring visits aimed at providing mentoring support a team effort; rotation of the monitoring team members and backing performance expectations with corrective administrative measures are forwarded as recommendations.*

## **Acknowledgment**

On the outset, I would like to extend my heart felt appreciation and thanks to my advisor Alem Hagos(Ph.D) for his guidance and support. I would also like to express my thanks to the leadership of Pact Ethiopia, Child Fund and the Local NGOs that were included in the study. My special thanks go to all employees who participated in the data collection process as respondents for the fact that the research would have not been realized without their support.

## **List of Acronyms & Abbreviations**

<b>CSO</b>	Civil Society Agency
<b>ENSEI</b>	Ethiopian NGO Sector Enhancement Initiative
<b>FA</b>	Fixed Asset
<b>HVC</b>	Highly Vulnerable Children
<b>IPs</b>	Implementing Partners
<b>INGOs</b>	International non-governmental organizations
<b>LNGOs</b>	Local non-governmental organizations
<b>NGOs</b>	Non-Governmental Organizations
<b>USAID</b>	United States Agency for International Development

# CHAPTER ONE

## 1. INTRODUCTION

### 1.1 Background of the Study

It is essential that organizations successfully manage their funding and financing sources to ensure the best and most efficient use of their financial resources. Good financial management is vital for organizational sustainability. It impacts the decision making across a given 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. Organizations are also expected to practice sound financial management and comply with a diverse array of legal and regulatory requirements. Financial management includes budgeting, indirect cost rate calculations, internal controls and systems, procurement, as well as the reporting requirements(ICDBG, 2008).

Until very recently, there was no defined guideline or framework to assure the accountability and control of the financial and operational performance of NGOs in Ethiopia. Government had little attention and the public and the media has no say or knowledge of the operation and financial issues of these organizations, especial those financed by foreign donors. Cognizant of the need to assure accountability and transparency in the management of grants, the Government of Ethiopia passed the Charities and Societies Proclamation in 2009, Proclamation No. 621/2009(Mulat, 2016).

The regulations addressed many requirements for registration, operation and financial resource use and generation. The proclamation had affected many NGOs in different ways. Some had also failed to meet the requirements and were forced to give up their operation, mainly due to the nature of legal personality that needs to be assumed based on source of finance (FDRE, 2009).

In view of the new proclamation and the increased demand for effective and efficient financial management system, the international and local NGOs are investing on their

financial management system(Mulat, 2016). Some international non-governmental organizations (INGOs) are also engaged in the capacity development of the ingenious NGOs financial management system for two main reasons. First, the improvement in the organizational capacity of the local NGOs is sought as a means of strengthening the civil society engagement. Besides, as most of the INGOs are managing their projects through the local NGOs, the efficiency and effectiveness of their implementing partners appear to be a key requirement for grant decision and assuring the safe use of the resources to the development agenda being promoted

Pact, a US based international NGO, is one of such actors in Ethiopia. Pact works with 485 local NGOs and different sector offices of the government of Ethiopia in the implementation of diverse development projects and programs. The development programs of Pact cover education, health, environmental protection, highly vulnerable children programs, and livelihood interventions. Currently, there are 83 local NGOs working with pact in the implementation of its different programs and projects(Pact, 2014).The capacity development supports of Pact to its local partners are technical, material and financial covering the program management, the accounting and financial system, and the administrative system and practice(Pact, 2012).

Pact develops their capacity through financial monitoring, on & off job training on grant and financial management and reporting feedback. As part of capacity development programs subsequent follow up of financial monitoring visits also necessary to confirm continued performance.

In line with this, the organization provides ongoing support to strengthen the financial management system and practice of the local NGOs including accounting, documentation, analysis and internal and external reporting through regular provision of trainings, technical support in the design of systems and procedures, onsite technical support, and provision of feedback on budgets and reports. These supports are guided by a detailed analysis of the capacity development needs of the partners and identification of emerging capacity development needs through monitoring visits and review of the partners working documents(Pact, 2013).

The effect of the capacity development support on the financial management of the implementation partners is not systematically analyzed in a manner that spells out its contribution to the change in the financial management system of the implementing partners. Therefore, this research was a systematic study on the contribution of Pact capacity development support on local NGOs financial management system.

## **1.2 Statement of the Problem**

Pact Ethiopia has assisted a wide range grant making strategies to appropriately respond to specific needs of partners by funding specific amount of money through contractual agreements. To administer and manage the given amount fund on specific period of time and for specific objective of the project implementation, IPs need to have capacitated on their organizational financial management system.

Most implementing partners have varying organizational capabilities and trend on financial management process; therefore they require very different types of capacity support to their responsible employees. The organization believes that capacitating IPs through regular financial monitoring visits, different trainings & through monthly reporting feedbacks is effective in improving the financial management skills and knowledge of the IPs employees, the performance the units/departments concerned with financial management and the overall quality of the financial management of the organizations.

The effectiveness of the presumption and the capacity development supports to the implementing partners of Pact was assessed by Ashenafi (2015) using a quasi-experimental design that used a pre- post design without comparison group. Though the study was systematic and demonstrated as the investment is effective in bringing about the desired effect, it had methodological limitations. The key limitation of the study is the absence of a comparison group which limits the study ability to tell as what would have happened in the absence of the intervention subject to other capacity development supports other than Pact support. In view of this, it would be appropriate to analyses the effect of the capacity

development support on the local NGOs by addressing the methodological limitations of the study to come up with more reliable conclusion of the effect.

### **1.2.1 Basic Research Questions**

To this end the research tried to answer the following research questions:

- What is the effect of Pact Capacity Development support on the financial management system and practice of the local NGOs working with it in the implementation of agreed up on projects and programs?
- What is the nature of Pact capacity development support to its implementing partners in the area of financial system and practice improvement?
- How does the financial management system and practice of local NGOs working with Pact differ from other local NGOs that work with international NGOs and get similar support from these INGOs?

## **1.4 Objectives of the Study**

### **1.4.1 General objective of the Study**

The major objective of the research was analyzing the effect of the capacity development support of Pact on the financial management systems and practice of its implementing partners in the use of Pact grants for the implementation of the agreed up on program/project objectives .

### **1.4.2 Specific objectives of the Study**

In addition to the above main objective, this study was designed to achieve the following specific objectives:-

- To investigate the current practices of capacity development program in Pact Ethiopia.
- To identify the existing systems and practices of financial management among Pact implementing partners
- To identify the effect of the capacity development support of Pact on effective and efficient use of resources to achieve organizational objectives by IPs.
- Analyze the effectiveness of the capacity development support on IPs financial management against the intended objectives.
- To investigate if the capacity development enhance the IPs capacity and decisions making process.

## **1.5 Operational definition of terms**

**Capacity development:** Capacity development is the enhancement in the capacity of staffs, the systems and structures of organizations

**Financial Management:** It is a process of planning, organizing, directing, recording, utilizing, reporting, and controlling financial activities so as to bring about efficient and effective use of resources in an organization.

## **1.6 Significant of the Study**

The study will be an invaluable input to refine the capacity development support of Pact in its effort of enhancing the effectiveness and efficiency of the financial management system and practice of its implementing partners. Besides, it will help the managements of the implementing partners to see the way their financial mechanisms are operating and will create room to deal with areas of improvement.

In addition the following benefits could be obtained from the research:

- The result could give lesson to the situation of other NGOs in the sector;



- It can contribute to the existing knowledge and practice of financial management systems of IPs through capacity development;
- It serves as a baseline for subsequent researchers on the effect of capacity development on IP's financial management systems.

## **1.6 Scope of the Study**

This study was carried out on local NGOs that Pact supported and other local NGOs not supported by Pact but enjoy the support of other international NGOs that are at the same time supporting Pact IPs. In the matching of the NGOs, it was only NGOs working with Child Fund Ethiopia office were that were included as they allowed the design the best possible combination of IPs. At program level, the study was limited to one of the biggest USAID funded highly vulnerable children program in Ethiopia- Yekokeb Berhan for highly vulnerable children program. Due to the limited time, geographic dispersion of the IPs and budget constraints, the study was limited in Ethiopia only 8(4 from each) IPs from both local NGOs supported by Pact and comparable LNGOs that are not getting Pact support. The variables covered were accounting procedures, internal control, financial management, policy environment, and sub grant financial management.

## CHAPTER TWO

### 2. RELATED LITERATURE REVIEW

#### 2.1. Concept of capacity building

The term capacity building originated and was defined in the 1950s and 1960s as a procedure used in the fields of technical assistance and development cooperation (Horton et al., 2003). The term ‘capacity building’ emerged as a lexicon of international development during the 1990s. Today, “capacity building” is included in the programs of most international organizations that work in development, the World Bank, the United Nations, and NGOs like Oxfam International. Wide usage of the term has resulted in controversy over its true meaning.

Capacity building often refers to strengthening the skills, competencies and abilities of people and communities in developing societies so they can overcome the causes of their exclusion and suffering. Capacity building has also been referred to as capacity development with a conceptual approach to development that focuses on understanding the obstacles. Such obstacles inhibit people, governments, international organizations and non-governmental organizations from realizing their developmental goals, while enhancing the abilities that will allow them to achieve measurable and sustainable results.

UNDP was one of the forerunners in developing an understanding of capacity building or development. Since the early 1970’s, UNDP offered guidance for its staff and governments on what was considered "institution building.” In 1991, the term evolved to be ‘capacity building’. UNDP defines capacity building as a long-term continual process of development that involves all stakeholders, including ministries, local authorities, non-governmental organizations, professionals, community members, academics and others. Capacity building uses a country’s human, scientific, technological, organizational, institutional and resource capabilities. The goal of capacity building is to tackle problems related to policy and methods of development, while considering the potential, limits and needs of the people of the country

concerned. UNDP outlines that capacity building takes place on an individual level, an institutional level, and a societal level (Economic and Social Council, 2006)

Capacity is the “means”, or the "ability", to fulfill a task or meet an objective effectively, and capacity has been often referred to the skills of staff and specific organizational strengths; therefore, training and hiring staff or maximizing the capabilities of one organization has been equated with capacity building. (De Vita & Fleming, 2001) UNESCO (2006) states that capacity building focuses on building the individual and organizational capacity to perform core tasks, solve problems, and extensively work on accomplishing their developmental needs. This statement is supported by Morgan who referred to capacity building as improving or promoting the person’s, teams’ and institution's ability, to carry out their tasks and achieve goals over a certain time limit. In addition, capacity building is substantial for all individual and or national corporate organizations (Horton, 2002).

Capacity building processes can be initiated from within or from outside. They can facilitate links with local areas for individuals and organizations to further pursue and manage their development goals with greater sustainability. United Nations Development Program (UNDP) reported in 2009 that “Capacity building means to know how to work out development mechanisms... Self-dependence and ownership are part of the process of capacity building.” Both self-dependence and ownership are very key to the development process (McKenzie, 2003, as cited in UNESCO, 2006).

Researchers introduced four common approaches to capacity building; top to bottom, bottom to top, partnership, and community organization approaches. Capacity building has never been that important for organizations to integrate economic and social research and development as of today (Horton, 2002). Nevertheless, capacity building can be costly and time-consuming at the same time (Low and Davenport, 2002). ‘Capacity building’ is a term beset by conflict and confusion (Lewis, 2001). It is open to a number of different interpretations. At one level, it is concerned with building the organizational capacities of NGOs to survive and fulfill their mission. At another, it is concerned with building the capacity of civil societies in its broadest sense, and strengthening the capacity of key

stakeholders, including communities, families and individuals, to participate in the political and social arena (Eade, 1997).

## **2.2 Concept of financial management capacity building**

Traditionally, capacity building was viewed as a methodology to improve skills for those working in the financial sector; it was further considered a developing tool of the financial system through linking with finance. Notably, it can lead to empowered staff, improved sustainability, and better program and quality impact, (Eade & Deborah, 2007). Building the financial management capacity of the working staff can be a good alternative to hiring accounting specialists that's so related to the same staff. (De Vita & Fleming, 2001).

Financial management consists of all the activities concerned with obtaining money and using it effectively and efficiently (Warren, 2005). Financial management involves careful planning and efficient use of resources. Proper financial management can ensure that financial priorities are established in line with organizational goals and objectives, spending is planned and controlled in accordance with established priorities and sufficient financing is available when it is needed both now and in the future (Pride et al., 2002). It's generally recognized that most developing countries have ineffective governmental financial control system. The serious deficiency in the financial control systems in most developing countries generally recognized as the major factor which facilitate the misuse of public resources and financial corruption in these countries (El - Nafali, 2008).

Financial management capacity building is a key way of achieving a more effective organization. This then leads to an improved program of activities. With strong financial management capacity, the group or organization becomes more able to control its own affairs. Without it, the future is often uncertain; it may be impossible to predict when money will be short and, crucially, it may become impossible to fund programs (Cammack, 2007).

There are four key groups who will benefit from financial management capacity building:

- 1- Members of the management committee
- 2- The leader and managers

3- Non-finance and programed people

4- Finance people.

Another form of capacity building focused on developing capacity within organizations; i.e., NGOs. It refers to the process of enhancing an organization's abilities to perform specific activities. An organizational capacity building approach is used by NGOs to develop internally so they can better fulfill their defined mission. Allan Kaplan, a leading NGO scholar argues that to be effective facilitators of capacity building in developing areas, NGOs must participate in organizational capacity building first (Debora, 2005).

### **Specific tasks of building financial management capacity**

Financial management is making sure that an organization manages its resources well. The four specific tasks shown figure (1) are the starting point for assessing and building financial management capacity as follows:

#### **Planning and budgeting**

Top management defines their objectives for the year and forecast the cost of achieving them. This is the annual budget. As the year progresses, top management compares actual performance with budget forecasts. It can then decide whether any action is needed – for example, to increase or decrease spending, or undertake more fundraising. This regular monitoring of the budget also helps to manage donor funding and reporting.

#### **Accounts record-keeping**

A group or organization must keep accurate accounting records and up-to-date records of transactions. These are the basis of the information needed to manage the organization, and they will be used for internal and external financial reports.

#### **Financial reporting**

Financial reporting includes producing the annual accounting statements and reporting to beneficiaries, the donors, and (if necessary) the government.

## Financial controls

Top management is responsible for financial controls which protect property and equipment and minimize the possibility of error and theft, for example, a system for authorizing expenditure when a purchase is made. Finance staff can advise on which controls to introduce, but the leadership team must make sure that the controls are working effectively.

## Organizational aspects of financial management

The four specific tasks of financial management and external audit are not enough on their own. There are wider organizational aspects which will help to run organization professionally and build strong financial management capacity. These organizational aspects, shown in Figure (1), are essential for improving the organization's management and program effectiveness

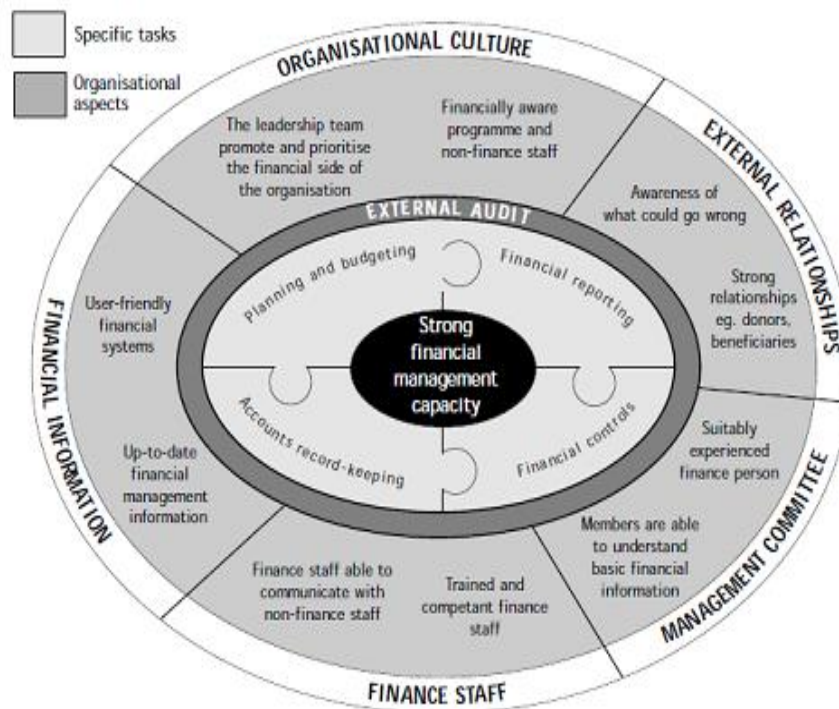


Figure 1: Assessing financial management capacity, 2008

## **2.3 Financial Management and capacity development**

Financial resource is considered as an important resource to many institutions and establishments (Allis, et al, 2004). This means that it must be effectively and efficiently managed to bring about the needed change and results from the activity for which the funds have been made available. However, sometimes this important resource is mismanaged and misappropriated by those put in charge (Rosen & Gayer, 2010).

According to Prowle (2010) organizations deal with large amounts of funds and operate in a largely political environment, thereby necessitating a need for a high degree of confidence in the way in which their financial affairs are being conducted. Furthermore, all other aspects of finance management should be done prudently. Effective financial controls including the maintenance of proper accounting records help ensure that the institution is not unnecessarily exposed to financial risks and that the financial information is used only within the business (Hayles, 2005). This also contributes to the safeguarding of assets, including the prevention and detection of fraud (ACCA, 2010). Walters and Dunn (2001) have stated that obtaining sufficient knowledge of the internal financial controls, both information technology controls and application controls, are needed to facilitate the determination of the audit strategy and to carrying out subsequent steps.

According to Khoove (2010) control environment is the attitudes, abilities, awareness and actions of a client personnel and particularly management in relation to control. Financial control activities are the policies and procedures that help ensure that management directives are carried out (Walters & Dunn, 2001). Control of the financial decisions covering the organization, method, process and internal audit established by the administration in order to ensure that the activities are carried out in compliance with the purpose of the administration and determined policies and the legislation, the assets and resources are protected, accounting records are kept in an accurate and complete manner and financial and management information is produced in line and in a reliable manner (Khoove,

2010). Hence controls of the financial decisions and transactions of institutions related to the revenue, expenditure, assets and liabilities concerning their compliance with the budget, budget item, available applicable amount, expenditure programme, financing programme of the administration, to budget law and other financial legislation provisions and in terms of the utilization of the resources in an effective, economic and efficient manner (Public Financial Management Act, 2004).

In both the developed and developing countries public financial management professionals are concerned with improving financial management and budgeting, responding to changes in financial reporting, securing better regulation, strengthening institutions and improving management and governance and auditing fraud and corruption.

As ‘capacity building’ has been increasingly prioritized at the core of many development strategies; there is a growing interest in the dynamics and efficacy of different capacity building interventions, as well as an appreciation of the need to assess their long-term impact.



## **CHAPTER THREE**

### **3. METODOLOGY OF THE STUDY**

#### **3.1 Research Design**

The study was a mix of descriptive and quasi experimental type of studies. The need to use a mixed design is preferred because of the purpose of the study. The research questions that deal with the nature of Pact capacity development support to its implementing partners in the area of financial system and practice improvement and the attitude of Pact implementing partner's employee's attitude towards Pact capacity development support on the financial system and practice was approached with descriptive type of study. The research questions that ask about the effect of Pact capacity development support on the financial management system and practice of its IPs was dealt with through quasi experimental design. In view of this, Pact IPs financial management system and practice was compared and contrasted with other local NGOs working with other international NGOs and are more or less in a relatively working on similar programs with comparable funding.

Regarding the research strategies, combinations of quantitative and qualitative methods were employed to examine the financial management system and practices of the IPs and the comparison groups. Mixed method is considered as a tool to triangulate the result of single approach through multiple methods (Johnston, 2010). A quantitative method was used as it is viewed as effective to gather large data and comprehensive issues at a specified period of time (Ngwenya, 2010). Qualitative method was used based on the assumption that it enables the researcher generate meanings and phenomena within the real context of the research participants and to fill the gap left by the quantitative one (Kothari, 2004).

#### **3.2 Data sources and collection Method**

This study utilized two sources of research data: primary and secondary. Primary data was collected from the finance and accounting department employees and management bodies of the implementing partners and comparison groups as well as staffs of Pact concerned with

grant management and capacity development supports. In addition, the manuals and guidelines of the implementing partners and Pact were used a primary source of data. Related literatures and internal reviews were also be used in analyzing the financial management system and practice of the IPs.

The data were collected using capacity assessment tool used by Pact, semi structured interview guide and document review checklist. The capacity assessment tool that was applied was the management capacity assessment-MCAT (see annex....). The tool helps to assess the accounting procedures, internal controls, financial management, policy environment, and sub-grant management of the IPs. Under each of the thematic areas the tools assesses the IPs current system and practice by presenting statements that will be rated on a scale of 1-6.

1. The Never/Definitive "no"
2. Rarely/Demonstrated capacity as limited
3. Sometimes/Capacity evident but lacking in critical areas.
4. Usually/Adequate capacity in most areas.
5. Often/Good capacity with only minor improvements required.
6. Always/Definitive "yes"/Strong capacity.

The document review checklist was used to review the available documents and the contents of the IPs and donors policies, manuals and financial reports. On the other hand, interview was used to collect data from the key staffs of the IPs and Pact on the capacity development supports being provided, their attitude and valuation of the support and their perceived effect of the support on the performance of the staffs as well as on the overall financial system and practice of the IPs

### **3.3 Sampling techniques and sample size**

#### **3.3.1 Study population**

The study population was IPs working with Pact in the implementation of Yekokeb Berhan for highly vulnerable children program in Addis Ababa, Ethiopia and other IPs implementing development program and enjoy comparable funding from other INGOs. Besides,

#### **3.3.2 Sampling Techniques**

In view of the above, the sampling frame for the study was the list of IPs working with Pact in Addis Ababa in the implementation of Yekokeb Berhan and other NGOs working on development program. To get the best possible combination, the IPs were limited to Child Fund Ethiopia Partners. Accordingly, local NGOs that are exclusively working with Child Fund Ethiopia were taken as a comparison group(control group) while NGOs that used to work exclusively with Child Fund Ethiopia but joined Pact with launching of Yekokeb Berhan for highly vulnerable children program in 2011 were taken as experiment group. In connection to this, from each group 4 Ips were selected using simple random sampling technique (lottery method).

The selection of the IPs staff was done using purposive sampling technique. Some types of research design necessitate researchers taking a decision about the individual participants who would be most likely to contribute appropriate data, both in terms of relevance and depth (Paul, 2005). The purposive sampling technique is a type of non-probability sampling that is most effective when one needs to study a certain domain with knowledgeable experts within. Purposive sampling may also be used with both qualitative and quantitative research techniques. The inherent bias of the method contributes to its efficiency, and the method stays robust even when tested against random probability sampling(Tongco, 2007). In light of this, 1-2(if one person is responsible only that person was interviewed) IPs staff, 2 Pact grant staff who work with the implementing partners were selected for the interview

that was conducted. The MCAT was administered by the researcher involving key team members of the IPs finance and accounting departments as a group.

The sample size data can be represented in table:-

Table 1. Sample			
	<b>Type of Data Collection</b>	<b>Respondent</b>	<b>Total No. Respondent</b>
	MCAT	Finance and Admin Manager	8
		Finance Officer	8
		Accountant	8
	Interviewee	Executive Director	8
		Program Manager	8
		Finance/Grant Officer (Pact)	8
<b>Total Respondent</b>			<b>48</b>

The researcher had assumed that, the selected respondents were important role players in the field of finance function. They have entire knowledge in the area of accounting, finance and management. This has helped the researcher to get reliable data from respondents to compare and evaluate the change in the IPs system and practice.

### **3.4 Method of Data Analysis and Presentation**

#### **3.4.1 Quantitative data analysis**

Once all the data were collected, errors related to inconsistency of data were identified and corrected. Descriptive analysis method will be used to present data obtained from quantitative interview. Percentages, frequency and appropriate graphic presentations were used to describe different variables, and to clarify the presentation of data. In addition, the scores of the IPs were computed and comparison of the MCAT scores of the IPs supported by Pact and those that are not supported was compared. The significance of the difference in the scores was tested using inferential statistics i.e. t- test for comparison of means and ANOVA. T test was used on the test of the significance in the difference of the means between the

experiment and control groups while one way ANOVA was applied in the analysis of the means of the pre and post data taking time as an explanatory factor.

### **3.4.2 Qualitative data analysis**

Qualitative data analysis for the key informant interviews was conducted to reduce, organize and give meanings to the data in written notes and audio recordings. The data collector organized the data by reading the written notes and listening to the tapes to transcribe into MS Word. Transcribing for all tapes was done exactly as words were spoken, including all the nonverbal or background sounds in parentheses. Thematic content analyses were used to examine the content of the data and categorize the recurrent or common themes. Categories of responses were drawn out by reading of coded segments of the text.

## CHAPTER FOUR

### 4. DATA PRESENTATION, ANALYSIS AND DISCUSSION

#### 4.1 Socio-demographic profile of the participants

A total of 58 employees of 8 implementing partners' staffs and Pact grant management team members participated in the study. Out of these 48 participated in the management capacity assessment while 10 participated in the key informant interview and group discussions. The entire employees who participated in the study were permanent staff. As can be seen from figure 1 below, the entire participants of the study have direct relation with the subject of the study.

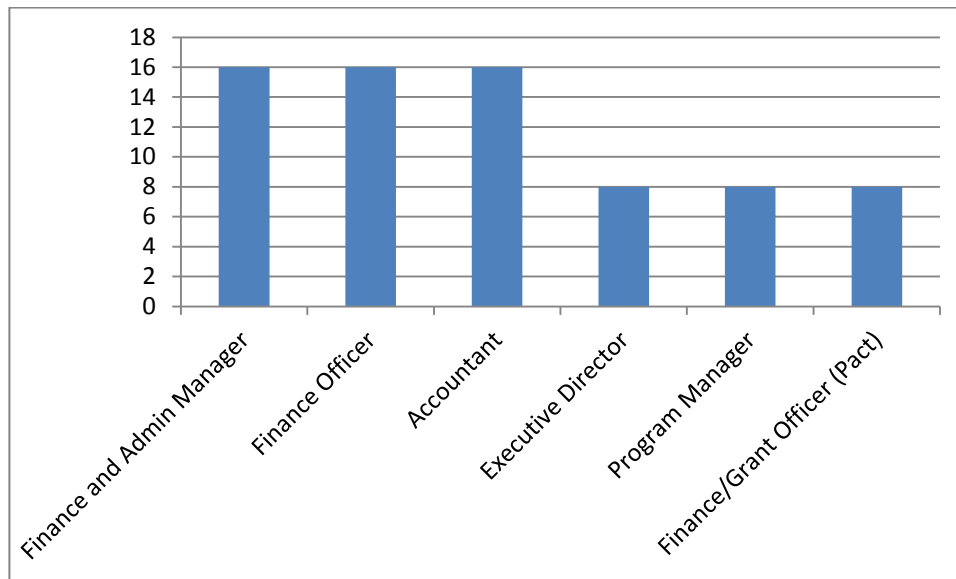


Figure 2. Respondents by position

Source: (Own Survey, 2016)

Male respondents constitute 60 percent of the study participants while the female respondents were 40 percent. Moreover, around 90 percent of the study participants were from the finance and accounting department. This with the profile of the respondents

discussed above show as the respondents are well positioned to have well informed judgment on the capacity development support as well as the accounting and financial management system and practice of the NGOs involved.

## **4.2 Pact capacity Development Support to IPs**

The assistance generally includes training session, reporting feedback and one-on-one mentoring on the following areas:

- ❖ Establishing and strengthening financial management systems including accounting software, policies and procedures, etc
- ❖ Effective financial management analysis and reporting tools development to ensure accurate and verifiable internal and external financial reporting
- ❖ Interpretation and understanding of relevant donor rules and regulations
- ❖ Budget development, revision, and implementation of policies and procedures, such as procurement, disbursements, petty cash, travel, administration and human resources management.

## **4.3 The management capacity of the implementing partners**

### **Accounting Procedures**

Under the accounting procedure the general system, receipts and handling of cash, disbursements and recording, bank Accounts, petty cash records, ledger, journal, payroll and salary were assessed. The mean score of the implementing partners was reasonably high ( $M=5$ ,  $SD=0.7$ ).

The mean value for the general system was 4( $SD=0.8$ ). This implies as the IPs had written policy on accounting which is objectively reasonable and universally applied. The universally accepted phrase was used to refer the existence of "Cash" or "Accrual" system. Besides, the review of the documents showed as the documents are updated. Nevertheless, as

to the interpretation based on the MCAT score, the system was reported as it is not used effectively on a consistent basis.

### Receipts and handling of cash

The variables covered under the receipts and handling of cash were recognition of incomes, expenditure management, use of receipts, and record keeping. The finding indicated that promised donations are not included in the account whatsoever. Grants received, but not yet spent for the purposes for which they were given are maintained in the fund balance and always are carried forwarded. Pre-numbered receipts are issued for all cheque and cash receipts which are kept in secure place. There is also proper procedure to administer the documents in all cases. Though accounting software were available before the intervention, it was reported as the soft wares were not either updated or consistently used. Likewise, even if all cash received were found to be recorded immediately, in the baseline scenario they were identified as area of improvement for the fact they were occasionally banked promptly. These issues were found to be changed at the time of the study.

Table 2 Accounting procedure			
	<i>N</i>	<i>M</i>	<i>SD</i>
ACCOUNTING PROCEDURES	4	4.975	.7042
General System	4	4.000	.8165
Receipts and Handling of Cash	4	4.450	.3697
Disbursements and Recording	4	4.725	.4992
Bank Accounts	4	4.400	.9522
Petty Cash Records	4	4.750	.4203
Ledger	4	4.150	.8888
Journal	4	4.325	1.2473
Payroll and Salary	4	4.450	.5066

Source: (Own Survey, 2016)



## **Disbursements and Recording**

All payments are supported by payment vouchers. Cheque request forms are properly supported by adequate documentation and consistently applied. This documentation include: local purchase order, quotations, invoices, receipts, correspondence, proof of delivery. Vouchers together with supporting documentation are filed in the order in which they are entered in the cash book and can be readily found. Documents are properly approved for payment. But, the IPs were under the process of reviewing their procedure to properly stamp documents approved for payments so as to ensure that duplicate payment does not occur at the time of pre award MCAT assessment.

Payments are properly allocated to the correct account Bank accounts. Procedures are in place over access, use and safekeeping of cheques (e.g. designated person to write cheques). Yet, this was not frequently used before the intervention. All cheques are signed at least by 2 signatories all the time and follow the right procedure. The organizations availed sufficient signatories and constantly applied to have two people at a time.

## **Bank Accounts**

All bank accounts are in the name of the organization and not individuals. There are bank accounts for each project fund in the name of the organization but the accounting system was in need of improvement in presenting them in the balance sheet during the pre-award assessment of the IPs. There was also minor filing problem in relation to the recording and filing of stub. The concept of bank reconciliation and reporting is done on regular basis; the report is separately done and filed, and reconciled with the ledger balance. The checking and approval of bank reconciliations is properly done on regular basis. Outstanding checks are followed up and written off.

There was capacity gap in taking note of the checking feedback as documented in the pre award assessment and lack of approval in following up outstanding checks and writing off i.e. it was not approved by Senior Officials.

## **Petty Cash Records**

Physical petty cash count is made when replenishment is done and reconciliation of cash balance and records is made. There were no "IOUs", or similar payments, which are neither authorized nor entered in the Cash Book. There is limit for petty cash. The reasonability is assessed regularly and action is taken. All the petty cash payments are supported by required documentation with reasonable justification. Regular checking and approval process followed at the time of petty cash replenishment. Petty cash is approved by authorized personnel. Only minor capacity gap in the system of approval process was observed at the time of pre-award assessment.

## **Ledger**

There are cash books for all banks which are updated and reviewed regularly. Posting of amounts from cash book(s) to the accounts in the ledger are kept up to date. Even if posting is done based on the financial policy of the organizations, it was noted as it needs revision to comply with the requirement of reporting and having adequate information to do so in the pre award assessment. An up to date chart of accounts together with account code or reference numbers are available. During the pre-award assessment the charts were found to be too large with unclear tracking. The link among various accounts was also recommended to be improved in terms of structuring. Despite the fact closing of books is made on yearly basis in a well acceptable form, in most of the IPs month end closing was found to be practiced rarely at the time of the pre award assessment. There is a system in place to protect accounts after closing. Besides, most of the Ips were advised to consistently apply this based on the pre award assessment which indicated as it is not constantly applied. They do have system in place to track each donors fund and specific program. There is a VAT tracking system for requiring donor and applied consistently but application for refund was not made regularly before the intervention.

## Journal

There is a system of making journal to transfer records between journals, this is consistently applied. There is also a review /approval process. There is a system of making journal to transfer records between journals, consistently applied. All journal entries are authorized by the finance director (or equivalent). The senior finance person other than the one who prepares the journal authorizes when there is a need to prepare financial statements. The justification inadequacy was identified as an area of improvement via the pre award assessment.

## Payroll and Salary

Adequate payroll records are kept. The payroll systems are applied consistently and have adequate support for the payroll (employment letter, Any incurrent, Time sheet etc...). A formalized system is used to produce payroll records. The payroll is authorized and countersigned by the finance director (or equivalent). There is a system and consistently applied to deductions of tax and check / approved and regularly compared with the tax law. There is regular payment of tax deduction to tax authority with no exception and in line with the deadline set by the authority. Lack of review of the payroll system and regularly updating it to meet different requirements was indicated as an area of improvement prior to the intervention. The findings of the pre award assessment had also indicated as timesheets are prepared once in a year or when requested by the donor.

## Internal controls

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Table 3. Internal Controls

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	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>M</i>	<i>SD</i>
INTERNAL CONTROLS	4	4.0	4.3	4.125	.1500
Segregation of Duties	4	4.8	7.0	5.450	1.0376
Design and Use of Records	4	4.0	5.0	4.600	.4243
Safeguards Over Records	4	2.0	3.0	2.625	.4787

Source: (Own Survey, 2016)

### **Segregation of duties**

There is a segregation of duty for the stated functions and these are consistently applied. The individual responsible for the cash receipts function does not sign cheques or reconcile the bank accounts, and is not responsible for non-cash accounting records such as accounts receivable, the general ledger or the journals. The person receiving cash does not have the authority to sign checks or reconcile the bank accounts and does not have access to accounting records other than cash receipts. Different individuals are responsible for purchasing merchandise or services, receiving merchandise or services and approving vouchers. Different persons prepare checks, sign checks, reconcile bank accounts and have access to cash receipts. There was no gap identified by the pre award assessment in relation to segregation of duties.

### **Design and use of records**

All receiving reports and documents are matched with invoice/ statements. Transaction documents, such as vendor invoices and shipping documents are date stamped and tracked to ensure that they are recorded on a timely basis. Only original documents are used to process transactions. Source documents are cancelled after purchasing to provide assurance that the same documents will not be re-used and will not result in recording transactions more than once.

### **Safeguards over records**

Procedures are established to provide reasonable assurance that current files can be recovered in the event of a computer failure. There is a system for recovery of file in the computer system of the IPs and this is consistently applied. Yet, most of the IPs were advised to revise their safeguarding procedure. This was true specifically for keeping backups. The

backup were taken by external device but were kept in the same room with the computer. The other are of concern was the absence of insurance coverage for stores.

## Financial Management

Table 4. Financial Management

	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>M</i>	<i>SD</i>
Financial Management	4	3.0	4.8	4.150	.7895
Budgeting	4	3.0	5.0	4.250	.9000
Tracking and Reporting	4	4.0	4.5	4.325	.2363
Auditing (Statutory Audits)	4	4.0	5.0	4.425	.5058

Source: (Own Survey, 2016)

## Budgeting

Annual budget in line with projects is prepared yearly for internal management consumption which also sometime addresses departmental needs. Long term forecasts are done to some extent much with the strategic objective of the organization. Financial committee or its equivalent approves the annual budget. There is a process consistently applied in this regard. There is practical system that creates awareness of the compliance for each project agreement. The system is consistently applied. Monthly financial statements are compared to approve budget. The documentation of the budget preparation and approval process and activities were advised to be improved in the pre-award assessment report.

## Tracking and Reporting

There are no different access levels in place through the use of passwords for using the accounting software (e.g. data entry, opening of new accounts, security). Yet, there is password to protect safety. Specific transactions are approved by persons having the authority

to do so in accordance with established policies and procedures. Key records are matched before a transaction is approved (matching purchase order, receiving report and vendor invoice before the invoice is approved for payment). Cash flow Income/Expense is integral to financial plan most of the time. Monthly financial meetings are held consistently with the respective program managers. Nevertheless, the comments are applied subsequently with some exceptions.

There is also policy and practice that financial reports are summarized all the time. Produced financial reports are always tally with established set of accounting records and presented based on donors' requirement. Financial reports are communicated with some management staff within reasonable time (specified in the policy) with recommendations that show the way forward. There is a policy regarding how and when summarized accounts need to be produced and distributed. The practice is also good. Management reviews and acts upon performance reports. A trial balance is prepared at the end of the year when the closing of account are completed with reasonable time. Trail balance is also undertaken quarterly. The trial balance accurately lists all account balances and the debits balance with the credits.

### **Auditing (Statutory Audits)**

An independent professional statutory audit of the annual accounts is arranged each year. Independent audit report is conducted by the end of each year with the dated line stated in law of CSA. Audit findings are fully addressed regularly and timely. Most of the time, the management committees considers the report and recommendation of auditors and act on it as evidenced from the review of the audits and management minutes on the audit reports.

### **USAID Experience**

There is/are one or two bank accounts with good system in place with fair presentation of incomes and expenses. Tracking of VAT expenses is prepared only when a request for a refund is made. Verifiable records are maintained for the purpose of reporting cost share to some extent. The reporting, documentation and recording of cost share are maintained in a

separate registration sheet. This is updated on occasionally. Cost share is tracked and reported on occasional basis by adhoc committee.

Auditors are licensed to perform audits but are not on the approved USAID auditors list Independent licensed auditors perform auditing and other accountancy work as assigned by the organization. There is general audit as well as project audit when there is a need from the donor side. The report of special project audit is issued in a reasonable time. There is a follow up of audit reports though it is made just to address the donor's interest.

## Policy Environment

Table 5. USAID Experience and Policy Environment

	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>M</i>	<i>SD</i>
USAID EXPERIENCE	4	1.0	5.0	3.575	1.7633
POLICY ENVIRONMENT	4	3.9	4.7	4.300	.4082
Travel/Transport Policy and Management	4	3.8	5.0	4.425	.6131
Property Policy and Management	4	3.0	4.8	3.900	.7394
Assets and Liabilities	4	3.0	4.1	3.725	.4992

Source: (Own Survey, 2016)

## Travel/Transport Policy and Management

The implementing partners have travel policy. The policy is respected when there is a significant size of travel. The financial support is clear in the policies for the domestic as well as international travel. Mechanisms exist for reporting expenses and liquidating travel advances. Staffs are required to settle their advances immediately after their return from travel a vehicles register is maintained, showing all the necessary information like cost, date of purchase and estimated date of replacement. Vehicles are garaged in a safe place as much as possible. Vehicles are properly used in such a way that they are used for the project use only by the employees of the project staff. Proper maintenance of vehicle log sheet is in place.

Users properly report any vehicle faults, accidents and incidents immediately to the project manager. Purchases of fuel are made only by authorized persons. During the pre-award assessment, the lack of clarity on the applicability of the international travel and shortage of vehicles in light of the size and requirements of most of the implementing partners were as gaps.

### **Property Policy and Management**

Leases (tenancy agreements) were prepared for all property rented to or from the implementing partners. There is a nominated body as responsible for the maintenance of all property in all cases. Admin unit is responsible for the maintenance of all property in most cases. Adequate insurance has been taken out against fire, burglary, public liability, etc. Records are kept of agreements with persons using premises owned by the organizations, including rent payable, etc.

### **Assets and Liabilities**

Fixed assets register book is maintained for all items with key information ( FA number, amount of purchase etc..). Inventory of fixed asset is done quarterly and checked by management bodies of the implementing partners. Any gap is subsequently addressed. There is fixed assets list which are updated regularly (with in the month of the procurement). There is a system for adding and disposition assets in all of the IPs. Assets are kept in suitable and secure locations. Donated assets are valued and recorded. The lack authorization process in adding and disposition of assets, inadequate insurance coverage for assets and valuation of assets by committees with members who without the required skill and justification were indicated as area of improvement in the baseline scenario.

### **Procurement Policy**

All procurements are authorized with different authorization levels for different thresholds. The thresholds are updated regularly as appropriate. All procurements are



supported with adequate documentation including quotations, requisition notes, purchase orders. A competitive solicitation process is practiced and justifications for selection of vendor are documented. Suitable records are maintained showing amounts due to suppliers. Records are regularly (monthly) reconciled to statements and accounts received from the suppliers.

### **Sub-grant financial management**

The implementing partners had no a formalized system for grant management. There is no clearly laid out process for assessing partner's credibility (legal registration, VAT registration, past performance). There are also no standard formats/documentation for funds advance requests and expenses reporting. There is no close monitoring of expenditures and tracking against contracted amounts. There is a mechanism for tracking outstanding advances and grant expenses on a monthly basis and these are documented. Organizational budget forecasts do not take into account partners forecasts. There is no adequate staff to provide grant management support

Table 6. Sub-grant financial management

	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>M</i>	<i>SD</i>
SUB-GRANT MANAGEMENT	2	1.0	5.0	3.000	2.8284
Financial Management	1	.0	.0	.000	.
Project Management	2	1.0	5.0	3.000	2.8284

Source: (Own Survey, 2016)

### **4.4 Change in the score of the IPs**

The comparison of the baseline mean score of the implementing partners with that of their score at the time of the study referred as end line for simplify shows that there are statistically significance difference in the means, implying positive change in the accounting and financial management system and practice of the organizations. As can be seen from table

7 below the entire mean score of the major variables of interest is higher than the baseline status.

Table 7. Comparison of baseline and end line scores of IPs

		<i>N</i>	<i>M</i>	<i>SD</i>
Accounting Procedures	Baseline	4	4.750	.0577
	Endline	4	5.000	.0000
Internal Controls	Baseline	4	4.250	.0577
	Endline	4	5.000	.0000
Financial Management	Baseline	4	4.600	.2309
	Endline	4	5.500	.5774
Policy Environment	Baseline	4	4.550	.0577
	Endline	4	5.000	.0000
Sub grant financial management	Baseline	2	.000	.0000
	Endline	4	6.000	.0000

Source: (Own Survey, 2016)

The baseline mean score of accounting procedures which was 4.75( $SD=0.07$ ) has increased to 5( $SD=0$ ),  $F(1, 6) = 75$ ,  $p < 0.001$ . Likewise, the mean score of Internal control increased from 4.3 ( $SD=0.05$ ) to 5 ( $SD=0$ ),  $F(1, 6) = 675$ ,  $p < 0.001$ ; the financial management capacity score increased from 4.6( $SD=0.2$ ) to 5 ( $SD=0.6$ ),  $F(1, 6) = 8.3$ ,  $p < 0.05$ ; the policy environment score increased from 4.6 ( $SD=0.06$ ) to 5 ( $SD=0$ ),  $F(1, 6) = 243$ ,  $p < 0.001$  and the sub grant financial management capacity score changed from none to one of the highest capacity level(  $M=$ ,  $SD=$ ).

The specific major areas of improvement identified at the time of the subsequent monitoring visits and the status of the issues are discussed here under for each of the four implementing partners taken as experiment group.

**Dugda Children and Family Charitable Organization (DCFCO)**

<b><u>Gaps/Findings</u></b>	<b><u>Current Status</u></b>
<b>Accounting Procedures</b>	
They followed properly their procurement policy except GRN - is missing.	There is still inconsistency.
Unused fuel coupons were being expensed by the time they are being purchased instead of recording as an asset.	Not improved
No VAT trucking system.	VAT tracking system is in place.
Many of the training payment and attendance sheets are not properly filled with proper information such as the dates the trainings being conducted, training location, where the trainees are from and the training titles.	Addressed
The organization payment voucher is by name of child fund, not printed in the name of the organization.	Addressed
Time sheets haven't been prepared properly.	They are starting to use time sheet properly & all salary payment are supported by time sheet.
<b>Internal Controls</b>	
Financial manual in the name of child fund.	Addressed
There is no segregation of duties among finance staff, the one who prepares check payment voucher prepares bank reconciliation and posts data to the system.	Bases of the recommendation given by Pact they segregate duties among finance staff.
Dugda do not use a vehicle log book properly to controlling a vehicle movement and fuel consumption.	Corrected.

Cash collection are not recorded immediately and promptly banked.	Corrected
There is no cost share documentation at all.	Cost share is being documented
<b>Rule ,Regulation &amp; Agreement</b>	
Noticed that variance is show between ledger balance in Peachtree and report sent to PACT.	The problem still reflected in Pact monitoring feedbacks i.e. it is still an area of improvement
There is no surprise cash count and monthly petty cash count.	On monthly base petty cash and surprise cash count is done
Dugda was not prepared constantly the bank reconciliation & not signed for checking and approved by authorize personals if they prepared.	Improved.
There is inconsistency to deduct withholding tax & Income tax from the service provider.	Settled.

**Future Hopes Integrated Development Organization (Arada)**

<b><u>Gaps/Findings</u></b>	<b><u>Current Status</u></b>
<b>Accounting Procedures</b>	
No accounting software used for recording but they are on the process to use Peachtree accounting software.	They are using Peachtree accounting software based on the recommendation & support of Pact.
No time sheet is used but attendance.	They are starting to use time sheet & all salary payment are supported by time sheet.
Several times Pact found that they don't followed properly their procurement policy like not purchase in competitive way, documentation of necessary materials are missing (Purchase request & GRN)	Still there is a gap they violated the procedure.
As per the USAID rules and regulations any service provision for beneficiaries made by direct cash payment or in-kind is unallowable	Further action is not made by Pact rather than recommendation.

or forbidden. But, during monitoring visit, found that FHIDO made direct cash payment to beneficiaries' guardians for house renovation.	
<b>Internal Controls</b>	
There is manual but not updated according to the new ledglation.	Addressed.
ACFCS do not make bank reconciliation on YB-HVC project bank account for a long time period.	Addressed.
There is no cost share documentation at all.	They are starting to document the cost share.
<b>Financial Management</b>	
There is no cash flow projection is in place.	Now cash flow projection is in place.
Noticed that variance is show between ledger balance in Peachtree and report sent to PACT.	They generate report from the system so as the reported amount to Pact is the same as in their ledger balance.
<b>Rule, Regulation &amp; Agreement</b>	
PF is deducted but not deposited to concerned body intact as per the revised social security legislation.	Addressed
There is inconsistency to deduct withholding tax from the service provider.	This trend is not changed.

**Love for Children and Family Charitable Society (Kore)**

<b><u>Gaps/Findings</u></b>	<b><u>Current status</u></b>
<b>Accounting Procedures</b>	
They have no accounting software.	They are using Peachtree accounting software.
Per-diem and refreshment for training participants are made without attendance sheets.	The training attendance is already attached.
During procurement of goods, pro-forma invoice were not collected at least from three suppliers (competitive way), instead one pro-forma is collected and no justification is attached out of the procurement rules and regulation.	There is still inconsistency.
<b>Internal Controls</b>	
There is no cost share documentation at all.	They are starting to document the cost share.
They used excel for report preparation since they have no accounting software as a result of this everybody could access the system easily.	Same as above
Journal entries are made timely, but not approved.	JV is approved constantly
There is no segregation of duties among finance staff, the one who prepares check payment voucher prepares bank reconciliation and posts data to the system	Bases of the recommendation given by Pact they segregate duties among finance staff.
<b>Rule ,regulation &amp; agreement</b>	
Payment is made out of the agreed budget.	They excluded from the report.
There is inconsistency to deduct withholding tax from the service provider.	This trend is still not changed.

**Sheger Children and Family Charitable Organization**

<b><u>Gaps/Findings</u></b>	<b><u>Current status</u></b>
<b>Internal Controls</b>	
No JD filed in the personnel file	They have prepared JD and shared to the responsible employee.
Sheger has prepared bank reconciliation However the bank reconciliation are not signed for checking and approved by authorized personals.	Addressed.
There was no travel policy	Sheger show us separate
There was no cost share report & documentation at all.	They are starting to report & document the cost share.
The organization policy does not allow carrying over outstanding work advance to the next month and this policy is applied strictly. However in some instances work advances are not settled immediately after the completion of the activity or some advances are taken too early.	Sheger has been accepting the recommendation & acting accordingly since then.
Journal entries are made timely, but not approved.	JV is approved constantly
<b>Rule, Regulation &amp; Agreement</b>	
VAT unclaimed for more than a year.	
There is inconsistency to deduct withholding tax from the service provider.	The same several times.

From the above tables, it is possible to note that most of the organizations did not have grant management practice at all and Value added tax (VAT) tracking system before Pact. Besides, burn rate of the implementing partners has shown significant improvement against the low burn rate at the initial stage of the program. Now, all of the IPs have grant management system and track VAT. On the other hand, there are still major gaps that need to

be addressed. Payments are still effected out of the agreed budget in some cases; variance is observed between ledger balance in Peachtree and report sent to PACT; there is inconsistency documentation of time sheet with payroll sheet; there is inconsistency to deduct withholding tax from the service provider; and there is no surprise cash and petty cash count. Moreover, most of IPs does not use log sheet for fuel consumption and vehicle movement for the project activities. (The use of vehicles is not properly controlled). Serious gap in following procurement procedure based on financial manual was also observed in the case of Love for Children. This includes not purchasing in competitive way, poor documentation of necessary documents (Purchase request & GRN).

#### **4.5 Comparison of the implementing partners with the control groups (Pact IPs Vs Child Fund)**

The inclusion of a comparison group was entertained in the study design to understand the scenario if the Pact capacity Development support was absent. In connection to this, the baseline score of Child fund implementing partners that did not took part in the study was compared with the baseline status of the partners that engaged in the partnership with Pact in the implementation of Yekokeb Berhan for highly vulnerable children program. As shows in table 8 below, the management capacity of the two groups was found to be on a relatively the same level in the baseline scenario. Though some differences are seen in the mean score of the major categories of the management capacity assessment, none of the differences were found to be statistically significant but the sub grant financial management. The test of the statistical significance difference using independent samples t test resulted in a significance level of above 0.05 in all cases except the sub grant financial management.



**Table 8. Comparison of Experiment and control groups scores /baseline scenario**

	Pact Child fund	<i>N</i>	<i>M</i>	<i>SD</i>	<i>Sig. (2-tailed)</i>
ACCOUNTING PROCEDURES	Pact	4	5.475	1.6919	
	Child fund	4	4.750	.5000	.463
INTERNAL CONTROLS	Pact	4	4.125	.1500	
	Child fund	4	4.500	1.0000	.510
FINANCIAL MANAGEMENT	Pact	4	4.150	.7895	
	Child fund	4	4.500	.5774	.503
POLICY ENVIRONMENT	Pact	4	4.175	.4425	
	Child fund	4	4.250	.9574	.893
Financial Management	Pact	2	.500	.7071	
	Child fund	4	4.500	1.0000	.011

Source: (Own Survey, 2016)

In view of the above, the difference between the two groups was analyze using the post intervention data of the implementing partners that undertook Yekokeb Berhan for highly vulnerable children program for the last 5 years with Pact and benefited from the capacity development support.

**Table 9. Comparison of experiment groups and control groups post intervention scores**

		<i>N</i>	<i>M</i>	<i>SD</i>	<i>Sig.</i>
ACCOUNTING PROCEDURES	control	4	4.00	.000 <sup>a</sup>	p<0.001
	experiment	4	5.00	.000 <sup>a</sup>	
INTERNAL CONTROLS	control	4	4.00	1.155	p<0.001
	experiment	4	5.00	.000	
FINANCIAL MANAGEMENT	control	4	4.50	.577	p<0.028
	experiment	4	5.50	.577	
POLICY ENVIRONMENT	control	4	4.00	1.155	p<0.001
	experiment	4	5.00	.000	
Sub grant Financial Management	control	4	4.00	1.155	
	experiment	4	6.00	.000	

Source: (Own Survey, 2016)

The result showed that the mean values of the experiment group, IPs that worked with Pact in the implementation of Yekokeb Berhan for highly vulnerable children program and benefited from the capacity development support for all the major categories of the management capacity assessment was higher than those of the comparison groups. The mean score of the experiment groups for accounting procedures was 5 ( $SD=0$ ) against the mean score of 4( $SD=0$ ) for the comparison groups; the mean score of the experiment groups for internal control was 5 while the comparison groups was found to be 4( $SD=0$ ); and the same difference was also noted for the policy environment. In addition, the mean score of the experiment groups was found to be higher for financial management ( $M=5.5$ ,  $SD=0.6$ ) than the comparison groups ( $M=4.5$ ,  $SD=0.6$ ). The difference in sub grant financial management was also found to be higher for the experiment groups ( $M=6$   $SD=0$ ) than the comparison groups ( $M=4$ ,  $SD=1.6$ ).

## CHAPTER FIVE

### 5. SUMMARY CONCLUSION AND RECOMMENDATIONS

#### 5.1 Conclusion

A total of 48 employees of 8 implementing partners' staffs and Pact grant management team members participated in the study. Moreover, around 90 percent of the study participants were from the finance and accounting department. The capacity development support extended by Pact were found to be training, mentoring and coaching on establishing and strengthening financial management systems including accounting software, policies and procedures; effective financial management analysis and reporting tools development to ensure accurate and verifiable internal and external financial reporting; interpretation and understanding of relevant donor rules and regulations; budget development, revision, and implementation of policies and procedures, such as procurement, disbursements, petty cash, travel, administration and human resources management.

The management capacity of the implementing partners was good both in the case of the baseline scenario as well as in post intervention MCAT score analysis. Yet, there are a number of areas that have showed improvement in the post intervention scenario. Improvement in the application of existing accounting systems in a consistent manner, use of updated soft wares, spontaneous recording of cash, in their procedure of properly stamping documents approved for payments, procedures over access, use and safekeeping of cheques, filing in relation to the recording and filing of stub, in following up outstanding checks and writing off, month end closing, VAT tracking system and application for refund as appropriate, adequacy of the justification in journal transfers, review of the payroll system and regularly updating it to meet different requirements, documentation of the budget preparation and approval process, cost share tracking and reporting, in adding and disposition of assets, insurance coverage for assets and valuation of assets.

The quantitative data analysis result also showed that the mean values of the experiment group, IPs that worked with Pact in the implementation of Yekokeb Berhan for highly vulnerable children program and benefited from the capacity development support for all the major categories of the management capacity assessment was higher than those of the

comparison groups. All differences between the mean scores of the experiment groups and the comparison groups were found to be statistically significant.

In light of the above, it is possible to conclude with reasonable confidence that the capacity development support of Pact was effective in bringing about improvement in the accounting procedures, internal control, financial management, and sub grant financial management system and practice of the implementing partners.

## **5.2 Limitations of the Study**

Despite the wide geographic coverage of the program selected, covering 6 regional states of Ethiopia, the study will be limited to Ethiopia. As a result; it will be difficult to generalize the results on the selected number of IPs and defined geographic coverage of the study. In addition, the study was limited only on the capacity development aspect that affects the system and practice of the financial management. Yet, variable like accessibility of skilled manpower, government financial rules and regulation for the applicability of financial transactions and such factors that have effect on financial management system are not considered. Furthermore, the effect of external auditors was examined despite its possible effect on the financial system and practice of the IPs.

## **5.3 Recommendation**

Pact and its Local NGO partners are conducting financial monitoring visit quarterly and refresher training and give feedback and recommendation on overall accounting practices and system and on monthly financial report. The support was also found to be effective in improving the IPS capacity. However, it was noted that some of the implementing partners are reluctant to address some of the monitoring feedbacks Pact. To improve this, it is recommended to make sure that expectation on performance including addressing monitoring feedbacks are backed by corrective administrative measures. Moreover, undertaking mentoring as a team rather than as an individual and rotation of monitoring team members should be considered to benefit from the mix of skills, perspectives and experiences of the available pact grant team members.

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