



**ST.MARY'S UNIVERSITY**

**SCHOOL OF GRADUATE STUDIES**

**ASSESSMENT OF FINANCIAL REPORTING QUALITY  
OF FOREIGN CHARITY/ NON GOVERNMENTAL  
ORGANIZATIONS IN ETHIOPIA**

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

CAFS	The Centre for African Family Studies
CCRDA	Consortium of Christian Relief & Development Associations
CSO	Civil Society Organization
ChSA	Charity and Society Agency
CSP	Charities and Societies Proclamation
ED	Exposure Draft
EPRDF	Ethiopian People’s Revolutionary Democratic Front
FASB	Financial Accounting Standard Board
FDRE	Federal Democratic Republic of Ethiopia
GAAP	Generally Accepted Accounting Principle
IASB	International Accounting Standard Board
IFRS	International Financial Reporting Standard
NGO	Non- governmental Organization
TECS	Tracking Trends in Ethiopia’s Civil Society Sector



## ABSTRACT

*This study assessed the Ethiopian foreign charities financial reports quality and its level of compliance with guidelines of charities and society agency. The researcher adopted descriptive cross sectional research method. Quantitative methods of data collection were used while carrying out the study. In this study a sample size of 80 foreign charities was taken to represent the population of 396 Foreign Charities. Annual audited financial reports of the foreign charities were also used as a secondary data source. Ethiopia's Charities and Societies Agency(ChSA) has shut down some NGOs due to noncompliance with civil society and charity law. The closing of NGOs will affect the contribution of NGOs towards the vision of Ethiopia. High quality financial reporting by NGOs is essential to securing sustained support from donors and from the wider public and to continue in the business. The assessment identified that most of the foreign charities in Ethiopia did not comply with guide lines of ChSA guidelines and on the other hand the assessment identified that most of the foreign charities financial reports are relevant, faithful representation, understandable and timeliness for decision making and this information assist user to reliable and good decision making. However, most of the foreign Charities financial reports were not Comparable. It is, therefore, recommended that, all foreign charities in Ethiopia are required to comply with guide lines of ChSA guidelines and prepare high quality financial reports. To this effect the foreign charities are required to strength their accounting and financial reporting system to prepare high quality financial reports to offer adequate accountability for the resources entrusted to their stewards to address information needs, reduce fraud opportunities, improve use of donor funds, create uniformity of financial reports, increase donor confidence and funding, and consequently improve service delivery to the intended beneficiaries.*

Keywords: financial reporting quality, financial accountability, accounting system, foreign charities, NGOs, complaisance, ChSA, Donor.

## **CHAPTER ONE: INTRODUCTION**

### **1.1. Background of the Study**

According to Collins and Collins (1978), a financial report is a means of showing financial accountability. In order for an organization to review the financial activities of the past year and make plans for the future it prepares and publishes annual accounts or financial reports. According to Samuel (1991), these are outputs of an accounting system and they are prepared at the end of the year, hence the name final accounts. According to Horne (1998), the financial reports should include a narrative description of the organization's activities and audited financial statements. He argues that these enable the stakeholders to see the organization's performance and the overall financial situation of the organization. Samuel (1991), states that managers and accountants are usually required to defend the results shown in the financial reports as part of the accountability process.

According to Gale (2003), financial reports must exhibit certain qualities that make them useful to the stakeholders and these include relevance, reliability, understandability and timeliness. Australian Accounting Research Foundation (1990), stated that it is important for financial reports to be relevant. They must have value in terms in making and evaluating decisions about the allocation of scarce resources and in assessing the rendering of accountability by the providers. The reports must also be reliable because users use them for decision making. Reliability means that information is reasonably free from error and bias and faithfully represents what it purports to represent. Understandability is the ability of users to understand the financial reports. This will depend in part on their own capabilities and in part on the way in which the information is displayed. Timeliness of financial reports is very crucial because reports which are relevant and reliable may be rendered irrelevant if there is undue delay in presenting them. According to Gale (2003), poor quality of financial reports greatly diminishes the quality of NGOs. Quality information is one that is readable, reliable, comparable, consistent, complete, timely, decision-useful, accessible and cost effective. The integrity of the nonprofit sector is served best if NGOs are accountable (Gale, 2003).

In 2002, the IASB showed their commitment towards developing a common set of high-quality accounting standards, which could be used worldwide. As a consequence of the joint project to converge the more principles-based IFRS and the more rules-based US GAAP, both boards agreed to develop new joint Conceptual Framework, which includes the objectives of financial reporting and the underlying qualitative characteristics on which accounting standards ought to be based. In May 2008, the IASB therefore published an exposure draft of ‘An improved Conceptual Framework for Financial Reporting’ [ED] (IASB, 2008;). This Conceptual Framework represents the foundations of the accounting standards. “The application of objectives and qualitative characteristics should lead to high-quality accounting standards, which in turn should lead to high-quality financial reporting information that is useful for decision making” (IASB, 2008). Furthermore, the conceptual framework ought to contribute to decision making of constituents, when transactions or events occur for which no accounting standards are available (yet). According to the ED, providing decision-useful information is the primary objective of financial reporting. Decision-useful information is defined as “information about the reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers” (IASB, 2008: 12). In line with the ED and recent literature, we define financial reporting quality in terms of decision usefulness (Beuselinck & Manigart, 2007; Jonas & Blanchet, 2000; McDaniel et al., 2002). High-quality financial reporting help NGOs to offer adequate accountability for the resources entrusted to their stewards. Good financial reporting quality address user information needs, reduce fraud opportunities, improve use of donor funds, create uniformity of financial reports, increase donor confidence and funding, and consequently improve service delivery to the intended beneficiaries (Kisaku, 2017).

Therefore, foreign charity in Ethiopia required to prepare high quality financial reports to offer adequate accountability for the resources entrusted to their stewards to address information needs, reduce fraud opportunities, improve use of donor funds, create uniformity of financial reports, increase donor confidence and funding, and consequently improve service delivery to the intended beneficiaries. The purpose of this study is to assess the Ethiopian foreign charities financial reports quality.

## **1.2. Non-Governmental Organization (NGOS) In Ethiopia**

The second half the 20th century witnessed a proliferation of Non-governmental organizations (hereinafter called NGOs) in the global. The increase in the number NGOs has been explained in terms of humanitarian crises, a perceived turbulence in world politics, the volatility of culturally plural societies, the acceleration of globalization and the failure of states to provide for their citizens and govern with legitimacy (Fisher 1997:439). NGOs have been engaged in humanitarian assistance, service delivery, development projects, human rights and policy advocacy and environmental protection. They have been playing the role of the ‘the third sector’ in society, alongside government and business.

Regarding the history of NGOs in Ethiopia, Jeffrey Clark (2000:4) stated that civil associations began to emerge in Ethiopia around the 1930s and a law to regulate these groups was passed in 1960 but during this period both national and international NGOs began to appear. The 1973-74 and 1984-1985 famines increased the number of NGOs that focused on the provision of humanitarian aid. Since then NGOs have been engaged not only in relief works but also in capacity building, service delivery, development and advocacy.

The EPRDF Government has introduced a Charities and Societies Proclamation No.621/2009 on January 6, 2009 and the purpose of this law is to regulate all domestic and international civil society organizations carrying out activities in the country and it is considered as a primary tool enhancing the transparency and accountability of NGOs. This proclamation has 112 articles and this study focused on Article 6 and 88. Article 6 deals with charity and society accounts and reports. Charities and societies are expected to submit financial reports to the Agency annually and article 88 deals with “Administrative and operational Costs of Charities and Societies”. This articles states “Any charity or society shall allocate not less than 70 percent of the expenses in the budget year for the implementation of its purposes and an amount not exceeding 30 percent for its administrative activities (FDRE,2009).

The state is one among the different players requiring reports and engaging in the supervision of the activities of NGOs. In fact, the state's regulatory interest is distinct from that of donors, or beneficiaries, or the media. Section six of the CSP deals with charity and society accounts and reports. Charities and societies are expected to submit financial reports to the Agency annually (Charities and Societies Law, 2011)

The Charities and Societies Regulation outlines under Articles 20 and 22 mandatory requirements for financial Reports. As per the regulation, the financial report shall be prepared in accordance with accepted standards. It shall include: A statement of the income and expenditure of the organization in the financial year; explanation of the source of the income, especially regarding foreign funds and the rate of administrative and operational costs; A balance sheet showing assets, liabilities and capital of the organization at the end of the reporting year and Explanation of the accounting policies/methods used to prepare the accounts (Charities and Societies Law, 2011)

The EPRDF Advisory Council established to amend laws said to be restrictive started to discuss with stakeholders on the Charities and Societies laws. The Council held a public consultation forum on the draft law it prepared on charities and societies after thoroughly studying the existing law. The committee to review the charities and societies law acknowledged the existence of some provisions that restrict civil society organizations from participating in economic activities. The country has failed to comply with the international laws and treaties to which the nation is a signatory due to the law. The draft law that the committee has tabled for discussion would enable CSOs to be administered in a transparent and accountable manner and governed by an independent board. It would also allow them to open a bank account, make investments, build asset and transfer their property to a third party as well as receive and also provide financial resources. The draft law reportedly provides rights for CSOs to take up their grievances to the courts of law and also form consortiums of CSOs. The draft law provides a new ratio of budget utilization for CSOs administrative and operational expenses (Ethiopia News Agency, 2018)

Therefore, foreign charities in Ethiopia are required to allocate not less than 70 percent of the expenses in the budget year for the implementation of its purposes and an amount not exceeding 30 percent for its administrative activities and the purpose of this study was to assess the Ethiopian foreign charities financial reports compliance with guidelines

of charities and society agency with respect to expense classification 70:30 (operational vs administrative).

### **1.3. Statement of the Problem**

As stated in its preamble, the objectives of the new Charities and Societies Proclamation is aimed at ensuring transparency and accountability in the NGOs. In addition to the Charities and Societies Proclamation No. 621/2009, the Charities and Societies law consists of the Council of Ministers Regulation No. 168/2009 as well as directives issued by the Charities and Societies Agency. The Charities and Societies Regulation outlines under Articles 20 and 22 mandatory requirements regarding reports. The financial report shall be prepared in accordance with accepted standards. It shall include: A statement of the income and expenditure of the organization in the financial year; · Explanation of the source of the income, especially regarding foreign funds and the rate of administrative and operational costs; A balance sheet showing assets, liabilities and capital of the organization at the end of the reporting year; Explanation of the accounting policies/methods used to prepare the accounts; and Other particulars prescribed by the Agency (Charities and Societies Law, 2011)

Charities in Ethiopia play an important role as change agents for social and economic development. As the result of this, Charities have come under heavy scrutiny from charities and society agency and donors. These stakeholders are asking questions about charities performance and accountability. Accordingly, they want to be able to use the financial reports as a source for answers. High-quality financial reporting help NGOs to offer adequate accountability for the resources entrusted to their stewards. Good financial reporting quality address user information needs, reduce fraud opportunities, improve use of donor funds, create uniformity of financial reports, increase donor confidence and funding, and consequently improve service delivery to the intended beneficiaries.

Therefore, Charities in Ethiopia should prepare high quality financial reports and the accountants and management of such organizations should adhere to relevant guide lines of supervisory bodies to utilize the funds received from respective donors appropriately. Noncompliance will have negative impact on the NGOs implementation and existence. In the short run, noncompliance will lead to issuance of warnings both in writing and

orally and in the long run a repeat of such a breach will have serious consequences, including the loss of their licenses and the transfer of their assets to other NGOs.

Ethiopia's Charities and Societies Agency (ChSA), announced that it has shut down 10 NGOs under the country's new civil society and charity law. ChSA decided to revoke the licenses of the organizations due to alleged misconduct and violation to the law of charities and society's proclamation. The agency warned a further 400 organizations that it said were operating against rules and regulations of the country. Financial related violations including not paying tax were the main cause for the closure of NGOs (2012, October 27). Ethiopia closes 10 NGOs warns hundreds. Sudan Tribune).

The closing of NGOs will affect the contribution of NGOs towards the vision of Ethiopia which is building a country with a democratic order, good governance and justice that is based on the participation and good will of its people, alleviating poverty and making Ethiopia one of the middle-income countries. Therefore, as per the requirement of ChSA, Quality financial reporting by NGOs is essential to securing sustained support from donors and from the wider public and to continue in the business.

Findings have suggested that NGOs could not meet the 70:30 requirements of ChSA and this affected the quality of program output and outcome. NGOs could not fulfill the donor interest to achieve high quality project outputs and outcomes due to the classification of monitoring and supervision expenses under administrative costs. Monitoring and supervision activities have high contribution to successful project accomplishments and NGOs have concern about the 70:30 cost category classification until favorable ground is set for successful projects implementation (Gebreyohannes, 2016).

It has been suggested that the intention of the law of 70:30, operational vs administration cost, was to assure accountability and transparency. The CSOs object the lack of clarity and sense in defining what costs contribute to the ceiling of administration cost. Because of the lack of clarity, the process of getting license by CSOs has been delayed and CSOs have been prone to unnecessary scrutiny and conflicts with officers of the Agency. The lack of clarity of the law also has given the Agency officers to threaten organizations to terminate the operation and to be prone to undesired and unethical behaviors (Assefa, 2015).

According to Admas, (2012) the NGO has a better record keeping systems and employees or members of the NGO have a clear understanding of accounting practice of their organization. Financial reports are prepared periodically to control financial operations and to meet users of financial reports for decision making.

Research findings have suggested that profitability, liquidity, non-performing loan and bank age influence Ethiopian private banks' financial reporting quality. However, there were no effect of leverage and change of auditor on financial reporting quality of private banks in Ethiopia. The results also confirm that signaling theory and agency theory are pertinent theories in Ethiopian banking industry (Hailu ,2017).

Studies have found that Firm Profitability, Firm Size, Type of Auditor and Share Dispersion influence manufacturing companies financial reporting quality. However, there were no support of Firm Leverage, Board Composition and Firm Liquidity of large manufacturing share companies in Ethiopia. The results also, confirms that signalling theory and agency theory are pertinent theory in Ethiopian manufacturing industry (Asegdew, 2016).

As noted above previous studies attempted to deal with cost classification compliance issues of small sample NGOs with respect to ChSA guidelines not with quality of financial reporting of NGOs and the other attempted to deal with financial reporting quality for business organization not with quality of financial reporting of NGOs. The present study gave specific attention to the quality of financial reporting of foreign charities/NGOs and guidelines of charities and society agency with respect to expense classification 70:30, operational vs administrative. This study assessed the Ethiopian foreign charities Financial reports quality and its level of compliance with guidelines of charities and society agency with respect to expense classification 70:30, operational vs administrative and fill the gap of the previous studies observed and noted above by taking more samples of foreign charities when compared to previous studies and dealt with foreign charities financial reports when compared to previous studies that dealt with business organizations.



## **1.4. Objective of the Study**

### **1.4.1. General objective:**

The general objective of this study is to assess the Ethiopian foreign charities Financial reports quality and its level of compliance with guidelines of charities and society agency with respect to expense classification 70:30, operational vs administrative.

### **1.4.2. Specific objectives are:**

- i. To assess whether the financial reports produced by the foreign charities is relevant to users for decision making.
- ii. To assess whether the financial reports produced by the foreign charities is faithful representation to users for decision making.
- iii. To assess whether the financial reports produced by the foreign charities is understandable to users for decision making.
- iv. To assess whether the financial reports produced by the foreign charities is comparable to users for decision making.
- v. To assess whether the financial reports produced by the foreign charities is timely to users for decision making.
- vi. To assess whether the expense reporting,70:30, operational vs administrative, practice of the foreign charities complies with charities and societies agency guidelines.

## **1.5. Basic Research Questions**

In order to meet the objectives, set, some of the basic questions the researcher will try to answer are:

- i. Is the financial report produced by foreign charity relevant to users for decision making?
- ii. Is the financial report produced by foreign charity faithful representation to users for decision making?
- iii. Is the financial report produced by foreign charity understandable to users for decision making?
- iv. Is the Financial report produced by foreign charity comparable to users for decision making?

- v. Is the Financial report produced by foreign charity timely to users for decision making?
- vi. Does the expense reporting,70:30, operational vs administrative, practice of the foreign charities comply with charities and societies agency guidelines?

### **1.6. Significance of the Study**

This study was carried to make an academic contribution to financial reporting quality of foreign charities. Specifically,

- The study findings can help to enhance Charites/NGOs capacity to build mechanisms in order to increase the quality of financial reports.
- The study findings can help the ChAS agency to consider the study recommendation in the charity laws revision in the future.
- The study findings can be a basis for further research on the financial reporting quality of NGO.

### **1.7. Scope of the Study**

The present research attempted to make the critical study of foreign charities/NGOs financial reporting qualities. For the purpose of time and resource, the study is limited to foreign charities/NGOs who have registered with ChSA and have office in Addis Ababa. The study focused on assessment of the quality of financial reports produced by the foreign charities with respect to relevance, faithful representation, understandability, comparability, and timelines to users for decision making and assessment of expense reporting,70:30, operational vs administrative, practice of the foreign charities with respect to charities and societies agency guidelines.

### **1.8. Limitations of the Study**

Some respondents were reluctant to give full information for fear of disclosing sensitive information but this did not affect the quality of the study findings as the responses received are sufficient to reach the final conclusion. Some of the selected respondents did not have enough time to attend to the researcher. The researcher tried to collect the required data directly from the NGOs and from CCRDA, umbrella of all NGOS in

Ethiopia. Despite these limitations sufficient and reliable data was collected to render the study meaningful in order to arrive at a useful conclusion.

### **1.9. Organization of the Study**

The main body of the research consists of five chapters. The first chapter is an introduction, the major divisions of this part are background of the study, governmental organization in Ethiopia, statement of the problem, objectives of the study, general objective, specific objectives, basic research question, significance of the study, scope of the study, limitation of the study and organization of the study. The second chapter is review of the related literature. This is a section for documenting with insight theoretical and empirical investigations that had been carried out as related to the study at hand. Major division of this part are non-governmental organization financial reporting, accounting system, financial accountability, quality of financial reporting, relevance, faithful representation/reliability, comparability, understandability, timeliness, empirical literature review, summer and literature gap. The third chapter is research methodology. Major division of this parts are research design, study population, sampling design, sampling size, data source, data collection method and data analysis. Fourth chapter is data presentation and interpretation. Major division of this part are descriptive information, distribution by occupation, distribution by education level, distribution by working experience, analysis for compliance with the guidelines of ChSA, analysis for relevance, analysis for faithful representation, analysis for understandability, analysis for comparability and analysis for timeliness. Fifth chapter is conclusion and recommendations.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.0. Introduction**

This chapter provides a critical review of related literature on the quality of financial reports and guidelines of charities and society agency with respect to financial reports. The literature is reviewed under the subsections of theoretical literature review; background of NGO and financial reports, the concept of Accounting System, the concept of financial accountability and quality of financial reports and empirical literature review and summary and literature review gap.

### **2.1. Theoretical literature review**

#### **2.1.1. Non-Governmental Organization and Financial reports**

A Non-Governmental Organization (NGO) is an organization that operates like a business but does not seek financial gain (Gray, et al., 2006: Unerman & O'Dwyer, 2006). According to Ginsburg (1998), NGOs range in size, nature and scope and it can be argued that such a heterogeneous set of institutions cannot be treated as one group. However, Stromquist (1998), states that the three major functions of NGOs are to provide services (welfare), to provide education and to assist in public policy and advocacy.

Non-governmental organization is a Charity, a Not-for-Profit organization or just Nonprofit. Leo and Addison, 1999 named not-for-profit sector as the "Third Sector" to distinguish it from the private and public sectors to acknowledge its uniqueness.

NGOs are established to serve a public need without targeting to get a profit. Examples include churches, schools and community service organizations. The operation of NGOs is similar to a business. It will have bank accounts, own productive assets of all kinds, receive income from sales and other forms of activities including donations, employ staff and enter into contracts (Kateeba, P.M.G, 2010).

During the second half the 20th century it has been noted that increase in humanitarian crises, a perceived turbulence in world politics, the volatility of culturally plural societies, the acceleration of globalization and the failure of states to provide for their citizens and govern with legitimacy brought an increase of Non-governmental organizations in the global (Fisher 1997:439).

NGOs have been engaged in humanitarian assistance, service delivery, development projects, human rights and policy advocacy and environmental protection. They have been playing the role of the ‘the third sector’ in society, alongside government and business. It is equally important to note that NGOs in many countries have been operating under restrictive regulatory frameworks. It has been noted that 86 of 195 countries in the world have passed more restrictive NGO laws since 1955, most of which appeared between 1995 and 2012 (Kendra Dupuy and her associates, 2015:422-423)

Regarding the history of NGOs in Ethiopia, Jeffrey.C. (2000:4) stated that civil associations began to emerge in Ethiopia around the 1930s and a law to regulate these groups was passed in 1960 but during this period both national and international NGOs began to appear. The 1973-74 and 1984-1985 famines increased the number of NGOs that focused on the provision of humanitarian aid. Since then NGOs have been engaged not only in relief works but also in capacity building, service delivery, development and advocacy.

Three national level surveys commissioned by the European Union and its partners revealed that NGOs operating in Ethiopia have managed to mobilize huge resources and contribute to national development priorities (Abebe et al. 2004; Cerritelli et al. 2008; Gebre et al. 2014). According to the 2014 study, there were more than 2600 on-going projects implemented by charities and societies with a total budget of Birr 35.76 billion (US\$1.788 billion). The 2014 study also indicated that NGOs encountered challenges that hampered their operations.

The passing of the controversial Proclamation No. 621/2009 to provide for the registration of charities and societies and the establishment of the Charities and Societies Agency brought both opportunities and challenges. The government’s justifications for the passing of the law are the following: to ensure the realization of citizens’ right to association, which is enshrined in the Constitution; to ensure NGOs legitimacy, accountability and transparency, which were recognized as major deficiencies of the sector and to create an enabling environment for NGOs (proclaimed to be development partners) and facilitate their role in development. Critics have dismissed the claim that the new law ensures the right to association and creates an enabling environment for NGOs. The legislation is criticized for limiting the right to freedom of association to engage in rights issues, in violation of Article 31 of the Ethiopian Constitution

(Yalemzewd 2009; Debebe 2010:23). This is a valid legal argument that challenges the constitutionality of the law. There is a foreign funding restriction on rights organizations and operational restrictions on those NGOs allowed to receive up to 100% of their funds from foreign sources.

However, some of the critical views seem to be overly simplistic or unbalanced. Dupuy and her associates (2015:426) stressed that the real intention of the law was to shut down political opposition. On 17 December 2012, the Addis Standard (a private magazine) published an article titled “Ethiopia: A self-defeating charities and societies proclamation hurting all.” Such generic expressions send an unbalanced message to unsuspecting readers. Some local studies have also emphasized the challenges related to foreign funding and the division of operational and administrative costs (Kassahun 2013; Debebe 2011; Gebre 2011).

It is important to acknowledge that few studies have, at least partially, touched on success stories (Gebre et al. 2013; Kidist et al. 2012; TECS 2012; ICOS Consulting 2011). And yet, the considerable emphasis on the adverse impacts of the 2009 law on organizations working on human rights and governance (a total of 120 NGOs in 2008) and the tendency to overlook the successful accomplishment of many others have led to a gross oversimplification of the state of NGOs in Ethiopia.

The EPRDF Government has introduced a Charities and Societies Proclamation No.621/2009 on January 6, 2009 and the purpose of this law is to regulate all domestic and international civil society organizations carrying out activities in the country and it is considered as a primary tool enhancing the transparency and accountability of NGOs.

Proclamation 621/2009 has 112 articles and this study focused on Article 6 and 88. Article 6 deals with charity and society accounts and reports. Charities and societies are expected to submit financial reports to the Agency annually and article 88 deals with “Administrative and operational Costs of Charities and Societies”. This articles states “Any charity or society shall allocate not less than 70 percent of the expenses in the budget year for the implementation of its purposes and an amount not exceeding 30 percent for its administrative activities.” ChSA has issued a guideline on determining the administrative and operational costs of CSOs” on July 2011 and this guideline is quoted as the “guideline for determining the operational and administrative costs of CSOS, number 2/2003” and in short as ChSA “70/30 guideline” (FDRE, 2009)

The primary objective of financial reporting by NGOs is to provide information about the financial position, performance, and cash flows of the organization that is useful, and indeed, necessary, for a wide range of users to engage in informed decision making. Financial reporting prepared for this purpose meets the common needs of most users. Financial reporting also shows the results of the stewardship of management for the resources entrusted to it. Those users who wish to assess the stewardship or accountability of management do so in order that they may make sound decisions. The financial reporting is the means by which the information gathered and presented in financial accounting is regularly communicated to those who use it (Asia Pacific Philanthropy Consortium., 2006)

The most fundamental tool to ensure accountability is reporting. In nearly all countries, governments require reports from at least certain categories of NGOs. Reporting requirements for NGOs are commonly justified by the need to protect the public from fraud, abuse misappropriation of funds, and infringement of the rights and freedoms of others; by the importance of accountability and transparency of NGOs; or by the connection between fiscal privileges (in the form of tax exemptions or state funding, for example) and fiscal accountability. In short, the government rationale for supervision typically relates to NGOs transparency and accountability. Indeed, NGOs are generally expected to demonstrate a high degree of accountability to their surrounding community (government, donors, beneficiaries, media, etc.). For NGOs, being accountable means demonstrating regularly that it uses its resources wisely and does not take advantage of its special privileges to pursue activities contrary to its non-profit status. There are multiple tools available to ensure transparency and accountability. NGOs, governed properly, often engage in internal reporting, with reports going to the highest governing body of the CSO, be it a general assembly or a management board. As stated above, the state is one among the different players requiring reports and engaging in the supervision of the activities of NGOs. In fact, the state's regulatory interest is distinct from that of donors, or beneficiaries, or the media. Section six of the CSP deals with charity and society accounts and reports. Charities and societies are expected to submit financial reports to the Agency annually (Charities and Societies Law.2011).

The Charities and Societies Regulation outlines under Articles 20 and 22 mandatory requirements for financial Reports. As per the regulation, the financial report shall be prepared in accordance with accepted standards. It shall include: A statement of the

income and expenditure of the organization in the financial year; explanation of the source of the income, especially regarding foreign funds and the rate of administrative and operational costs; A balance sheet showing assets, liabilities and capital of the organization at the end of the reporting year and Explanation of the accounting policies/methods used to prepare the accounts (Users' Manual for the Charities and Societies Law.2011).

### **2.1.2. Accounting System**

Collins and Collins (1978), contend that an accounting system is a way of keeping a written record of transactions. Receipts are given for all money that is received by an organization and receipts are asked for every time money is spent. According to Larson & Pyle (1988) an accounting system consists of business papers, records, reports and procedures that are used by an organization in recording transactions and reporting their effects. Welsch and Short (1987) said that an accounting system, regardless of the size of the organization is designed to collect, process and report periodic financial information about the entity. According to Keating & Frumkin (2003), in most NGOs funds from donors are poorly managed and their accounting systems are in poor order. Many NGOs do not have qualified accountants and have problems preparing accurate and timely financial reports, which is one of the major donor requirements. According to Doornbos (2003) one area that typically comes up for special mention in donor-recipient relationships is that of financial accountability and it stands out as the heart of good governance concerns. Schnelder (1989) stresses that the heart of fiscal management in any organization is a good accounting system, that is appropriate to that organization. In order to achieve consistent financial accountability, it is necessary to establish standards and a system for accounting practices. Ebrahim, (2003) notes that NGOs respond to issues of accountability with both tools and processes. Tools are created by stakeholders that have considerable leverage over an NGO like a donor or a government regulator. Familiar tools are annual reports, financial accounts, performance assessments, quarterly reports, independent evaluations and audits. Keating and Frumkin (2003), state that in order to determine the effectiveness of a financial reporting system, one must understand its objectives. Policy makers design systems that meet the basic criteria of quality information, which are reliability and relevance.



Brown and Moore (2001) state that there is no single accountability system that is right for all organizations. The need for a transparent and standardized reporting and accounting system for large scale service delivery, conflicts with the requirements for the service to those in need. According to Edwards and Hulme (1996), effective performance of an NGO does not only depend on standardized delivery systems but also depends on organizational independence, closeness to the poor, representative structures and a willingness to spend a lot of time in conscious-raising and dialogue.

### **2.1.3. Financial Accountability**

Day and Klein (1987), refer to financial accountability as the requirement to provide information to parties both inside and outside the organization. It is the process of identifying, measuring and communicating economic information to permit informed and rational decisions to be made. Accountability refers to the final responsibility for the success or failures of an organization. This final responsibility is usually with the governing body, which delegates this function to the Chief Executive. Accountability is a key requirement of good governance. Not only governmental institutions but also the private sector and civil society organizations must be accountable to the public and to their institutional stakeholders. An organization or an institution is accountable to those who will be affected by its decisions or actions. Since NGOs get most of their funding from donors, accountability for NGOs is usually to the donors, the beneficiaries, the employees and other stakeholders (CAFS, 2001).

Day and Klein (1987), state that fiscal or financial accountability is about making sure that funds have been spent as agreed and according to appropriate rules and regulations. Boice (2004) states that financial accounting is financial responsibility or operational transparency that requires demonstrating how donations to your organization have been used and how effective your organization is in achieving its goals. Brody (2001) and Day and Klein (1987) contend that financial accountability is the fiscal or financial honesty and avoidance of fraud that makes sure that money is spent and recorded as agreed and according to appropriate rules and that accurate reports are given to stake holders in a timely manner. Financial accountability is made by preparing and circulating financial statements or reports to stakeholders.

According to Gale (2003), financial accountability gives NGOs legitimacy and credibility, contributes to their reputation and adds to their sustainability. Good financial accountability limits fraud and mismanagement. It also empowers beneficiaries and other stakeholders since information is power.

#### **2.1.4. Quality of Financial Reports**

According to Collins and Collins (1978), a financial report is a means of portraying financial accountability. In order for an organization to review the financial activities of the past year and make plans for the future it prepares and publishes annual accounts or financial reports. According to Samuel (1991), these are outputs of an accounting system and they are prepared at the end of the year, hence the name final accounts. According to Horne (1998), the financial reports should include a narrative description of the organization's activities and audited financial statements. He argues that these enable the stakeholders to see the organization's performance and the overall financial situation of the organization. Samuel (1991), states that managers and accountants are usually required to defend the results shown in the financial reports as part of the accountability process. According to Gale (2003), financial reports must exhibit certain qualities that make them useful to the stakeholders and these include relevance, reliability, understandability and timeliness. Australian Accounting Research Foundation (1990), stated that it is important for financial reports to be relevant. They must have value in terms in making and evaluating decisions about the allocation of scarce resources and in assessing the rendering of accountability by the providers. The reports must also be reliable because users use them for decision making. Reliability means that information is reasonably free from error and bias and faithfully represents what it purports to represent. Understandability is the ability of users to understand the financial reports. This will depend in part on their own capabilities and in part on the way in which the information is displayed. Timeliness of financial reports is very crucial because reports which are relevant and reliable may be rendered irrelevant if there is undue delay in presenting them.

According to Gale (2003), poor quality of financial reports greatly diminishes the quality of NGOs. Quality information is one that is readable, reliable, comparable, consistent, complete, timely, decision-useful, accessible and cost effective. The integrity of the nonprofit sector is served best if NGOs are accountable (Gale, 2003).

Some researchers have conducted general reviews on various facts surrounding the quality of financial reporting. Accounting standards convergence, accounting standards harmonization, economic crises, growth in disclosure requirements, and other factors have created an excessive focus on financial reporting. Also, the worldwide increase in accounting scandals in the early 21st century has pointed to weaknesses in financial reporting quality. The quality of financial reporting determines, and depends upon, the value of accounting reporting. Across the world, the demand has gone out for providing a clear and full definition of financial reporting quality. It is essential to provide high-quality financial reporting to influence users in making investments decisions, and to enhance market efficiency. Providing ideal methods for assessing the quality of financial reporting is another global demand. The higher the quality of financial reporting, the more significant are the benefits to be gained by investors and users of the financial reports. Moreover, financial reporting quality is a broad concept that does not just refer to financial information; it also includes other non-financial information that is useful for making decisions (Hearth, 2017).

According to the Financial Accounting Standards Board (FASB), the International Accounting Standards Board (IASB), the Accounting Standard Board in the United Kingdom (ASB) [UK], and the Australia Accounting Standard Board (AASB), financial reporting quality represents financial statements that provide accurate and fair information about the underlying financial position and economic performance of an entity. According to IASB, the essential principle of assessing the financial reporting quality is related to the faithfulness of the objectives and quality of disclosed information in a company's financial reports. These qualitative characteristics enhance the facilitation of assessing the usefulness of financial reports, which will also lead to a high level of quality. To achieve this level, financial reports must be faithfully represented, comparable, verifiable, timely, and understandable. Thus, the emphasis is on having transparent financial reports, and not having misleading financial reports to users; not to mention the importance of preciseness and predictability as indicators of a high financial reporting quality (Gajevszky, 2015).

As it is defined in the Conceptual Framework for Financial Reporting of the FASB and the IASB, there are agreed upon elements of high quality financial reporting. The qualitative characteristics of financial reporting quality include: relevance, faithful representation, understandability, comparability, verifiability, and timeliness. They are

divided into fundamental qualitative characteristics and enhancing qualitative characteristics. A theoretical explanation for each of these terms emphasizes their importance as qualitative characteristics, and also indicates what qualities are considered fundamental among different frameworks (Hearth & Albarqi (2017).

Today, the necessity for producing quality financial report has received great attention over the world. Providing high quality financial reporting information is important because it will positively influence capital providers and other stakeholders in making investment, credit and similar resource allocation decisions enhancing overall market efficiency (IASB, 2013).

For corporate information to be beneficial, IASB argues that a key prerequisite quality in financial reporting is the adherence to the objective and the qualitative characteristics of financial reporting information. Qualitative characteristics are the attributes that make financial information useful and consist of relevance, faithful representation, comparability, verifiability, timeliness and understandability. The main indicators of financial information quality from the perspective of the developers of accounting standards are relevance and reliability, which make information useful for decision makers (Nwaobia et al., 2016).

The primary objective of financial reporting is to provide high-quality financial reporting information concerning economic entities, primarily financial in nature, useful for economic decision making (FASB, 1999; IASB, 2008). Providing high quality financial reporting information is important because it will positively influence capital providers and other stakeholders in making investment, credit, and similar resource allocation decisions enhancing overall market efficiency (IASB, 2008).

Financial reporting quality can be defined in terms of the fundamental and enhancing qualitative characteristics underlying decision usefulness as defined in the ED (IASB, 2008). The fundamental qualitative characteristics (i.e. relevance and faithful representation) are most important and determine the content of financial reporting information. The enhancing qualitative characteristics (i.e. understandability, comparability, verifiability and timeliness) can improve decision usefulness when the fundamental qualitative characteristics are established. However, they cannot determine financial reporting quality on their own (IASB, 2008)

### **2.1.4.1. Relevance**

Relevance is closely associated with the terms usefulness and materiality. Relevance illustrates the capability of making decisions by users. When information in financial reports influences users in their economic decisions, it is said that this information has the quality of relevance. Also, when this information assists users to evaluate, correct, and confirm current and past events, it is useful (Hearth, 2017).

The usefulness of making a decision—an important part of relevance—is consistent with the conceptual framework (Cheung, Evans, & Wright, 2010). Fair value is considered one of the highly significant indicators of relevance. Using Fair Value in an entity, as a basis for measurement, is an indicator of a high level of relevance in financial reporting information (Beest, Braam, & Boelens, 2009). Annual reports have a crucial role in determining the level of relevance by disclosing forward-looking information, disclosing information about business opportunities and risks, and providing feedback on how major market events and significant transactions affected entities (Beest, Braam, & Boelens, 2009).

Relevance is referred to as the capability “of making a difference in the decisions made by users in their capacity as capital providers” (IASB, 2008: 35). Relevance refers to both predictive and confirmatory value.

Predictive value explicitly refers to information on the firm’s ability to generate future cash flows: “information about an economic phenomenon has predictive value if it has value as an input to predictive processes used by capital providers to form their own expectations about the future” (IASB, 2008: 36).

In addition to predictive value, confirmatory value contributes to the relevance of financial reporting information. Information has confirmatory value “if it confirms or changes past (or present) expectations based on previous evaluations” (IASB, 2008: 36). Jonas and Blanchet (2000) argue that if the information in the annual report provides feedback to the users of the annual report about previous transactions or events, this will help them to confirm or change their expectations. Especially the financial statements and the ‘Management, Discussion & Analysis’ section of the annual report will be reviewed in order to gain insight into the confirmatory value of the information (Jonas & Blanchet, 2000).

#### **2.1.4.2. Faithful Representation/Reliability**

Faithful representation is the concept of reflecting and representing the real economic position of the financial information that has been reported. This concept has the value of explaining how well the obligations and economic resources, including transactions and events, are fully represented in the financial reporting. Moreover, this quality has neutrality as a sub notion which is about objectivity and balance. According to Willekens (2008), researchers concluded that the auditors 'report adds value to financial reporting information by providing reasonable assurance about the degree to which the annual report represents economic phenomena faithfully. Additionally, how business organizations are controlled and directed affects the faithful presentation quality; this, in fact, is represented as a corporate governance factor when there is extensively disclosed information on corporate governance issues in the annual report (Beest, Braam, & Boelens, 2009). Besides, the annual report clarifies assumptions and estimates and explains the usage of the accounting principles in the company clearly.

It also highlights positive and negative changes and events by discussing them in the annual results. The last important factor that strengthens this quality is having an unqualified auditor's report in the annual report.

Reliability as a quality of financial reporting used to be considered as the primary factor of accounting information. In FASB 's old framework, reliability was the primary quality, and it was comprised of representational faithfulness, neutrality, and verifiability. However, in the new framework, faithful representation becomes the primary and the fundamental quality, instead of reliability. Moreover, faithful representation is comprised of completeness, neutrality, and accuracy. FASB also believes that reliability is one of the critical qualities to accounting information (Downen, 2014).

Reliability is another critical factor of financial reporting quality. In financial reporting, information must have the quality of reliability in order to be useful. This quality is achieved when information, which users depend upon, is free from bias and material mistakes. Reliability is analyzed based on the qualities of faithful, verifiable, and neutral information (Cheung, Evans & Wright, 2010).

Faithful representation is the second fundamental qualitative characteristic as elaborated in the ED. To faithfully represent economic phenomena that information purports to represent, annual reports must be complete, neutral, and free from material error (IASB, 2008: 36). Economic phenomena represented in the annual report are “economic resources and obligations and the transactions and other events and circumstances that change them” (IASB, 2006: 48).

An annual report can never be completely free from bias, since economic phenomena presented in annual reports are frequently measured under conditions of uncertainty. Many estimates and assumptions are included in the annual report. Although complete lack of bias cannot be achieved, a certain level of accuracy is necessary for financial reporting information to be decision useful (IASB, 2008). Therefore, it is important to examine the argumentation provided for the different estimates and assumptions made in the annual report (Jonas & Blanchet, 2000). If valid arguments are provided for the assumptions and estimates made, they are likely to represent the economic phenomena without bias.

In addition, valid and well-grounded arguments provided for the accounting principles used increase the likelihood that preparers fully understand the measurement method. This will reduce the possibility of unintentional material errors in their financial report (Jonas & Blanchet, 2000). Moreover, when the selected accounting principles are clearly described and well-founded, it increases the probability to reach consensus and to detect misstatements for the user of the financial report as well as for the auditor.

Neutrality, is defined as “the absence of bias intended to attain a predetermined result or to induce a particular behaviour. Neutral information does not colour the image it communicates to influence behaviour in a particular direction” (IASB, 2008: 37). As Jonas and Blanchet (2000: 362) state: “neutrality is about objectivity and balance”. Neutrality refers to the intent of the preparer; the preparer should strive for an objective presentation of events rather than focusing solely on the positive events that occur without mentioning negative events.

### **2.1.4.3 Comparability**

Comparability is the concept of allowing users to compare financial statements to determine the financial position, cash flow, and performance of an entity. This comparison allows users to compare across time and among other companies in the same period. As Cheung, Evans & Wright (2010) remarked: Comparability demands that identical events in the two situations will be reflected by identical accounting facts and figures . . . different events will be reflected by different accounting facts and figures in a way which quantitatively reflects those differences in a comparable and easily interpretable manner<sup>1</sup>. (Cheung et al.2010).

To indicate this point, the notes in financial reports should disclose and explain all the changes in accounting policies and the implications of these changes, not to mention the importance of consistency in applying accounting policies and principles. Also, the current accounting period results can be compared with the ones from previous periods. Lastly, presenting financial index numbers and ratios contributes to the comparison with other organizations (Beest et al.2009).

Comparability is the second enhancing qualitative characteristic, which “is the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena” (IASB, 2008: 39). In other words, similar situations should be presented the same, while different situations should be presented differently. Comparability is measured using six items that focus on consistency. Four items refer to the consistency in use of the same accounting policies and procedures from period to period within a company (Jonas & Blanchet, 2000).

Comparability includes consistency. “Consistency refers to the use of the same accounting policies and procedures, either from period to period within an entity or in a single period across entities” (IASB, 2008: 39). According to the ED, companies should strive for comparability by means of consistency. Jonas and Blanchet (2000) operationalize consistency by referring to coping with change and uncertainty. New information, rules or regulation generally cause companies to change their estimates, judgements, and accounting policies. For instance, if new information is available which encourages a revision of the expected lifetime of a certain asset, this may result in a



change of estimate. In terms of consistency it is important that these companies explain how these changes affect previous results. The comparability of earnings figures is important in the evaluation of the firm's performance over time (IASB, 2006). If a company changes its estimates, judgements, or accounting policies it may adjust previous years' earnings figures in order to visualize the impact of the change on previous results.

Additionally, since consistency refers to using the same accounting procedures every year, this year's figures should be comparable to previous years' figures (IASB, 2008). When a company provides an overview in which they compare the results of different years, even when no changes in estimates, judgements, or accounting policies occurred, this will improve the comparability of financial reporting information.

Comparability not only refers to the consistency of the use of accounting procedures by a single company, it also refers to comparability between different companies (IASB, 2008). When assessing the comparability of annual reports of different companies, the accounting policies used, the structure of the annual report, and the explanation of transactions and other events are of special importance (Jonas & Blanchet, 2000). In addition, ratios and index numbers can be useful when comparing companies' performance.

#### **2.1.4.4. Understandability**

Understandability is one of the essential qualities of information in financial reports. Achieving the quality of understandability is through effective communication. Thus, the better the understanding of the information from users, the higher the quality that will be achieved (Cheung, Evans, & Wright, 2010). It is one of the enhancing qualitative characteristics that will increase when information is presented and classified clearly and sufficiently. When annual reports are well organized, users can comprehend what their needs are (Beest, Braam, & Boelens, 2009). Usage of graphs and tables helps to present information clearly, and the usage of language and technical jargon can be followed easily.

Understandability is the first enhancing qualitative characteristic, understandability, will increase when information is classified, characterized, and presented clearly and concisely. Understandability is referred to, when the quality of information enables users to comprehend their meaning (IASB, 2008). Understandability is measured using five items that emphasize the transparency and clearness of the information presented in annual reports (Jonas & Blanchet, 2000)

First, classified and characterized information refers to how well-organized the information in the annual report is presented. If the annual report is well-organized it is easier to understand where to search for specific information (Jonas & Blanchet, 2000). Furthermore, disclosure information, and in particular the notes to the balance sheet and income statement, may be valuable in terms of explaining and providing more insight into earnings figures . Especially narrative explanations help to increase the understandability of information (IASB, 2006). Additionally, the presence of tabular or graphic formats may improve understandability by clarifying relationships and ensuring conciseness (IASB, 2006; Jonas & Blanchet, 2000).

#### **2.1.4.5. Timeliness**

Timeliness is another enhancing qualitative characteristic. Timeliness illustrates that information must be available to decision makers before losing its powerful and good influences. When assessing the quality of reporting in an annual report, timeliness is evaluated using the period between the year-end and the issuing date of the auditor ‘s report—the period of days it took for the auditor to sign the report after the financial year-end (Beest, Braam, & Boelens, 2009).

The final enhancing qualitative characteristic defined in the ED is timeliness. “Timeliness means having information available to decision makers before it loses its capacity to influence decisions” (IASB, 2008: 40). Timeliness refers to the time it takes to reveal the information and is related to decision usefulness in general (IASB, 2008). When examining the quality of information in annual reports, timeliness is measured using the natural logarithm of amount of days between yearend and the signature on the auditors’ report after year end is calculated.

## **2.2. Empirical literature review**

Findings have suggested that NGOs could not meet the 70:30 requirements of ChSA and this affected the quality of program output and outcome. NGOs could not fulfill the donor interest to achieve high quality project outputs and outcomes due to the classification of monitoring and supervision expenses under administrative costs. Monitoring and supervision activities have high contribution to successful project accomplishments and NGOs have concern about the 70:30 cost category classification until favorable ground is set for successful projects implementation (Gebreyohannes, 2016).

It has been suggested that the intention of the law of 70:30, operational vs administration cost, was to assure accountability and transparency. The CSOs object the lack of clarity and sense in defining what cost contribute to the ceiling of administration cost. Because of the lack of clarity, the process of getting license by CSOs has been delayed and CSOs have been prone to unnecessary scrutiny and conflicts with officers of the Agency. The lack of clarity of the law also has given the Agency officers to threaten organizations to terminate the operation and to be prone to undesired and unethical behaviors (Assefa, 2015).

According to Admas, (2012) the NGO has a better record keeping systems and employees or members of the NGO have a clear understanding of accounting practice of their organization. Financial reports are prepared periodically to control financial operations and to meet users of financial reports for decision making.

Research findings have suggested that profitability, liquidity, non-performing loan and bank age influence Ethiopian private banks' financial reporting quality. However, there were no effect of leverage and change of auditor on financial reporting quality of private banks in Ethiopia. The results also confirm that signaling theory and agency theory are pertinent theories in Ethiopian banking industry (Hailu, 2017).

Studies have found that Firm Profitability, Firm Size, Type of Auditor and Share Dispersion influence manufacturing companies financial reporting quality. However, there were no support of Firm Leverage, Board Composition and Firm Liquidity of large

manufacturing share companies in Ethiopia. The results also, confirms that signalling theory and agency theory are pertinent theory in Ethiopian manufacturing industry (Asegdew, 2016).

### **2.3. Summary and literature gap**

As noted above the empirical studies attempted by Gebreyohannes dealt with cost classification compliance issues of NGOs with respect to ChSA guidelines not with quality of financial reporting of NGOs and the sample of the stud was only one NGO.

The studies done by Assefa, dealt only with Charities and Societies Proclamation, Current Practice, Challenges and Its impact on the activities of selected NGOs/CSOs did not include the financial reporting qualities.

The research done by Admas, (2012) was only accounting and reporting practice of only one NGO and did not include the financial reporting practice of NGOs.

The studies attempted by Hail, (2017) and Asegdew, (2016) were regarding financial reporting quality of business organization and did not address that of NGOs and the Guide lines of ChSA.

The present study gives specific attention to the quality of financial reporting of foreign charities/NGOs and guidelines of charities and society agency with respect to expense classification 70:30, operational vs administrative. This study assessed the Ethiopian Foreign charities Financial reports quality and its level of compliance with guidelines of charities and society agency with respect to expense classification 70:30, operational vs administrative and fill the gap of the previous studies observed and noted above by taking more samples of foreign charities when compared to previous studies and dealt with foreign charities financial reports when compared to previous studies that dealt with business organizations.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.0 Introduction**

This chapter describes the methodology that was employed in conducting the study. It specifies the research design, the study population or the area in which the study was conducted, the sampling design, the sample size, data sources and data collection instruments.

### **3.1 Research Design**

The research objective of this study is to assess the Ethiopian foreign charities financial reports quality and its level of compliance with guidelines of charities and society agency with respect to expense classification 70:30 (operational vs administrative). In order to achieve the objective of the research, the researcher adopted descriptive cross sectional research method. Quantitative methods of data collection were used while carrying out the study.

### **3.2 Study Population**

According to ChSA classification, charities are classified as Adoption foreign charity, consortiums, Ethiopian charity, Ethiopian resident's charity, Ethiopian residents' society, Ethiopian society and foreign charity. As per the data received from ChSA, at the time of conducting this study the total foreign charities were 396. Accordingly, the study population consisted of 396 foreign charities. These were foreign charities that have office in Addis Ababa and the list of these foreign charities was obtained from the charities and society agency (ChSA).

### **3.3 Sampling Design**

Stratified random sampling design was used for this study.

### **3.4 Sample Size**

The researcher used (Yamane ,1967) a simplified formula for proportions statically to know sample size from 396 foreign charities who have registered with ChSA and have office in Addis Ababa. All foreign charities have similar major functions and the major functions are to provide services (welfare) and to provide education. The financial reporting requirements of ChSA is also the same for all foreign charities and all are

required to comply with the ChSA guide lines. So, the population is homogenous and the researcher used (Yamane ,1967) a simplified formula for proportions statically to know sample size from 396 foreign Charities. The formula of (Yamane ,1967) is as follow:

$$N = \frac{\text{Total Population}}{1 + \frac{Z^2 \cdot P \cdot Q}{E^2}}$$

N=Total Population=396 E= confidence level =0.10  
N= 396/1+396 (.10)<sup>2</sup> N= 396 = 80

Therefore, in this study a sample size of 80 foreign charities was taken to represent the population of 396 foreign Charities. Two hundred ten (210) respondents were selected from 80 foreign charities to represent the different levels of foreign charities management who reviewed the foreign Charities' financial reports as shown in Table 3.1 below. The selection of the respondents was made randomly based on availability and willingness to respond to questions of the researcher. From the distributed 210 questionnaires a total of 191 (64 foreign Charities) were received with responses and included in this study.

### **3.5 Data Source**

Primary quantitative data was collected from the sixty-four selected sample foreign charities by use of questionnaires designed to answer the research questions of the study. Annual audited financial reports of the foreign charities were used as secondary data source.

### **3.6. Data Collection Instruments**

The research instruments used is structured questionnaires. The instrument was pre-tested and discussed with the advisor. 210 questionnaires were prepared and distributed to respective foreign charities and a total of 191 (64 foreign Charities) responses were received and included in this study.

### **3.7. Data Analysis**

Descriptive techniques were adopted for analysis of the data. The primary data gathered through questionnaire were presented in table and percentage and analyzed using quantitative and qualitative statistics. Annual audited financial reports of the foreign charities were also reviewed for additional information.

## **CHAPTER FOUR: DATA PRESENTATION AND INTERPRETATION**

### **4.0. Introduction**

This chapter presents the research findings in reference to the research questions and research objectives found in chapter one. The chapter is divided in two sections. The first one presents the descriptive information about the respondents while the second one presents the results in relation to the objectives of the study.

### **4.1. Descriptive Information**

To describe the respondents, cross tabulations were run to document the demographic factors of the respondents. These describe the respondents in terms of level of education, working experience and work position with the NGO and are indicated in figures 4.1 – 4.3 below:

#### **4.1.1. Distribution by Occupation**

**Table 4.1**

<b>Occupation</b>	<b>No.</b>	<b>%age</b>
Finance Manager	70	37%
Program manager	62	32%
Country Director	59	31%
<b>Total</b>	<b>191</b>	<b>100%</b>

Country director, program manager and finance manager are member of the senior management team and responsible to ensure the preparation of quality financial reports to all stake holder. They are mandated by organization to receive the financial reports monthly and make analysis for decision making.

The results in figure 4.1 above shows that the majority of the respondents are finance manager (70 per cent) followed by the program manager with 62 per cent and Country Director 59 per cent. The results show that the key respondents are finance manager and program manager and this show that the result of the responses to respective questions reliable due to high involvement of both finance and program manager in the review and analysis of the financial reports.

#### 4.1.2 Distribution by Education Level

**Table 4.2**

<b>Occupation</b>	<b>Degree</b>	<b>Masters</b>	<b>Total</b>
<b>Finance Manager</b>	26	44	<b>70</b>
<b>Program Manager</b>	30	32	<b>62</b>
<b>Country Director</b>	24	35	<b>59</b>
<b>Total</b>	<b>80</b>	<b>111</b>	<b>191</b>
<b>Percentage</b>	42%	58%	<b>100%</b>

Source: Primary Data

The results in figure 4.2 above show that the majority of the respondents (58 per cent) are holders of Masters Degrees. They are followed by holders of Bachelor's Degrees (42 per cent). The results show that the majority of the respondents are highly qualified and would most likely give reliable answers. Master holder's ratio is more than 50% and more understand the importance of financial reports and gave time to respond to the questions and their answers are very important and reliable to know the existing practice of the foreign charities. The ratio of degree holders is less than 50% and this show that the majority of the foreign charities staff education level are more of Master holder than Degree holder and this has positive contribution for the preparation of good quality finance reports.

#### 4.1.3 Distribution by Working Experience

**Table 4.3**

<b>Occupation/ Years</b>	<b>1-5 Years</b>	<b>6-10 Years</b>	<b>11-15 years</b>	<b>above 15 Years</b>	<b>Total</b>
Finance Manager	3	30	16	21	70
Program manager	2	24	20	16	62
Country Director	0	10	34	15	59
<b>Total</b>	<b>5</b>	<b>64</b>	<b>70</b>	<b>52</b>	<b>191</b>
<b>Percentage</b>	<b>3%</b>	<b>34%</b>	<b>37%</b>	<b>27%</b>	<b>100%</b>



The results shown in figure 4.3 above show that the majority of respondents (37 per cent) had worked with the NGOs for a period between 11 to 15 years and 34 per cent of the respondents had worked between 6 to 10 years. In addition, 27 per cent of the respondents had worked for over 15 years. The implication of these results is that almost all respondents had a working relationship with their respective NGOs of at least 5 years, a period which was long enough for them to know of any issues/problems in their organizations.

This shows that most of foreign charities have experienced country directors which has positive contribution for the maintenance of the reporting system of the organization and for compliance of finance guidelines and can give good feedback on the questioners distributed to them. Most of the Program managers also have long years' experience with foreign charities and can give good and constructive feedback to the respective questions. The less the experience the less feedback on the current practice of the financial report preparations.

For the purpose of examining the financial reporting quality of foreign charities in Ethiopia, data collected through questionnaire have been processed, tabulated and analyzed and presented as follows. The collected questioners with responses are summarized under respective questions; Compliance with the guidelines of ChSA, and quality of the financial reports produced by the foreign charities with respect to Relevance, faithful representation Understandability, Comparability and Timeliness.

## 4.2 Analysis for Compliance with the guidelines of ChSA

**Table 4.4: Analysis for Compliance with the guidelines of ChSA**

S N	Questions	Agree	Strongly agree	Disagree	Strongly disagree	Total
1	The foreign charity expense Reports meet the 70/30 (operational vs administrative) requirement always?	120	28	35	8	191
	<b>Frequency in %age</b>	<b>63%</b>	<b>15%</b>	<b>18%</b>	<b>4%</b>	<b>100%</b>
2	The foreign charity has no challenge in implementing the 70/30 Guideline.	40	5	125	21	191
	<b>Frequency in %age</b>	<b>21%</b>	<b>3%</b>	<b>65%</b>	<b>11%</b>	<b>100%</b>
3	The foreign charity has not warned by noncompliance with charities and societies agency guidelines for the last 2 years	51	24	90	26	191
	<b>Frequency in %age</b>	<b>27%</b>	<b>13%</b>	<b>47%</b>	<b>14%</b>	<b>100%</b>
	<b>Total Frequency in No</b>	<b>211</b>	<b>57</b>	<b>250</b>	<b>55</b>	<b>573</b>
	<b>Mean</b>	70	19	83	18	191
	<b>Frequency in %age</b>	<b>37%</b>	<b>10%</b>	<b>44%</b>	<b>9%</b>	<b>100%</b>
	<b>Over all % age</b>	<b>47%</b>		<b>53%</b>		

From the data analysis, 63% of the respondents agree, 15% strongly agree, 18% disagree and 4% strongly disagree with respect to the foreign charities expense reports compliance with the 70/30, operational vs administrative expense reporting requirement of ChSA.

From the data analysis, 21% of the respondents agree, 3% strongly agree, 65% disagree and 11% strongly disagree with respect foreign charities have no challenge in implementing the 70/30 Guideline.

From the data analysis, 27% of the respondents agree, 13% strongly agree, 47% disagree and 14% strongly disagree with to the foreign charities have not warned by noncompliance with charities and societies agency guidelines.

As per the data analysis 47 % (agree and strongly agree) of the foreign charities comply with the guidelines of ChSA and 53% (disagree and strongly disagree) not comply with the guidelines of ChSA.

Therefore, most of the foreign charities in Ethiopia did not comply with guide lines of ChSA guidelines and hence the accountants and management of such organizations should adhere to relevant guide lines of supervisory bodies to utilize the funds received from respective donors appropriately. Noncompliance will have negative impact on the NGOs implementation and existence. In the short run, noncompliance will lead to issuance of warnings both in writing and orally and in the long run a repeat of such a breach will have serious consequences, including the loss of their licenses and the transfer of their assets to other NGOs.

#### 4.2.1. Analysis for Relevance

**Table 4.5: Analysis for Relevance**

<b>S N</b>	<b>Questions</b>	<b>Agree</b>	<b>Strongl y agree</b>	<b>Disagree</b>	<b>Strongly disagree</b>	<b>Total</b>
1	The foreign charity financial reports provide relevant information to the management for decision making.	130	49	12		191
	<b>Frequency in %age</b>	<b>68%</b>	<b>26%</b>	<b>6%</b>	<b>0%</b>	<b>100%</b>
2	The foreign charity financial reports provide relevant information to the donors for decision making.	103	62	20	6	191
	<b>Frequency in %age</b>	<b>54%</b>	<b>32%</b>	<b>10%</b>	<b>3%</b>	<b>100%</b>
3	The foreign charity financial reports provide relevant information to the supervisory body for decision making.	113	35	33	10	191
	<b>Frequency in %age</b>	<b>59%</b>	<b>18%</b>	<b>17%</b>	<b>5%</b>	<b>100%</b>
4	The foreign charity financial reports provide relevant information to the beneficiaries for decision making.	130	30	27	4	191
	<b>Frequency in %age</b>	<b>68%</b>	<b>16%</b>	<b>14%</b>	<b>2%</b>	<b>100%</b>
	<b>Total Frequency in No</b>	<b>476</b>	<b>176</b>	<b>92</b>	<b>20</b>	<b>764</b>
	<b>Mean</b>	<b>119</b>	<b>44</b>	<b>23</b>	<b>5</b>	<b>191</b>
	<b>Frequency in %age</b>	<b>62%</b>	<b>23%</b>	<b>12%</b>	<b>3%</b>	<b>100%</b>
	<b>Over all % age</b>	<b>85%</b>		<b>15%</b>		

From the data analysis, 68% of respondents agree, 26% strongly agree, 6% disagree and 0% strongly disagree with respect to the foreign charity financial reports provide relevant information to the management for decision making.

From the data analysis, 54% of respondents agree, 32% strongly agree, 10% disagree and 3% strongly disagree with respect to the foreign charity financial reports provide relevant information to the donors for decision making.

From the data analysis, 59% of respondents agree, 18% strongly agree, 17% disagree and 5% strongly disagree with respect to the foreign charity financial reports provide relevant information to the supervisory body for decision making.

From the data analysis, 68% of respondents agree, 16% strongly agree, 14% disagree and 2% strongly disagree with respect to the foreign charity financial reports provide relevant information to the beneficiaries for decision making.

As per the data analysis 85 % (agree and strongly agree) of the foreign charities financial reports provide relevance information for decision making and 15 % (disagree and strongly disagree) of the foreign charities financial reports did not provide relevant information for decision making. From the analysis most of the foreign charities prepare relevant financial reports which assists users to evaluate, correct, and confirm current and past events, it is useful.

Relevance is closely associated with the terms usefulness and materiality. Relevance illustrates the capability of making decisions by users. When information in financial reports influences users in their economic decisions, it is said that this information has the quality of relevance. Also, when this information assists users to evaluate, correct, and confirm current and past events, it is useful.

As per the data analysis, 15 % of the foreign charities financial reports did not provided relevance information for decision making and this information did not assist users to evaluate, correct, and confirm current and past events.

In principle all foreign charities are required to prepare relevant financial reports to ensure quality of financial reports and those charities who did not prepare relevant financial reports are advised to strengthen the accounting and reporting system of the organization to comply with financial reporting qualities.

#### 4.2.2. Analysis for faithful representation

**Table 4.6: Analysis for Faithful representation**

<b>S N</b>	<b>Questions</b>	<b>Agree</b>	<b>Strongl y agree</b>	<b>Disagree</b>	<b>Strongly disagree</b>	<b>Total</b>
1	The information in the foreign charity financial reports is accurate	142	31	15	3	191
	<b>Frequency in %age</b>	<b>74%</b>	<b>16%</b>	<b>8%</b>	<b>2%</b>	<b>100%</b>
2	The foreign charity financial reports present truthful facts without omission or selection of information for the interests of certain categories.	134	32	19	6	191
	<b>Frequency in %age</b>	<b>70%</b>	<b>17%</b>	<b>10%</b>	<b>3%</b>	<b>100%</b>
	<b>Total</b>	<b>276</b>	<b>63</b>	<b>34</b>	<b>9</b>	<b>382</b>
	Mean	138	31.5	17	4.5	191
	<b>Frequency in %age</b>	<b>72%</b>	<b>16%</b>	<b>9%</b>	<b>2%</b>	<b>100%</b>
	<b>Over all % age</b>	<b>89%</b>		<b>11%</b>		

From the data analysis, 74% of respondents agree, 16% strongly agree, 8% disagree and 2% strongly disagree with respect to the information in the foreign charity financial reports is accurate.

From the data analysis, 70% of respondents agree, 17% strongly agree, 10% disagree and 3% strongly disagree with respect to the foreign charities financial reports present truthful facts without omission or selection of information for the interests of certain categories.

As per the data analysis, 89 % of the foreign charities financial reports information are faithful representation and 11% are not faithful representation. The analysis shows that most of the charities prepare faithful financial reports which is helpful for relevant decision making.

Faithful representation is the concept of reflecting and representing the real economic position of the financial information that has been reported. This concept has the value of explaining how well the obligations and economic resources, including transactions and events, are fully represented in the financial reporting. Faithful representation is another

critical factor of financial reporting quality. In financial reporting, information must have the quality of faithful representation in order to be useful. This quality is achieved when information, which users depend upon, is free from bias and material mistakes. Faithful representation is analyzed based on the qualities of faithful, verifiable, and neutral information.

From the data analysis ,11 % of the foreign charities financial reports did not faithful representation which mislead the users in making economic decisions.

Generally, all foreign charities are required to prepare faithful financial reports to ensure quality of financial reports and those charities who did not prepare faithful financial reports are advised to strengthen the accounting and reporting system of the organization to comply with financial reporting qualities. poor quality of financial reports greatly diminishes the quality of NGOs.

#### 4.2.3. Analysis for Understandability

**Table 4.7: Analysis for Understandability**

SN	Questions	Agree	Strongly agree	Disagree	Strongly disagree	Total
1	The foreign charity financial reports are presented in an organized and clear way, away from complication and difficulty.	145	5	30	11	<b>191</b>
	<b>Frequency in %age</b>	<b>76%</b>	<b>3%</b>	<b>16%</b>	<b>6%</b>	<b>100%</b>
2	The foreign charity presents the standard figures and financial ratios in the financial reports.	125	30	36		<b>191</b>
	<b>Frequency in %age</b>	<b>65%</b>	<b>16%</b>	<b>19%</b>	<b>0%</b>	<b>100%</b>
3	The clarifications on the foreign charity financial reports are considered as clear enough.	147		37	7	<b>191</b>
	<b>Frequency in %age</b>	<b>77%</b>	<b>0%</b>	<b>19%</b>	<b>4%</b>	<b>100%</b>
	<b>Total</b>	<b>417</b>	<b>35</b>	<b>103</b>	<b>18</b>	<b>573</b>
	Mean	139	12	34	6	191
	<b>Frequency in %age</b>	<b>73%</b>	<b>6%</b>	<b>18%</b>	<b>3%</b>	<b>100%</b>
	<b>Over all % age</b>	<b>79%</b>		<b>21%</b>		

From the data analysis, 76% of respondents agree, 3% strongly agree, 16% disagree and 6% strongly disagree with respect to the foreign charity financial reports are presented in an organized and clear way, away from complication and difficulty.

From the data analysis, 65% of respondents agree, 16% strongly agree, 19% disagree and 0% strongly disagree with respect to the foreign charity presents the standard figures and financial ratios in the financial reports.

From the data analysis, 77% of respondents agree, 0% strongly agree, 19% disagree and 4% strongly disagree with respect to the clarifications on the foreign charity financial reports are considered as clear enough.

As per the data analysis 79 % of the foreign charity financial reports are understandable and 21 are not understandable. The analysis shows that most of the charities financial reports are understandable which is helpful for relevant decision making.

Understandability is one of the essential qualities of information in financial reports. Achieving the quality of understandability is through effective communication. Thus, the better the understanding of the information from users, the higher the quality that will be achieved. It is one of the enhancing qualitative characteristics that will increase when information is presented and classified clearly and sufficiently. When financial reports are well organized, users can comprehend what their needs are. Usage of graphs and tables helps to present information clearly, and the usage of language and technical jargon can be followed easily. From the data analysis 21 % of the foreign charity financial reports are not understandable and this negatively affect the decision of the users for financial reports.

In principle, all foreign charities are required to prepare understandable financial reports to ensure quality of financial reports and those charities who did not prepare understandable financial reports are advised to strengthen the accounting and reporting system of the organization to comply with financial reporting qualities. Poor quality of financial reports greatly reduces the quality of NGOs and affect the existence of charities.



#### 4.2.4. Analysis for Comparability

**Table 4.8: Analysis for Comparability**

SN	Questions	Agree	Strongly agree	Disagree	Strongly disagree	Total
1	The foreign charity financial reports provide comparative data regarding previous accounting periods.	128	30	23	10	191
	<b>Frequency in %age</b>	<b>67%</b>	<b>16%</b>	<b>12%</b>	<b>5%</b>	<b>100%</b>
2	The information provided in the financial reports of foreign charity is comparable to the information provided by similar other organizations.	91	11	80	9	191
	<b>Frequency in %age</b>	<b>48%</b>	<b>6%</b>	<b>42%</b>	<b>5%</b>	<b>100%</b>
3	The information provided in the financial reports of foreign charity is comparable to the information provided by different sets of Donors.	88	31	41	31	191
	<b>Frequency in %age</b>	<b>46%</b>	<b>16%</b>	<b>21%</b>	<b>16%</b>	<b>100%</b>
	<b>Total</b>	307	72	144	50	573
	<b>Mean</b>	102	24	48	17	191
	<b>Frequency in %age</b>	<b>54%</b>	<b>13%</b>	<b>25%</b>	<b>9%</b>	<b>100%</b>
	<b>Over all % age</b>	<b>66%</b>		<b>34%</b>		

From the data analysis, 67% of respondents agree, 16% strongly agree, 12% disagree and 5% strongly disagree with respect to the foreign Charity financial reports provide comparative data regarding previous accounting periods.

From the data analysis, 48% of respondents agree, 6% strongly agree, 42% disagree and 5% strongly disagree with respect to the information provided in the financial reports of foreign charity is comparable to the information provided by similar other organizations.

From the data analysis, 46% of respondents agree, 16% strongly agree, 21% disagree and 16% strongly disagree with respect to the information provided in the financial reports of foreign charity is comparable to the information provided by different sets of donors.

As per the data analysis, 66 % of the foreign charities financial reports are Comparable and 34% are not comparable. The analysis shows that most of the charities financial reports are comparable which is helpful for relevant decision making.

Comparability is the concept of allowing users to compare financial statements to determine the financial position, cash flow, and performance of an entity. This comparison allows users to compare across time and among other organizations in the same period. Comparability demands that identical events in the two situations will be reflected by identical accounting facts and figures and different events will be reflected by different accounting facts and figures in a way which quantitatively reflects those differences in a comparable and easily interpretable manner.

As per the data analysis, 34% of the foreign charities financial reports are not Comparable for decision making and affect decision of the users of the financial reports.

In principle, all foreign charities are required to prepare comparable financial reports to ensure quality of financial reports and those charities who did not prepare comparable financial reports are advised to strengthen the accounting and reporting system of the organization to comply with financial reporting qualities. Poor quality of financial reports greatly reduces the quality of NGOs and affect the existence of charities.

#### 4.2.5. Analysis for Timeliness

**Table 4.9: Analysis for Timeliness**

<b>S N</b>	<b>Questions</b>	<b>Agree</b>	<b>Strongly y agree</b>	<b>Disagree</b>	<b>Strongly disagree</b>	<b>Total</b>
1	The foreign charity financial reports produced are submitted to supervisor body ,ChSA, on time.	160	12	19		<b>191</b>
	<b>Frequency in %age</b>	<b>84%</b>	<b>6%</b>	<b>10%</b>	<b>0%</b>	<b>100%</b>
2	The foreign charity financial reports are published within the deadline in which publication of the reports is required by donors.	123	33	30	5	<b>191</b>
	<b>Frequency in %age</b>	<b>64%</b>	<b>17%</b>	<b>16%</b>	<b>3%</b>	<b>100%</b>
3	The foreign charity financial reports are published within the deadline in which publication of the reports is required by management.	141	25	25		<b>191</b>
	<b>Frequency in %age</b>	<b>74%</b>	<b>13%</b>	<b>13%</b>	<b>0%</b>	<b>100%</b>
	<b>Total</b>	424	70	74	5	573
	<b>Mean</b>	141	23	25	2	191
	<b>Frequency in %age</b>	<b>74%</b>	<b>12%</b>	<b>13%</b>	<b>1%</b>	<b>100%</b>
	<b>Over all % age</b>	<b>86%</b>		<b>14%</b>		

From the data analysis, 84% of respondents agree, 6% strongly agree, 10% disagree and 0% strongly disagree with respect to the foreign Charity financial reports produced are submitted to supervisor body, ChSA, on time.

From the data analysis, 64% of respondents agree, 17% strongly agree, 16% disagree and 3% strongly disagree with respect to the foreign Charity financial reports are published within the deadline in which publication of the reports is required by donors

From the data analysis, 74% of respondents agree, 13% strongly agree, 13% disagree and 0% strongly disagree with respect to the foreign Charity financial reports are published within the deadline in which publication of the reports is required by management.

As per the data analysis 86 % of the foreign Charity financial reports are timeliness and 14% are not timeliness. The analysis shows that most of the charities financial reports are timely which is helpful for relevant decision making.

Timeliness is another enhancing qualitative characteristic. Timeliness illustrates that information must be available to decision makers before losing its powerful and good influences. When assessing the quality of reporting in a financial report, timeliness is evaluated using the period between the year-end and the issuing date of the auditor 's report, the period of days it took for the auditor to sign the report after the financial year-end.

From the data analysis, 14 % of the foreign Charity financial reports were not timeliness and this negatively affected the decision of the users of the financial reports.

In principle, all foreign charities are required to prepare timely financial reports to ensure quality of financial reports and those charities who did not prepare timely financial reports are advised to strengthen the accounting and reporting system of the organization to comply with financial reporting qualities. Poor quality of financial reports greatly reduces the quality of NGOs and affect the existence of charities in the long run.

# **CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

## **5.1. SUMMARY**

This study assessed the Ethiopian foreign charities financial reports quality and its level of compliance with guidelines of charities and society agency. The researcher adopted descriptive cross sectional research method. Quantitative methods of data collection were used while carrying out the study. In this study a sample size of 80 foreign charities was taken to represent the population of 396 Foreign Charities. Annual audited financial reports of the foreign charities were also used as a secondary data source.

Ethiopia's Charities and Societies Agency(ChSA) has shut down some NGOs due to noncompliance with civil society and charity law. The closing of NGOs will affect the contribution of NGOs towards the vision of Ethiopia. High quality financial reporting by NGOs is essential to securing sustained support from donors and from the wider public and to continue in the business.

The assessment identified that most of the foreign charities in Ethiopia did not comply with guide lines of ChSA guidelines and on the other hand the assessment identified that:

1. Most of the foreign charities financial reports provide relevance information for decision making and this information assist user to evaluate, correct, and confirm current and past events.
2. Most of the foreign charities financial reports provide faithful representation which help the users in making economic decisions.
3. Majority of the foreign charities financial reports are understandable and financial reports are well organized and users can comprehend what their needs are.
4. Majority of the foreign charities financial reports are timeliness

However, most of the foreign Charities financial reports were not Comparable. It is, therefore, recommended that, all foreign charities in Ethiopia are required to comply with guide lines of ChSA guidelines and prepare high quality financial reports. To this effect the foreign charities are required to strength their accounting and financial reporting system to prepare high quality financial reports to offer adequate accountability for the resources entrusted to their stewards to address information needs, reduce fraud opportunities, improve use of donor funds, create uniformity of financial reports,

increase donor confidence and funding, and consequently improve service delivery to the intended beneficiaries.

## **5.2. CONCLUSIONS**

This paper assessed the Ethiopian foreign charities financial reporting quality and its level of compliance with guidelines of charities and society agency with respect to expense classification 70:30, operational vs administrative.

The assessment identified that most of the foreign charities in Ethiopia did not comply with guide lines of ChSA guidelines and hence the accountants and management of such organizations should adhere to relevant guide lines of supervisory bodies to utilize the funds received from respective donors appropriately. Noncompliance will have negative impact on the NGOs implementation and existence. In the short run, noncompliance will lead to issuance of warnings both in writing and orally and in the long run a repeat of such a breach will have serious consequences, including the loss of their licenses and the transfer of their assets to other NGOs.

The assessment also identified that most of the foreign charities financial reports provide relevance information and faithful representation and most of the foreign charities financial reports are understandable and timeliness. However, the assessment identified that most of the foreign charities financial reports are not Comparable for decision making and affect decision of the users of the financial reports.

Generally, all foreign charities are required to prepare quality financial reports but only most of them prepare quality financial reports with respect relevance, faithful representation, understandability and timeliness and these will have negative implication on accountability for the resources entrusted to their stewards to address information needs, fraud opportunities, use of donor funds, uniformity of financial reports, donor confidence and funding, and consequently service delivery to the intended beneficiaries.

## **5.2. RECOMMENDATIONS**

In order to comply with guide lines of ChSA, the accountants and management of such organizations should know, understand and adhere to relevant guide lines of supervisory bodies to utilize the funds received from respective donors appropriately. Noncompliance will have negative impact on the NGOs implementation and existence. In the short run, noncompliance will lead to issuance of warnings both in writing and orally and in the long run a repeat of such a breach will have serious consequences, including the loss of their licenses and the transfer of their assets to other NGOs.

It is also recommendable to finalize the already started amendments of charities and societies law which is restrictive. The law restricts civil society organizations from participating in economic activities and the country has failed to comply with the international laws and treaties to which the nation is a signatory due to the law. The amendment of the law would enable CSOs to be administered in a transparent and accountable manner and governed by an independent board.

All foreign charities are required to prepare quality financial reports for all their stakeholders. foreign charities in Ethiopia are required to prepare high quality financial reports to offer adequate accountability for the resources entrusted to their stewards to address information needs, reduce fraud opportunities, improve use of donor funds, create uniformity of financial reports, increase donor confidence and funding, and consequently improve service delivery to the intended beneficiaries. To this effect the accounting system and management system of the organization should be more strengthen to have more internal control over accounting and reporting system of organization to produce high quality financial reports for their stakeholders.

Further research is recommended to assess the quality of financial reports of local NGOS as local NGOs are equally important and required to prepare quality financial reports to offer adequate accountability for the resources entrusted to their stewards to address information needs, reduce fraud opportunities, improve use of donor funds, create uniformity of financial reports, increase donor confidence and funding, and consequently improve service delivery to the intended beneficiaries.

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## **Appendix A Questionnaires**

**St. Mary University**

**Masters of Business Administration**

**Department of Accounting and Finance**

### **Financial Reporting Quality questionnaire to Foreign Charities in Ethiopia**

Dear Respondents

The researcher is undertaking a research entitled “Financial Reporting Quality of Foreign Charity in Ethiopia” The objective of this questionnaire is to gather first-hand information in the above-mentioned issue. Therefore, you are kindly requested to respond the questions freely and openly to the best of your knowledge.

The questionnaire includes the directions necessary to complete the response.

The success of this study depends on the cooperation of all targeted respondents and the information that will be obtained from the questionnaire will not identify individual’s respondents in the study rather your response will be used in aggregate.

The researcher would like to assure you that the information you are going to provide will be exclusively used only for academic purpose and will remain confidential. If you are interested to get access to the findings of the research, the researcher is ready to share you.

This questionnaire has four pages including this page.

Thank you for your participation.

If you have any question regarding this thesis questionnaire, please call on

+251-911-415953

**Jalale Abera**

**(MBA in A & F Candidate)**

**I. Demographical information**

I.1. Level of education A. Diploma B. Degree C. Masters

D. Other(Specify) \_\_\_\_\_

I.2 Total years of work experience\_\_\_\_\_

I.3 Work position A. Finance B. Program C. Director

Kindly put a tick (✓) sign where appropriate:

**II. Questions related with Quality of Financial Reports**

**A. Questions related with Compliance with the guidelines of supervisory body, ChAS**

S.No.	Questions	Agree	Strongly agree	Disagree	Strongly disagree	Neutral
1	The FOREIGN CHARITY expense Reports meet the 70/30 (operational vs administrative) requirement always?					
2	The FOREIGN CHARITY has no challenge in implementing the 70/30 Guideline.					
3	The FOREIGN CHARITY has not warned by					

S.No.	Questions	Agree	Strongly agree	Disagree	Strongly disagree	Neutral
	noncompliance with charities and societies agency guidelines the last 2 years?					

Please give additional details related to compliance with the guidelines of supervisory body, ChAS if any,

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### B. Questions related with Relevance

S.No.	Questions	Agree	Strongly agree	Disagree	Strongly disagree	Neutral
1	The foreign charity financial reports provide relevant information to the management for decision making.					
2	The foreign charity financial reports provide relevant information to the donors for decision making.					
3	The foreign charity financial reports provide relevant information to the supervisory body for decision making.					
4	The foreign charity financial					

S.N o.	Questions	Agree	Strongly agree	Disagree	Strongly disagree	Neutral
	reports provide relevant information to the beneficiaries for decision making.					

Please give additional details related with relevance if any,

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**C. Questions related with faithful representation**

S.No.	Questions	Agree	Strongly	Disagree	Strongly	Neutral
1	The information in the foreign charity financial reports is accurate					
2	The foreign charity financial reports present truthful facts without omission or selection of information for the interests of certain categories.					

Please give additional details related with faithful representation if any,

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**D. Questions related with Understandability**

S.No.	Questions	Agree	Strongly	Disagree	Strongly	Neutral
1	The foreign charity financial reports are presented in an organized and clear way, away from complication and difficulty.					
2	The foreign charity presents the standard figures and financial ratios in the financial reports.					
3	The clarifications on the foreign charity financial reports are considered as clear enough.					

Please give additional details related with understandability if any,

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**E. Questions related with Comparability**

S.N o.	Questions	Agree	Strongly agree	Disagree	Strongly disagree	Neutral
1	The foreign charity financial reports provide comparative data regarding previous accounting periods.					
2	The information provided in the financial reports of foreign charity is comparable to the information provided by similar other organizations.					
3	The information provided in the financial reports of FOREIGN CHARITY is comparable to the information provided by different sets of Donors.					

Please give additional details related with comparability if any,

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**F. Questions related with Timeliness**

S.No.	Questions	Agree	Strongly agree	Disagree	Strongly disagree	Neutral
1	The foreign charity financial reports produced are submitted to supervisor body ,ChSA, on time.					
2	The foreign charity financial reports are published within the deadline in which publication of the reports is required by donors.					
3	The foreign charity financial reports are published within the deadline in which publication of the reports is required by management.					

Please give additional details related with timeliness if any,

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If you have any additional comments, please use separate sheet and include it with your reply. You can also reply to my personal email address [jaleabera@gmail.com](mailto:jaleabera@gmail.com) if you use softcopy.

## STATEMENT OF DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dr. Zenegnaw Abiy . All sources of materials used for the 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 degree.

Jalale Abera

Name

\_\_\_\_\_

Signature

## **ENDORSEMENT**

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

Dr. Zenegnaw Abiy

Advisor

\_\_\_\_\_

Signature

St. Mary's University, Addis Ababa

December 2018