

**St. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
FACULTY OF BUSINESS**



**ASSESSMENT OF FINANCIAL MANAGEMENT PRACTICES IN
SELECTED INTERNATIONAL NON-GOVERNMENT
ORGANIZATIONS WORKING IN THE HEALTH SECTOR**

**BY
SEBLEWONGEL ENDASHAW BEALEM
SGS/0269/2005B**

**A THESIS SUBMITTED TO St. MARY'S UNIVERSITY SCHOOL OF
GRADUATE STUDIES IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION**

**APRIL 2015
ADDIS ABABA
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BY

SEBLEWONGEL ENDASHAW

APPROVED BY BOARD OF EXAMINERS

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DEDICATION

Dedicated to my mother, Ejigayehu W/Mariam and to my husband Leul Getachew.

DECLARATION

I, the under signed, declare that this thesis is my original work, prepared under the guidance of Dr. Abebaw Kassie (Assistant Professor). All sources of material used while working on this thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any type of degree.

Name

Signature and Date

ENDORSEMENT

To: St. Mary University

School of Graduates Studies

Title: Assessment of Financial Management practices in selected International Non-Government Organization working in the Health Sector

This is to certify that Seblewongel Endashaw Bealem has worked on “Assessment of Financial Management Practices in selected International Non-Government Organizations working in the Health Sector” under my supervision. This work is original in nature and it is suitable for submission in the partial fulfillment of the requirement for the Degree of Master of Business Administration.

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LIST OF ABBREVIATION/ACRONYMS

| | |
|-------|---|
| ARM | Annual Review Meeting |
| CSO | Charities and Societies Organization |
| ChSA | Charities and Societies Agency |
| DPPA | Disaster Prevention and Preparedness Agency |
| DPPC | Disaster Prevention and Preparedness Commission |
| GAAP | Generally Accepted Accounting Principles |
| GAAS | Generally Accepted Accounting Standards |
| HSDP | Health Sector Development Program |
| INGO | International Non-Government Organizations |
| MOFED | Ministry of Finance and Economic Development |
| MOH | Ministry of Health |
| NBE | National Bank of Ethiopia |
| NGO | Non-Government Organizations |

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ABSTRACT

Sound Financial Management Practices determine the effectiveness and efficiency of any organization. This study assesses and describes types of financial management practices selected INGO's utilize to identify their area of strength and weakness as well as challenges around the key financial management components and reporting requirements; namely Financial Planning, Budgeting, Accounting Records, Internal controls and Financial Monitoring. To achieve this purpose interviews with finance heads and a tested questionnaire framework comprising of general information data for background assessment and a Likert scale of 5 levels listing financial management assessment questions were distributed to sample seven International Non-Government Organizations that work in support of the health system in Addis Ababa, Ethiopia. The questionnaire responses were analyzed using statistical tools of means and standard deviation as well as frequency tables and the findings of the assessment showed a relatively strong level of good practice in the area of financial planning, budgeting, recording, internal controls and financial monitoring. Reliability testing has also been carried out to check the consistency of the responses. This paper is expected to provide the INGO's working in the health sector detailed assessment tools to monitor each category of the financial management building blocks based on the results to better strengthen their system and work out an enabling environment with governing bodies. It also provides important recommendations regarding policy implications in terms of adoptability by governing bodies and local non-government organizations as well as revising the regulatory assessment categories.

Key words – Financial Management, Financial Planning, Budgeting, Accounting Records, Internal Controls, Financial Monitoring

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

In Ethiopia, all Non-Government Organizations (NGO's) have to make strategic choices regarding their resources by identifying priority activities, donor's interest & Government and Charities and Societies (ChSA) reporting requirement. Even within the Civil Society Organization (CSO) itself, the different departments compete for resources with maximum approved ceilings and having in place a good financial management system is expected to provide needed tools in order to make timely decisions on fund allocation as well as monitoring performance that adhere to the reporting requirements set by Donors and Government. The financial processes of recording, planning, monitoring and controlling have to be done on an ongoing basis in conjunction with other functions of the organization for maximum impact to achieve the objectives of the organization.

With the increase in the number of CSO's operating in Ethiopia and to address the need for a regulatory body, in 2009 the Ethiopia Government issued Proclamation No. 621/2009. This proclamation provides procedures for the Registration and Regulation of Charities and Societies there by establishing Charities and Societies Agency (ChSA) under the Ministry of Justice. Then Regulation No.168/2009 was issued by the Council of Ministers which detailed out the requirement and procedures for registration of charities and societies, preparation of financial statements for annual audit and guidance for preparation of annual activity report. As per the September 2014 update made on the website of ChSA, close to 3031 Civil Societies are currently re-registered and out of this 353 are International Non-Government Organizations and foreign registered organizations.(www.chsa.gov.et)

The ChSA is expected to regulate and monitor the NGO's activities including the regulatory environment within which CSOs are expected to operate. The primary focus of ChSA is ensuring the total resources of the CSO's under its registration are utilized only for the objective the CSO is registered for. As well it monitors the CSO's performance is efficient and meets set reporting requirements. In order to ensure this the financial and activity reporting of each NGO registered under the ChSA is reviewed strictly by the agency every year and continued operational approval is dependent on approval of submitted reports compatibility to set regulations of the ChSA.

The Ethiopian Ministry of Health (MoH), in its yearly Annual Review Meeting (ARM) and published in the annual Health Sector Development Program (HSDP) report, acknowledged that the main source of health funding comes from developing partners namely INGO's. In its report 2012/13 it stated that the total funding from developing partners amounting to US\$551 million was committed and 96.4% of it was disbursed. (Ministry of Health, Health Sector Development Program Report, Executive summary p. XVI)

According to the National Bank of Ethiopia (NBE) annual report 2012/2013, when we analyze the total net transfer by year, the Net transfer in Fiscal Year (FY) 2012/13 improved by 7.7 percent coming to 7.5 percent increment in total NGO transfers of both Cash and Food Aid. (www.nbe.gov.et.)

Table 1.2. -Unrequited Transfers 2012/13 (In Million USD)

| No | Particulars | 2010/11 | | 2011/12 | | 2012/13 | | Percentage Change | |
|------|---------------------------------|----------------|------------|----------------|------------|----------------|------------|-------------------|------------|
| | | A | Share | B | Share | C | Share | B/A | C/B |
| 1 | Private Transfers | 2,746.7 | 59.6 | 3,245.6 | 64.5 | 3,889.2 | 75.4 | 18.2 | 19.8 |
| 1.1. | Receipts | 2,788.1 | 59.6 | 3,318.4 | 64.7 | 3,967.2 | 75.7 | 19.0 | 19.6 |
| | NGO's | 901.8 | 19.3 | 1,372.5 | 26.8 | 1,475.9 | 28.2 | 52.2 | 7.5 |
| | Cash | 893.5 | 19.1 | 1,186.6 | 23.1 | 1,028.0 | 19.6 | 32.8 | -13.4 |
| | Food | 8.3 | 0.2 | 185.9 | 3.6 | 447.8 | 8.5 | 2144.8 | 140.9 |
| | Others | 0 | 0 | 0 | 0 | 0 | 0 | | |
| | Private Individuals | 1,886.3 | 40.3 | 1,945.9 | 37.9 | 2,491.3 | 47.5 | 3.2 | 28.0 |
| | Cash | 1,066.4 | 22.8 | 1,347.5 | 26.3 | 1,821.9 | 34.8 | 26.4 | 35.2 |
| | In kind | 63.9 | 1.4 | 70.8 | 1.4 | 30.9 | 0.6 | 10.7 | -56.3 |
| | Underground Transfers (in kind) | 756.0 | 16.1 | 527.6 | 10.3 | 638.5 | 12.2 | -30.2 | 21.0 |
| 1.2 | Payments | -41.4 | 55.7 | -72.8 | 75.1 | -77.9 | 92.7 | 57.7 | 7.1 |
| 2 | Official Transfers | 1,860.8 | 40.4 | 1,787.9 | 35.5 | 1,529.9 | 28.2 | -3.9 | -14.4 |
| 2.1. | Receipts | 1,893.7 | 40.4 | 1,812.1 | 35.3 | 1,535.7 | 27.9 | -4.3 | -15.3 |
| | Cash | 1,863.5 | 39.8 | 1,692.3 | 33.0 | 1,535.7 | 27.9 | -9.2 | -9.3 |
| | Food | 30.1 | 0.6 | 119.8 | 2.3 | 0.0 | 0.0 | 297.4 | -100.0 |
| | Others | 0 | 0 | 0 | 0 | 0 | 0 | | |
| 2.2. | Payments | -32.9 | 44.3 | -24.2 | 24.9 | -6.1 | 7.3 | -26.5 | -74.6 |
| | Total Net Transfers | 4,607.5 | 100 | 5,033.5 | 100 | 5,418.8 | 100 | 9.2 | 7.7 |

Source: Disaster Prevention and Preparedness Agency (DPPA), Ministry of Finance & Economic Development (MoFED), National Bank of Ethiopia(NBE)

Given the huge resources coming through CSO's and the attention of the government towards the good governance of this scarce resource to address the problems of the intended community, the application of good Financial Management system comprising of systematic financial planning, monitoring, recording practices as well as good internal control system is very important. Its existence in all CSO's is of paramount importance to measure performance, meet targeted deliverables as well as adhere to the financial reporting requirements as per the ChSA requirement. This research paper focused on assessment of financial management practices of selected INGO's providing Health related technical support in Ethiopia.

1.2.Statement of the Problem

“Efficient financial management is the backbone of any entity's growth driver.” Fiador, (2013). Lewis (2012) also states that “Effective and accountable Financial Planning and Monitoring System is the basis for an NGO accountability and sustainability. NGO's operate in a rapidly changing and competitive world. If the 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.”

To be able to survive, grow and to continue securing operation approval in Ethiopia, INGO's as part of the CSO sector must have and must be able to implement an excellent Financial Management system. Availability of an effective Financial Management system that can both fit organization donors requirement as well as local requirement is a must and one of the key area of focus by management.

Even though the process of adaptation of internationally accepted standardization of accounting and financial reporting is under consideration locally, the absence of a standardized reporting system affects the financial reporting system. Lakew (2010) states “ The restrictions imposed by

government on the manner of spending (like spending 70% of the total budget directly to specified program costs and the remaining 30% to administrative costs) are also likely to affect the financial reporting and accounting.” The process of Financial Planning, Execution, Internal controls and Monitoring in the INGO sector demands involvement of both program and finance staffing in the planning and monitoring process, to revise old procedures and trends of spending, capacitating managers with additional tools to enable them monitor their expenditures and over all coordinated effort to reduce administrative costs and increase performance.

Limited studies have been done on assessment of INGO financial management practices in the Ethiopia context. Most researches concentrated on ad-hoc groups which have focused on the anticipated effects of the Directive 2/2003 which spelled out the categorization of administrative vs. program costing grouping. According to Rahmato et al. (2008), the researchers identified the narrowing down of scope of CSO/NGO’s engagement and reducing the effectiveness of CSO’s/NGO’s interventions in development as the main concerns in the implementation on Directive 2/2003. Most INGO’s are expected to be equipped with better financial management systems as compared to local NGO’s. But the challenge of meeting local reporting requirements specially for those INGO’s working in technical capacity provision to the Ministry of Health is still pending decision by the ChSA.

This study focused on INGO’s which are working in the area of health. The reason why the researcher wants to select these sector is based on the researchers extensive work experience in the health sector as finance personnel and the health sector is among the top three sectors namely Health, Education & Food Security which are areas of interest by donor as well as intervention concentrations by most INGO’s in Ethiopia. Moreover, the health sector is one of the priorities of the Ethiopia Government. Therefore the financial management practices of the INGO’s working in the health sector should be studied in order to review what kind of financial management tools are in place in order to utilize effectively and efficiently the significant resources invested in the health sector. It is also expected that findings of the research will serve

as a basis for future research as there is limited documentation done so far on assessment of financial management practices of INGO's as well as reporting challenges in the Ethiopia context.

1.3. Research Questions

The following research questions were raised and investigated through the research process and study in order to get deep insight and a throughout picture to attain the research objectives. The questions were:-

1. How do the INGO under study plan their finances?
2. What type of mechanisms do they have in place to monitor their expenditures?
3. How does the budgeting process link with the financial planning process?
4. What type of internal controls do they have?
5. What are the strengths and weakness of the INGO in terms of maintaining a good account system?

1.4. Objectives of the Study

1.4.1. General Objectives

The general objective of the study is to assess the financial management practices of selected INGO's in Addis Ababa. The study will discuss the theoretical aspects of financial management process focusing on the building blocks of the financial management process.

1.4.2. Specific Objectives

The specific objectives of the study are:-

- To describe the financial planning practices in the selected INGO's.
- To describe the account recording system of INGO's.
- To describe the budgeting process of INGO's
- To review and describe the internal control practices of INGO's
- To describe the financial monitoring practices in the INGO's.

1.5. Operational definitions of terms

Based on the focus of this paper the following terms are defined which are important for common understanding of reference.

Account – A record of monetary transaction, either written into a book designed for the purpose or entered onto a computer file. Lewis (2012)

Audit – A formal check of the accounts by an independent entity. Lewis (2012)

Balance Sheet – A summary of the financial position of an organization at a particular date, showing the assets owned by the organization and the liabilities (or debts owed to others) Lewis (2012)

Bank Reconciliations – The Process of comparing the entities and ending balance in the cashbook with the bank statement, and identifying any differences. It provides an important check on the completeness and accuracy of the cashbook entries. Lewis (2012)

Budget- A best estimate of the amount of money that an organization plans to raise and spend for a set purpose over a given period of time.

Budget holder – The individual who holds the authority and has the responsibility for managing, a budget for a specified activity, project, program, department or organization.

Cash flow forecasting – This is the NGO’s expected cash inflows and outflows over a given period of time. Usually cover 3- 6 months.

Evaluation- The World Bank defines Evaluation as the systematic and objective assessment of an on-going or completed project, program, or policy, and its design, implementation and results. The aim is to determine the relevance and fulfillment of objectives, development efficiency, effectiveness, impact, and sustainability.

Financial Planning & Forecasting – The blue print of what an organization proposes to do in the future. It can be an estimation of cash needs and decision on how to raise the cash. It can refer to annual projection of income and expenses.

Internal Controls – The plan of organization and all the methods and procedures adopted by the management of an entity to assist in achieving management objectives of ensuring as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of accounting records and the timely preparation of reliable financial information. Soudani (2013)

NGO – Non Government organizations that can fall under the category of voluntary, not for profit, non-self-serving, non-governmental and independent organizations or association involved in the promotion of social justice and development. Nonprofit literature the term “voluntary organization” is commonly used for domestic third sector organizations. NGO’s literature the umbrella term “Non-governmental organization” is generally used throughout, although the category ‘NGO’ may be broken down into specialized organizational sub groups such as “public service contractors”, “People’s organizations”, “Voluntary organizations” and

even “Governmental NGO’s” or “Grass roots support organizations” and “Membership support organizations” Lewis (2009). The World Bank defines NGO’s as “private organizations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services or undertake community development (<http://www.worldbank.org>)

Monitoring – According to World Bank definition, Monitoring is “continuing function that aims primarily to provide the management and main stakeholders of an ongoing intervention with early indication of progress, or lack thereof, in the achievement of results. An ongoing intervention can be a project, program or other kind of support to an outcome. Monitoring helps NGO’s track achievements by regular collection of information to assist timely decision making, ensure accountability, and provide the basis for evaluation and learning. “

1.6. Significance of the Study

The significance of this research is explained in terms of the important role of excellent financial management system need that can respond to various reporting requirements. The intended beneficiary of this study are the CSO community both local and international that will review the contents of this study as findings are expected to serve as bench mark to establish good financial management practices after comparing with own organizational capacity. This research is also expected to shed light on current financial management practices of INGO’s and the conditions that sustain these practices. It is expected to give highlights to the current strengths and weaknesses existing during financial planning, execution and monitoring as well as internal control measures in place and this study is expected to be used as a reference to see areas of focus to make change on reporting requirements that are in line with internationally accepted accounting and finance reporting requirements. The analysis and recommendation from the research is also expected to assist INGO’s operating in Ethiopia to reinforce their financial management systems and is expected to be a source document for future similar studies.

1.7. Scope of the Study

This research focuses on 7 purposefully selected INGO's working in the provision of technical support to the health sector in Ethiopia. Considering accessibility issue the researcher decided to contain the selection to those INGO's in Addis Ababa mainly at Head Office level. Attention was paid specifically on those INGO's giving technical support to assigned health centers and hospitals by the Ministry of Health (MoH) or directly with the Ministry to improve the health system. At the end of the research the study provides list of suggestions and recommendations on how to integrate good financial management systems and practices to overcome some of the existing challenges faced by the INGO sector.

Financial Management is a very broad concept and an evolving process and therefore focus is limited to the key financial management measurement aspects of the process and paying attention on the key components of the financial management process namely financial planning, recording, monitoring, budgeting and internal controls. The researcher used purposive sampling technique among those INGO's currently listed as those providing technical support by the Ministry.

1.8. Limitation of the Study

The researcher identified the following limitation listed below while conducting the research.

- Time it took to arrange interviews because of the distribution of the seven offices under study and availability of interviewee as most were involved in field travels.
- The responders had to be limited with only those finance staffs that have direct responsibility for finance and those program management staff specifically budget holding unit heads this has limited the total number of respondents as all staffs could not be considered as population.
- Few questions in the questionnaire and interview were not responded to.

- Uncollectable questionnaires. Nine of the respondents failed to return back questionnaires.
- Absence of in country studies on INGO financial management aspects.

1.9. Organization of the Research Report

The research is organized into five chapters. The first chapter provides brief background to the study, explains the research problem, discusses objectives of the study, research questions, significance of the study, and identifies the scope of the study and limitations. The second chapter reviewed theories and previous researches done around Financial Management and effort has been made to link with studies made on financial management practices of NGOs or the voluntary sector which is organized to serve as a basis for understanding the basic financial management components. Chapter three presents the design of the research-methodology adopted in the study which covers the research design, population and sampling technique, data source and data collection techniques, and methods of data analysis techniques. Chapter four summarizes the results/findings of the study, and discusses the findings linked with the literature review as well as summary. Last but not least Chapter five includes the conclusions and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1. Theoretical over view of the Financial Management Process

The role of financial management is not something that can be underestimated. This has been felt especially during 2008/2009 while the world felt the ripple effect of the global financial crisis. Though most of the impact was felt on the stock market in the developed countries and government intervention was needed to bail out companies from the financial crises, the effort of all intervention actions was also felt by the INGO sector. This has been portrayed in the reduction of funding for donations by private as well as government funders to the INGO sector. Brigham et al (2011), maintain that the events surrounding the financial crisis illustrate that markets don't always work the way they should, and that there is a need for stronger regulation of the financial sector.

Financial Management as defined by Brigham et al (2011) "focuses on decisions relating to how much and what types of assets to acquire, how to raise the capital needed to purchase assets, and how to run the firm so as to maximize its value." The writers confirm these same principles apply to both for-profit and not-for-profit organizations.

Gitman (2006) states "Financial planning is an important aspect of the firms operations, because it provides road maps for guiding, coordinating and controlling the firm's action to achieve its objectives." He confirms this by stating "The financial planning process begins with long term, or strategic financial plans. These in turn guide the formulation of short term, or operating plans and budget" Financial statement analysis is the application of analytical tools to general-purpose financial statements and related data for making business decisions Larson et al (1999). According to the writers it involves transforming data in to useful information. They state

“Financial statement analysis reduces our reliance on hunches, guesses and intuition. It reduces our uncertainty in decision making. But it does not lessen the need for expert judgment”. The writers argue that financial statement analysis is a tool that provides us with an effective and systematic basis for business decisions.

Lynch & William (1983) define the concept of budgeting from the perspective of its use to cover the planning, organizing and controlling of all financial and operational activities of a firm for the future. According to Lynch & William (1983) “Planning begins with setting of general goals, proceeds to the cost-volume-profit analysis of various alternatives, and ends with the preparation of a detailed, quantitative plan of action- The budget. The budget in turn provides a motive and guide to action for all responsible managers in all segments of the firm.” They further define controlling as “when the results of actual performance become available, they are tabulated and compared with the budget for purposes of highlighting off-standard performance as a basis for instituting corrective action.” Larson et al (2008) support this by stating “A budget is a formal statement of a company’s future plan”. The writers further explain that “all managers should be involved in the process of budgeting, that is the process of planning future business actions and expressing them as formal plans”. Further explaining the importance of budgeting, the writers argue that as budgetary analysis is for the future, management must focus on future transactions and events and the opportunities available. They further articulate this as “a focus on the future is important because the pressures of daily operating problems often divert management’s attention and take precedence over planning. A good budgeting system counteracts this tendency by formalizing the planning process and demanding relevant input.”

Lynch & William (1983) reaffirm the importance of financial control by tying management planning and control. They affirm this by stating “Management planning and control begin with the establishment of the fundamental objectives of the organization, and continues as the process by which necessary resources are provided and employed effectively and efficiently towards achievement of goals”. As such this stresses the fact that the planning process and the control

process are intertwined and confirms the control system provides the comprehensive framework within which the planning process is carried out. Having robust internal control systems is one of the major components of financial management. Larson et al, (1999) define internal controls with the following seven principles namely establishing responsibilities, maintaining adequate records, insuring assets and bond key employees, separating recordkeeping from custody of assets, dividing responsibility for related transactions, applying technological controls as well as performing regular and independent reviews. The writers reaffirm these principles in their 2008 edition of the same book and add that “managers use an internal control system to monitor and control business activities. An internal control system consists of the policies and procedures managers use to protect assets, ensure reliable accounting, promote efficient operations and urge adherence to company policies”

Larson et al,. (1999) explain the financial reporting environment linking the need for the preparation of financial statements and independent review of auditors. In order to prepare financial statements the writers stress the need to have a standard Generally Accepted Accounting Principles (GAAP) to decide what procedures are most appropriate for accounting for business transactions and events, and for proper reporting of statements. The writers’ state: “Generally Accepted Auditing Standards (GAAS) guide auditors in deciding on the audit procedures useful in determining whether financial statements comply with GAAP. Applying both GAAP and GAAS helps ensure that financial statements include relevant, reliable, and comparable information for users.”

2.2 Empirical over view of the Financial Management Process

The role of the nonprofit sector in development is captured by Lewis and Kanji (2009) who indicated that NGOs have over the years come to be recognized as important actors on the landscape of development. Edward and Hulme (1995), Riddle, De Coninck, Muir, Robinson and

White (1995), Farrington, Bebbington, Wellard and Lewis (1993) also acknowledged in various writings the contribution of the NGO sector to Development.

The duty of the NGO sector to monitor its activities has also been analyzed. Brody (2002), Simon (1995).Salamon and Anheier (1996) attempted to review the scope, structure and financial base of the non profit sector in a cross section of six developed and five developing countries using coherent comparative methodology. They concluded the NGO sector is the least understood sector and more complex and diverse in developing countries as compared to developed countries.

Relatively speaking little survey has been done on the INGO sector especially in Africa particularly in Ethiopia. Most of the surveys done in Africa for example a study made in Uganda by Barr, A., Fafchamps, M., Owens, T., (2004) a world bank sponsored research on Uganda's NGO sector assessment focused on what Uganda's NGO's do and how, and they examined how NGO's finance themselves and to what extent and how they are accountable to their funders and true to their stated objectives. Cannon (2000) in his review of health programs funded by Oxfam in eight districts in Uganda, assessed the involvement of the state and reasons for tensions between the Uganda's government and the NGO sector. Same assessment was made by Goldsmith (2002) on the working environment for the NGO sector in eight african countries and highlighted the reasons for the existence of tension between the local government and the NGO sector.Fiador (2013) also reviewed the determinants of financial governance practices in Ghana and has shown the relationship between success of the NGO's and relation to good governance practices.

2.2.1. Financial Management

According to Fiador (2013) “effective financial governance systems are required in the quest to maximize the efficient use of resources, create the highest level of transparency and accountability in organizations finance and to ensure long-term economic success.” Aldaba (2002) also confirms that “Efficient Financial Management is the backbone of any entities growth. When well executed the financial management function forms the bedrock for growth, development and sustainability.”

Lewis (2012) listed the advantages of good financial management practices in terms of “helping managers to make effective and efficient use of resources to achieve objectives and fulfil commitment to stakeholders; help NGO’s to be more accountable to donors and other stakeholders; gain the respect and confidence of funding agencies, partners and beneficiaries; give the NGO the advantage in competition for increasing scarce resources and help NGO’s prepare themselves for long-term financial sustainability.”

2.2.2. Elements of Financial Management

2.2.2.1. Consistency

Lewis (2012) states that “the financial policies and systems of an NGO must be consistent over time. Inconsistent approaches to financial management could be a sign that the financial situation is being manipulated.”

2.2.2.2. Accountability

Beamon (2004) states “Performance Measurement is critical to NGO Accountability. Lewis (2012) defines accountability as “the moral or legal duty placed on an individual, group or organization to explain how funds, equipment or authority given by a third part has been used.” Lindenberg and Bryant (2001) also support the importance of accountability linking it with scarce resources in the NGO sector. They stress that as resources are becoming scarce NGO’s are facing a lot of pressure for greater accountability for program impact and quality. Kaplan (2001) also confirmed this by stating “Performance Management is critical in the nonprofit sector due to increasing competition from a proliferating number of agencies, all competing for scarce donor funding and increased demands for accountability of donors, the media, and the public in general.”

2.2.2.3. Transparency

Poterba and Von Hagen (1999) state that budgets can only be considered transparent if they are easily accessible to participants involved in the decision making process and represent consolidated information. “Transparency includes preparing accurate, complete and timely financial reports and making them accessible to stakeholders, including beneficiaries. If an organization is not transparent, then it may give the impression of having something to hide.” Lewis (2012)

2.2.2.4. Viability

According to Lewis (2012), to be financially viable, “an organization’s expenditures must be kept in balance with incoming funds, both at the operational and strategic levels. Viability is a measure of the NGO’s financial continuity and security.”

2.2.2.5. Integrity

“The integrity of financial records and reports is dependent on accuracy and completeness of financial records.”Lewis (2012).

2.2.2.6. Stewardship

According to Zadek (2003), “the importance and sensitivity of financial management to an entity’s quest for growth has in recent times brought the issue of financial governance and accountability to the forefront of the stakeholder issues”. The importance of good stewardship of financial resources is also recent times focus due to the financial crisis that happened during 2007-2009. Financial stewardship defined by Lewis (2012) is “taking good care of the financial resources it is entrusted with and making sure that they are used for the purpose intended.” One of the important frameworks required by donors is the availability of good governance and accountability of donor funds which is generally embodied in a comprehensive financial management system. Kihato and Rapoo (1999)

2.2.3. Financial Planning

Eric, H. and Heiko, S.(2011) state that “NGO’s should carefully plan budgets, implement program and track expenses and achievements as well as review spending and results. While the funding companies usually contribute financial resources to the partnership, NGOs provide the necessary knowhow and reputation.”According to Lewis (2012), “linked to the organizations strategic and operational plans, the budget is the cornerstone of any financial management system and plays an important role in monitoring the use of funds.” As per Tommasi (2007), “efficient budget execution is budgets implemented in line with the pre-set rules and authorization of the implementing entity, with changes or adaptations being made by the appropriate authority in the event of changes in baseline assumptions or conditions.” Brownell (1982) had stated budgeting requires significant input from fiscal staff as well as clearly defined duties, responsibilities, lines of supervision and limits of authority for all.

2.2.4. Financial Monitoring

According to Khawaja (2011), the main objective of monitoring and evaluation is “the improvement in the management of programs, projects and supporting activities and ensuring the optimal use of funds and other resources while providing a platform to learn from experience so as to improve the relevance, methods and outcomes of programs.” Naidoo (2003) stressed the need for financial governance as recent times pressing issues. In 1990, Steinberg as well as in 2006 Bolton and Meharan disclosed the need for the apparent protection of NGOs from potent market-disciplining devices such as hostile takeovers, proxy fights among others. Mackay (2007) refers to monitoring as “the center-piece of the governance system” . He states monitoring and evaluation contribute

to sound governance by facilitating evidence based policy making, policy development, management and accountability.

When we are discussing financial monitoring for the nonprofit sector, it gets closely linked with performance measurement of the activities of the sector which is most of the time linked to measuring the performance of programs. “Companies use performance management system as means to visualize strategy and support for its implementation.” Neely et al, (2005). In order to measure performance, measureable objectives and strategies have to be set in advance.

“Though defined frameworks for performance measurement for the nonprofit organizations is not yet agreed upon, there is increasing interest in the review of performance measures for the nonprofit sector” Micheli and Kennerly (2005). The few attempts made to set a defined framework are by Buckmaster (1999) who developed a performance measurement framework with focus on measuring program outcomes for nonprofits organizations.

Kaplan (2001) focused on the implementation of Balanced Scorecard approach to several nonprofit organizations. Sawhill and Williamson (2001) also developed a performance measurement framework a non-profit organization which assesses organizational performance in three areas: impact, activity and capacity. Based on an international child care agency’s experience. Henderson, Chase, and Woodson (2002) developed a performance measurement system based on outcome and output type metrics. A model was also created by Sowa, Selden, and Sandfort (2004) which captured two dimensions of effectiveness: management effectiveness and program effectiveness.

2.2.5. Internal Control

Mawanda (2008) states internal controls are processes designed and affected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity's objectives. Abdulkadir (2014) supports this by stating the application of internal control systems has the potential to help in the effective and efficient delivery of services in his study of internal control systems in Faith Based Organizations (FBOs).

Having in place a detailed guideline for internal controls with clear accountability is important as it provides the basis for setting standards for accounting policies and procedures. It gives a clear guidance of what is acceptable and provides basis for accountability with clear indication of segregation of duty. According to Mensah, Aboagye, Addo and Buatsi, (2003), "in a bid to ensure tight control systems and ultimately governance, certain provisions are usually provided for. These provisions usually revolve around roles of the board of directors, payments and financial account as it relates to budget execution." Lewis (2012) defines internal controls as "a system of controls, checks and balances – collectively referred to as internal controls are put in place to safeguard an organizations asset and manage internal risks. The strength of internal control system especially during the budget preparation process influences financial governance positively." There is empirical evidence to support this assumption as Elbannan (2009) in his study confirmed that internal control quality is positively related to good governance according to a study he made on United States firms. He finds that internal control quality is positively related to good governance. Jensen (1993) supports this relationship by reporting the effectiveness of internal controls is positively related to the efficiency of board governance.

Fiador (2013) argues budget execution is the phase where the organization's resources are used in implementing its activities and the main focus of budget execution is compliance with budgetary authorizations which is governed by internal control systems. In 2003, Mensah et al, elaborate weak internal control systems as per an organization's execution framework create incentives for company buyers to make side payments to influence contracts. Internal control provisions need to be in place which usually revolves around the role of board of directors, payments and financial accounting as it relates to budget execution.

Yang (2009) affirms that to guarantee the effectiveness of internal controls, managers have to pay attention to the design of internal controls. Abudulkadir (2014) supports this by emphasizing the importance of internal controls to supports NGO's in achieving their objectives by managing risks, while complying with rules, regulations, and organizational policies.

2.2.6 Budgeting and Budget Preparation

Budgeting is a process where by one can plan for what to spend based on the earning detail over a specific time period. According to Horngren, Datar, and Foster, G. (2006), they defined budget preparation as "the process of quantitatively expressing an organizations strategy or the financial perspective of what an organizations seeks to achieve over a specific period of time." They further analyzed budget preparation process as "the heart of the financial management function. Budgets or financial plans, which result from the budget preparation process, typically form the basis on which subsequent performance may be assessed." Allen and Tommasi (2001), also argue that the success of budget utilization depends on various factors as an organization has to deal with changes in the macroeconomic environment and it is dependent upon the implementation capacity

of the organization. In 2009, Gaist indicates that by budgeting and producing periodic financial reports, NGO's are able to constantly monitor their revenue and costs to ensure that funding streams sustain operations.

In order to have the best budget detail, all staffs involved in the budget preparation process have to come as a team as budgeting is not something that can be left to the finance unit alone. A study made by Hansen et al (2004), collaborated the link between budgeting, financial planning and organizational performance. They state "the formality, thoroughness, sophistication and participation that characterize long range planning exhibit a positive relationship with organizational performance."

In 2010, Bissessar stated that "Budgeting process needs enough time for review as well as revision. Budget assumptions have to be listed down clearly so that price basis, inflation, exchange rate details as well as all costs associated with the project and basis of estimation is noted for future reference." According to him with the growth of society, the budgetary process has gotten complicated which has transcended income and expenditure concerns to include systems of planning, forecasting, monitoring and evaluating.

NGO's usually perform Budget Vs. Actual review analysis. Budget Deviation Analysis helps to compare what the organization expected or planned against what the organization earned and spend. It can help detect how well activities are going according to plan within allotted budget, which budgeted line items are being overspent or underspent and it helps management to address future plans based on spending trends.

Put simply budget is a financial representation of strategic plans & goals as well as a plan to allocate resources with the aim of maximizing benefits. Fiador (2013) states that budget must include sources and uses of funds for all aspects of operations and maintain a true and holistic reflection of plans for the budget period. Umapathy (1987) also agrees with this assessment as it emphasizes the importance of comprehensiveness. In order to align financial planning and budget preparation to strategic intent of organizations, budget needs to be comprehensive.

2.2.7. Financial Strategy

According to Lewis (2012), financial planning is “both a strategic and operational process linked to the achievement of objectives. It involves building both longer term funding strategies and shorter term budgets and forecasts”. Further linking financial planning with the strategic plan, he states that NGO’s lay down their strategy to achieve their objectives by preparing a detailed strategic plan. In 2003, Neely et al confirm that “The success of a financial strategy depends upon establishment of long term partnerships with donors that will ensure funding throughout the planned years. “They further states that “Budgets must firstly be aligned with the organizations over all strategies with appropriate strategic planning and performance management processes introduced. And secondly, they must involve processes that are value based, consequential and continuous.”

2.2.8. Financial Policies and Procedures

According to a definition by Lewis (2012), “a policy sets out a set of principles and guidelines for a key area of activity within an organization. It removes any questions

about how important resources are used. Policies should stand the test of time – whilst it is important to be flexible, NGO's should not change policies too often.” He also states “procedures describe the steps for carrying out the guidelines in a policy. They often include a requirement to complete standard forms to gather data and authorization for actions.” Linking policies and procedures, Lewis (2012) further states that “Policies and Procedures are not about being overly bureaucratic. They help to run the organization smoothly and promote consistency, accountability and transparency. They also facilitate the decentralization process and help managers make the right decisions”.

2.2.9. Financial governance

Fiador (2013) explored financial governance as practices by NGO's in Ghana and further examined the determinants of financial governance structures of the NGO's. The study specifically investigated which organizational level characteristics exhibit any link whatsoever with governance as it relates to budget preparation, budget execution and internal controls and budget monitoring. The findings of the study indicate that the most positively influential factor in explaining an NGO's adoption of a governance framework is its size. The other variables, organizational age and independence are not significant across all three financial governance proxies and when they prove significant, the effect is negative. In his research he defines financial governance as “the legitimate use of power and authority in the management of an entity's financial resources.”. The African Financial status report of 2011 sees good financial governance as a significant contributor to sound fiscal management, effective and efficient resource use, which is also seen as underpinning transparency and accountability.

Some schools of thought have identified criteria for the financial management systems of NGO's and other donor funded projects. Shizhen (2005) proposed major classification

which includes financial reporting, accounting records and source documentation, internal control, budget control, cost allowance, cash management and compliance frameworks

To summarize the above empirical reviews this study has tried to relate this reviews with current plan as indicated below.

Given the assessment of Neely et al (2003), this understudy has tried to assess the importance paid to the planning and budgeting process in terms of the additional value it is expected to give to the NGO sector. Though the study result made by Neely et al (2003) focused mostly in best performing banks in Scandinavia, this study has tried to review the methodologies used by the writers and to bring further understanding of the different assessment tools.

From the related research made in Ghana by Fiador (2013), this proposal has tried to compare pertinent areas of review in the areas of financial management and governance, budgeting processes and internal controls, monitoring and performance measures. As the aim of the study in Ghana on selected NGO's was identifying the relation of size of organization, age of organization & independence with Financial Governance, Fiador (2013) used regression analysis to test the organizational drivers of the financial governance set up. This research is made on purposefully sampled INGO's working in the health sector in Ethiopia specifically located in Addis Ababa, concentrating on identifying the strength and weaknesses of current financial practices as compared to best financial management practices that are globally accepted for the NGO sector. It has tried to identify how existing practices can be linked with local reporting requirements for best results.

Andarge (2010) has also focused his research on local CSO's who have challenges in terms of having a standardized accounting system for recording and reporting and has gone into details of types of financial statements prepared by CSO's studied, method of reporting on assets, their source and type of funding, board governance, limitations and recording. This research will refer the above study on local CSO's as guiding document as governing environment for Ethiopian Resident Societies and Foreign Charities is the same. But foreign charties usually referred to as INGO's are expected to be equipped with more progressive financial management tools that enable them attract foreign donations and the focus of this proposed research will be identification of strength and weakness of financial management practices which is expected to be a spring board for further studies on identification of best financial management practices which addresses local reporting requirement in the Ethiopia context.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1. Research Design

This study used descriptive research method as the study aimed to assess the effectiveness of good financial management practices. Dependent on the set objectives of the study, the research included questionnaires and interview. The questionnaires were designed using Likert Scale of 1-5 from strongly disagree to strongly agree as well as some close ended questions to assess organizational profile. The questionnaires were filled in by the finance staffing both at management level and middle level to get both perspectives as well as Department Heads of the budget holding units. The researcher also interviewed the finance heads of the INGOs under study to supplement and expand data which could not be explained in the structured questionnaire. Strength and weaknesses of financial management practices of seven selected INGOs in Addis Ababa working in the health sector was the target of the study.

Both qualitative and quantitative methods were used in this study. By qualitative data, the description is in words rather than numbers and the researcher believes this helped her to go beyond the statistical results reported in the quantitative research. As well the researcher used quantitative research designs, techniques and measures to produce numerical quantifiable data.

Quantitative data was collected through distribution of a questionnaire which is believed to give respondents the freedom to reply to questions genuinely. The questionnaires were hand delivered to the seven organization finance staff and program staff under study to obtain information relevant for this study. Qualitative data was collected from interview held with 6

Finance Managers/Heads and 1 Senior Finance staff. The interview process helped to clarify issues that were not addressed through the questionnaires.

3.2. Population and Sampling Techniques

The total target population of the financial staffing as well as budget holder management staffing in the 7 INGOs selected out of the 17 listed INGOs working with the Ministry of Health on capacity building were 75. This total population was confirmed through preliminary assessment researcher did, as particulars of the assessment questionnaires could only be responded by those finance staffing and those working as budget holders. Even though Mugenda et al (2003) recommend about 10% sample size out of the total population identified for the study, given the limited number of staffing involved with direct responsibility for the financial management process, 100% (75 staffs) of the staffing purposely selected and identified as total sample size were contacted to secure the data needed for this assessment.

3.3.Sources of Data

For this assessment both primary and secondary data were used. Primary data was obtained through questionnaires and interviews by using purposive sampling techniques by identifying those staffs related to the financial management process. Those finance staff and budget holder program staffing were the focal source of the data for the study and this process has helped secure first-hand information about their perception, practical experience and comments on the process of financial management in each INGO. In addition, Finance Heads were interviewed to gain additional insight into the financial management process and to get information on the process as well as any challenges. The questionnaires were designed and tailored to fit the research questions and were enriched from guidelines for good financial management practices

sited on the handbook for NGO's created by Lewis (2012) for Mango institution. Specifically related financial management measuring frameworks were extracted from questionnaires used by the Non Profit Association of Oregon (www.nonprofitoregon.org) to assess NGO financial performance were tailored. This was selected by the researcher as these type of questionnaires are frequently used as the best assessment tool by donor/funding organizations. This framework is expected to provide a reference point from which deviations from or otherwise as regards financial management is compared.

Published monthly and quarterly newsletters by the organizations were reviewed. This helped to review their intervention area so as to make selection of INGOs comparable. Moreover, relevant literature from published journals as well as in country related documentations, electronic sources (website of the organizations), and Charities and Societies Agency regulation and proclamations were reviewed.. Review of secondary sources helped fill the gap that could not have been filled in through interview or questionnaire only.

3.4.Method of Data Analysis

3.4.1. Quantitative Data Analysis

Questionnaires were distributed to respondents and close follow up was invested using researcher's network at each INGO in order to extract all needed information and data for the research to ensure total collection of distributed questionnaires. Questionnaires used by the Non Profit Association of Oregon (www.nonprofitoregon.org) to assess NGO financial performance were tailored as these questionnaires are internationally recognized as all comprehensive and have been adopted by different international major donors. The researcher believes this enabled the study to compare results against acceptable standards. Likert scale of 5 stages from strongly disagree to strongly agree was used to analyze the

strength and weakness of the financial planning, accounting records, budgeting process, monitoring and internal controls of the selected INGO. Upon collection of all data, the data was processed, edited, classified and organized in order to enable the researcher interpret and summarize the data. The collected raw data was classified and compiled to make assessment manageable and understandable using Statistical Package for Social Sciences (SPSS) as well as Excel. Descriptive statistics using percentages and frequencies as well as mean and standard deviation was used to analyze the data.

3.4.2. Qualitative Data Analysis

Even though the INGOs under review are assumed to be homogenous in terms of financial structure, their work practice is different and there will be a need to extract key challenges which is different for each INGO depending on the type of set up, field of operation and focus area of engagement. Each INGO is assessed through carefully designed open ended interview questions which enabled to be the best option to extract needed data to compile the results. Interview was carried out with only Finance Managers and in their absence with Senior Finance staffing to secure related information.

The qualitative data analysis process involved preparing the data for analysis, checking for inconsistencies against the questionnaires, representing the data and making interpretation of the information secured. The researcher edited the interview response to check for any omission or inconsistencies. To make the qualitative data applicable for analysis using statistical software, coding of 1-5 was applied by assigning numerical scores to each expected response.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This study was done to assess the financial management practices of selected INGOs and this chapter presents the findings of the collected data and analysis and interpretation performed based on the findings. Seventy five (75) questionnaires were distributed to finance staffs as well as program budget holding staff responsible for finance within the selected INGOs and out of the distributed questionnaires sixty six (66) were collected. These represent about 88% percent response rates which is acceptable given 100 percent of the population were targeted. In addition according to gridlines given in the article “Small Sample Techniques” published by the NEA Research Bulletin, at the minimum 63 responses are acceptable as representative out of the opinion of 75 targeted population and researcher has been able to collect 66. In addition comparing against the study made by Fiador (2011), which focused on finding the determinants of financial governance practices made in Ghana, 42 out of targeted 60 NGO’s responded which represents about 70% response rate and this rate was accepted for the study and based on this background findings, researcher has continued with 88% representation percentage.

This analysis incorporated descriptive statistics methods of frequencies, mean and standard deviation in order to give meaningful interpretation to the data. As well, interviews carried out to complement the questionnaire findings are incorporated in the analysis.

4.1. Reliability Testing

For this research Cronbach’s alpha is used to test the consistency or reliability of the responses. Cronbach’s alpha is a measure of internal consistency. A reliability coefficient test of .70 or higher is considered “acceptable” in most social science research situations Cronbach (1951).

Accordingly reliability testing in order to check the consistency of the responses was made using the data collected in SPSS and the following table provides the result of the test.

Table 4.1 Scale: All variable Case Processing Summary

| | | N | % |
|-------|-----------------------|----|------|
| Cases | Valid | 62 | 93.9 |
| | Excluded ^a | 4 | 6.1 |
| | Total | 66 | 100 |

a. List wise deletion based on all variables in the procedure

Table 4.2 Reliability Statistics

| Cronbach's Alpha | N of Items |
|------------------|------------|
| .956 | 39 |

As stated above a minimum result of reliability coefficient test of .70 was set as an acceptable range for this research and result shows a .956 reliability test result as shown in table 4.2. This assessment is concluded with this high rate consistency rate though 4 exclusions identified in the case variable deletions which is accepted as 93.9% or 62 responses out of 66 collected questionnaires of the all variable case assessment are valid.

4.2. General organization and respondent's information.

4.2.1. Number of years operating in Ethiopia

International NGOs have been operating in the provision of health support activities to the Ethiopian Ministry of Health and regional health offices filling gaps of system development and quality service provision for some years now. The questionnaire distributed requested each respondent to reply for how long their organization has been operating in Ethiopia and their responses are presented in the following table.

Table 4.3. Total number of years organization is operational in Ethiopia

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|------------------|-----------|---------|---------------|--------------------|
| Valid 6-10 Years | 18 | 27.3 | 27.3 | 27.3 |
| 11-15 Years | 33 | 50.0 | 50.0 | 77.3 |
| 16-20 Years | 15 | 22.7 | 22.7 | 100.0 |
| Total | 66 | 100.0 | 100.0 | |

Source: Survey data (2015)

Table 4.3 shows that the organizations under study have worked at the minimum more than five years. 27.3% of the organizations under study have worked in the range of 6-10 years, 50% have worked 11-15 years and about 22.7% have worked 16-20 years. As most of the INGO's have extensive work experience globally and the minimum number of year is more or equal to six years the researcher believes this will give credible assessment result for review of financial management practices given their total experience in local context.

4.2.2. Total number of intervention Regions/City Administrations

Table 4.4. Total regional coverage

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|----------------------|-----------|---------|---------------|--------------------|
| Valid 1-3 Regions/CA | 12 | 18.2 | 18.2 | 18.2 |
| 4-6 Regions/CA | 39 | 59.1 | 59.1 | 77.3 |
| 7-9 Regions/CA | 10 | 15.2 | 15.2 | 92.4 |
| >10 Regions/CA | 5 | 7.6 | 7.6 | 100.0 |
| Total | 66 | 100.0 | 100.0 | |

Source: Survey data (2015)

As per the table above most of the INGOs under this study worked between 4-6 regions & city administrations signifying 59.1% response ratio. 18.2% responded that they worked between 1-3 regions/city administrations, 15.2% indicated they worked in 7-9 regions/city administrations

and 7.6% indicated they worked in more than 10 regions/city administrations. The geographical coverage shows how widely spread the involvement of the INGO sector has expanded in the past years focusing on health service provision and how far the services have reached. The INGOs under study have regional offices in each intervention region and city administration which require financial management linkage and adds to the complexity of management and monitoring. The assessment questions especially on budgeting process, internal controls, management and monitoring will be affected by total intervention regions and their system of monitoring the finance.

4.2.3. Educational Background

Table 4.5. Educational Background of responder

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|--------------|-----------|---------|---------------|--------------------|
| Valid Degree | 52 | 78.8 | 78.8 | 78.8 |
| Masters | 14 | 21.2 | 21.2 | 100.0 |
| Total | 66 | 100.0 | 100.0 | |

Source: Survey data (2015)

The table above shows that majority of the respondents (78.8%) have at the minimum a degree qualification and 21.2% have a Masters qualification. It can be observed that attention has been paid to the Human Resource element for the minimum level of qualification required by the INGOs under study because at the minimum a responder holds a bachelor degree. As well this information has enabled the researcher to proceed with the study as the respondents have the best educational background and qualification to address the questions on the questionnaire which needed in-depth knowledge of the financial system.

4.2.4. Frequency of finance activity review

Table 4.6. Finance document review frequency

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---------------|-----------|---------|---------------|--------------------|
| Daily | 36 | 54.5 | 54.5 | 54.5 |
| Weekly | 15 | 22.7 | 22.7 | 77.3 |
| Valid Monthly | 14 | 21.2 | 21.2 | 98.5 |
| Semi Annually | 1 | 1.5 | 1.5 | 100.0 |
| Total | 66 | 100.0 | 100.0 | |

Source: Survey data (2015)

Above data in the table reveal that more than half of the total respondents work on/review finance documents daily. 54.5% confirm reviewing financial documents or reports on daily basis, 22.7% state that they review finance documents at least weekly and 21.2% indicate that they review financial documents on monthly basis. Only 1.5% of the total respondents state that review is made on semiannual basis. As the target of respondents were all the finance staffing in the identified INGO as well as budget holders, the above data shows the level of due attention being paid to the financial tasks. Further discussion was made during the interview if financial document reviews extended beyond semiannual basis and most respondents stated finance staff review and analysis is usually daily for daily posting and review of correctness of bank transactions as well as monthly review of financial statements. As all of the INGOs under study have a system of reviewing their achievements at least on monthly basis with quarter or semiannual overall review system, result shows a very close follow up mechanism in place.

4.2.5. Audit status

Table 4.7. Last fiscal year audit confirmation

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|-----------|-----------|---------|---------------|--------------------|
| Valid Yes | 66 | 100.0 | 100.0 | 100.0 |

Source: Survey data (2015)

All the INGOs had their accounts audited for last fiscal year 2014 and reports submitted on time to meet both donor and government strict reporting requirement. The fact that the mechanism of having in place an independent auditor review feedback system is a requirement in all CSO's as it gives an independent assessment of the financial strength and weakness and internal control levels of the financial system. During the interview sessions held with the finance heads, they also confirm this as they stated the ChSA requires each NGO to provide the audit report with management letter no later than 3 months after close of their fiscal year. And their adherence to this requirement is confirmed by the above assessment result.

4.3. Financial Planning Practices

Financial planning is considered as one of the building blocks of the financial management process. INGO's as part of the CSO sector are required by the in country law to practice sound financial management practices and comply with diverse arrays of registration and regulatory requirements. In order to assess the scale of their financial planning practices the sample INGOs were asked four key questions and analysis of their responses is listed below Table 4.8. The analysis for the Likert questions are analyzed using the mean and standard deviation values processed through SPSS.

Researcher has selected the use of analysis using Mean values as the mean is considered as a better tool to describe an entire set of observations with a single value representing the center of

the data and many statisticians use the mean as a standard reference point. Also the use of Standard Deviation (SD) is selected as it is used frequently to measure how spread out responses are. It provides an indication of how far the individual responses to a question deviate from the mean. The distribution of responses is important to consider and the SD provides a valuable descriptive measure as compared with evaluation using mean alone. Accordingly the results of the data on the four questions asked with focus on financial planning practices are listed below in Table 4.8.

Table 4.8. Financial Planning Assessment Results

| Constructs | N | Minimum | Maximum | Mean | SD |
|--|----|---------|---------|--------------|--------------|
| Program Managers play an active role in the budgeting process | 66 | 4 | 5 | 4.67 | .475 |
| Existence of formal management body at Head Quarters and In country to approve budgets and any revisions | 66 | 1 | 5 | 4.56 | .659 |
| Strategic Planning incorporates/considers meaningful financial Issues. | 66 | 2 | 5 | 4.21 | .691 |
| Risk Management procedures incorporated in Financial Planning Process. | 66 | 1 | 5 | 3.76 | .978 |
| Financial planning framework overall Mean and SD | | | | 4.299 | 0.802 |

Source: Survey data (2015)

The above table shows the mean responses of the four variables have a mean response value greater than 3.00 and SD of less than 1.00 meaning the majority of the respondents are in agreement with the constructs for each variable. This is a very good result given a mean value of 3.42 to 4.21 is considered as “good result” and 4.22 to 5 is considered as “very good” according to Best (1998).

As per the data listed in table 4.8 above the mean value to the question if program managers play an active role in the budgeting process, responses showed a mean of 4.67. As well the SD result of .475 is acceptable as it is lower than 1 and it describes the distribution in relation to the mean. Both program and finance staffing should be part and parcel of the planning process which makes it possible to define all the cost elements of a particular activity and thereby enabling all to minimize the actual vs. planned spending difference.

For the question on whether there organization has a designated approved management body in country as well as at head office level that is authorized to approve budgets or any revisions the mean value shows 4.56 with a SD value of .659. This means the majority of the respondents agree with the existence of a formally assigned authorizing management body in country and at head office level. When the value for SD gets bigger and gets closest to 1.00 it means that the values in the data are farther away from the mean on average

The existence of an approving management body is very important in the financial management process as separate expert group of management can review and give feedback in the financial planning process by pointing out any gaps, overages or shortages based on their forecasting experience which will tune up and down each department forecast to fit within the overall the organizational resources and budget limit.

Respondents were asked if the organization has integrated meaningful consideration of financial issues into any strategy planning process it undertakes. Table 4.8 above shows respondents having mean value of 4.21 and a SD value of .691 agree that financial issues and related considerations are part of their strategic planning process. Incorporating all financial issues in the strategic planning process is of paramount importance in order to understand what the financial implications of diverse strategies have. It enables management to choose the optimal option and be a competitive body for the competitive process to secure limited resources by funders.

Respondents with mean value of 3.76 and SD of .978 agree with the question if all risk management considerations are part of their financial planning process and whether continuous risk assessment procedures were made including insurance coverage. As compared with the other three questions the mean value is lower showing there were some diverse responses to this question. This is a one area management will need to focus on as lower mean value as compared

to other construct variables means some of the respondents felt the needed level of risk identification and insurance coverage considerations were minimal.

Over all financial planning assessment framework mean value provides a result of 4.29 which shows the over all attention paid to financial planning is very good. Even with a lower rate of agreement as compared to the rest of the questions for risk assessment considerations, the strength of the financial planning system in the INGO's reviewed shows an overall very good status in terms of involvement of program managers in the financial planning and budgeting process, formalized authorizing body establishment at Head Office and in country level, links with strategic planning and considerations of risk management procedures. As Gitman (2006) states the financial planning begins with long term or strategic plans which guide the formulation of short term or operational plans & budget.

4.4. Budgeting Process Review

Budgeting process plays a crucial role and is one of the other blocks of the financial management process. Larson et al (2008) says a budget is a formal statement of any organizations future plan. How much the planned program activities as well as administration cost requirement can be converted into monetary terms can only be determined by having a robust budgeting system in place. Both program staffing as well as finance staffing need to work together to detail out activities and related costings for good coordination during budget monitoring exercises as it enables both to talk the same language. Larson et al (2008) has indicated the importance of the involvement of management when he stated that managers should be involved in the process of budgeting, that is the process of planning future business actions and expressing them as formal plans. Five key questions to assess the level of the budgeting process were directed to the respondents in the questionnaire and analysis of the results extracted from SPSS is detailed out below.

The existence of a comprehensive annual budget that includes all funding sources and uses for all aspects of the operation of the organization plays an important role in the monitoring process of budget vs. actual analysis. Table 4.9 below provides a mean value of 4.47 and a SD value of .661 for this assessment. It can therefore be argued that majority of the respondents agree with the existence of a comprehensive annual budget that includes all sources and uses of funds for all aspects of the operation. This shows a good level of practice by the INGO's understudy as tracking budget vs. actual by activity, by funding sources as well as by programs and operations activity makes it easy if there is a practice of preparing annual budgets to include all sources and uses of funds for all aspects of the program and administration costs.

Table 4.9 Budget Process Assessment Results

| Constructs | N | Minimum | Maximum | Mean | SD |
|---|----------|----------------|----------------|--------------|---------------|
| Organization has Comprehensive Annual Budget | 66 | 2 | 5 | 4.47 | .661 |
| Grants and Contracts (G & C) Agreements are incorporated in Comprehensive Annual Budget | 66 | 3 | 5 | 4.53 | .533 |
| G&C budget proposals reviewed before submission to funders | 66 | 3 | 5 | 4.44 | .558 |
| Capital Budget for Repair and Maintenance of facility and equip. | 66 | 2 | 5 | 3.71 | .873 |
| Chart of Account (COA) linked with Comprehensive Annual Budget and individual G & C | 66 | 2 | 5 | 4.20 | .661 |
| Budgeting process framework over all Mean and SD | | | | 4.269 | 0.7293 |

Source: Survey Data (2015)

As well the above table shows a result of a mean value of 4.53 and SD of .533 for the question if the annual comprehensive budget incorporates Grant and contracts agreements. The responses indicate clearly the level of agreement and importance given to the Grant and Contract aspect of their financial management process. These INGO's are involved in the provision of grants to local NGO's or community organizations which are operating closely with the grass roots

community through which these INGO's get into partnership to reach the lower level of the community structure.

In relation to the practice of appointment of authorized staffing for review of grant and contract budget before submission to funders, respondents with a mean response value of 4.44 and SD value of .558 agree they have a designed hired staff for review of grant and contract agreements and related budget values which usually hold a majority portion of the total budget before submission to funders.. This budget category was identified during the interview as one of the areas where major spending and under spending are noticed. Utilization of grants or contract budgets is dependent on the capacity of sub grantees and having in place a separate authorizer for grant and contract budget is important to forecast allocation and utilization estimates as well as building the capacity of local entities to make efficient and accountable use of awarded resources.

Responses on the incorporation of capital budget and multi-year plans for major maintenance and replacement of facilities and equipment show an agreement which the practice which is verified by the mean result value of 3.71 and SD value of .873. During the interview this question was raised to some of the respondents and most agree at the moment, including this category of fund requirement is a challenge with both funders and reporting as most funders mostly approve funding for direct program costs and have minimal allocation for capital budgeting. As well locally, unless the situation is dire allocations for facility and equipment maintenance is held at the minimum as these expense categories increase administration costs. That is why the mean value as compared to the other five questions under the budgeting category is lower for capital budgeting issue. It was also discussed that thought some considerations are given; currently other program budgeting issues are paid more focus to stay within reporting requirements.

The last questions provided to respondents under budgeting assessment practice was if their chart of account (COA) utilized the same line item categories and the same program or function distinctions which are utilized in the comprehensive annual budget and the budgets for individual contracts or grants. Their response also showed majority agreement with a mean response value of 4.20 and SD of .661. As much as the financial tracking software allows the codes used for budget lines should correspond to the codes used in the accounting system in order to enable tracking actual spending with projected budget values. Researcher feels the existing practice is well linked as which makes the budget vs. actual monitoring practice easy.

In summary the overall budgeting framework provides a mean result of 4.269 which again shows a very good level of budgeting process practices. It can also be inferred that the financial planning process with the budgeting process which to some extent is intermingled and dependent on each other can be confirmed by the similar overall assessment secured in the financial planning process. The co-joined involvement of the finance and program staffing in the financial planning and therefore in the budgeting process, implementation of comprehensive annual budget that addresses all program and administration costings, inclusion of grant and contracts budget and agreements as part of the budgeting process and to tie this together the establishment of the chart of accounts to be linked with the budget components is the basic milestones needed to have a good budgeting practice. Though capital budgeting for capital and maintenance of facility is not mostly supported by funders as donor focus is on program implementation, still to some level even if not comparable to other costing lines, results show very good level of budgeting practice.

Comparing against the study made by Fiador (2013) namely “Determinants of financial governance and practices. Evidence from NGO’s in Ghana” it can be seen the research assessment findings show similarity to this study. Fiador used a five scale assessment framework similar to the one used in this research to review the capacity of 42 NGO’s. It was

observed that in the area of financial governance, the budgeting framework which sought to measure the robustness of systems that guide the budget process the average score was 3 out of 5. This showed that most NGO's reviewed had a comprehensive budget and that they accept their annual budgets a true reflection of their actual work plan in the year. The study also showed the sampled NGO's have clearly defined written policy and procedure on authority levels and limits with regard to budget preparation and process. Similar to the study made in INGO's located in Addis Ababa, the sampled NGO's in Ghana also showed less budget allocation for capital budgets for maintenance and replacements at a result of 2.07 out of 5. Unlike this current study though Fiador (2013) confirmed for NGO's in Ghana , in terms of budget proposal review, the lead director is mostly the main reviewer while for those in Addis, a majority of the respondents confirm, program staffing as well as senior management group pay due attention to the budget review. This can be in part to the strict regulatory impositions listed by the ChSA for all CSO's in Ethiopia which does not make it an option not to involve to the maximum possible level.

4.5. Accounting Record Practices

It is very important to review the accounting record practices of any organization as every transaction should be backed up by full documentation which consists of clear information for what that transaction was made for with clear authorizations. Table 4.10 below shows the results of the collected data on accounting record practices and a total of eight key questions designed to extract basic information on accounting record practices were provided in the questionnaires shared. Results secured from the 66 respondents showed above 3.8 value which categories it as good value as confirmed by Best (1977) as a mean value equal or above 3.42 is considered as good or high value. As well the standard deviations values are all under 1.00. Out of the collected responses, one responder didn't provide an answer to the question whether the Chart of Accounts provided clear indication of funding source and this is assumed not to affect the

response value as all of the other respondents have provided answers. The analysis for each question posed is provided here below.

Table 4.10 Accounting Record Practice Assessment Results

| Constructs | N | Minimum | Maximum | Mean | SD |
|--|----|---------|---------|--------------|--------------|
| Monthly Financial Statements are available by end of month. | 66 | 1 | 5 | 3.82 | .875 |
| Monthly Financial Statements include Balance Sheet, Statement of Activities and Changes in Net Assets | 66 | 2 | 5 | 3.86 | .782 |
| Chart of Account (COA) clearly distinguishes Funding Source | 65 | 2 | 5 | 4.23 | .656 |
| Appropriate computer software and hardware is utilized | 66 | 2 | 5 | 4.35 | .668 |
| Daily backup and safety measures for storage of backup exists. | 66 | 1 | 5 | 3.97 | .803 |
| Quarterly Balance Sheet Reconciliation and monthly Asset Reconciliation is performed | 66 | 2 | 5 | 4.17 | .692 |
| Written/ Documented Accounting Procedures exist | 66 | 2 | 5 | 4.18 | .783 |
| Appropriate Electronic and Physical Security Procedures for Integrity of Computerized Accounting Records exist | 66 | 3 | 5 | 4.33 | .564 |
| Accounting Record Practice framework overall Mean and SD | | | | 4.113 | 0.754 |

Source: Survey data (2015)

For the question whether monthly financial statement were provided no later than end of the month majority responded with a mean value of 3.82 and SD of .875 as shown under table 4.10 above responded. Researcher further went to assess this response through further interviews and questions as on the questionnaires respondents added in writing within 5 to 10 days. Though most agree financial statement are prepared on monthly basis, availing the reports to the wider audience usually takes 5 to 10 days after close of the month as additional month close postings and reconciliation works still need to be made after close of the month. But all agree the reports are always prepared on monthly basis.

A related question was also posed to the respondents if monthly financial statements included balance sheet, Statements of activities and change in Net Assets Report. As shown on table 4.8 respondents were in agreement with mean value of 3.86 and SD value of .782. On further discussion with the finance managers, they confirmed monthly field reports to Head Office

included usually Bank Reconciliations and Balance Sheet statements with special focus on advance reconciliations. But as INGO's use fund accounting system, the focus on changes on Net Assets Reports or Income Statement is not paid that much focus or frequented on monthly basis. But as an overall assessment reports locally focus is paid on balance sheet account reconciliation with focus on bank and cash accounts and budget vs. actual reports.

With regard to the question if the COA clearly establishes the programs or functions which will be distinguished and the funding sources and/or distinct funds which will be tracked one respondent didn't provide an answer. But for the rest responses provided a mean value of 4.23 and a SD value of .656. This response more or less is similar to the response given under the question if the COA was linked to the comprehensive annual budget analyzed under table 4.7 Additional information secured through the interview also complemented this as all of the INGO's under study use a professional accounting system which enables track and extract reports by funding source. Their software is also linked with the Head Office Accounting Software system which enables the head office to import all field office reports and compile different reports for different stakeholder requirements and to enable this the COA includes categories to track generally accepted accounting charge codes as well as designs to include program tracking by activity and by regions.

Responses given for the question if the recording functions were made using appropriate accounting software and hardware result shows a mean value of 4.35 and SD of .668. The majority of the respondents agreed their satisfaction with the accounting software they are using which compliments the response given with regard to the ease of tracking of program and funding expenses using the COA. It was also observed that compliances with regard to registered/licensed software acquisition is also of paramount importance in the decision of securing accounting software's as per the interviews held with the finance heads.

While reviewing the responses to the question if appropriate electronic and physical security procedures were utilized to protect the integrity of computerized accounting records responses showed a 4.33 mean value and a .564 SD value. This again showed the level of agreement and attention provided to the security measures taken by each organization under study. As well, respondents were asked if all accounting records were backed up daily and stored in a secure area away from computer equipment. The responses to this question were a bit different though researcher was anticipating to get similar ranges of responses as reported for the security question posed and reported with a mean value of 3.97 and .803 SD. Researcher further checked this out to identify why the slight difference occurred through further interviews and it was noticed that the INGO's under review back up policy requirement differed and ranged from strict daily backups to weekly backups which depends on their transaction volumes and office sizes.

Responses to the question of quarterly balance sheet reconciliations and monthly cash, accounts payable and accounts receivable control accounts reconciliation provided a result of mean value of 4.17 and SD value of .692. This shows a strong agreement to the question which was further strengthened through the interviews carried out as internal audit process usually focuses on advance reconciliation issues, at least quarterly reconciliations to all balance sheet accounts is a must as transactions are huge to the fact that there are a lot of travels involved as were as on credit transactions with vendors.

With regard to the existence of written/documented accounting procedures and policies, a result with a mean value of 4.18 and SD of .783 was reported. This shows a strong level of agreement with the procedure and this was further clarified through the interview as the finance heads confirmed not having a written financial policy and procedure is not an option. It is part of the funding requirement by international donors whereby it is one of the measuring requirements used to assess financial capacity.

Comprehensive assessment of the accounting record practice framework response mean provides a 4.113 result which is good as it still is above average response rate. Monthly reports that aid management with timely decision making information and recording system establishment with the chart of accounts distinguishing funding source as well as budgeting line items makes existing systems robust to respond to any queries. The capacity of INGO's also to invest in the latest and most responsive accounting software's has also contributed to having the best accounting recording and tracking system as well as backup policies. As analyzed above even if strict daily back up measures are not implemented in most of the organizations, at least weekly back up system exists and at end of month after submission of financial reports monthly backups is carried out consistently. This is a good practice ensuring retrieval of data if for any reason office data is lost. Preapproved written guidelines backing the implementation of a standard accounting recording practice also exists which helps standardize procedures. Overall assessment is good and it is advised all those areas that need to be addressed within organizational budget and funder approval should be looked into in order to further strengthen the system as there is always room for improvement in any system.

4.6. Internal Control Review

INGO's need to focus on internal control measures in order to safeguard their resources. The strength of an internal control system determines how far resources and staffs will be safeguarded, fraud and errors are detected and prevented as well as safeguarding cash and bank transactions. Table 4.11 contains 15 questions forwarded to the respondents through the questionnaires and analyzed in detail below. The lowest mean value secured was 3.98 with a SD of .889 and the highest mean value reported was 4.45 with a SD value of .560. These results show more than average good practices and the individual analysis results are provided below.

One of the best internal control systems is separating duties to the greatest possible extent within existing staff in order to create clear accountability and responsibility. The risk associated with any form of fraud diminishes when related authorization tasks are distributed among staffs. For the question of if the practice of separation of duty aligned with existing staff, responses with mean value of 4.38 and SD value of .739 were reported. It was noticed that due to the capacity of the international organizations to handle diversified funding and options to hire qualified personnel with due consideration to segregation of duty to minimize risks, the issue of separation of duties is more practiced in INGO's. This issue is also one of the internal auditing focus as well as statutory audit as it is always advised that authorizers and document handlers to be separated, reconciliation preparer, and approver to be separated and so on given the high number of transactions handled by individuals.

Under Table 4.11 where respondents were asked the extent of authorization functions majority were in agreement with a mean value of 4.44 and SD of .747 confirming the existence of clear and separate authorization functions for purchasing, signing checks, and adjusting accounts. Document preparers and Document approvers were separated and distinct assignments were confirmed to be reflected in each staff's separate job description as per interviews carried out.

In relation to the procedures for authorization and review of payment of vendor invoices a mean value of 4.32 and SD of .586 was secured. This confirms the information secured during the interview that great attention is paid to monthly and quarterly review of advance accounts and as well as the agreement on the issue of clear procedures for approval and review.

As one of the most critical transactions involving cash and bank accounts, respondents were asked if review and verification functions such as the task of preparation of bank transaction and reconciliation of bank statements were separated. Accordingly most agreed with a mean response value of 4.39 and SD of .782. As part of the internal control measures most of the organizations reviewed confirmed segregation of duty is practiced to the highest extent possible

as a lot of transaction by each field office is carried out and some level of control needs to be in place to ensure resources are secure.

Table 4.11. Internal Control Assessment Results

| Constructs | N | Minimum | Maximum | Mean | SD |
|---|----|---------|---------|--------------|--------------|
| Separation of Duty aligned with size of organization staff | 66 | 2 | 5 | 4.38 | .739 |
| Authorization Functions for Accounting functions are clear | 66 | 1 | 5 | 4.44 | .747 |
| Segregation of Duty for staffs responsible for Bank Statement preparation exists | 66 | 1 | 5 | 4.39 | .782 |
| Defined \$/Birr limit for Purchasing Authority at each level exists. | 66 | 2 | 5 | 4.44 | .659 |
| Checks are restrictively endorsed upon receipt | 66 | 2 | 5 | 4.23 | .760 |
| All Unused Checks are Carefully Secured. | 66 | 3 | 5 | 4.29 | .489 |
| Written Policies and Procedures for Payroll, Purchases, A/P,A/R etc exist. | 66 | 2 | 5 | 4.38 | .602 |
| Written Policies and Procedures are reviewed regularly. | 63 | 2 | 5 | 3.98 | .889 |
| Actual Processing Activities are consistent with written Policies & Procedures | 66 | 2 | 5 | 4.14 | .654 |
| Clear Procedures for review and authorization for settlement of vendor invoices exists. | 66 | 2 | 5 | 4.32 | .586 |
| Cash handling Policies and Procedures are well documented and tested periodically | 66 | 2 | 5 | 4.21 | .691 |
| Receipts are pre numbered, multi copy, customized and provided on payment | 66 | 1 | 5 | 4.41 | .679 |
| Cash Collection sheets maintained, cash counts and transfers documented | 65 | 1 | 5 | 4.20 | .851 |
| Posted dated checks not accepted as a policy | 65 | 3 | 5 | 4.42 | .635 |
| Petty cash and Check payment disbursements have set limits | 66 | 3 | 5 | 4.45 | .560 |
| Internal control assessment framework overall Mean and SD | | | | 4.312 | 0.702 |

Source: Survey data (2015)

The assessment results related to existence of written policies and procedures with regard to purchases, payroll handling, Accounts Payable and Receivable procedures show a mean value of 4.38 and SD of .602 which shows that majority of the respondents agree on the existence of

written policies and procedures for the above account transactions. A related question if a defined limit in US\$ or in Ethiopian Birr was set for purchasing authority at each level, a close mean response of 4.44 was secured confirming agreement for approved authorization limits. During the interview carried out it was also disclosed that especially the designation of specific limits for payment by an authorizing unit as part of a staff's job responsibility plays a paramount importance in showing the strictness or leniency of the accounting system and is used as one of the measuring component by funding agencies as good internal control measure.

It is one thing to have a written policy but if it is outdated and does not respond to the current needs of the organization, it is equal to not having any policy at all. Asked if their organization reviewed and revised written policies regularly a mean value 3.98 and SD value of .889 was secured. The responses showed much diversity as compared to the internal control questions asked above which shows that there was some lag with most of the organizations with timely update to written policies to respond to current needs. During the interview it was disclosed that most policies are drafted and shared with all field offices of the parent organization to standardize policies and procedures across the countries the Head Office has branches in and it takes some time to have policies and procedures reversed for one country only. This is usually resolved by segregating local requirement policies at local level by substantiating the requirement to head office.

A majority of respondents with a mean response of 4.14 were in agreement while analyzing the question if adherence to written policies and procedures were practiced and if actual process activities were consistent with written policies and procedures. Interview findings also substantiated this result as it was discussed the necessity of sticking with written policies and procedures to standardize practices across all offices of the organization. It was also mentioned that at time of project close down when a number of staffing are terminated and until next funding comes in deviations from standard policies and procedures can occur as decisions have

to be made within the existing number of staffing but as much as possible this is substantiated by additional approving memos.

Another important internal control measure is having a clear and accountable policy for cash and check handlings. The data collected on the question if checks were endorsed upon receipt confirm agreement with a mean result of 4.23. On a related issue of security of checks specifically of unused checks, responses showed an agreement with 4.29. This showed a relative increase of attention to the management of the most liquid assets of the organization namely cash & bank transactions and security of unused checks. Discussions held on this further showed that as much as possible the total number of unused check pads are kept at the minimal to reduce risk and enable easy follow up.

On the review of the extent of documentation of cash handling policies and procedures as well as periodic tests many respondents with mean response of 4.21 agreed researcher was contacted to clarify this question from more than 10 respondents. Researcher therefore asked interviewees what the confusion was and they disclosed that they basically agree with the existence of detailed policies but also agreed that much emphasis is given to the documentation of cash handling policies and procedures but the testing issue was another consideration as changing written policies and procedures is a time consuming procedure which is not done frequently due to the long approval processes as well as standardization practice issues.

Except one respondent who didn't provide an answer at all, a majority of the respondents with a mean result of 4.42 agreed that postdated checks are not accepted as a policy. Outstanding checks as well as deposits are tracked closely as per the interview discussions and as it entails legal issues as well as risk most agree as a policy they have a written guideline never to accept or issue post dated checks.

Respondents were asked if their organization receipt was pre numbered, multi copy and customized and provided immediately on payment. Results showed the strength of this procedure implementation in that data result shows a mean result of 4.41 agreement with this requirement. The ChSA directives also put this requirement as part of the cash handling procedures for the CSO's under their registration and the audit processes make this part of their review and implementation of this procedure can be clearly seen from the result.

The responses for the question if cash collection sheets were maintained as well as cash counts and transfers were documented one respondent didn't provide an answer but majority of the remaining 65 respondents provided a mean response of 4.20 which is a high agreement response even with one response missing. Having in place a petty cash collection sheet update with responsible staff signatures and approvals and documentation for surprise, daily or weekly cash counts and transfers tracking highly minimizes the risk of any cash deviations.

The assessment on whether or not the organizations under study have set a limit for cash and check provided a strong system or policy application again many agreed with a mean response of 4.45 which shows the existence of a strong system in the INGO's under study.

Combined internal control framework assessment responses show a mean value of 4.312. Internal control measures build the background of any financial management system as it enables the system to incorporate controlling mechanisms at every step of the financial transaction system. This can be portrayed by the existence of segregation of duty distinguishing document preparation and approval bodies or authorization levels. Documentation and security policy and procedure and sticking with those procedures and guidelines while implementing financial transactions is of importance as it lays the background to measure controls. The most critical area in finance is having the best internal control measures for cash and bank transactions that includes reconciliation with applicable set of segregation of duty as once the basis for control is

set for cash and bank transactions, it is easy to adopt and follow up on the rest of the financial transactions. Abdulkadir (2014) in his writing has confirmed the importance of internal controls as playing an important role in the efficient delivery of NGO services as well as system support to achieve their objective by managing risks while complying with rules, regulations and organizational policies.

4.7 Financial Monitoring Practices

Monitoring helps to keep track of challenges to address on time as well as achievements for tracking and reporting. Managers at every level should have a monitoring tool to help make timely decisions so that resources are used efficiently and effectively to achieve desired outcomes. Reports should be designed in such a way that they can be versatile to address the needs of the different users. Financial monitoring reports should be user friendly for managers with no financial terminology background so that it can be a useful tool for decision making. The seven questions forwarded to secure data on the key financial monitoring practices listed in table 4.12 below showed a minimum mean value of 4.17 which is a high standard by statistical measurements. Individual analysis results by mean value are described below to show the detail aspects of the monitoring processes in the INGO's under study.

The existence of the mechanism of providing a monthly spending statement for all programs under each project with separate analysis to review status of fund utilization as well as comparison against set targets is one of the systems INGO's use to monitor their progress. Respondents were asked if monthly multiple program income and expense statements were provided and most agreed with a mean result of 4.39 which is a high response rate. This showed at least on monthly basis reports to enable program staffs review their utilization status is provided by the finance unit regularly and as budget holders were also part of the response group answers provided by the finance team were also substantiated by the program team.

Table 4.12. Financial Monitoring Practices Assessment Results

| Construct | N | Minimum | Maximum | Mean | SD |
|---|----------|----------------|----------------|--------------|--------------|
| Multiple program statements of the expenses of each distinct program are prepared monthly | 66 | 4 | 5 | 4.39 | .492 |
| Senior Program Management group review the monthly Financial statements carefully | 66 | 2 | 5 | 4.17 | .670 |
| Finance Manager highlights exceptional spending and shares with Program Staff | 66 | 2 | 5 | 4.27 | .692 |
| An Independent Auditor reviews financial documents yearly. | 66 | 4 | 5 | 4.64 | .485 |
| Senior Management Group reviews Auditor Report as well as the Management Report | 66 | 2 | 5 | 4.38 | .696 |
| Senior Management Group reviews organization Financial Statement to see finance effectiveness | 66 | 1 | 5 | 4.23 | .837 |
| Senior Management Group reviews compliance and restriction imposed by Funders and donors | 66 | 2 | 5 | 4.29 | .674 |
| Financial Monitoring framework overall Mean and SD | | | | 4.337 | 0.670 |

Source: Survey data (2015)

On the question if Senior Program Management group reviewed the monthly financial statements carefully, majority agreed with a mean response of 4.17. This shows due attention is being paid by the senior program management on submitted financial reports as part of their program monitoring tool. Respondents were also asked if their Finance Manager highlights unusual items and identifies potential problem areas and submit clarifying notes to the program staff. Majority agree with a mean response of 4.27 they have a mechanism whereby variation report are explained further for program decisions. This shows that as some of the report results which are usually stated in accounting terms can be confusing to non-finance staff, there exists a system where by the Finance Manager provides additional notes to clarify and provide meaning to the numbers.

A high mean result value of 4.64 shows the result of the question if an independent auditor reviews their financial documents yearly. Currently the ChSA has put a requirement for

consistent yearly independent auditor review with strict focus on the 30% administration and 70% program allocation reporting system and all of the organizations under study showed strong adherence to the yearly requirement.

While being questioned about the extent of the Senior Management Group attention on audit reports, responses showed a mean result of 4.38. Audit reports provide an independent assessment of the organization strengths and weakness especially in terms of internal controls and genuinely of account transactions and detailed review of the audit report especially the management report part which details out the yearly findings is important. In addition when respondents were asked a related question whether the Senior Management Group continuously reviews the organization Financial Statements to determine whether the use of the organization's resources are consistent with the organization's missions and priority, a mean response of 4.23 was provided from the collected data which is close to the mean result of 4.29 for a related question asked on whether Senior Management Group reviews compliance and restrictions imposed by funders and donors. Both results show high agreement with current management overview of organizational resources consistency with organization mission and vision and their senior management's due attention to this effect. As per the various interviews carried out it was stated that in addition to donor and funder compliance and restriction issues, what is grabbing current senior management group attention is meeting the restriction of finance report requirement of the local country. Especially with the categorization of most technical support activities under administration, a lot of program revisions have been made and strict follow up is done on the ratio of administration and program activities to meet local requirements.

A mean value of 4.337 is a very good result for the overall financial monitoring frameworks discussed above. Current government and funder restrictions and regulation need the outmost attention of management and monitoring the financial progress and reports including audit reports help management stay on top of all critical issues. The assessment result shows the level

of detailed review by management both programmatic and financial in that combined discussion and feedback system with highlights from finance unit for exceptional expenditure trends or any underspending or overspending enables all to address any problems on time. Also the financial monitoring practice when substantiated by good audit reports attracts donor interest and work relationship and analysis shows a very good level of monitoring practices in the reviewed INGOs. On a similar study made by Fiador (2013) in NGO's located in Ghana, for the monitoring framework, the sample scored 2.85 out of 5 which leans towards a case of partial observance of the management set. This applies to monitoring which sees to match actual performance with targeted performance as stated by the researcher.

4.8. Summary

This study has tried to review the best financial management practices of seven selected INGOs, in order to assess what type of financial management practices they have in place by reviewing against tested financial management measuring frameworks.

The study result has shown the extent of diversity of INGO's in most regions of Ethiopia covering a wide range of hard to reach places. A lot of resources are invested by these organizations, and the financial management process linked with the program management process ensures that donations as well as program funds are applied for the earmarked activities planned for.

This research paper tried to look into at the financial management practices of selected INGOs to assess their Financial Planning, Budgeting, Accounting records, Internal controls and Financial Monitoring practices. All CSO's registered with the ChSA are required to have well organized and transparent financial management practice for successful accomplishment of approved objectives. Current environment for donor funding is very competitive and having in place an excellent financial management system is one of the pre-requisites for donors. As Aldaba (2002)

confirmed, “efficient financial management is the backbone of any entity growth drive. When well executed, the financial management function forms the bedrock for growth, development and sustainability”

From the analysis result it can be seen INGO’s have a lot of experience and practices that can be tapped into by local NGO’s as well as other CSO’s. The financial practices of the sampled INGOs under study have more than average strong system. This has been verified through the data analysis using mean and standard deviation. All of the financial management components are very important and intertwined in that as much as possible equal emphasis needs to be given to all the managerial components, in order to balance the strengths and weaknesses in each component and build upon existing resources to strengthen the financial management system. Based on the finding, the researcher aspires to provide the INGOs under study with the study finding so as to enable each to further review internally their own system and use the information to further strengthen their system.

One of the critical challenges raised during the interview was the issue of meeting the 30/70 administrative vs. program ratio on yearly plans that gets submitted to the ChSA as well as inclusion on yearly audits. Though all agree on the need to monitor incoming grants are applied for the purpose or objective approved for, given the standard project implementation plan whereby yearly expenditures vary from startup initiation up to completion of the project phase, adhering to the 30/70 requirement on yearly basis was raised as a challenge. As well, the issue of the categorization of project expenses that deferrers from the standard accounting procedures was mentioned. For example funders and donors accept the cost of monitoring, evaluation, baseline assessments, technical backstopping as part of the program costs, these type of costs are required to be reported as administrative costs. All interviewees though they agree the recent revisions made by the ChSA shows the positive steps the government is taking to adjust the reporting guidelines which has affected many project plans in the past, they feel a lot of agreement needs to be reached for those INGO’s working in the health sector to create a

conducive and accountable working environment. The researcher has tried to provide workable recommendations for this in the next chapter.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1. Conclusion

Better financial performance can be achieved if an overall financial management system on all the basic finance building blocks namely financial planning, Budgeting, Recording, Internal controls, monitoring and evaluation system exists.

The financial planning process shows a strong link between the work of finance staffing and information from program staffing enabling the organizations to come up with detailed activity planning. It was observed during the interview that most practice detailed activity planning which enables them to monitor the progress of each activity on monthly basis.

The fact that the budgeting process incorporates the Grants and Contracts agreements and budget is very important because these categories are the encumbrance or obligation of the organization. If these obligations are not considered and the total agreed upon budget totals is not reflected in the budget review process, available balance projection can be inflated. This in turn can further subject the organization to overspending and problem with donors as well as partner organizations when shortage is faced because obligations were not taken into consideration.

Investments in good accounting software's, thorough study of the organization expense types and building a chart of account structure that can both fit the budgeting requirement as well as record tracking and timely back up system ensures data safety. As well internal control measures at every level of the accounting process with special focus on liquid assets, safeguards the

financial integrity of the reports. The financial monitoring process which ties together all the financial planning, budgeting, recording and internal control process by ensuring planning activities are meeting set deliverables can provide a measureable set of yardsticks to assure efficiency and effectiveness.

Even though it might be difficult to conclude all INGOs have the best financial management system with assessment of only seven organizations, looking at the assessment results it can be inferred INGO's operating in Ethiopia have a better financial management system. This study has also proved that the current financial management practices are working and are at high standard as in most of the major categories reviewed they have well laid down procedures and processes. A good financial management system will prevent wastage of resources enhancing performance and ensuring control of funds that can carry the organization through more stringent periods or fund shortages. As long as the good practices are maintained and policies and procedures reviewed on timely basis to align with current country reporting requirements, documented practices can be positively exploited and adopted by similar organization to have an overall strong financial management system in all CSO's.

5.2. Recommendation

Based on the study analysis and findings the following recommendations are listed.

- As compared to the other ratings in the financial planning process even though result is above average one of the lower score noticed was for consideration of risk factors in the financial planning process. Though funding agencies usually focus on program activity funding, if substantiated with strong justifications, they will be likely to approve additional funding for risk control measures like insurance considerations which can be considered in the financial planning process. The strategic planning process when it incorporates financial risk factors also makes it easier to be adoptable as standard

procedure of financial planning. Feasible strategic planning documentation and implementation plan can also buy funder's confidence to secure additional funding.

- Involvement of program managers in the financial planning and budgeting process is a must so as to capture detailed program components and activities and finance staff's can quantify this activities as well as consider all administrative related costs. This will make the financial planning and budgeting process which are linked strong and minimize the occurrence of unanticipated costs or forgotten embedded costs.
- The practice of having an internal auditor with separate reporting structure not linked with in country management helps make independent reviews and address findings objectively. This practice can be adopted in local NGO context by having the internal auditor report to Board Members in order to ensure independence reporting and follow up.
- Discussion forums need to be created in order to explain the project life line and implication of costing on reporting requirement. During initial project start up the cost of hiring staff, capital investment as well as baseline study costs are high which inflate the administration costs of the project. Review of overall project life cycle assessment and meeting the administrative vs. program ratio monitoring should be based over the life time of the project which is usually 3 years on the average. That way the government can ensure overall project effectiveness and the INGO's can plan their investment and intervention impact to the maximum focusing on effectiveness measurements applied to the life cycle of the project.
- More forums need to be created with the Ministry of Health and the ChSA in order to understand the context of the program and administrative cost categorization so that common understanding can be reached that will not deviate from standard accounting principles in terms of cost categorization.
- In addition the forums will enable all participating stakeholders to understand the context in which INGO's operate and identify strengths so as to maximize on the expertise of this sector for local similar system adoptability. Policies that can enhance the contribution of INGO's should be created because as a developing country this will help maximize the opportunity to benefit from the advanced technologies and hands on experience that can

be imported in. As well international funders depend upon INGO's in order to transfer and monitor their donations/investments and creating a win-win monitoring system that can meet the generally accepted standard is a must.

- Alternative forms of regulating the administrative vs. program reporting and compliance requirement of INGO's working in the health sector need to be reviewed and revised as most of the technical support related expenditures are categories under administration currently. For example base line need assessment, monitoring and evaluation, technical support to build up health systems, training for doctors and nurses are considered as part of administration costs and this need to be reviewed so as to balance actual need of the country, country system gap in order to commit resources from international funders.
- Because of the specific types of services designed to be adoptable to local requirements as well as the specialized service skills that INGO's introduce as a result of their global linkage, the governing bodies for INGO in Ethiopia working in the health system need to come together to create a workable environment for the sector. That way much needed specialized skill and training options can be introduced that can enhance the quality of health care in Ethiopia.
- As observed in the analysis senior management group should continue on maintaining continuous review process and monitoring in order to stay on top of all critical financial management issues and reviews as well as compliance requirements. Top management attention means lower level structure attention to meet performance requirements.

To sum up implementation of excellent financial management system attracts funders and makes it easier to be accountable to partners, donors, and all stakeholders. It helps enhance respect and confidence in the organization. This in turn helps an INGO to be competitive for major fund raising opportunities as well as increase its chance of maintaining long term financial health.

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APPENDIX

QUESTIONNAIRE & INTERVIEW

Questionnaire

This questionnaire is designed to collect primary data to conduct a research on the topic, "Assessment of Financial Management Practices of selected International Non-Government Organizations working in the Health Sector" in partial fulfillment of the completion of Masters of Business Administration (MBA) Program at St. Mary's University. In this regard you are kindly requested to provide reliable information that is to the best of your knowledge so that the findings from the study would meet the intended purpose. The information obtained will only be used for academic purpose and confidentiality of organization detail will be maintained. Researcher appreciates your objective and genuine response. In order to validate the response, you are graciously requested to answer all questions. You don't need to put in the organization name as well as your name on the questionnaire.

This questionnaire has two parts. Part I. is designed to assess the organizational general profile Part II is designed to assess the practices on financial management using Likert scale. Values will vary from 5 (strongly agree) to 1 (strongly disagree).

Thank you in advance for your time and cooperation.

Sincerely;

Seblewongel Endashaw

Part I.

General Information. (Values a-1, b-2, c-3, d-4, e-5)

1. Organization has been operating in Ethiopia for
 - a. 1-5 years
 - b. 6-10 years
 - c. 11-15 years
 - d. 16-20 years
 - e. >20 years
2. Educational background of questionnaire responder
 - a. Diploma
 - b. Degree
 - c. Masters
 - d. PhD
3. Organization works in Ethiopia in
 - a. 1-3 regions
 - b. 4-6 regions
 - c. 7-9 regions
 - d. >10
4. How often does responder review and provide feedback on financial documents?
 - a. Daily
 - b. Weekly
 - c. Monthly
 - d. Semi Annually
 - e. Annually
5. Last audit performed for FY 2014
 - a. Yes
 - b. No

Part II.

Here below are statements to assess the financial management practices of your organization. Read each statement carefully and (circle) the alternative that best expresses your current organizational practice. Thank you in advance for your due diligence.

| S/N. | Item | Strongly Disagree | Disagree | Undecided | Agree | Strongly Agree |
|------|---|-------------------|----------|-----------|-------|----------------|
| 1 | Financial Planning Practices | | | | | |
| 1.1 | Program managers play an active role in the development of budgets for programs under their direction. | 1 | 2 | 3 | 4 | 5 |
| 1.2 | There is a designated management body in country as well as at Head Office level to authorize annual budgets and revisions to budgets | 1 | 2 | 3 | 4 | 5 |
| 1.3 | The organization has integrated meaningful consideration of financial issues into any strategy planning processes it undertakes | 1 | 2 | 3 | 4 | 5 |
| 1.4 | The fiscal planning process includes continuous assessment of risks and identification of insurance coverage needs and | 1 | 2 | 3 | 4 | 5 |

| | | | | | | |
|----------|--|---|---|---|---|---|
| | appropriate risk management procedures | | | | | |
| 2 | Budgeting Process Review | | | | | |
| 2.1 | Organization has a comprehensive annual budget which includes all sources and uses of funds for all aspects of operations | 1 | 2 | 3 | 4 | 5 |
| 2.2 | All grant or contract budget agreements with funders are incorporated into the comprehensive annual budget. | 1 | 2 | 3 | 4 | 5 |
| 2.3 | All grant or contract budget proposals are reviewed by fiscal appointed staff before submission to funders | 1 | 2 | 3 | 4 | 5 |
| 2.4 | The organization has capital budget and multi-year plans for major maintenance and replacement of facilities and equipment | 1 | 2 | 3 | 4 | 5 |
| 2.5 | The Chart of Accounts utilizes the same line item categories and the same program or function distinctions which are utilized in the comprehensive annual budget and the budgets for individual contracts or grants. | 1 | 2 | 3 | 4 | 5 |
| 3 | Accounting Record Practices | | | | | |
| 3.1 | Monthly financial statements are available no later than the end of the month. | 1 | 2 | 3 | 4 | 5 |
| 3.2 | Monthly financial statements include a Balance Sheet as well as Statement of Activities and changes in Net Assets | 1 | 2 | 3 | 4 | 5 |
| 3.3 | The Chart of Accounts clearly establishes the programs or functions which will be distinguished and the funding sources and/or distinct funds which will be tracked | 1 | 2 | 3 | 4 | 5 |
| 3.4 | Appropriate computer software and hardware is utilized to perform recording functions | 1 | 2 | 3 | 4 | 5 |
| 3.5 | All accounting records are backed up daily. Back-up media are stored in a secure area away from computer equipment. | 1 | 2 | 3 | 4 | 5 |
| 3.6 | All general ledger balance sheet accounts are reconciled at least quarterly. All cash, payroll liabilities, and accounts receivable control accounts are reconciled monthly. | 1 | 2 | 3 | 4 | 5 |
| 3.7 | Accounting policies and recording procedures are clearly documented in the written fiscal policies and procedures. | 1 | 2 | 3 | 4 | 5 |
| 3.8 | Appropriate electronic and physical security procedures are utilized to protect the integrity of computerized accounting records. | 1 | 2 | 3 | 4 | 5 |

| 4 | Internal Control Review | | | | | |
|------|---|---|---|---|---|---|
| 4.1 | The concept of separation of duties is implemented to the greatest extent feasible within the limitation of the size of the organization staff. | 1 | 2 | 3 | 4 | 5 |
| 4.2 | Authorization functions for purchasing, signing checks, adjusting accounts, and extending credit are not performed by individuals who also perform recording functions such as disbursements and/or receipts, maintaining accounts receivable records, or cash handling functions such as receiving and depositing funds or preparing checks. | 1 | 2 | 3 | 4 | 5 |
| 4.3 | Review and verification functions such as reconciliation of the bank statement to the record of cash receipts and disbursements are not performed by individuals who also prepare checks, record checks, receive funds and prepare bank deposits, and/or record receipts. | 1 | 2 | 3 | 4 | 5 |
| 4.4 | Written purchasing policies clearly identify the purchasing authority of each staff position, and establish appropriate dollar/ETB limits for purchasing authority at each level. | 1 | 2 | 3 | 4 | 5 |
| 4.5 | All checks are restrictively endorsed upon receipt. | 1 | 2 | 3 | 4 | 5 |
| 4.6 | All unused checks are carefully secured. | 1 | 2 | 3 | 4 | 5 |
| 4.7 | The organization has written policies and procedures for fiscal operations including procedures for processing payroll, purchases, accounts payable, accounts receivable, etc. | 1 | 2 | 3 | 4 | 5 |
| 4.8 | Written policies and procedures are reviewed and revised regularly | 1 | 2 | 3 | 4 | 5 |
| 4.9 | Actual processing activities are consistent with written policies and procedures | 1 | 2 | 3 | 4 | 5 |
| 4.10 | There are clear procedures for review of and authorization to pay all vendor invoices | 1 | 2 | 3 | 4 | 5 |
| 4.11 | Cash handling policies and procedures are well documented and are tested periodically | 1 | 2 | 3 | 4 | 5 |
| 4.12 | Receipts are given for all cash transactions and vendors are informed that they should receive a receipt for all cash payments with pre numbered, multi copy, customized | 1 | 2 | 3 | 4 | 5 |

| | | | | | | |
|----------|---|---|---|---|---|---|
| | receipts. | | | | | |
| 4.13 | Cash collections sheets are maintained by all individuals responsible for accepting cash. All cash counts are initiated by the individual preparing the initial count and the individual receiving the cash for further processing. | 1 | 2 | 3 | 4 | 5 |
| 4.14 | Postdated checks are not generally accepted, and if accepted, are secured carefully | 1 | 2 | 3 | 4 | 5 |
| 4.15 | All disbursements are made by check except for small purchases made through a petty cash fund. | 1 | 2 | 3 | 4 | 5 |
| 5 | Financial Monitoring Practice Overview | | | | | |
| 5.1 | In organization with multiple programs, statements of the expenses of each distinct program are prepared monthly. | 1 | 2 | 3 | 4 | 5 |
| 5.2 | The Senior Program Management group review the monthly financial statements carefully | 1 | 2 | 3 | 4 | 5 |
| 5.3 | The Finance Manager highlights unusual items and identifies potential problems in notes to the financial statement shared with the program staff. | 1 | 2 | 3 | 4 | 5 |
| 5.4 | An independent auditor reviews financial documents yearly. | 1 | 2 | 3 | 4 | 5 |
| 5.5 | The Senior Management group reviews auditor's report, including any management letters, and reports on internal controls and compliance with government law and regulation. | 1 | 2 | 3 | 4 | 5 |
| 5.6 | The Senior Management group continuously reviews the organizations financial statements to determine whether the use of the organization's resources are consistent with the organization's mission and priorities. | 1 | 2 | 3 | 4 | 5 |
| 5.7 | The Senior Management group continuously reviews financial documents to check if the organization is observing and documenting its observance of all restrictions imposed by funders and donors. | 1 | 2 | 3 | 4 | 5 |

Thank you for your diligence and time in completing the above questionnaire.

Seblewongel Endashaw

Interview Question/Introduction

Dear XXX

I am a prospective MBA graduate collecting primary data for the research entitled, "Assessment of Financial Management Practices in selected International Non-Government Organizations working in the Health Sector" in partial fulfillment of an (MBA) Program at St. Mary's University. In this regard I kindly request your availability for maximum 30-45 minute for interview to provide reliable information that is to the best of your knowledge so that the findings from the study would meet the intended purpose. The information obtained will be kept strictly confidential and will exclusively be used for academic purpose only.

1. What do you think are the opportunities for the INGO sector working in the health system in Ethiopia?
2. What are the key considerations in the financial planning process?
3. Are the project plans and budgets of project activities realistic, based on valid assumptions, and developed by knowledgeable individuals?
4. Does your unit utilize its entire approved budget on time? What are the challenges involved?
5. What is the practice of regular follow up on budget balances?
6. Does your unit have adequate capacity to evaluate the Budget with its planned activities?
7. Are the source documents and financial reports adequate in meeting the requirements of donors and the local government of Ethiopia?
8. How effective is the financial monitoring process? What is your measuring yardstick?
9. How effective are the internal controls in terms of enhancing the financial management process?
10. What are the challenges and opportunities of meeting the financial management requirements of ChSA?