

**ASSESSMENT OF FINANCIAL MANAGEMENT PRACTICES OF NGOS IN  
GURAGHE ZONE - CASE OF WORLD VISION AND COMPASSION: COMPARATIVE**



**A RESEARCH SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE OF  
IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE DEGREE OF BACHELOR OF  
ART**

**By: ALEMTSEHAY BEJIGA**

**ID NO: BER 484/09**

**ADVISOR: DAGNACHEW. A (MSc)**

**WOLKITE UNIVERSITY  
COLLEGE OF BUISNESS AND ECONOMICS  
DEPARTMENT OF ACCOUNTING AND FINANCE**

**Wolkite, Ethiopia**

**June, 2019**





**DECLARATION**

First, I declare that this Thesis is my work and that all sources of materials used for this thesis have been fully acknowledged. This thesis has been submitted in partial fulfillment of the requirement for the Degree of bachelor art (BA) in Accounting and Finance.

Name:Alemtshay Bejiga Daba

Signature\_\_\_\_\_

Place: wolkite University

Date of Submission: June, 2019

This degree thesis, has been submitted for examination with my approval as thesis advisor

Name advisor Mr. Dagnachaw (msc)

Signature\_\_\_\_\_

Date\_\_\_\_\_

## **Acknowledgment**

I give Glory and honour to God Almighty for his goodness and mercies towards me and for guiding me throughout my education. I wish to express my heartfelt gratitude and appreciation to my supervisor, Mr. Dagnachew.A for his guidance and assistance at all times. His countless suggestions and corrections have enriched this work. It is my great pleasure to thank all the people who help in different ways for this proposal. I say a big thank you and god richly bless you.

## **Abstract**

The study examined assessment of financial management practices in NGO. The purposes of assessment are to assess the financial management practice of NGO in Gurage zone. A convenient sampling technique is used to select the NGO. This research therefore advances the frontiers of knowledge by comparatively analyzing the financial management practice of two NGO; world vision and compassion organization. Descriptive method of assessment was conducted and data were collected by applying purposive sampling . Questionnaires used to collect data for the study. The major findings were: lack of budget approval by board, common cost allocation system, records keeping for gifts in kind items, cash forecast preparation, finance staff participation in budget preparation and review, and concentration on limited projects and sources of fund, weakness in standardized financial statement preparation and delay in reporting among others. Finally, the researcher recommended: as means to discharge responsibility & accountability and to show service giving efforts, operational efficiency and effectiveness to contribution to the development endeavor of the country, they should establish a well-organized financial management systems: budget management, accounts record keeping and reporting. The study also recommended that is advisable that the owner s of NGO avail themselves with the various training programs: better to engaged in financial planning, analysis, and control in order to compare their financial plan with performance: and also maintain professional accountants so as keep complete accounting records.

## Table content

<a href="#">DECLARATION</a> .....	I
<a href="#">Acknowledgment</a> .....	II
<a href="#">Abstract</a> .....	III
<a href="#">LIST OF TABLE</a> .....	VIII
<a href="#">List of Acronyms</a> .....	X
<a href="#">CHAPTER ONE</a> .....	1
<a href="#">1. INTRODUCTION</a> .....	1
<a href="#">1.1. Background of the Study</a> .....	1
<a href="#">1.2. Statement of the Problem</a> .....	3
<a href="#">1.3. Research Question</a> .....	3
<a href="#">1.4. Objectives of the Study</a> .....	4
<a href="#">1.4.1. General Objective</a> .....	4
<a href="#">1.4.2. Specific Objectives</a> .....	4
<a href="#">1.5. Scope of the Study</a> .....	4

1.6. Significance of the Study.....	4
CHAPTER TWO.....	6
2. LETRATURE REVIEW.....	6
2.2 Financial Management.....	6
2.3 Specific Areas of Financial Management.....	7
2.4Key Pillars of Financial Management.....	8
2.5 Good Financial Management.....	10
2.6 Cost Shared/ Allocation.....	10
2.7 Analysis of FASB 117 (Financial Accounting Standards Board).....	11
2.8Analysis of FASB 116 (Financial Accounting Standards Board).....	11
2.9 Accountability Requirements:.....	12
2.10 Financial Management Standards.....	12
2.11 Audit Standards:.....	13
2.12 Reporting Standards.....	13
2.13 Summery Of The Literature Review.....	13
CHAPTER THREE.....	14
3. RESEARCH METODOLODY.....	14
3.1. Description of the Study Area.....	14
3.2. Research Design/Approach.....	14
3.3. Data Source.....	14
3.3.1. Primary Data Sources.....	15
3.3.2. Secondary Data Sources.....	15

<a href="#">3.4. Sampling Techniques and Sample Size</a>	15
<a href="#">3.5. Method of Data Collection</a>	15
<a href="#">3.5.1. Questionnaires</a>	16
<a href="#">3.5.2. Observation&amp;/Document Review</a>	16
<a href="#">3.6. Method of Data Analysis</a>	16
<a href="#">Chapter four</a>	18
<a href="#">4. Data Analysis and Presentation</a>	18
<a href="#">4.1 Introduction</a>	18
<a href="#">4.2 Data is analyzed under following headings:</a>	18
<a href="#">Demographic information of the respondents (world vision)</a>	18
<a href="#">4.2.2 On General Information</a>	19
<a href="#">3 Educational level of world vision</a>	19
<a href="#">4. Accounting method used</a>	19
<a href="#">5. Accounting standard in practice</a>	19
<a href="#">6. Major sources of funding</a>	19
<a href="#">6. Major activities of NGOs relates to:</a>	20
<a href="#">7. Financial statements prepared by NGOs</a>	20
<a href="#">Demographic information of the respondents (compassion)</a>	29
<a href="#">3 Educational level of compassion</a>	29
<a href="#">5. Accounting standard in practice</a>	30
<a href="#">6. Major sources of funding</a>	30
<a href="#">7. Major activities of NGOs relates to:</a>	30

<a href="#">8. Financial statements prepared by NGOs</a>	31
<a href="#">5. Conclusion and Recommendation</a>	39
<a href="#">5.1 Conclusion</a>	39
<a href="#">5.2 Recommendation</a>	40
<a href="#">References</a>	42
<a href="#">Appendix</a>	44

## **LIST OF TABLE**

Table 4.2.1 Demographic information of the respondents .....	18
Table 4.2.2 On general information.....	19
Table 4.2.3 On budget management practices.....	22
Table 4.2.4 Analysis of Reporting Practices.....	25



## List of Acronyms

DRR	Disaster Risk Redaction
DASSC	Development and Social Services Commission
EECMY	Ethiopian Evangelical Church MekaneYesus
FASB	Financial Accounting Standards Board
GAAPs	Generally Accepted Accounting Principles
GAASs	Generally Accepted Accounting Standards
NEA	National Endowment for the Arts
NGOs	Non-Governmental Organizations
NPOs	Not-For-Profit Organization's
OMB	Office of Management and Budget
SP	Strategic Plan
UN	United Nations

## CHAPTER ONE

### 1. INTRODUCTON

#### 1.1. Background of the Study

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

Financial management refers to the process of managing financial resources, including management decisions concerning accounting and financial reporting, forecasting, and budgeting, as well as capital budgeting decisions, which include decisions whether to lease or buy, and whether to issue debt or equity (Light body, 2000). Financial management framework comprises the processes, systems, internal controls and practices relating to the way the department manages its revenues, expenses, assets, liabilities and contingencies. It also includes its systems for managing risk and monitoring its financial and operational performance, including budget performance and reporting on these functions, both internally and externally.

Gitman(2007) defines financial management as the area of business management, Devoted to a judicious use of capital and a careful selection of sources of capital, in order To enable an organization to move in the direction of reaching its goals. This definition Points to certain essential aspects of financial management namely prudent

or rational use of capital resource and achieving the goal of the firm. According to Oduware (2011), financial management entails planning for the future of a business enterprise to ensure apposite cash flow. Financial management involves planning, organizing, directing and controlling the financial activities such as the procurement and the utilization of funds of the enterprise. From an organizational point of view, the process of financial management is associated with financial planning and financial control. Financial planning seeks to quantify various financial resources available and plan the size and timing of expenditures.

Financial management of not-for-profits is similar to financial management in the commercial sector in many respects; however, certain key differences shift the focus of a not-for-profit financial manager. A for-profit enterprise focuses on profitability and maximizing shareholder value. A not-for-profit organization's primary goal is not to increase shareholder value; rather it is to provide some socially desirable need on an ongoing basis. A not-for-profit generally lacks the financial flexibility of a commercial enterprise because it depends on resource providers that are not engaging in an exchange transaction. The resources provided are directed towards providing goods or services to a client other than the actual resource provider. Thus the not-for-profit must demonstrate its stewardship of donated resources – money donated for a specific purpose must be used for that purpose. That purpose is either specified by the donor or implied in the not-for-profit's stated mission. The management and reporting activities of a not-for-profit must emphasize stewardship for these donated resources. The staff must be able to demonstrate that the dollars were used as directed by the donor. The shift to an emphasis in external financial reports on donor restriction has made the use of fund accounting systems even more critical.

Financial Management for NGOs:

Financial management is more than just keeping accurate accounting records. It also

involves planning, controlling and monitoring financial resources to achieve organizational objectives. At a minimum, a financial management system should ensure that costs are properly categorized, tracked and charged to the appropriate accounts, and that managers are able to report financial information accurately to the Board and to donors. A good financial management system makes it easier to be accountable to donors and project beneficiaries, thereby enhancing their respect and confidence in the organization. This, in turn, helps an NGO be more competitive and can increase its chances of maintaining long-term financial health (*mango course hand book, June2003*).

## **1.2. Statement of the Problem**

The NGOs are required to have well organized and established financial management practices for successful accomplishment of its objectives. NGOs operate in a rapidly changing and competitive world. If their organizations are to survive in this challenging environment, it is required to develop well organized financial management tools: a. to help managers to make effective and efficient use of resources to achieve objectives and fulfill commitments to stakeholders helps NGOs to be more accountable to donors and other stakeholders, b. to gain the respect and confidence of funding agencies, partners and those served; give the NGO the advantage in competition for increasingly scarce resources; and c. help NGOs prepare themselves for long-term financial sustainability, (*Stephenson, 2003*). Cased by Lack of skilled man power in order to effectively implement the projects through good financial management .The major challenge will effects of NGO financial crises that have brought significant increases in prices of goods and services. It also minimized the donors funding for projects. Lack of awareness and reliability about the project implementation and its financial management, i.e. the beneficiaries considered that the budget transferred is abused by

the managers and staffs.

The most commonly identified weaknesses of the sector include; limited financial and management expertise, limited institutional capacity, low levels of self-sustainability, isolation/lack of inter-organizational communication and/or coordination, lack of understanding of the broader social or economic context (Malena,1995). The study is report the financial management practices problems by comparing compassion and world vision in Wolkite Town, Gurage zone.

### **1.3. Research Question**

The assessment attempts to address the following questions on financial management practices in NGOs in Gurage zone:

1. Do the financial management activities have effects on project implementation?
2. What is the suggestion and recommendations of financial management practice on this study?
3. What are some of the challenges in financial management of the NGO'S in gurage zone?

### **1.4. Objectives of the Study**

#### **1.4.1. General Objective**

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

#### **1.4.2. Specific Objectives**

- To identify the effects of financial management practices on project implementation,
- To provide suggestion and recommendation on financial management practices

based on this study.

- To investigate the challenges in the financial management of the NGO in gurage zone.

### **1.5. Scope of the Study**

The primary focus of the assessment was on the financial management practices of NGOs in Gurage zone over the period of 2012 - 2017. The assessment includes the financial management activities: budgeting and planning, accounts record keeping, financial control and reporting practices of them. It focuses on the compliance issues in the accounting and reporting practices accordingly guidelines, rules and regulations required by compassion and World vision; generally accepted accounting standards and GAAPs. This assessment presented the major findings in financial management practices and provided recommendations.

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

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

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

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

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

### **1.6 Limitations of the Study:**

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

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

## CHAPTER TWO

### 2. LITERATURE REVIEW

#### 2.1 INTRODUCTION

Financial literature suggests that optimal application and commitment towards financial management practices result in an increased performance of institutions. According to Hunjra, 2010, the financial well managed companies are operationally efficient. This stands as a positive sign for investors and regulatory authorities. This chapter takes a critical look at both theoretical and empirical frameworks related to financial management in general and financial management practice of NGO.

#### 2.2 Financial Management

Financial management is defined with different authors in different ways. However, those definitions are not different in meanings in the sense that all of them rotate around the effective funds management in the businesses. Financial management is an integral part of overall management. It is concerned with the duties of the financial managers in the business firm. As Meredith, (1986) suggested that, financial management is one of several functional areas of management but, it is the central to the success of any business enterprises. This definition emphasizes the central role and position of financial management in relation to the other specific areas of business management.

Pinches (1990) defined financial management as the acquisition, management, and financing of resources for the firms by means of money with due regards for prices in external economic markets. For Pinches, resources of a firm are general such as cash, inventory, people (employees), equipment and machinery. Money for these resources is

from variety of sources such as borrowings, leasing, stock issue and internal cash flow generated by the firm. The firm's goal is to provide and manage these resources as efficiently as possible to balance needs against risk and returns. To pinches, apart from the chief finance officer, many others within the firm are also directly involved in making and carrying out financial decisions with consequences for the future wellbeing of the firm.

According to Van and Wachowisz (2005), financial management is concerned with the acquisition, financing and management of assets with some overall goals in mind.

Financial management is the act of identifying where to acquire long-term finance and how to manage everyday financial activities in the business environment. In simple terms, business finance is seen as the business function of planning, obtaining and managing the firm's funds to accomplish its objectives in the most effective possible way.

According to Pamela Peterson (1984) financial management is "the management of cash flow of a firm to make profit for its owners." She further explains that a firm may be a business enterprise such as manufacturing company, accounting firm, credit union, an oil production firm or a charitable organization. Brigham and Gapenski (1985) in their definition stated that financial management involves the actual management of a firm and it is necessary in all sort of organizations which includes banks and charitable organizations. They also emphasized that financial management is concomitant to the economy.

According to Bradley (2009), financial management is the area of business management, devoted to a judicious use of capital and a careful selection of sources of capital in order to enable a spending unit to move in the direction of reaching its goals. This definition points to the four essential aspects of financial management, they are;

financial management is a distinct area of business management, Prudent or rational use of capital resources, Careful selection of the sources of capital and Goal achievement.

### **2.3 Specific Areas of Financial Management**

Most authors and researchers approach to specific areas of financial management in different ways depending upon their views. Barrow, (1988) emphasizes a practical rather than theoretical outlook of specific areas of financial management. That is, instead of identifying specific areas of financial management, he listed the tools of financial analysis, including business controls; measure of profitability; control of working capital; control of fixed assets, cost; volume; pricing and profit decisions, and business plans and budgets. McMahon (1995) examines specific areas of financial management including all areas that relate to items on the balance sheet of the business. Meredith (1986) emphasizes information systems as a base for financial management including financial management records and reports. The following are the six specific areas of financial management included in the study.

- Financial planning, analysis, and control – deals with financial objectives and targets, financial budgeting and control, and analysis and interpretation of financial performances.
- Financial reporting – concerning with the nature, frequency and purpose of financial reporting.
- Working capital management – regarding with a firm's investment in short-term assets, cash, accounts receivables and inventories.
- Accounting information Systems – concerning with systems that collects, records, stores and processes data to produce information for decision makers. It uses advances technology or a simple paper and pencil system or it can be

something in between.

- Capital Budgeting (Investing) – concerned with the allocation of the firm’s source financial resources among the available opportunities.
- Financing (Capital Structure) – refers to the relative amount of long-term debt and equity.

## **2.4 Key Pillars of Financial Management**

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

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

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

board, and its financial system should be accurate and all the financial records (accounts) are kept in time. The organizations should assure the financial resources are used in furtherance of the organization's charitable purposes.

In order to establish sound governance practices we have to establish an effective structure of overall and financial management. For every voluntary organization and its members it is very much important to understand the basic concept of financial term; budgeting, financial strategy, accounting system, financial policy, social security for its staffs, internal control & internal audit. The local NGOs are required to have well organized and established financial management practices for successful accomplishment of its objectives. NGOs operate in a rapidly changing and competitive world. If their organizations are to survive in this challenging environment, it is required to develop well organized financial management tools to:

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

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

In many developing countries NGOs often lack the institutional capacity and resources

to operate. Also, funds from donors are sometimes poorly managed. Thus, in order to ensure effective and proper management of resources, good Governance becomes an important aspect of every NGO. One of the key requirements for good governance is accountability. The issue this creates is to whom are NGOs accountable. At first this question may appear to have an easy answer. Obviously they are expected to account for the use of resources to the funders. There are a number of ways in which NGOs can improve on their governance and management operations. These include following:

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

## **2.5 Good Financial Management**

A Good financial management involves planning, organizing, controlling and monitoring resources so that your organization can achieve its objectives and fulfill its commitments to beneficiaries, donors and other stakeholders. Good financial management requires more than simply keeping accurate accounting records. Many NGOs may have only an accounting or bookkeeping system rather than a financial management system. Accounting is a subset of financial management.

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

## 2.6 Cost Shared/ Allocation

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

1. **Direct project costs:** Costs that can be clearly attributed to a specific project, such as a dedicated staff person, office space used by project staff or specific equipment and supplies used only by a single project.
2. **Shared project costs:** Costs are required to carry out a project, but are difficult to attribute to a specific project, such as electricity or administrative support staff.
3. **Non-project cost;** legitimate organizational expenses, but costs not related to any specific project or costs that are not “allowable.” Most of the expenses will easily fall into the direct cost category, while non-project costs are usually self-evident. Costs that may be shared, however, may be the biggest challenge, (*www.NGOConnect.NET*).

## 2.7 Analysis of FASB 117 (Financial Accounting Standards Board)

Statement of Financial Position:

A statement of Financial Position must be prepared for the organization as a whole presenting the total amounts of assets, liabilities, and net assets. Either the Statement of Financial Position or the notes must provide information on liquidity, financial flexibility (i.e. restrictions) and interrelationship of assets and liabilities. The information should be aggregated into reasonably homogenous groups. Cash or other assets that are received with donor imposed restrictions should not be classified with cash or other assets that are unrestricted and therefore, not available for current use.

Information about liquidity can be provided by listing assets and liabilities in order of liquidity, classifying assets and liabilities in accordance with ARB 43 (Accounting Research Bulletin), or disclosure in footnote.

## **2.8 Analysis of FASB 116 (Financial Accounting Standards Board)**

"ACCOUNTING FOR CONTRIBUTIONS RECEIVED AND CONTRIBUTIONS MADE"

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

Contributions - An unconditional transfer of cash or other assets to a not-for-profit entity or the settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner. Donor - Imposed Condition - A future or uncertain event whose occurrence or failure to occur can result in the return of the assets transferred to the promissory or the release of the promissory from an obligation to transfer assets. Donor -Imposed Restriction - A stipulation and limitation in the use of contributed assets. These restrictions can be limited as to purpose, time, or both.

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

## **2.9 Accountability Requirements:**

The National Endowment for the Arts (NEA), a Federal agency, receives annual appropriations from the Congress to be used for granting financial assistance to projects related to the arts. Therefore, NEA is, charged with a fiduciary responsibility to

see that the taxpayers' money is used appropriately and to require proper accountability from the recipients of its awards. Acceptance of a grant creates a legal obligation on the part of the grantee to use the funds in accordance with the terms of the grant and to comply with the grant's provisions and conditions.

## **2.10 Financial Management Standards**

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

## **2.11 Audit Standards:**

Grantees are expected to maintain a state of audit readiness. This means that records pertinent to the financial and programmatic aspects of their grants must be readily accessible for audit. Failure to provide the auditor with reliable documentation could lead to questioned costs and possibly result in cost disallowances requiring refunds. Office of Management and Budget *(OMB) Circular A-133*, the definitive Federal regulation concerning audits of non-profit organizations, bases the requirements for audit on specific dollar amounts, *(OMB) Circular A133*.

## **2.12 Reporting Standards**

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

### **2.13 Summery Of The Literature Review**

According to Bradley (2009), financial management is the area of business management, devoted to a judicious use of capital and a careful selection of sources of capital in order to enable a spending unit to move in the direction of reaching its goals. Financial management involves planning, organizing, controlling and monitoring resources in order to compare their financial plan with performance: and also maintain professional accountants so as keep complete accounting records, and financial management systems: budget management, accounts record keeping and reporting. Most of these studies are done in other countries whose strategic approach and financial footing is different from that of Gurage zone. This study therefore seeks to fill this gap by focusing on the assessment of financial management practice on NGO of higher learning.

## **CHAPTER THREE**

### **3. RESEARCH METODOLODY**

This chapter is focus to the research methodology employed in the study. Thus, it deals about description of the study area, research design, source of data, data collection instruments and data analysis.

### **3.1. Description of the Study Area**

The study to be conducted in Cheha woreda of Guraghe zone, South Nation Nationalities and Peoples Region at 182km distance from the capital city Addis Ababa and 31km from Wolaita. Which have the total population of 137,348 (Male, 67,175 and Female, 70,262) (Guraghe zone Finance and economic Development Office, 2009EC)

Geographically Cheha woreda is located in the eastern part of Guraghe zone, sharing boundaries with Gibe River in the south, Ezha woreda in the west, Gumer woreda in the north, and Enemore woreda in the east. The woreda is found at 2400 altitude; 08.14794N & 037.91896E with average annual rainfall of 1,436.8 mm and also the 28.37 and 14.2 °C of annual temperatures respectively.

### **3.2. Research Design/Approach**

A research design is a plan or blueprint that specifies how data relating to a given problem should be collected and analysed (Amedahe, 2002). Research design may be perceived from five perspectives; Research Purpose, Philosophy, Approach, Design, and Time Saunders (horizon et al., 2009). The research purposes of this study are descriptive. It is descriptive because it investigates the situation of financial management compassion and world vision, the perception of the staff about financial management practices in Guraghe zone. The research approach it combines the use of qualitative which focuses on non-numerical data and quantitative techniques which is number based approach that uses numerical data to quantify attitudes, opinions and other variables of the study.

### **3.3. Data Source**

For this study both quantitative and qualitative type of data are employed. The quantitative type of data are employed to gather information related with the situation of financial management of compassion and world vision, the perception of the staff about financial management practices in the form of semi-structured questionnaire

asks only few predetermined questions while the rest of the questions are not planned in advance and it combine both the structured and unstructured questioner. The qualitative type of data also employed to get reliable information to support the quantitative data regarding the specific objectives of the study through questioner. With regard to data sources, both primary and secondary sources of is employed. Besides this primary data, relevant secondary data were also collected from various books, manuals, proclamation and websites.

### **3.3.1. Primary Data Sources**

In this research basically, primary data source is employed to gather first-hand information to achieve the objectives of the research. The sources of primary data is collected questionnaires.

### **3.3.2. Secondary Data Sources**

Especial emphasis will be given to field observation, and examination of documents like financial statements, budget statements, financial reports, performance reports, audit reports and the likes of the two organizations.

## **3.4. Sampling Techniques and Sample Size**

Basically, Population refers to the universe of units from which the sample is to be selecting (Ofori&Dampson, 2011). The target population for the study comprises of compassion and world vision. A research sample according to Ofori&Dampson (2011) is the segment of the population that is selected for investigation. Financial constraints affect the size and scope of the study and therefore only compassion and world vision selected in the Gurage zone will include in the study.

the researcher are used purposive sampling techniques which helps to give equal chance for each participant to be selected and also helps to get reliable information as well as appropriate response for the questions mentioned earlier.

For the purpose of study sample of 2 comparative study of NGO were taken from the total population of 30 NGO in Gurage zone. In terms of sample size the researcher will

select and distribute questionnaires for sample respondents 10 (5\*2) from each organization employees.

### **3.5. Method of Data Collection**

Relevant information related to the situation of financial management of compassion and world vision, the perception of the staff about financial management practices. Therefore, in order to get the required data for successful completion of this study, the following methods of data collection are used.

#### **3.5.1. Questionnaires**

Data is collect mainly through semi-structured questionnaires and also are conducted by taking into consideration criteria such as age, sex, marital status, occupation and so on.

#### **3.5.2. Observation&/Document Review**

To get authentic data, observation is another major method of data gathering for valuable information. Because what peoples say and do may sometimes contradict with each other. Thus, direct observation is the best solution. Through this, the researcher was have observed the role, the processes and procedures of financial management practice through documents like financial statements, budget statements, financial reports, performance reports, audit reports and the likes.

### **3.6. Method of Data Analysis**

The data collected are analyzed by coding. Coding is by using both quantitative form like questionnaire or qualitative form like transforms the data into a form suitable for computer - aided analysis. The data that is gather through the above tools to be interpreted and analyzed by using both quantitative and qualitative methods. The data gathered through close-ended questions is analyzed by using percentage and table. Whereas, the data gathered through open-ended questions are analyzed by using narration and description.





## Chapter four

### 4. Data Analysis and Presentation

#### 4.1 Introduction

This part of the assessment discusses about the findings based on the information gathered from the respondents for the questionnaire. The primary objective of this assessment is to analyze the financial management practices in NGOs based in Gurage Zone. The primary data used for this assessment was collected from the staff of NGOs directly relevant for financial management activities using questionnaire. The secondary data were also collected from books, manuals, journals, reports,

#### 4.2 Data is analyzed under following headings:

General Information, Budget management practices, Accounting and Records Keeping practices, and Reporting practices,

**TABLE 4.2.1**

#### Demographic information of the respondents (world vision)

No	Item		Respondents	
			Frequency	Percent age (%)
1	Age	18-24	2	20
		25-36	5	50
		36-50	3	30
		51-60	0	-
		>60	0	-
		Total	10	100
2	Sex	Male	5	50
		Female	5	50
	Total	10	100	
	Marriage	Married	6	60

4.2. On ner Information		Single	4	40	2 Ge al
		Separated	0	-	
		widowed			

### 3 Educational level of world vision

	Questions	Options of Responses				Total Responses
		Certificate	Diploma	BA/BSc	Masters	
1	Finance staff educational level	---	3 (30%)	6 (60%)	1 (10%)	10 (100%)

### 4. Accounting method used

SL NO	Questions	Options of Responses				Total Responses
		Accrual	Cash Base	Modified cash basis	Others	
1	Method of Accounting used	3 (30%)	2 (20%)	4 (40%)	1 (10%)	10 (100%)

### 5. Accounting standard in practice

SL NO	Questions	Options of Responses				Total Responses
		GAAP	IFRS	IAS	Others	

2	Accounting used	standards	6 (54.55%)	2 (18.18%)	3 (27.27%)	-	11 (100%)
---	-----------------	-----------	---------------	---------------	---------------	---	--------------

#### 6. Major sources of funding

SL NO	Questions	Options of Responses				Total Responses
		Donation	Grants	Membership contribution	Fund raising	
3	Main sources of funds	7 (50%)	5 (35.71%)	1 (7.14%)	1 (7.14%)	14 (100%)

#### 6. Major activities of NGOs relates to:

SL NO	Questions	Options of Responses					Total Responses
		Education,	Agriculture,	Water and sanitation	Child development	HIV/AIDS, alleviation	
4	Major programs being implemented	3 (14.28%)	5 (23.81%)	3 (14.28%)	4 (19.04%)	6 (28.57%)	21 (100%)

## 7. Financial statements prepared by NGOs

SL No	Question	Options of Responses					Total Responses
		Financial position	Statement activities (revenue expenditure report)				
5	Financial statements you prepare	5 (31.25%)	6 (37.5%)		3 (18.75%)	2 (12.5%)	16 (100%)

*(Respondents' summary to the questionnaire (2019).*

As indicated above in the first table respondents between ages 18-24 were 20%, 25-36 were 50% and age between 36-50 were 30%. There are no respondents above 51. the number of males and females is equal that means both are 50 % and 50% as indicated in the above table. The marital status as shows in the above table there are 60% respondents married, 40% are single and there is no separated widowed.

As educational background and relevant work experiences are the main requirements for successful accomplishment of activities with required quality standards and quality financial management activities, the respondents were requested to provide their educational background and financial management experiences. Responses indicate that under educational background 30% held Diploma 60% BA degree and 10% Masters

Degrees. Thus, most of the NGO's staff is of BA degree educational level and the smaller proportion i.e. 10% are Masters Degree holders. This indicates that there is small number of staff working in financial management who holds masters degree in world vision NGOs. Methods of accounting used by the respondent were 30% for accrual base, 20% for cash base and 40% for modified accounting methods. These three methods are being used by the NGOs though most of the organization (40%) used modified accounting methods.

Regarding accounting standards, the result indicates that 60% follow GAAP and 30% IAS and 20% IFR. Most of the NGOs used GAAP. One of the main objectives of these World vision NGOs establishment and existence is to perform projects for people's good and to play roles in economic development activities. These projects are to address and solve the prevailing problems in health, education and other activities which require these NGOs engagement. The types of project activities are the most important thing for fund raising and attract attentions of donors and getting government support. Survey indicates main activities of NGOs are: 14.28% education, 23.81% agriculture, 14.28% water and sanitation, 19.04% for Child development and 28.57% for HIV/AIDS control. Main sources of fund are: 50% donation, 35.71% grants, 7.14% members' contribution and 7.14% other fund raising activities. The result regarding project types indicates that the majority of the NGOs (28.57%) are implementing HIV/AIDS Prevention projects followed by children development (19.04%) and least are for, water sanitation and education related projects. Thus, the main project is concerning HIV/AIDS control. Regarding the sources of fund the major sources of fund comes from donation and grants and the least from members' contribution and other fund raising activities. The result indicates that the world vision NGOs' financial sources are heavily dependent on grants and donations and less on member contribution and fund raising activities. This implies that there is high risk for sustainability and continuity of project implementation and existence. Furthermore, these NGOs compete for donation and grants for sources

of fund and hence must be competent enough for compliance with the donors' rules and procedures. The question on financial statements preparation was administered on the NGOs finance staff. The result indicates that all NGOs are preparing these required financial statements. Literature review (FASB 117) indicates that the organization must prepare Statement of financial position, Statement of Activities, Statement of Functional Expenses and Statement of Cash Flow to indicate the financial position as a whole. Furthermore, statement of activities is required by world vision.

**On budget management practices:**

**TABLE 4.2.3**

**Summary of budget related questions and responses:**

SI No	Questions	Options of Responses					Total response
		Strongly disagreed	Disagree	Neutral	Agree	Strongly agree	
1	All grant or contract budget proposals are reviewed by finance staff	1 (10%)	3 (30%)	-	4 (40%)	2 (20%)	10 (100%)

2	Cash forecast is always prepared for each month, six months and a year for cash need planning for project implementation	1 (10%)	1 (10%)	3 (30%)	4 (40%)	1 (10%)	10 (100%)
---	--	------------	------------	------------	------------	------------	--------------

3	The boards formally authorizes the annual budget of the organization	1 (10%)	1 (10%)	1 (10%)	4 (40%)	3 (30%)	10 (100%)
4	Budget monitoring report is done at the end of every month and provided to managers to see actual expanses and performances against budget and activities planned variance analysis used for decisions	1 (10%)	2 (20%)	1 (10%)	2 (30%)	4 (40%)	10 (100%)
5	There are occasions that the organization does not implement activities on the planned time due to delay of fund transfer from the donor	1(10%)	3 (30%)	1 (10%)	1 (10%)	4 (40%)	

The budget management includes planning and control activities: Forecasting the budget required for implementation of a project, assurance of budget utilization up to

the budget and used for the planned activities. Furthermore, it is also important as guideline towards the achievement of planned programs and measurement of performance. Budgeting, implementing, monitoring and measuring the performance are the main activities to be done by finance and program staff and requiring the involvement and participation of staff from both technical managerial levels. Budget proposal reviewing and cash forecast preparation related questions were provided to the respondents and the 10% strongly disagree, 30% disagree, no neutral, 40% agree and 20 % strongly agree to the statement that the budget proposals are reviewed by finance staff. The responses from the respondents indicate that the finance staffs participation in budget proposal reviewing is less. This brings about difficulties in having appropriate budget amount calculation and forecasting the required amount of budget. The budget preparation process shall be participant and the finance staff shall involve and participate in budget preparation and reviewing for better budget preparation, implementation and monitoring activities. Various financial management documents indicate the importance of finance staff participation in budgeting process activities, for instance, the finance staff review the costing of planned activities. The responses for cash forecast preparation results indicate as: 10% strongly disagrees, 10% disagree, 30% neutral, 40% agree and 10% strongly agree. Thus a considerable number of respondent's responses indicate that cash forecast are prepared and have ideas on cash forecast. Cash forecast preparation is very important for smooth implementation of activities as planned. Cash forecast document is required for it is required to avoid project activities implementation due to shortage of cash at the right time. Question was asked to respondents that how far they agree that budget is always approved by board. In this respect: 10% strongly disagree, 10% disagree, 10% said they have no idea, 40% agreed and 30% strongly agreed. Here the considerable respondents indicated there was board budget authorization or have idea on this issue. For having better internal control system, it required budget authorization and

monitoring by the board on continuous basis. To be a good and effective NGO, Board provides a basis for successful management of its organization; familiarizes its target constituents with the activities of the NGO; help in better understanding the organizational structure of the NGO, and also assists in distributing responsibilities among the team members within the NGO organization. One of the main activities of a board in organization leadership is authorization of annual budget in the implementation of are reviewed by finance staff. The responses from the respondents indicate that the finance staffs participation in budget proposal reviewing is less. This brings about difficulties in having appropriate budget amount calculation and forecasting the required amount of budget. The budget preparation process shall be participant and the finance staff shall involve and participate in budget preparation and reviewing for better budget preparation, implementation and monitoring activities. Various financial management documents indicate the importance of finance staff participation in budgeting process activities, for instance, the finance staff review the costing of planned activities. The responses for cash forecast preparation results indicate as: 10% strongly disagrees, 10% disagree, 30% neutral, 40% agree and 10% strongly agree. Thus a considerable number of respondent's responses indicate that cash forecast are prepared and have ideas on cash forecast. Cash forecast preparation is very important for smooth implementation of activities as planned. Cash forecast document is required for it is required to avoid project activities implementation due to shortage of cash at the right time. Question was asked to respondents that how far they agree that budget is always approved by board. In this respect: 10% strongly disagree, 10% disagree, 10% said they have no idea, 40% agreed and 30% strongly agreed. Here the considerable respondents indicated there was board budget authorization or have idea on this issue. For having better internal control system, it required project activities. Once the budget is prepared and approved, the implementation process is to be done. The implementation of the

budget should be monitored for its day to day implementation to take appropriate decision for its deviations from the planned activities and budget amount. The respondents' results indicate that: 10% strongly disagree, 30% disagree, 10% neutral, 10% agree and 40% strongly agree that delay in project implementation is due to delay in fund transfer. In implementation of projects, sufficient cash must be available for activities implementation at the time of requirement. Thus due to cash shortage activities implementation should not be affected. Researcher has observed that many project implementation activities are affected due to delay of reports between the implementer and the donor. This cash flow also depends on financial management activities and the information flow between the project executer and the donor. Accounts records keeping is one of the main pillars of financial management activities. The records keeping embrace many activities like accounting systems, accounting manual and accounting software among others.

**TABLE 4.2.4**

**Analysis of Reporting Practices:**

**Summary of Responses on Reporting Practices**

SL No	Questions	Options of Responses					Total Responses
		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	
1	Funders/donors transfer fund	1	2 (20%)	1 (10%)	4 (40%)	2 (20%)	<b>10 (100%)</b>

	timely as per the original plan in the implementation of projects	(10%)					
2	There are occasions that organization's external audit report is qualified	2 (20%)	2 (20%)	1 (10%)	4 (40%)	1 (10%)	<b>10 (100%)</b>
3	Financial reports are submitted to the concerned government agency in the right format and on time within three months from the end of the financial year	-	-	1 (10%)	3 (30%)	6 (60%)	<b>10 (100%)</b>
4	Monthly financial statements are available no later than the end of the following month	1 (10%)	1 (10%)	2 (20%)	2 (20%)	4 (40%)	<b>10 (100 %)</b>

5	The Board select an independent auditor to conduct an annual audit	-	1 (10%)	1 (10%)	5 (50%)	3 (30%)	<b>10 (100%)</b>
---	--	---	------------	------------	------------	------------	----------------------

6	Are financial reports are always submitted to donors on time	1 (10%)	1 (10%)	1 (10%)	2 (20%)	5 (50%)	10 (100%)
---	--	------------	------------	------------	------------	------------	--------------

*(Respondents' summary to the questionnaire (2019)).*

As a means to discharge responsibility and accountability and to show their service giving efforts, operational efficiency and effectiveness and their contribution to the development endeavor of the country, compassion prepare financial Statements and other required reports to provide information to meet the common interest of donors, members, creditors and others who provide resources to not-for-profit organizations. As many literature reviews and the world vision, the NGOs are required to submit financial and activities implementation status reports to stake holders: to government agency and funder/donors on time as per the agreements and world vision regulations. Questions for reports related were submitted to NGOs staff for their responses and the responses are summarized: for auditing of financial statement on time 10% and 10% responded strongly disagree and disagree respectively and 20 and 50% for strongly agree and agree. Here, some respondents show that there are gaps on timely auditing financial statement. For a question for whether the audit report is qualified, the

responses indicate 20% and 20% for strongly disagree and disagree and 10% no comment and 40% and 10% for agree and strongly agree. These responses showed that a considerable number of audit reports are qualified, thus there are gaps to be improved and lesser quality of financial reports. Financial reports are to be submitted on time as agreed and required by donors and government bodies. Two questions were given to the respondents on financial reports submission to the concerned government agency in the right format and on time and financial statement availability no later than the end of the following month. The responses are stated here as for financial report submission none for strongly disagree and disagree and 10% for neutral and 30% and 60% for agree and strongly agree respectively. And for financial statements availability 10% and 10% for strongly disagree and disagree respectively and 20% for neutral, and 20% and 40% for agree and strongly agree. The results indicate there are gaps on timely financial reports submission and availing of the monthly financial statement, thus delay for financial reports submission leads to delay of fund transfers from the donors and it also affects the project activities implementation. The management of these NGOs is required to pay more attention for timely preparation of financial statements and submission to the concerned partners. In the literature part it is indicated that world vision are required to maintain day-to-day records of financial transactions. They are also required to furnish an annual statement of accounts and annual audit reports to the compassion. Furthermore, world vision is required to submit to the Agency an annual activity report outlining their major activities and other relevant information along with a statement of accounts. They are also required to renew their license and registration every three years, which is subject to an executive evaluation of the completeness and accuracy of their performance and audit reports.

**TABLE 4.1**

**Demographic information of the respondents (compassion)**

N o	Item		Respondents	
			Frequency	Percentage (%)
1	Age	18-24	4	40
		25-36	3	30
		36-50	3	30
		51-60	0	-
		>60	0	-
		Total	10	100
2	Sex	Male	7	70
		Female	3	30
	Total	10	100	
3	Married		2	20
	Un married		8	80
	Widowed		0	-
	Total		10	100
4	Student		4	40
	Trader		0	-
	Farmer		0	-
	Civil servant		6	60
	Total		10	100

**3 Educational level of compassion**

	Questions	Options of			Total
--	-----------	------------	--	--	-------

		Responses				Response s
		Certificate	Diploma	BA/BSc	Masters	
1	Finance staff educational level	1 (10%)	4(40%)	4 (40%)	1 (10%)	10 (100%)

#### 4. Accounting method used

SL NO	Questions	Options of Responses				Total Resp ponses
		Accrual	Cash Base	Modified cash basis	Others	
1	Method Accounting used	4 (40%)	1 (10%)	3 (30%)	2 (10%)	10 (100%)

#### 5. Accounting standard in practice

SL NO	Questions	Options of Responses				Total Responses
		GAAP	IFRS	IAS	Others	
2	Accounting standards used	4 (40%)	2 (20%)	2 (20%)	2 (20%)	10 (100%)

#### 6. Major sources of funding

SL NO	Questions	Options of Responses				Total Response
		Donation	Grants	Membership	Fund	

				contribution	raising	s
3	Main sources of funds	7 (33.3%)	4 (19.04%)	2(9.52%)	3(14.28%)	21 (100%)

**7. Major activities of NGOs relates to:**

S L N O	Quest ions	Options of Responses					Total Respon s Es
		Educatio n on,	Agricultur e,	Water and sanitatio n	Child developme nt	HIV/AIDS, alleviation	
4	Major programs being implemented	8(30.76%)	1 (3.84%)	2 (7.69%)	7 (26.92%)	8 (30.76%)	26 (100%)

**8. Financial statements prepared by NGOs**

SL No	Question	Options of Responses				Total Resp onses

		Financial position	Statement of activities (revenue expenditure report)	of and	Cash flows	Statement of functional expenses	
5	Financial statements you prepare	2 (20%)	4 (40%)		2 (20%)	2 (20%)	10 (100%)

*(Respondents' summary to the questionnaire (2019).*

As educational background and relevant work experiences are the main requirements for successful accomplishment of activities with required quality standards and quality financial management activities, the respondents were requested to provide their educational background and financial management experiences. Responses indicate that under educational background 40% held Diploma 40%BA degree and 10% Masters Degrees the rest certificate is 10%. Thus, most of the NGO's staff is of BA degree and diploma educational level and the smaller proportion i.e. 10% are Masters Degree holders. This indicates that there is small number of staff working in financial management who holds masters degree in compassion NGOs. Methods of accounting used by the respondent were 20% for accrual base, 40% for cash base and 20% for modified accounting methods and the remaining 20% is others. These four methods are being used by the NGOs though most of the organization (40%) used cash base accounting methods. Regarding accounting standards the result indicates that 40% follow GAAP and 20%IAS and 20% IFRS and 20% is others. Most of the NGOs used GAAP which means 40%. One of the main objectives of these compassion NGOs

establishment and existence is to perform projects for people's good and to play roles in economic development activities. These projects are to address and solve the prevailing problems in health, education and other activities which require these NGOs engagement. The types of project activities are the most important thing for fund raising and attract attentions of donors and getting government support. Survey indicates main activities of NGOs are: 30.76% education, 3.84% agriculture, 7.69% water and sanitation, 26.92% for Child development and 30.76% for HIV/AIDS control. Main sources of fund are: 33.3% donation, 19.04% grants, 9.52% members' contribution and 14.28% other fund raising activities. The result regarding project types indicates that the majority of the NGOs (30.76%) are implementing HIV/AIDS Prevention projects and education followed by children development (26.92%) and least are for, water sanitation and agriculture related projects. Thus, the main project is concerning HIV/AIDS control and education. Regarding the sources of fund the major sources of fund comes from donation and grants and the least from members' contribution and other fund raising activities. The result indicates that the compassion NGOs' financial sources are heavily dependent on grants and donations and less on member contribution and fund raising activities. This implies that there is high risk for sustainability and continuity of project implementation and existence. Furthermore, these NGOs compete for donation and grants for sources of fund and hence must competent enough for compliance with the donors' rules and procedures. The question on financial statements preparation was administered on the NGOs finance staff. The result indicates that all NGOs are preparing these required financial statements. Literature review (FASB 117) indicates that the organization must prepare Statement of financial position, Statement of Activities, Statement of Functional Expenses and Statement of Cash Flow to Indicate the financial position as whole. Furthermore statement of activities is required by Compassion.

**On budget management practices:**

**TABLE 4.2.2**

**Summary of budget related questions and responses:**

Sl No	Questions	Options of Responses					Total response
		Strongly disagree d	Disagree e	Neutral	Agree	Strongly agree	
1	All grant or contract budget proposals are reviewed by finance staff	1(10%)	0 -	2 20%	3 (30%)	4 (40%)	10 (100%)
2	Cash forecast is always prepared for each month, six months and a year for cash need planning for project implementation	1 10%	0 -	2 (20%)	3 (30%)	4 (40%)	10 (100%)
3	The boards formally authorizes the annual budget of the organization	0	0	2 20%	3 (30%)	5 (50%)	10 (100%)

4	Budget monitoring report is done at the end of every month and provided to managers to see actual expenses and performances against budget and activities planned variance analysis used for decisions	0	1 (10%)	1 (10%)	4 40%	4 40%	10 (100%)
5	There are occasions that the organization does not implement activities on the planned time due to delay of fund transfer from the donor	4 (40%)	3 (30%)	1 (10%)	1 (10%)	1 (10%)	10 (100%)

The budget management includes planning and control activities: Forecasting the budget required for implementation of a project, assurance of budget utilization up to the budget and used for the planned activities. Furthermore it is also important as guideline towards the achievement of planned programs and measurement of performance. Budgeting, implementing, monitoring and measuring the performance are the main activities to be done by finance and program staff and requiring the involvement and participation of staff from both technical managerial levels. Budget proposal reviewing and cash forecast preparation related questions were provided to the respondents and the 10% strongly disagree, 30% disagree, no neutral, 40% agree and 20% strongly agree to the statement that the budget proposals are reviewed by finance staff. The responses from the respondents indicate that the finance staffs participation

in budget proposal reviewing is less. This brings about difficulties in having appropriate budget amount calculation and forecasting the required amount of budget. The budget preparation process shall be participant and the finance staff shall involve and participate in budget preparation and reviewing for better budget preparation, implementation and monitoring activities. Various financial management documents indicate the importance of finance staff participation in budgeting process activities, for instance, the finance staff review the costing of planned activities. The responses for cash forecast preparation results indicate as: non strongly disagrees and disagree, 20% neutral, 30% agree and 50% strongly agree.

Thus a considerable number of respondent indicate that cash forecast are prepared and have ideas on cash forecast. Question was asked to respondents that how far they agree that budget is always approved by board .In this respect: non strongly disagree, 10% disagree, 10% said they have no idea, 40% agreed and 40% strongly agreed. Here the considerable respondents indicated there was board budget authorization or have idea on this issue. For having better internal control system, it required budget authorization and monitoring by the board on continuous basis. To be a good and

effective NGO, Board provides a basis for successful management of its organization; familiarizes its target constituents with the activities of the NGO; help in better understanding the organizational structure of the NGO, and also assists in distributing responsibilities among the team members within the NGO organization. One of the main activities of a board in organization leadership is authorization of annual budget in the implementation of project activities. Once the budget is prepared and approved, the implementation process is to be done. The implementation of the budget should be monitored for its day to day implementation to take appropriate decision for its deviations from the planned activities and budget amount. The respondents' results indicate that: 40% strongly disagree, 30% disagree, 10% neutral, 10% agree and 10% strongly agree that delay in project implementation is due to delay in fund transfer. In implementation of projects, sufficient cash must be available for activities implementation at the time of requirement. Thus due to cash shortage activities implementation should not be affected. Researcher has observed that many project implementation activities are affected due to delay of reports between the implementer and the donor. This cash flow also depends on financial management activities and the information flow between the project executer and the donor.

**TABLE 4.2.5**  
**Analysis of Reporting Practices:**

**Summary of Responses on Reporting Practices**

SL No	Questions	Options of Responses				Strongly Agree	Total Responses
		Strongly Disagree	Disagree	Neutral	Agree		

1	Funders/donors transfer funds timely as per the original plan in the implementation of projects	1 (10%)	1 (10%)	-	4 (40%)	4 (40%)	<b>10 (100)</b>
2	There are occasions that organization's external audit report is qualified	1 (10%)	1 (10%)	1 (10%)	3 (30%)	4 (40%)	<b>10 (100%)</b>
3	Financial reports are submitted to the concerned government agency in the right format and	-	1 (10%)	1 (10%)	5 (50%)	3 (30%)	<b>10 (100%)</b>
	on time within three months from the end of the financial year						

4	Monthly financial statements are available no later than the end of the following month	3 (10%)	3 (30%)	1 (10%)	2 (20%)	1 (10%)	10 (100 %)
5	The Board select an independent auditor to conduct an annual audit	-	1 (10 %)	1 (10%)	2 (20%)	6 (60 %)	<b>10 (100)</b>

6	Are financial reports are always submitted to donors on time	-	1 (10%)	1 (10%)	2 (20%)	6 (60%)	10 (100%)
---	--	---	------------	------------	------------	------------	--------------

*(Respondents' summary to the questionnaire (2019)).*

As a means to discharge responsibility and accountability and to show their service giving efforts, operational efficiency and effectiveness and their contribution to the development endeavor of the country, world vision prepare financial Statements and other required reports to provide information to meet the common interest of donors, members, creditors and others who provide resources to not-for-profit organizations. As many literature reviews and the world vision NGOs are required to submit financial

and activities implementation status reports to stake holders: to government agency and funder/donors on time as per the agreements and regulations. Questions for reports related were submitted to NGOs staff for their responses and the responses are summarized: for auditing of financial statement on time 10% and 10% responded strongly disagree and disagree respectively and 40 and 40% for strongly agree and agree. Here, some respondents show that there are gaps on timely auditing financial statement. For a question for whether the audit report is qualified, the responses, indicate 10% and 10% for strongly disagree and disagree and 10% no comment and 30% and 40% for agree and strongly agree. These responses showed that a considerable number of audit reports are qualified, thus there are gaps to be improved and lesser quality of financial reports. Financial reports are to be submitted on time as agreed and required by donors and government bodies. Two questions were given to the respondents on financial reports submission to the concerned government agency in the right format and on time and financial statement availability no later than the end of the following month. The responses are stated here as for financial report submission none for strongly disagree and 10% disagree and 10% for neutral and 50% and 30% for agree and strongly agree respectively. And for financial statements availability 30% and 30% for strongly disagree and disagree respectively and 10% for neutral and 20% and 10% for agree and strongly agree. The results indicate there are gaps on timely financial reports submission and availing of the monthly financial statement, thus delay for financial reports submission leads to delay of fund transfers from the donors and it also affects the project activities implementation. The management of these NGOs is required to pay more attention for timely preparation of financial statements and submission to the concerned partners. In the literature part it is indicated that compassions are required to maintain day-to-day records of financial transactions. They are also required to furnish an annual statement of accounts and annual audit reports to the compassion. Furthermore, compassion is required to submit to the Agency an

annual activity report outlining their major activities and other relevant information along with a statement of accounts. They are also required to renew their license and registration every three years, which is subject to an executive evaluation of the completeness and accuracy of their performance and audit reports.

## **CHAPTER FIVE**

### **5. Conclusion and Recommendation**

#### **5.1 Conclusion**

The research questionnaire was developed and distributed to NGOs to gather the data on the financial management practices. Based on data gathered from the respondents the following findings were realized on the financial management practices: One of the main objectives of these NGOs establishment and existence is to perform projects for people benefits and play roles in economical development activities. The NGOs found most of their project is concentrated on HIV /AIDS program implementation. The NGOs' financial sources are heavily depends on grants and donations and less in member contribution and fund raising activities. This implies that there is high risk for sustainability and continuity of project implementation. The financial statements preparation were not as per the financial management standers for statement for financial position, Statement of Activities, Statement of Functional Expenses and Statement of Cash Flow to indicate the finical position as whole. Lack of participation in budget proposal review by financial staff and lack of cash forecast preparation which may brings about difficulties in having appropriate budget amount calculation and cash need proposals. Lack of board activities in budget approval and monitoring, for which a board activities in organization leadership, authorization of annual budget and monitoring the implementation of project activities are the most important ones for successful achievement of planned projects. The existence of delay in fund transfer to the project implementing partner has negative effects on project implementation timely. There is lack of record keeping for "in kind gifts" received, There is lack of common cost allocation methods for shared costs among different projects benefited from these common costs. There are gaps on timely financial reports submission and availing of the monthly financial statement, thus delay for financial reports submission leads to delay of fund transfers from the donors and it also affects the project

implementation. There is gaps on the board's involvement in assuring fulfillments of world vision & compassion and donators' requirements by the organization. The financial report system is lacking linkage with physical progress reports and delay in submission of financial reports to the donors.

## **5.2 Recommendation**

Effective management of an NGO's resources is done in a manner which is transparent, accountable, equitable and responsive to the needs of the people. Since NGOs aim at becoming sustainable, good governance is critical to their existence. In many developing countries NGOs often lack the institutional capacity and resources to operate. Also, funds from donors are sometimes poorly managed. Thus, in order to ensure effective and proper management of resources, good governance becomes an important aspect of every NGO. A good financial management system makes it easier to be accountable to donors and project beneficiaries, thereby enhancing their respect and confidence in the organization. This, in turn, helps an NGO be more competitive and can increase its chances of maintaining long-term financial health. After analyzing the gaps in financial management practices of NGOs, the recommendations are stated below: The NGOs are required to have well organized and established financial management practices for successful accomplishment of its objectives. NGOs operate in a rapidly changing and competitive world. If their organizations are to survive in this challenging environment, it is required to develop well organized financial management tools. These projects are to address and solve the prevailing problems in health, education and other activities which require these NGOs engagement. Thus, the project types are the most important thing for fund raising and attract attentions for donors and get government support. To be competent and fulfill government and donors requirements the organization must prepare financial statement and reports as per acceptable standards like preparation statement of financial position, Statement of

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

The budget management includes planning and control activities: Forecasting the budget required for implementation of a project, assurance of budget utilization up to the budget and used for the planned activities. Furthermore it is also important as guideline towards the achievement of planned programs and measurement of performance. Budgeting, implementing, monitoring measuring the performance are the main activities to be done by finance and program staff and requiring the involvement and participation of staff from both technical managerial levels. The budget preparation process shall be participant and the finance staff shall involve and participate in budget preparation and reviewing for better budget preparation, implementation and monitoring activities. Various financial management documents indicate the importance of finance staff participation in budgeting process activities, for instance the finance staff to review the costing of planned activities to monetary amounts. Cash forecast preparation is highly important for smooth implementation of activities as planned. Cash forecast document is required for availing them required cash for activities implementation. Thus it is required to avoid project activities implementation delay due to shortage of cash at the right time. For having better internal control system, it is required budget authorization and monitoring by the board and effective board provides a basis for successful management of its organization Financial and activities reports shall be submitted to the concerned government body and donors timely.

The financial management shall include maintain records in kind gifts for implementation of its project activities. As a means to discharge responsibility and accountability and to show service giving efforts, operational efficiency and effectiveness contribution to the development endeavor of the country, world vision and compassion shall prepare financial Statements , other required reports and provide

information to donors, members and others who provide resources in time . Boards' involvement and decision in organizational management; auditing and audit report reviewing issues is vital. The board also at higher managing body level, required to ensure that the organization is fulfilling these requirement and follow up and evaluate the organization's activities in records keeping and reporting. The financial information shall relate with the activities performed, that expenses report shall indicate the activities performed using those resources. Financial reports to be reconciled and linked with physical progress. Hence, establishment of financial management system linking the activities report with the activities performance.

Board should monitor regularly the financial management system of the organization and organization shall develop well organized financial management policies and ensure application of them established policies and procedures. Senior management shall give due attention for financial management systems that has impacts on day to day financial management activities. Organization shall ensure the existence of well-structured segregation of duties and responsibilities that has effects on internal control system, The organizations should have transparent in accounting systems and recruitment.

## **References**

Amedahe, F. K. (2002), Fundamentals of Educational Research Methods. Cape Coast.

University of Cape Coast printing press.

Bradley, J. F. (2009). Administrative Financial Management. Michigan. Holt,

Rinehart and Winston Publishing.

Brigham, E. F. and Gapenski, L. C. (1985), Financial Management. Bangkok; Vicas  
Publishing House PUT Ltd.

Broom, H. N., Longenecker, J. G., (1975). Small Business Management. South- West  
Publishing Company.

Gitman L.J (2007) Principles of Managerial Finance. Newyork; Addison Wesley

Hunjra A. I. (2010), Financial Practices and Their Impact on Organizational  
Performance. World Applied Science Journal.

Lightbody . M (2000). Financial Management in a church Organization. understanding  
their

Experience. Unpublished PHD Thesis University of Adelaide

Mango June 2003 1Mango Course Handbook, Stephenson, 2003

McMahon RGP , Holmes S., (1991). "Small Business Financial Management Practices in  
North

America: "a literature review". Small Business . Management. p .19-29.

Meredith, G.G., (1986). "Financial Management of the Smaller Enterprise". Me Graw Hill,  
Sydney, Australia.

Oduawre U. (2011). Overview of financial management from, < [http://www.isearch.](http://www.isearch.im/pdf/)

chapter -1- overview- Financial – management. htm1>(retrieved January 18,

2011)

Ofori, R. and Dampson, G. D. (2011), Research Methods & Statistics Using

SPSS.Kumasi; Payless Publication Ltd

Organizational-problems-of-nongovernmental-organizations-ngos-.html),Pp 67-71.

Brown D,

Korten D (1989)

Peterson, P . (1984), Financial Management and Analysis. Florida State Un. Press,

Pinches, G. E. (1990). Essentials of Financial Management. Cambridge, Winthrop

Publishers Inc.

Van Deventer, I. and Kruger, A. G. (2005), An educator"s guide to school

management skills. Pretoria: Van Schaik

Washington: World Bank, Country Economics Department,

**Appendix**  
**WOLKITE UNIVERSITY**

**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING**

**Dear respondent,**

I am undergraduate student in the department of Accounting, Wolkite University. Currently, I am undertaking a study entitled **"Assessment of financial management practice of NGO"** and you are one of the respondents selected to participate on this study. Therefore, to accomplish this study your genuine cooperation is very important. Your participation is entirely voluntary and the questionnaire is completely anonymous.

Finally, I confirm you that the information that you will provide will be kept confidential and only used for the academic purpose only. I would like to say thank you in advance for your kind cooperation and dedicating your time to fill this questionnaire. No need of writing your name

**Part I: Demographic Information**

1. Gender: male  Female
2. Age: 18-24  25- 35  36- 50  51- 6  >6
3. Marital status : single  marrie  separated widow
4. Education level: primary high  diploma  deg
5. Occupation : student  trader  farm

## 2. Educational level

SL NO	Question	Options of Responses				Total responses
		Certificate	diploma	BA/BSc	Masters	
2	Finance staff educational					

## 3. Accounting method used

SL NO	Questions	Options of Responses				Total responses
		Accrual	Cash base	Modified cash basis	others	
1	Method of Accounting used					

## 4. Accounting standard in practice

SL NO	Questions	Options of Responses			
		GAAP	IAS	Others	Total Responses
2	Accounting standards used				

## 5. Major sources of funding

SL	Questions	Options of Responses	Total

NO		Donation	Grants	Membersh ip contributio n	Fund raising	Respons es
3	Main sources of fund					

6. Major activities of NGOs relates to :

SL NO	Questions	Options of Responses					
		Educatio n	Agricultur e	Water & salutatio n	Child developme nt	HIV/AIDS alleviatio n	Total respons es
4	Major programs being implemented						

7. Financial statements prepared by NGOs

SL NO	Questions	Options of Responses				Total responses
		Financial position	Statement of activities (revenue and expenditure report)	Cash flows	Statement of functional expenses	

5	Financial statements you prepare					
---	----------------------------------	--	--	--	--	--

On Budget Management Practices:

TABLE 4.2.2 Summary of budget related questions and responses:

SL NO	Questions	Options of Responses					Total Responses
		Strongly disagreed	disagree	neutral	agree	Strongly agree	
1	All grant or contract budget proposals are reviewed by finance staff						
2	Cash forecast is always prepared for each month, six months and a year for cash need planning for project implementation						
3	The boards formally authorizes the annual budget of the organization						
4	Budget monitoring report is done at the end of every month and provided to managers to see actual expenses and						

	performances against budget and activities planned variance analysis used for decisions						
5	There are occasions that the organization does not implement activities on the planned time due to delay of fund transfer from the donor						