

St. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES



ASSESSMENT OF FINANCIAL MANAGEMENT EFFECTIVENESS IN
INTERNATIONAL NON-GOVERNMENT
ORGANIZATIONS IN ADDIS ABABA, ETHIOPIA

BY

MIHRETU BENTI JALETA

SGS/0461/2011A

ADVISOR

ASMAMAW GETIE/ASS. PROFESSOR/

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

JUNE 2020
ADDIS ABABA
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APPROVED BY BOARD OF EXAMINERS

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External Examiner	Signature	Date
_____	_____	_____
Internal Examiner	Signature	Date

DEDICATION

Dedicated to my Father, Benti Jaleta and my wife Birtukan Bizeayehu.

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Asmamaw Getie/ASS. PROFESSOR/. All sources of material used while working on this thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any type of degree.

Name

Signature and Date

ENDORSEMENT

To: St. Mary University

School of Graduates Studies

Title: Assessment of Financial Management Effectiveness in International Non-Government Organizations in AddisAbaba, Ethiopia

This is to certify that Mihretu Benti Jaleta has worked on “Assessment of Financial Management Effectiveness in International Non-Government Organizations in Addis Ababa, Ethiopia” under my supervision. This work is original in nature and it is suitable for submission in the partial fulfillment of the requirement for the Degree of Master of Business Administration.

Research Advisor:

Signature

Asmamaw Getie

Assistant professor of Accounting and Finance

Accounting and Finance Department, St. Marry University

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LIST OF ABBREVIATION/ACRONYMS

CSO	Charities and Societies Organization
ChSA	Charities and Societies Agency
DPPC	Disaster Prevention and Preparedness Commission
INGO	International Non-Government Organizations
NBE	National Bank of Ethiopia
NGO	Non-Government Organizations

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ABSTRACT

This paper seeks to expose the practices of financial management effectiveness systems in international NGO sector in Addis Ababa, Ethiopia, based on the key effective financial management components and reporting requirements; namely Financial Planning, Budgeting, Accounting Records, Internal controls and Financial Monitoring. To achieve this purpose descriptive method of assessment with qualitative and quantitative research approach were used and data were collected by applying random sampling technique, five INGO's were selected from the total population of twenty-three. Interviews with finance managers and questionnaires framework comprising of general information data for background assessment and a Likert scale of 5 levels listing effective financial management assessment questions were distributed to sample selected. The questionnaire responses were analyzed using statistical tools of means and standard deviation as well as frequency tables and the findings of the assessment showed a relatively strong level of good practice in the area of effective financial planning, budgeting, recording, internal controls and financial monitoring. The major find was the issue of meeting the administrative vs program ratio on yearly plans that gets submitted to the ChSA as well as inclusion on yearly audits. This paper is expected to provide the INGO's working in different development sectors detailed assessment tools to monitor each category of the effective financial management building blocks based on the results to better strengthen their system and work out an enabling environment with governing bodies. 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, INGO's should establish a well-organized effective financial management systems: budget management, accounts record keeping, internal control, reporting and monitoring. Senior management group should monitor regularly the financial management system and shall give due attention for strengthening internal control activities. Additionally, it is better for ChSA to make development partners/international NGOs to involve in policy making which govern them.

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

CHAPTER ONE

1.1.INTRODUCTION

The term “No-governmental organization” started to be in use since 1945 when representatives of fifty countries met in san Francisco at the united Nations Conference on international organization to draw up the united nations charterand the name mostly refer to International Non-Governmental organizations/INGO/.International Non-government organizations are important institutional players in non-formal interventions including health, education, tertiary and primary care including aged, policy and institutional building, governance awareness, etc(www.un.org).

Many of these organizations are run under state government trust acts. There are several stakeholders involved in functioning and growth of the INGO. The board and management are focused on raising funds and deploying them to meet the objectives of the INGO. The donors are interested in channelizing their contributions through INGO to meetsocial interventions deemed appropriate. As, in most countries, only rather basic legal requirements for the set up and running of INGOs exist, INGO accountability is primarily enforced through self-regulatory mechanisms and internal rules and procedures, which therefore need to be carefully, assessed in terms of their effectiveness in managing inappropriate activities. This includes looking at the organization’s governance structure and standards, independence, integrity policies/codes of conduct, transparency standards, human resource management policies, financial management standards and downward accountability measures.For the organization to be accountable, it must explain how it has used its resources and whatit has achieved as a result to all stakeholders. 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 INGO be more competitive and can increase its chances of maintaining long-term financial health(www.worldbank.org).

“Effective and Efficient financial management is the backbone of any entity’s growth driver.” Fiador, (2013).Thus, effective 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, an effective 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(Lewis T., 2013).

As these INGOs are receiving huge amount of funds and as major financial crises have shaken the different nonprofit organizations in Ethiopia, it becomes essential on the part of these INGOs to have greater financial transparency and effectiveness and observable sound financial management practices in their working(Luke K.,2019).

On to top of these, in Ethiopia, International non-Government Organizations (INGO's) must make strategic choices regarding their resources by identifying priority activities, donor's interest & Government and Charities and Societies (ChSA) reporting requirement. Even within the Civil Society Organization (CSO) itself, the different departments compete for resources with maximum approved ceilings and having in place a good financial management system is expected to provide needed tools in order to make timely decisions on fund allocation as well as monitoring performance that adhere to the reporting requirements set by Donors and Government. The financial processes of recording, planning, monitoring and controlling must be done on an ongoing basis in conjunction with other functions of the organization for maximum impact to achieve the objectives of the organization(Kishore N., 2017).

1.2. STATEMENT OF THE PROBLEM

In now days, the issue of sustainability which means that the ability of an organization to fulfill its mission and serve its stakeholders over time, is the major concern of International non-governmental organizations (INGOs) in Ethiopia (Mengesha A., Raman K., Fitsum A., 2014). Beside these, the role played by INGOs in the development work of the country has a significant relationship with economic development of the country. According to Nwezeaku (2010) the persistent underdevelopment of the economies of sub-Saharan Africa can be explained by financial management failure.

According to the National Bank of Ethiopia (NBE) annual report 2018/2019, when we analyze the total net transfer by year, the Net transfer for the last five years/2015-2019/ has a trend of decreasing by 7.9 in total NGO transfers of both Cash and Food Aid (www.nbe.gov.et).

“Effective and efficient financial management is the backbone of any entity’s growth driver.” Fiador, (2013). Additionally, according to Lewis (2013) “effective and accountable Financial Planning and Monitoring System is the basis for an NGO accountability and sustainability. NGO’s operate in a rapidly changing and competitive world. If the organizations are to survive in this challenging environment, and every INGO is strongly dependent on a close and trusted relationship

with its donors and government, managers need to develop the necessary understanding and confidence to make full use of financial management tools effectively. Accordingly, as a study conducted by Yesuf Ahmed (2015), INGOs are at times unable to undertake the activities as per the plan resulting funds underspent or overspent because of the instability issues in Ethiopia, regardless of all the effort to follow the agreement. And INGOs may be forced to request no cost extension in cases of underspent and cost extension in cases of overspent with possible budget amendment which can be considered as ineffective in implementing projects in accordance with the agreement stipulated with the donor. These results endanger the good relationship between the INGOs and its donors. Underspent funds are returned to the donor and overspent funds are not refunded to the INGOs. It is therefore an area of concern why International non-government organizations are unable to implement the budget they prepare through the implementation of consistent budget monitoring to control the burn rate comparable with the implementation of the planned activities. Beside these, according to UN (2018) report, most International and local NGOs which dependent on donors are faced with the challenge of sustaining their projects and programmed due to stringent financial and accounting procedures set by the donors.

Hence, this paper attempt to find out that effective financial management in Ethiopian INGOs are effective in applying the purposes of financial management in their financial system practices through examining the financial planning, coordination, communication, control, evaluation and motivation in the INGO sector which demands involvement of both program and finance staffing in the planning and monitoring process, to revise old procedures and trends of spending, capacitating managers with additional tools to enable them to monitor their expenditures and overall coordinated effort to reduce administrative costs and increase performance.

On the other hand, Limited studies have been done on assessment of INGO effective financial management practices in the Ethiopia context. Most INGO's are expected to be equipped with better financial management systems as compared to local NGO's. But the challenge of meeting local reporting requirements specially for those INGO's working in technical capacity provision to different government ministries is still pending decision by the ChSA. Therefore, this necessitated this study which sought to establish effectiveness on financial management in International Non-Governmental organizations in Addis Ababa, Ethiopia.

1.3. RESEARCH QUESTIONS

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

1. How does the budgeting process link with the financial planning process and financial management effectiveness?
2. How does the accounting record have effects on financial management effectiveness?
3. How does internal controls practice have effect on financial management effectiveness?
4. What are the strengths and weakness of the INGO in terms of maintaining an effective financial management system?
5. What type of mechanisms do they have in place to monitor their financial management effectiveness?

1.4. OBJECTIVE OF THE STUDY

1.4.1. GENERAL OBJECTIVE OF THE STUDY

The general objective of this study is to assess the financial management effectiveness of INGO's in Addis Ababa. The study will discuss the effectiveness of financial management process Causing on the building blocks of the financial management process.

1.4.2. SPECIFIC OBJECTIVE OF THE STUDY

To achieve the general objectives, the study also has the following specific objectives, these are

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

1.5. OPERATIONAL DEFINITIONS OF TERMS

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

Account – A record of monetary transaction, either written into a book designed for the purpose or entered onto a computer file (Lewis, 2013).

Audit – A formal check of the accounts by an independent entity (Lewis, 2013).

Balance Sheet – A summary of the financial position of an organization at a date, showing the assets owned by the organization and the liabilities (or debts owed to others) (Lewis, 2013).

Bank Reconciliations – The Process of comparing the entities and ending balance in the cashbook with the bank statement and identifying any differences. It provides an important check on the completeness and accuracy of the cashbook entries (Lewis, 2013).

Budget- A best estimate of the amount of money that an organization plans to raise and spend for a set purpose over a given period (<https://en.wikipedia.org/wiki/Budget>)

Budget holder – The individual who holds the authority and has the responsibility for managing, a budget for a specified activity, project, program, department or organization (Isle of man government, 2019).

Cash flow forecasting– This is the NGO’s expected cash inflows and outflows over a given period. Usually cover 3- 6 months (Mohammad R., 2013).

Evaluation- The World Bank defines Evaluation as the systematic and objective assessment of an on-going or completed project, program, or policy, and its design, implementation and results. The aim is to determine the relevance and fulfillment of objectives, development efficiency, effectiveness, impact, and sustainability (Paul J. Gertler, Sebastian M., Patrick P., Laura B. Rawlings and Christel M. J. Vermeersch, 2011).

Financial Planning & Forecasting – The blue-print of what an organization proposes to do in the future. It can be an estimation of cash needs and decision on how to raise the cash. It can refer to annual projection of income and expenses (Jack Clark Francis,2018).

Internal Controls – The plan of organization and all the methods and procedures adopted by the management of an entity to assist in achieving management objectives of ensuring as far as practicable, the orderly and efficient conduct of its business, including adherence to management

policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of accounting records and the timely preparation of reliable financial information (Soudan, 2013).

INGO – International Non-Government organizations that can fall under the category of voluntary, not for profit, non-self-serving, non-governmental and independent organizations or association involved in the promotion of social justice and development. Nonprofit literature the term “voluntary organization” is commonly used for domestic third sector organizations. NGO’s literature the umbrella term “Non-governmental organization” is generally used throughout, although the category ‘NGO’ may be broken down into specialized organizational sub groups such as “public service contractors”, “People’s organizations”, “Voluntary organizations” and 9 even “Governmental NGO’s” or “Grass roots support organizations” and “Membership support organizations” (Lewis, 2013). The World Bank defines NGO’s as “private organizations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services or undertake community development (www.worldbank.org).

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

1.6. SIGNIFICANCE OF THE STUDY

The significance of this research is explained in terms of the important role of effective financialmanagement system need that can respond to various reporting requirements. The intendedbeneficiary of this study is the CSO community both local and international that will review thecontents of this study as findings are expected to serve as benchmark to establish effective financialmanagement practices after comparing with own organizational capacity. This research is alsoexpected to shed light on current financial management practices of INGO’s and the conditionsthat sustain these practices. It is expected to give highlights to the current strengths andweaknesses existing during financial planning, execution and monitoring as well as internalcontrol measures in place and

this study is expected to be used as a reference to see areas offocus to make change on reporting requirements that are in line with internationally acceptedaccounting and finance reporting requirements. The analysis and recommendation from theresearch are also expected to assist INGO's operating in Ethiopia to reinforce their financialmanagement systems and is expected to be a source document for future similar studies.

1.7. SCOPE OF THE STUDY

The primary focus of the assessment is onthe effective financial management practices of INGOs in Addis Ababa, Ethiopia. The assessmentincludes the financial managementactivities: budgeting and planning, accountsrecord keeping, financial control andreporting practices of them. It focuses onthe compliance issues in the accounting andreporting practices accordingly guidelines,rules and regulations required by CHSA anddonors' accepted accounting standards. This assessment presented themajor findings in financial managementpractices and provided recommendations. On top of these, this research focuses on five purposefully selected INGO's having multiple and diversified programs with huge amount of foreign aid in different intervention sector in Ethiopia. Considering accessibility issue the researcher decided to contain the selection to those INGO's in Addis Ababa mainly at Head Office level.

1.8. LIMITATION OF THE STUDY

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

- Time it took to arrange interviews to the five offices under study and availability of interviewee as most were staying a home due to the current situation COVID-19, and this made difficult to conductinterviews for the selected NGOs staffs timely.
- Some of the respondents failed to return questionnaires, hence it decreases the reliability of the study somehow.

1.9. ORGANIZATION OF THE RESEARCH REPORT

The research is organized into five chapters. The first chapter provides brief background to the study, explains the research problem, discusses objectives of the study, research questions, significance of the study, and identifies the scope of the study. The second chapter reviewed theories and previous researches done around Financial Management. Chapter three presents the design of the research-methodology adopted in the study which covers the research design, population and sampling technique, data source and data collection techniques, and methods of data analysis techniques. Chapter four summarizes the results/findings of the study, and discusses the findings linked with the literature review as well as summary. Finally, chapter five includes the conclusions and recommendations of the study.

CHAPTER TWO

LITRATURE REVIEW

2.1. EFFECTIVE FINANCIAL MANAGEMENT DEFINITION

Effective financial management is an integral part of overall management. It is concerned with the duties of financial managers in the INGO`s. interestingly there is no single definition of financial management, but below there are some selected definitions of effective financial management:

Brealey (2011), "Effective financial management is the process of putting the available funds to the best advantage from the long-term point of view of business objectives. It could be argued that the above definitions have shortcomings since the authors ignore the aspects of financial management that places premium on the acquisition of funds as part of financial management core functions. Therefore, based on Joseph and Massie`s idea Siminic M., Motoi A.G. and Dumitru A., (2017) insist that financial management "is the operational activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for effective operations. Another author who also considers the acquisition of funds as part of financial management is Maheshwari (2011). He defines financial management as being "concerned with raising financial resources and their effective utilization towards achieving the organizational goals". The latter definitions Rajni S., Preeti H., (2016) suggest that meanings of effective financial management revolve around how effectively and efficiently an organization`s funds are utilized to create wealth for investors and cash budget plays a vital role in fulfilling this objective.

2.1.1. THE ROLE OF EFFECTIVE FINANCIAL MANAGEMENT IN INGO`S

The international Non-Governmental Organizations/INGO`s/ goal can be achieved only with the help of effective management of finance. According to 2019 African Union forum, the roles of financial management amongst others asserts that financial management carries out the following roles:

- To ensure efficient usage of funds in all units of an organization;
- To evaluate the financial implications of decisions made by management.

- To monitor organizations' financial performance to minimize deviations from budgeted performance.
- To determine to keep track on items of expenditure for which cash of an organization is used for;
- To foster and maintain financial stability based on Organization's cash flow;
- To establish optimum capital structure as well as their sources of funding at the lowest cost and at their appropriate time.

2.1.2. ELEMENTS OF EFFECTIVE FINANCIAL MANAGEMENT

2.1.2.1. CONSISTENCY

Lewis (2013) states that “the financial policies and systems of an NGO must be consistent over time. Inconsistent approaches to financial management could be a sign that the financial situation is being manipulated.”

2.1.2.2. ACCOUNTABILITY

Hella A., Sander de L. and Wout D.(2020) states “Performance Measurement is critical to NGO Accountability. Lewis (2013) defines accountability as “the moral or legal duty placed on an individual, group or organization to explain how funds, equipment or authority given by a third part has been used.” Kwasi awuah-werekoh (2014) also support the importance of accountability linking it with scarce resources in the NGO sector. They stress that as resources are becoming scarce NGO's are facing a lot of pressure for greater accountability for program impact and quality. Erik P. Gilje, (2016) also confirmed this by stating “Performance Management is critical in the nonprofit sector due to increasing competition from a proliferating number of agencies, all competing for scarce donor funding and increased demands for accountability of donors, the media, and the public in general.”

2.1.2.3. TRANSPARENCY

Khagram, S.; Fung, A. and De Renzio, p. (2013) state that budgets can only be considered transparent if they are easily accessible to participants involved in the decision-making process and represent consolidated information. “Transparency includes preparing accurate, complete and timely financial reports and making them accessible to stakeholders, including beneficiaries. If an organization is not transparent, then it may give the impression of having something to hide.” (Lewis, 2013).

2.1.2.4. VIABILITY

According to Lewis (2013), to be financially viable, “an organization’s expenditures must be kept in balance with incoming funds, both at the operational and strategic levels. Viability is a measure of the NGO’s financial continuity and security.”

2.1.2.5. INTEGRITY

“The integrity of financial records and reports is dependent on accuracy and completeness of financial records.” Lewis (2013).

2.1.2.6. STEWARDSHIP

According to Zadek (2013), “the importance and sensitivity of financial management to an entity’s quest for growth has in recent times brought the issue of financial governance and accountability to the forefront of the stakeholder issues”. The importance of good stewardship of financial resources is also recent times focus due to the financial crisis that happened nowadays. Financial stewardship defined by Lewis (2013) is “taking good care of the financial resources it is entrusted with and making sure that they are used for the purpose intended.” One of the important frameworks required by donors is the availability of good governance and accountability of donor funds which is generally embodied in a comprehensive financial management system (Kihato and Rapoo, 1999).

2.2. BUDGETING AND EFFECTIVE FINANCIAL MANAGEMENT

A budget is simply a “plan in numbers”. Budgets enable the organization to allocate resources according to strategic areas of priority in INGO’s. As goes the saying “A budget tells your money where to go; otherwise you wonder where it went”. An organization should develop budgets for each department or project, based on the plans for the year. These are then consolidated into a master budget and approved by the Board. During the year, to implement the approved annual budget, mini budgets should also be prepared based on the events that are set to be conducted. As a rule of thumb, a good budget is one that a person who did not prepare it can implement it without referring to the preparer for clarity. In other words: it should be easy to read and understand, the calculations should be clear, the costs should be justified, and explanatory notes made for assumptions. Good practice in budget preparation requires involvement of staff from various departments to enhance ownership and ease implementation.

ACCA (2012) emphasizes that a company needs to produce a cash budget in order to guarantee that there is enough cash within the business to achieve the operational levels set by the functional budgets. This makes cash budgets not just an imperative financial management apparatus but supreme to all functional budgets necessary for effective financial management. This is because funds are first and foremost required before any budget can be executed. CIMA (2018) officially describes a cash budget as ‘A detailed budget of estimated inflows and outflows incorporating both revenue and capital items. In another definition, Riley (2012) extends this definition by adding the expected outcome of a budget. The author defines Cash budget as “a financial budget prepared to calculate the budgeted cash inflows and outflows during a period and the budgeted cash balance at the end of the period”. From the definitions above, it could be inferred that cash budget is a financial plan that summarizes estimated receipts and payments over a given period.

There is empirical evidence that supports the fact that financial management effectiveness can make the budget more realistic and achievable. Literature reveals that the relevance and indispensability of budgets and budgeting in the public sector of Ghana generally and the Ghana health service which is the focus of the study fostered to ensure that budgets are well linked to strategic priorities and appropriately costed through proper and effective financial management practices (Williams A., Ramatu A., Hussein S. and Babonyire A., 2019).

On top of this, also an empirical appraisal were conducted in India on financial planning and control practices of selected INGO`s. and it shows the extent of planning and budgeting practices in the NGOs. Twelve (86%) respondents opined that the planning and budgeting practice of including a plan of expenditure and income for all the project proposals for organizing a specific activity/event was practiced 'most of the times,' while one (7%) respondent opined that it was practiced 'sometimes,' and one (7%) respondent stated that it was 'never' practiced. This budgeting practice has a mean of 4.57, indicating that majority of the NGOs practiced it 'most of the times'. Similarly, the practice of circulating a plan among all the members of the INGO`s and formally getting it approved was also found to be practiced 'most of the times,' with a mean of 4.29. A plan is prepared for all the expenditures needed to run the association for the coming year (mean= 4.21). This practice was also found to be implemented 'most of the times' in the NGOs under study (Bharathi Karanth,2016).

2.3. INTERNAL CONTROL AND EFFECTIVE FINACIAL MANAGEMENT

Every organization faces threats that could deter it from achieving its set objectives. Some are within the control of the organization while others are not. Internal controls are; therefore, all the actions taken by the organization to prevent or detect or correct these threats to the organization that are within its control. Internal controls include: checks conducted by management such as reviewing financial reports; limitation of access to unauthorized persons; carrying out reconciliations of positions that should ideally be the same, for example a cash count to the actual cash; physical verification, for example of fixed assets; authorizations and approvals of transactions; use of standard documents; and segregation of duties.

Internal controls in effective financial management of INGO`s are very crucial because errors and fraud can and do occur, it is therefore important for any organizations to establish safeguards to ensure that they adequately meet the fiduciary responsibilities such as maintaining the financial books and records of the plan and filing complete and accurate annual return/reports. This can be accomplished by implementing effective internal control (AICPA, 2018) which is hinged on a framework model with the components including; Control Environment, Risk Assessment, Control Activities, Communication & Information and Monitoring.

It is fundamental to remember that internal control is a process which benefits the organization by providing reasonable, not absolute assurance effective financial management; it's a means to an end,

not an end that is geared toward the achievement of objectives. Internal control is affected by people at every level, not merely policy manuals and forms.

Furthermore, in Ghana Post Company Limited, the result of the research conducted shows all the respondents strongly agree that internal control systems exist within the company to aid in the financial management effectiveness of company (Kwakye E. Ag., 2017). Additionally, the study on *The Impact of Internal Control System on the Financial Accountability of Non-Governmental organizations in Nigeria: Evidence from the Structural Equation Modeling*, reveals that the responses of respondents rated all internal control mechanisms outlined in survey adequate with high mean as indicated in the study except staff welfare and development, effective communication, documentation and filing, tax practices and petty cash practices which were rated low as evident by low means of 3.02, 3.04, 3.06, 2.91 and 2.81 respectively. The implication for these low mean in staff welfare and development is that the employees in such organizations will be demotivated as they will not fully committed or could even leave for sisters' organizations where attractive pay packages and staff development are prioritized (Abdulkadir A., Zakariyah A., 2019).

Thus, as most of the study conducted shows emplacement of good internal control mechanism plays significant role in financial management effectiveness of INGOS.

2.4. ENABLING ENVIRONMENT AND EFFECTIVE FINACIAL MANAGEMENT

The environment in the organization should support effective financial management practices. This may include having a clear and appropriate organizational structure; Board members and Management who lead by example and do not manipulate the systems; proper integration between finance and non-finance departments; suitable working environment.

INGOs operating in countries affected by endemic corruption and trite of theft are likely to face higher challenges than other INGOs. Similarly, risks of financial management failure may be different for different NGOs, depending on the nature of their activities, their sector of intervention or the type of operations. For example, advocacy NGOs may be confronted with risks of different nature than organizations providing humanitarian relief or delivering health or education services. Therefore, donors need to conduct an in-depth analysis of the country, region or locality where the programmed will take place, as well as a comprehensive risk mapping exercise of the sector and activities planned, using a mix of quantitative and qualitative indicators to in place effective financial management.

Here also, literature empirically evidenced that the corporate environmental performance has a relationship with the financial management effectiveness. Approximately Ninety-Five (95%) of the study which was conducted a meta-analysis of 52 studies over a 35-year period that confirms a positive relationship between environmental performance and financial management performance (Elisabeth A., 2013).

2.5. ORGANIZATIONAL CULTURE AND EFFECTIVE FINANCIAL MANAGEMENT

A saying goes that “Culture eats Strategy for Breakfast”. One could as well add that “Culture eats Systems for Lunch”. However good the Hard or Core financial management components discussed above are, if there is no culture of integrity, accountability, transparency and stewardship, among others, the organization would still have a weak financial management system. For instance, the internal controls may require that one returns a receipt as evidence of a payment made, if there is no honesty, the person could submit a receipt that is fraudulently inflated, hence causing financial loss to the organization.

Organizational culture is a system of shared assumptions, values, and beliefs, which governs how people behave in organizations to have effective financial management. These shared values have a strong influence on the people in the organization and dictate how they act and perform their jobs. Organizational culture is argued to be unique to every organization and is widely agreed to compose of seven key characteristics commonly known as the organizational orientations. These include organizational orientations to risk, precision, achievement, fairness, collaboration, teamwork, competitiveness, and rules (Stafford & Miles, 2013 and Hofstede & Hofstede, 2010).

2.6. STAFFS AND FINANCIAL MANAGEMENT EFFECTIVENESS

There is need for staff that has the right values, attitudes, skills, experience and knowledge to handle financial management roles. This also includes staff that fall in departments other than finance but have financial management roles to play such as authorization of expenditure, preparation of budgets, and review of financial reports, among others. The organizations must conduct finance for Non-Finance Managers’ training to demystify financial management for the non-finance staff that may not possess the requisite skills to conduct their roles; however, it is anticipated that the Effective Financial

Management is fully operational with the integrated components of financial management mentioned above.

Moreover, according to the study conducted by Benedict Arthur, the quality of Financial Management staff and their responsibility is the most effective financial management indicator at YMCA (Young Men's Christian Association) of Ghana even though all the other indicators which are Funding Agreement, Bank, Cash handling and Transactions, Stock inventory and management and financial planning and budgeting function well in the organization. The average of the responses for all the indicators of financial management systems was 1.67 signifying that the respondents “agreed” that the current financial management and control system at YMCA Ghana is effective (Benedict Arthur, 2020).

2.7. ACCOUNTING AND FINANCIAL MANAGEMENT EFFECTIVENESS

This is also referred to as bookkeeping, this relates to the process of organizing transactions in a manner that enables the organizations make sense of the financial transactions taking place. The transactions should be captured in standard accounting documents (payment vouchers, goods received notes, stock issue vouchers, receipts, etc) and categorized using various meaningful criteria (such as by transaction type, department, location, etc). The organization should have accounting software suitable for its financial reporting needs. The documents supporting the transactions should be adequately filed, both physically and electronically, in an orderly manner that enhances easy retrieval.

Here also empirically literature shows the extent of accounting practices adopted by the NGOs. Accordingly, thirteen respondents constituting 93% of the sampling units rated the accounting practice of providing a supporting document for every expenditure transaction of the current financial year as 'always,' specifying that it was the most prevalent practice, while one (7%) respondent treated this practice of being implemented 'most of the times'. This practice received the highest mean of 4.93, indicating that it has been followed 'most of the times' by the respondents under study. It was also observed that rest of the accounting practices like stock recording and control system for items owned by the association (mean= 4.29), cashbooks are updated at least on a monthly basis (mean = 4.86), the date, description, and amount of each transaction are recorded in a cash book (mean = 4.89), availability of supporting documents for at least 5 years (mean = 4.71), filing and easy accessibility of

bank statements and letters (mean = 4.36), all income transactions deposited in the bank account (mean = 4.64), availability of supporting document for every income transaction (mean= 4.86), filing of supporting documents and easy accessibility of the same (mean = 4.79) were found in the NGO`s under study 'most of the times'. Of all the accounting practices, the practice of making payments by cheques for all the expenditure transactions, except for small expenses (e.g. below ` 50) received a mean of 3.93, indicating that this practice was used 'sometimes' only. The study reveals that the NGOs did confirm to the accounting practices in a better way need of financial management effectiveness by rating major practices as very important (Bharathi Karanth,2016).

REPORTING AND FINANCIAL MANAGEMENT EFFECTIVENESS

Periodically, it is important for the finance department to prepare and share financial reports with the relevant users to guide their decision-making. The Board of Directors, Management, Banks (or Donors), Clients (or Beneficiaries), Government, among others, all have differing financial information needs. These may include: to ascertain the performance of the organization against the budget; to keep tabs with whether or not it has adequate funds to meet liabilities as and when they fall due; to find out whether it is using various resources effectively and efficiently for the achievement of objectives; to confirm that the organization is meeting its statutory obligations, etc. The finance department should bear the various users of reports in mind as it determines the depth, simplicity, frequency and format of the financial reports.

Regarding the extent of reporting practices/techniques among the INGOs, empirical study conducted shows that, the practice of INGOs annual audited accounts are approved during the annual general meeting was accepted as 'always' by 13 (93%) respondents, while one (7%) respondent rated it as being practiced 'sometimes'. This reporting practice received the highest mean of 4.86, indicating that it was practiced 'most of the times' by majority of the NGOs under study. Similarly, the practices like circulation of the income and expenditure report in every executive committee meeting (mean= 4.29), circulation of receipts and payments account (mean= 4.21), submission of financial reports for specific projects (mean= 4.07), possibility of query by the members on the interim report (mean= 4), possibility of the query on the items in the annual audited accounts by the members during the annual general meeting (mean = 4.64) were found to be practiced 'most of the times' in the NGOs under study. The practices like provision of a report, comparing the budgeted and actual figures to executive committee members (mean=3.5); the practice of minuting the suggestions, decisions, or action points

in response to the report (mean=3.93) ; the practice of circulating an income and expenditure report and receipts & payments account among all the members of the association (mean=3.64) were found to be practiced 'sometimes' in the NGOs under study (Bharathi Karanth,2016).And this study results shows that reporting has play great role in financial management effectives.

Finally, Financial management effectiveness at the level of INGO`s is an indicator that, seen as a component of NGO`s program performance, gives us clues about how the organization has conducted its activities, and whether it hasreached its financial targets set for the period or not. Thus, the consideration of financial management effectiveness gainsimportance.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1. RESEARCH DESIGN

This study used descriptive research method as the study aim to assess the effectiveness of good financial management practices of INGOs. The research has questionnaires and interview. The questionnaires were designed using Likert Scale of 1-5 from strongly disagree to strongly agree as well as some close ended questions to assess organizational profile. The questionnaires were filled in by the finance staffing both at management level and middle level to get both perspectives as well as department heads of the budget holding units. The finance heads of the INGOs under study were interviewed to supplement and expand data which could not be addressed in the structured questionnaire. Strength and weaknesses of financial management practices of Five selected INGOs in Addis Ababa having multiple and diversified programs and running huge amount of money under different donor disciplines are the target of the study.

3.2. RESEARCH APPROACH

Both qualitative and quantitative methods were used in this study. By qualitative data, the description was in words rather than numbers and the researcher believes this is helpful to go beyond the statistical results in the quantitative research.

Quantitative data was collected through distribution of a questionnaire which was believed to give respondents the freedom to reply to questions genuinely. The questionnaires were hand delivered to the five organizations finance staffs and program staffs under study to obtain information relevant for this study.

3.3. SOURCE OF DATA AND DATA COLLECTION METHOD

In Preparation of this study, data were collected from both primary and secondary data sources. Primary data were obtained through questionnaires and interviews by using purposive sampling techniques by identifying those staffs related to the financial management activities. These five

finance staffs and five budget holders are the focal source of the data for the study and this process helped to secure first-hand information about their perception, practical experience and comments on the process of financial management in each INGO. In addition, five Finance Heads of the selected INGO's were interviewed to get additional information and challenges of financial management activities. The questionnaires are designed and tailored to fit the research questions and were enriched from guidelines for good financial management practices 30 sited on the handbook for NGO's created by Lewis (2013) for Mango institution. Specifically, related financial management measuring frameworks were extracted from questionnaires used by the Non-Profit Association of Oregon (www.nonprofitoregon.org) to assess NGO financial performance were tailored. This was selected by the researcher as these types of questionnaires are frequently used as the best assessment tool by donor/funding organizations. This framework is expected to provide a reference point from which deviations from or otherwise as regards financial management is compared.

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

3.4. TARGET POPULATION AND METHOD OF SAMPLING

The target population of this study is 5 International Non-Governmental/INGOs/ in Addis Ababa Ethiopian, and these total target population of the financial staffing as well as budget holder management staffing in the 5 INGOs selected out of the 23 listed INGOs working in Addis Ababa being having multiple projects and huge amount of funds 55 staffs are selected. This total population was confirmed through preliminary assessment researcher did, as particulars of the assessment questionnaires could only be responded by those finance staffing and those working as budget holders.

3.5. METHOD OF DATA ANALYSIS

To make the research to be more coherent and attractive, the researcher was used both qualitative and quantitative data analysis methods. Both-data analysis methods are described as follows.

3.5.1. QUANTITATIVE DATA ANALYSIS

Questionnaires were distributed to respondents and close follow up were invested using researcher's network at each INGO in order to extract all needed information and data for the research to ensure total collection of distributed questionnaires. Questionnaires used by the Non-Profit Association of Oregon (www.nonprofitoregon.org) to assess NGO financial performance were tailored as these questionnaires are internationally recognized as all comprehensive and have been adopted by different international major donors. The researcher believes this enabled the study to compare results against acceptable standards. Likert scale of 5 stages from strongly disagree to strongly agree was used to analyze the strength and weakness of the financial planning, accounting records, budgeting process, monitoring and internal controls of the selected INGOs. Upon collection of all data, the data will be processed, edited, classified and organized in order to enable the researcher to interpret and summarize the data. The collected raw data were classified and compiled to make assessment manageable and understandable using Statistical Package for Social Sciences (SPSS) as well as Excel. Descriptive statistics using percentages and frequencies as well as mean and standard deviation will be used to analyze the data.

3.5.2. QUALITATIVE DATA ANALYSIS

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

The qualitative data analysis process involving preparing the data for analysis, checking for the alignment of responses of interview with the questionnaires, representing the data and making interpretation of the information secured. The researcher edited the interview response to check for any omission or inconsistencies.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This study was done to assess the financial management effectiveness of selected INGOs in Addis Ababa and this chapter presents the findings of the collected data and analysis and interpretation performed based on the findings. Forty (40) questionnaires were distributed to finance staffs as well as program budget holding staff responsible for finance within the selected INGOs and out of the distributed questionnaires Thirty-Three(33) were collected. These represent about 85% percent response rates which is acceptable given 100 percent of the population were targeted. In-addition according to gridlines given in the article “Small Sample Techniques” published by the NEA Research Bulletin, at the minimum 63 responses are acceptable as representative out of the opinion of 40 targeted population and researcher has been able to collect 33. In addition comparing against the study made by Fiador (2013), which focused on finding the determinants of financial governance practices made in Ghana, 42 out of targeted 60 NGO’s responded which represents about 70% response rate and this rate was accepted for the study and based on this background findings, researcher has continued with 88% representation percentage.

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

4.1. RELIABILITY TESTING

For this research Cronbach’s alpha is used to test the consistency or reliability of the responses. Cronbach’s alpha is a measure of internal consistency. A reliability coefficient test of 0.70 or higher is considered “acceptable” in most social science research situations Cronbach (1951). Accordingly, reliability testing in order to check the consistency of the responses was made using the data collected in SPSS and the following table provides the result of the test.

Table 1 **TABLE 4.1 Scale: All variable case processing summary**

		N	%
Cases	Valid	31	93.9
	Excluded	2	6.1
	Total	33	100.0

a. Listwise deletion based on all variables in the procedure.

Table 2 **TABLE 4.2 Reliability statistics**

Cronbach's Alpha	N of Items
0.930	43

As stated above a minimum result of reliability coefficient test of .70 was set as an acceptable range for this research and result shows a .930 reliability test result as shown in table 4.2. This assessment is concluded with this high rate consistency rate though 2 exclusions identified in the case variable deletions which is accepted as 93.9% or 31 responses out of 33 collected questionnaires of the all variable case assessment are valid.

4.2. GENERAL ORGANIZATION AND RESPONDENT’S INFORMATION.

4.2.1. NUMBER OF YEARS OPERATING IN ETHIOPIA

International NGOs have been operating in Addis Ababa Ethiopia being involving in different development sector with multiple programmatic activities to filling gaps of system development and quality service provision for some years now. The questionnaire distributed requested each respondent to reply for how long their organization has been operating in Ethiopia and their responses are presented in the following table.

Table 3 **TABLE 4.3. Total number of years organization is operational in Ethiopia**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1-5 years	2	6.1	6.1	6.1
11-15 years	4	12.1	12.1	18.2
>20 years	27	81.8	81.8	100.0
Total	33	100.0	100.0	

Source: Survey data (2020)

Table 4.3 shows that the organizations under study have worked at the minimum more than one year. 6.1% of the organizations under study have worked in the range of 1-5 years, 12.1% have worked 11-15 years and about 81.8% have worked greater than 20 years. As most of the INGO's have extensive work experience globally and the minimum number of years is more or equal to one year the researcher believes this will give credible assessment result for review of financial management practices given their total experience in local context.

4.2.2. TOTAL NUMBER OF INTERVENTION REGIONS/CITY ADMINISTRATIONS

Table 4 **Table 4.4. Total regional coverage**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1-3 Regions	4	12.1	12.1	12.1
4-6 Regions	10	30.3	30.3	42.4
7-9 Regions	19	57.6	57.6	100.0
Total	33	100.0	100.0	

Source: Survey data (2020)

As per the table above most of the INGOs under this study worked between 1-3 regions & city administrations signifying 12.1% response ratio. 30.3% responded that they worked between 4-6 regions/city administrations and 57.6% indicated they worked in 7-9 regions/city administrations. The

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

4.2.3. EDUCATIONAL BACKGROUND

Table 5 **Table 4.5. Educational Background of responder**

	Frequency	Percent	Valid Percent	Cumulative Percent
Degree	9	27.3	27.3	27.3
Valid Masters	24	72.7	72.7	100.0
Total	33	100.0	100.0	

Source: Survey data (2020)

The table above shows that majority of the respondents (27.3%) have at the minimum a degree qualification and 72.7% have a master's qualification. It can be observed that attention has been paid to the Human Resource element for the minimum level of qualification required by the INGOs under study because at the minimum a responder holds a bachelor's degree. As well this information has enabled the researcher to proceed with the study as the respondents have the best educational background and qualification to address the questions on the questionnaire which needed in-depth knowledge of the effectiveness of financial system.

4.2.4. FREQUENCY OF FINANCE ACTIVITY REVIEW

Table 6 **Table 4.6. Finance document review frequency**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Daily	19	57.6	57.6
	Monthly	12	36.4	93.9
	Annually	2	6.1	100.0
	Total	33	100.0	100.0

Source: Survey data (2020)

The above data in the table reveal that more than half of the total respondents work on/review finance documents daily. 57.6% confirm reviewing financial documents or reports on daily basis, 36.4% state that they review finance documents at least on monthly basis. Only 6.1% of the total respondent's state that review is made on annual basis. As the target of respondents were all the finance staffing in the identified INGO as well as budget holders, the above data shows the level of due attention being paid to the financial tasks. Further discussion was made during the interview if financial document reviews extended beyond semiannual basis and most respondents stated finance staff review and analysis is usually daily for daily posting and review of correctness of bank transactions as well as monthly review of financial statements. As all of the INGOs under study have a system of reviewing their achievements at least on monthly basis with quarter or semiannual overall review system, result shows a very close follow up mechanism in place.

4.2.5. AUDIT STATUS

Table 7 **Table 4.7. Last fiscal year audit confirmation**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	31	93.9	93.9
	2	2	6.1	100.0
	Total	33	100.0	100.0

Source: Survey data (2020)

Almost all the INGOs had their accounts audited for last fiscal year 2019, which is 93.3%, and reports submitted on time to meet both donor and government strict reporting requirements. And 6.1% of INGOs did not complete their accounts audit for last fiscal year 2019 because of the fiscal system they use. The fact that the mechanism of having in place an independent auditor review feedback system is a requirement in all CSOs as it gives an independent assessment of the effectiveness of financial management and internal control levels of the financial system. During the interview sessions held with the finance heads, they also confirm this as they stated the ChSA requires each NGO to provide the audit report with management letter no later than 3 months after close of their fiscal year. And the above result confirms their adherence to this requirement.

4.3. FINANCIAL PLANNING PRACTICES

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

Researcher has selected the use of analysis using Mean values as the mean is considered as a better tool to describe an entire set of observations with a single value representing the center of the data and many statisticians use the mean as a standard reference point. Also, the use of Standard Deviation (SD) is selected as it is used frequently to measure how spread out responses are. It provides an indication of how far the individual responses to a question deviate from the mean. The distribution of responses is important to consider, and the SD provides a valuable descriptive measure as compared with evaluation using mean alone. Accordingly, the results of the data on the four questions asked with focus on financial planning practices are listed below in Table 4.8.

Table 8 **Table 4.8. Financial Planning Assessment Results**

Concepts	N	Minimum	Maximum	Mean	Std. D
Program Managers play an active role in the budgeting process	33	1	5	4.03	1.075
Existence of formal management body at Head Quarters and in country to approve budgets and any revisions	33	1	5	4.45	1.003
Strategic Planning incorporates/considers meaningful financial Issues.	33	1	5	3.58	1.062
Risk Management procedures incorporated in Financial Planning Process.	33	2	4	3.64	0.603
Financial planning framework overall Mean and SD	33			3.93	0.936

Source: Survey data (2020)

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

As per the data listed in table 4.8 above the mean value to the question if program managers play an active role in the budgeting process, responses showed a mean of 4.03. As well the SD result of 1.075 is not acceptable as it is greater than 1 and it describes the distribution in relation to the mean is somehow deviated; however, both program and finance staffing should be part and parcel of the planning process which makes it possible to define all the cost elements of a activity and thereby enabling all to minimize the actual vs. planned spending difference.

For the question on whether the organization has a designated approved management body in country as well as at head office level that is authorized to approve budgets or any revisions the mean value shows 4.45 with a SD value of 1.003. This means only some of the respondents agree with the existence of a formally assigned authorizing management body in country and at head office level. When the value for SD gets bigger and gets closest to 1.00 it means that the values in the data are farther away from the mean on average

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

According to the response for questions respondents were asked if the organization has integrated meaningful consideration of financial issues into any strategy planning process it undertakes. Table 4.8 above shows respondents having mean value of 3.58 and a SD value of 1.062 agree that financial issues and related considerations are not part of their strategic planning process to some extent. Incorporating all financial issues in the strategic planning process is of top importance in order to understand what the financial implications of diverse strategies have. It enables management to choose the optimal option and be a competitive body for the competitive process to secure limited resources by funders. This is a one area management will need to focus on as lower mean value as compared to other construct variables means some of the respondents felt the needed organizational integration and strategic financial planning considerations were minimal.

Respondents with mean value of 3.64 and SD of 0.603 agree with the question if all risk management considerations are part of their financial planning process and whether continuous risk assessment procedures were made including insurance coverage. As compared with the other three questions the SD value showing there were more agreement of responses to this question.

Thus, the overall financial planning assessment framework shows the overall attention paid to financial planning is somehow good. Even with a good rate of agreement as compared to the rest of the questions for risk assessment considerations, the strength of the financial planning system in the INGO's reviewed shows an overall not pretty good status in terms of involvement of program managers in the financial planning and budgeting process, formalized authorizing body establishment at Head Office and in country level, links with strategic planning and considerations of risk management procedures where the management of INGO's have focus mainly.

4.4. BUDGETING PROCESS REVIEW

Budgeting process plays a crucial role and is one of the other blocks of the effective financial management process. According to Larson et al (2008), a budget is a formal statement of any organization's future. How much the planned program activities as well as administration cost requirement can be converted into monetary terms can only be determined by having a healthy budgeting system in place. Both program staffing as well as finance staffing need to work together to

detail out activities and related costings for good coordination during budget monitoring exercises as it enables both to talk the same language. Moreover, Larson et al (2008) has indicated the importance of the involvement of management when he stated that managers should be involved in the process of budgeting, that is the process of planning future business actions and expressing them as formal plans. Five key questions to assess the level of the budgeting process were directed to the respondents in the questionnaire and analysis of the results extracted from SPSS is detailed out below in Table 4.9.

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

Table 9 **Table 4.9 Budget Process Assessment Results**

Concepts	N	Minimum	Maximum	Mean	Std. D.
Organization has a comprehensive annual budget funds for all aspects of operations	33	2	5	4.390	0.788
All grant or contract budget agreements are incorporated in the comprehensive annual budget	33	3	5	4.240	0.663
capital budget for major maintenance and replacement of facilities and equipment	33	2	5	3.850	0.795
The Chart of Accounts are utilized in the comprehensive annual budget and the budgets for individual Grant and Contracts	33	1	5	3.700	0.984
All grant or contract budget proposals are reviewed before submission to Donors	33	2	5	3.970	0.984

Source: Survey Data (2020)

As well the above table shows a result of a mean value of 4.39 and SD of 0.788 for the question if the annual comprehensive budget incorporates Grant and contracts agreements. The responses indicate clearly the level of agreement and importance given to the Grant and Contract aspect of their financial management process. These INGO's are involved in the provision of grants to local NGO's or community organizations which are operating closely with the grass roots community through which these INGO's get into partnership to reach the lower level of the community structure.

In relation to the practice of appointment of authorized staffing for review of grant and contract budget before submission to funders, respondents with a mean response value of 3.970 and SD value of 0.984 agree they have a designed hired staff for review of grant and contract agreements and related budget values which usually hold a majority portion of the total budget before submission to funders. This budget category was identified during the interview as one of the areas where major spending and under spending are noticed. Utilization of grants or contract budgets is dependent on the capacity of sub grantees and having in place a separate authorizer for grant and contract budget is important to forecast allocation and utilization estimates as well as building the capacity of local entities to make efficient and accountable use of awarded resources.

Responses on the incorporation of capital budget and multi-year plans for major maintenance and replacement of facilities and equipment show an agreement which the practice which is verified by the mean result value of 3.85 and SD value of 0.795. During the interview this question was raised to some of the respondents and most of them agree, including this category of fund requirement is a challenge with both funders and reporting as most funders mostly approve funding for direct program costs and have minimal allocation for capital budgeting. As well locally, unless the situation is direct allocations for facility and equipment maintenance is held at the minimum as these expense categories increase administration costs. It was also discussed that thought some considerations are given; currently other program budgeting issues are paid more focus to stay within reporting requirements.

The last questions provided to respondents under budgeting assessment practice was if their chart of account utilized the same line item categories and the same program or function distinctions which are utilized in the comprehensive annual budget and the budgets for individual contracts or grants. Their response also showed majority agreement with a mean response value of 3.70 and SD of 0.984. As much as the financial tracking software allows the codes used for budget lines should correspond to the codes used in the accounting system in order to enable tracking actual spending with projected

budget values. Researcher feels the existing practice is well linked as which makes the budget vs. actual monitoring practice easy.

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

Comparing against the study made by Fiador (2013) namely “Determinants of financial governance and practices. Evidence from NGO’s in Ghana” it can be seen the research assessment findings show similarity to this study. Fiador used a five-scale assessment framework like the one used in this research to review the capacity of 42 NGO’s. It was observed that in the area of financial governance, the budgeting framework which sought to measure the robustness of systems that guide the budget process the average score was 3 out of 5. This showed that most NGO’s reviewed had a comprehensive budget and that they accept their annual budgets a true reflection of their actual work plan in the year. The study also showed the sampled NGO’s have clearly defined written policy and procedure on authority levels and limits about budget preparation and process. Like the study made in INGO’s located in Addis Ababa, the sampled NGO’s in Ghana also showed less budget allocation for capital budgets for maintenance and replacements at a result of 2.07 out of 5. Unlike this current study though Fiador (2013) confirmed for NGO’s in Ghana , in terms of budget proposal review, the lead director is mostly the main reviewer while for those in Addis, a majority of the respondents confirm, program staffing as well as senior management group pay due attention to the budget review. This can be in part to the strict regulatory impositions listed by the ChSA for all CSO’s in Ethiopia which does not make it an option not to involve to the maximum possible level.

4.5. ACCOUNTING RECORD PRACTICES

It is very important to review the accounting record practices of any organization as every transaction should be backed up by full documentation which consists of clear information for what that transaction was made for with clear authorizations. Table 4.10 below shows the results of the collected data on accounting record practices and a total of eight key questions designed to extract basic information on accounting record practices were provided in the questionnaires shared. Results secured from the 33 respondents showed above 3.3 value which categories it as good value as confirmed by Best (1977). As well the standard deviations values are under 1.00 except in the case of balance sheet and asset reconciliation and backup of accounting records and storing.

Table 10 **Table 4.10 Accounting Record Practice Assessment Results**

Concepts	N	Minimum	Maximum	Mean	Std. D.
Monthly financial statements are available by the end of the month	33	2	5	3.330	0.924
Monthly financial statements include a Balance Sheet, statement of Activities and changes in Net Assets	33	2	5	3.520	0.939
The Chart of Accounts clearly distinguish funding sources	33	2	5	3.970	0.918
Appropriate Electronic and Physical Security Procedures for Integrity of Computerized Accounting Records exist	33	2	5	4.090	0.843
Accounting records are backed up and stored daily	33	1	5	3.790	1.166
General ledger balance sheet accounts are reconciled at least quarterly and	33	1	5	3.700	1.212

Asset accounts monthly					
Accounting policies and recording procedures are clearly documented	33	2	5	4.150	0.939
Appropriate computer software and hardware is utilized to perform recording functions	33	2	5	4.270	0.911

Source: Survey data (2020)

For the question whether monthly financial statements were provided no later than end of the month majority responded with a mean value of 3.330 and SD of 0.924 as shown under table 4.10 above responded. Though most agree financial statement are prepared on monthly basis, availing the reports to the wider audience usually takes 10 to 15 days after close of the month as additional month close postings and reconciliation works still need to be made after close of the month. But all agree the reports are always prepared on monthly basis.

A related question was also posed to the respondents if monthly financial statements included balance sheet, Statements of activities and change in Net Assets Report. As shown on table 4.10 respondents were in agreement with mean value of 3.520 and SD value of 0.939. On further discussion with the finance managers, they confirmed monthly field reports to Head Office included usually Bank Reconciliations and Balance Sheet statements with special focus on advance reconciliations. But as INGO's use fund accounting system, the focus on changes on Net Assets Reports or Income Statement is not paid that much focus or frequented on monthly basis. But as an overall assessment reports locally focus is paid on balance sheet account reconciliation with focus on bank and cash accounts and budget vs. actual reports.

Regarding the question if the chart of account clearly establishes the programs or functions which will be distinguished and the funding sources and/or distinct funds which will be tracked one respondent didn't provide an answer. But for the rest responses provided a mean value of 3.970 and a SD value of 0.918. This response more or less is similar to the response given under the question if the COA was linked to the comprehensive annual budget analyzed under table 4.9 Additional information secured through the interview also complemented this as all of the INGO's under study use a professional accounting system which enables track and extract reports by funding source. Their software is also

linked with the Head Office Accounting Software system which enables the head office to import all field office reports and compile different reports for different stakeholder requirements and to enable this the chart of account includes categories to track generally accepted accounting charge codes as well as designs to include program tracking by activity and by regions.

Responses given for the question if the recording functions were made using appropriate accounting software and hardware result shows a mean value of 4.270 and SD of 0.911. Many of the respondents agreed their satisfaction with the accounting software they are using which compliments the response given regarding the ease of tracking of program and funding expenses using the chart of account. It was also observed that compliances about registered/licensed software acquisition is also of top importance in the decision of securing accounting software's as per the interviews held with the finance heads.

While reviewing the responses to the question if appropriate electronic and physical security procedures were utilized to protect the integrity of computerized accounting records responses showed a 4.090 mean value and a 0.843 SD value. This again showed the level of agreement and attention provided to the security measures taken by each organization under study. As well, respondents were asked if all accounting records were backed up daily and stored in a secure area away from computer equipment. The responses to this question were a bit different though researcher was anticipating to get similar ranges of responses as reported for the security question posed and reported with a mean value of 3.790 and 1.166 SD. Researcher further checked this out to identify why the slight difference occurred through further interviews and it was noticed that the INGO's under review back up policy requirement differed and ranged from strict daily backups to weekly backups which depends on their transaction volumes and office sizes.

Responses to the question of quarterly balance sheet reconciliations and monthly cash, accounts payable and accounts receivable control accounts reconciliation provided a result of mean value of 3.700 and SD value of 1.212. This shows a slit agreement to the question which was further discussed through the interviews carried out as internal audit process usually focuses on advance reconciliation issues, the organizations may not have quarterly reconciliations to all balance sheet accounts, because of huge transactions and there are a lot of travels involved as were as on credit transactions with vendors.

Regarding the existence of written/documented accounting procedures and policies, a result with a mean value of 4.150 and SD of 0.939 was reported. This shows a strong level of agreement with the procedure and this was further clarified through the interview as the finance heads confirmed not having a written financial policy and procedure is not an option. It is part of the funding requirement by international donors whereby it is one of the measuring requirements used to assess financial capacity.

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

4.6. INTERNAL CONTROL REVIEW

INGO's need to focus on internal control measures in order to safeguard their resources. The strength of an internal control system determines how far resources and staffs will be safeguarded, fraud and errors are detected and prevented as well as safeguarding cash and bank transactions. Table 4.11 contains 15 questions forwarded to the respondents through the questionnaires and analyzed in detail below. The lowest mean value secured was 3.667 with a SD of 0.890 and the highest mean value reported was 4.576 with a SD value of 0.502. These results show more than average good practices and the individual analysis results are provided below.

One of the best internal control systems is separating duties to the greatest possible extent within existing staff in order to create clear accountability and responsibility. The risk associated with any form of fraud diminishes when related authorization tasks are distributed among staffs. For the question of if the practice of separation of duty aligned with existing staff, responses with mean value of 3.970 and SD value of 0.847 were reported. It was noticed that due to the capacity of the international organizations to handle diversified funding and options to hire qualified personnel with due consideration to segregation of duty to minimize risks, the issue of separation of duties is more practiced in INGO's. This issue is also one of the internal auditing focuses as well as statutory audit as it is always advised that authorizers and document handlers to be separated, reconciliation preparer, and approver to be separated and so on given the high number of transactions handled by individuals.

Under Table 4.11 the respondents were asked the extent of authorization functions and some deviation were observed in response collected with a mean value of 3.970 and SD of 1.104, however most of the responders confirming the existence of clear and separate authorization functions for purchasing, signing checks, and adjusting accounts. Document preparers and Document approvers were separated, and distinct assignments were confirmed to be reflected in each staff's separate job description as per interviews carried out.

In relation to the procedures for authorization and review of payment of vendor invoices a mean value of 4.091 and SD of 0.765 was secured. This confirms the information secured during the interview that great attention is paid to monthly and quarterly review of advance accounts and as well as the agreement on the issue of clear procedures for approval and review.

As one of the most critical transactions involving cash and bank accounts, respondents were asked if review and verification functions such as the task of preparation of bank transaction and reconciliation of bank statements were separated. Accordingly, most agreed with a mean response value of 3.970 and SD of 0.918. As part of the internal control measures most of the organizations reviewed confirmed segregation of duty is practiced to the highest extent possible as a lot of transaction by each field office is carried out and some level of control needs to be in place to ensure resources are secure.

Table 11 **Table 4.11. Internal Control Assessment Results**

Concepts	N	Minimum	Maximum	Mean	Std. D.
The concept of separation of duties is implemented to the greatest extent feasible within the limitation of the size of the organization staff	33	2	5	3.970	0.847
Authorization functions	33	1	5	3.970	1.104
Review and verification functions	33	2	5	3.970	0.918
Written purchasing policies	31	4	5	4.290	0.461
All checks are restrictively endorsed upon receipt	33	3	5	4.273	0.674
All unused checks are carefully secured	33	1	5	4.091	1.042
The organization has written policies and procedures for fiscal operations	33	1	5	3.970	0.918
Written policies and procedures are reviewed and revised regularly	33	2	5	3.909	0.805
Actual processing activities are consistent with written policies and procedures	33	3	5	3.939	0.659
There are clear procedures for review of and authorization to pay all vendor invoices	33	2	5	4.091	0.765
Cash handling policies and procedures	33	2	5	3.667	0.890
Receipts are given for all cash transactions	33	3	5	4.000	0.707
Cash collections sheets are maintained by all individuals responsible for accepting cash	33	2	5	3.758	0.867
Postdated checks are not generally accepted and if accepted are secured carefully	33	1	5	3.818	1.014
All disbursements are made by check except for small purchases made through a petty cash fund	33	4	5	4.576	0.502

Source: Survey data (2020)

The assessment results related to existence of written policies and procedures with regard to purchases, payroll handling, Accounts Payable and Receivable procedures show a mean value of 4.290 and SD of 0.461 which shows that majority of the respondents agree on the existence of written policies and

procedures for the above account transactions; however, Out of the collected responses, two responders didn't provide an answer to the question that written purchasing policies clearly identify the purchasing authority of each staff-position, and establish appropriate dollar/ETB limits for purchasing authority at each level and this is assumed not to affect the response value as all of the other respondents have provided answers. During the interview carried out it was also disclosed that especially the designation of specific limits for payment by an authorizing unit as part of a staff's job responsibility plays a principal importance in showing the strictness or compassion of the accounting system and is used as one of the measuring component by funding agencies as good internal control measure.

It is one thing to have a written policy but if it is outdated and does not respond to the current needs of the organization, it is equal to not having any policy at all. Asked if their organization reviewed and revised written policies regularly a mean value 3.909 and SD value of 0.805 was secured. During the interview it was disclosed that most policies are shared with all field offices of the parent organization to standardize policies and procedures across the countries the Head Office has branches in and it takes some time to have policies and procedures reversed for one country only. This is usually resolved by segregating local requirement policies at local level by substantiating the requirement to head office.

Many respondents with a mean response of 3.939 and SD value of 0.659 agreed while analyzing the question if adherence to written policies and procedures were practiced and if actual process activities were consistent with written policies and procedures. Interview findings also validated this result as it was discussed the necessity of sticking with written policies and procedures to standardize practices across all offices of the organization. It was also mentioned that at time of project close down when a number of staffing are terminated and until next funding comes in deviations from standard policies and procedures can occur as decisions have to be made within the existing number of staffing but as much as possible this is substantiated by additional approving memos.

Another important internal control measure is having a clear and accountable policy for cash and check handlings. The data collected on the question if checks were endorsed upon receipt confirm agreement with a mean result of 4.273. On a related issue of security of checks specifically of unused checks, responses showed an agreement with 4.091. This showed a relative increase of attention to the management of the most liquid assets of the organization namely cash & bank transactions and

security of unused checks. Discussions held on this further showed that as much as possible the total number of unused check pads are kept at the minimal to reduce risk and enable easy follow up.

On the review of the extent of documentation of cash handling policies and procedures as well as periodic tests many respondents with mean response of 3.667 agreed that much emphasis is given to the documentation of cash handling policies and procedures but the testing issue was another consideration as changing written policies and procedures is a time consuming procedure which is not done frequently due to the long approval processes as well as standardization practice issues.

Many of the respondents with a mean result of 3.818 agreed that postdated checks are not accepted as a policy even if some deviations observed. Outstanding checks as well as deposits are tracked closely as per the interview discussions and as it entails legal issues as well as risk most agree as a policy, they have a written guideline never to accept or issue postdated checks.

Respondents were asked if their organization receipt was pre numbered, multi copy and customized and provided immediately on payment. Results showed the strength of this procedure implementation in that data result shows a mean result of 4.000 agreement with this requirement. The ChSA directives also put this requirement as part of the cash handling procedures for the CSO's under their registration and the audit processes make this part of their review and implementation of this procedure can be clearly seen from the result.

The responses for the question if cash collection sheets were maintained as well as cash counts and transfers were documented one respondent didn't provide an answer but majority of the remaining 33 respondents provided a mean response of 3.758 which is a high agreement response. Having in place a petty cash collection sheet update with responsible staff signatures and approvals and documentation for surprise, daily or weekly cash counts and transfers tracking highly minimizes the risk of any cash deviations.

The assessment on whether the organizations under study have set a limit for cash and check provided a strong system or policy application again many agreed with a mean response of 4.576 which shows the existence of a strong system in the INGO's under study.

To sum-up internal control measures build the background of any financial management system as it enables the system to incorporate controlling mechanisms at every step of the effective financial transaction system. This can be represented by the existence of segregation of duty distinguishing

document preparation and approval bodies or authorization levels. Documentation and security policy and procedure and sticking with those procedures and guidelines while implementing financial transactions is of importance as it lays the background to measure controls. The most critical area in finance is having the best internal control measures for cash and bank transactions that includes reconciliation with applicable set of segregation of duty as once the basis for control is set for cash and bank transactions, it is easy to adopt and follow up on the rest of the financial transactions. Abdulkadir (2014) in his writing has confirmed the importance of internal controls as playing an important role in the efficient delivery of NGO services as well as system support to achieve their objective by managing risks while complying with rules, regulations and organizational policies.

4.7 FINANCIAL MONITORING PRACTICES

Monitoring helps to keep track of challenges to address on time as well as achievements for tracking and reporting. Managers at every level should have a monitoring tool to help make timely decisions so that resources are used efficiently and effectively to achieve desired outcomes. Reports should be designed in such a way that they can be versatile to address the needs of the different users. Financial monitoring reports should be user friendly for managers with no financial terminology background so that it can be a useful tool for decision making. The six questions forwarded to secure data on the key financial monitoring practices listed in table 4.12 below showed a minimum mean value of 3.485 which is a high standard by statistical measurements. Individual analysis results by mean value are described below to show the detail aspects of the monitoring processes in the INGO's under study.

The existence of the mechanism of providing a monthly spending statement for all programs under each project with separate analysis to review status of fund utilization as well as comparison against set targets is one of the systems INGO's use to monitor their progress. Respondents were asked if monthly multiple program income and expense statements were provided and most agreed with a mean result of 3.576 which is a high response rate. This showed at least on monthly basis reports to enable program staffs review their utilization status is provided by the finance unit regularly and as budget holders were also part of the response group answers provided by the finance team were also validated by the program team.

Table 12 **Table 4.12. Financial Monitoring Practices Assessment Results**

Concepts	N	Minimum	Maximum	Mean	Std. D.
In organization with multiple programs statements of the expenses of each distinct program are prepared monthly	33	2	5	3.576	1.062
The Senior Program Management group review the monthly financial statements carefully	33	2	5	3.636	0.994
The Finance Manager highlights unusual items and identifies potential problems in notes to the financial statement shared with the program staff	33	1	5	3.576	1.001
An independent auditor reviews financial document yearly	33	4	5	4.455	0.506
The Senior Management group reviews auditor report	33	3	5	3.909	0.723
The Senior Management group continuously reviews the organizations financial statements	33	2	5	3.485	0.906

Source: Survey data (2020)

On the question if Senior Program Management group reviewed the monthly financial statements carefully, majority agreed with a mean response of 3.636. This shows due attention is being paid by the senior program management on submitted financial reports as part of their program monitoring tool. Respondents were also asked if their Finance Manager highlights unusual items and identifies potential problem areas and submit clarifying notes to the program staff; Majority agree with a mean response of 3.576 they have a mechanism whereby variation report are explained further for program decisions. This shows that as some of the report results which are usually stated in accounting terms can be confusing to non-finance staff, there exists a system whereby the Finance Manager provides additional notes to clarify and provide meaning to the numbers.

A high mean result value of 4.455 shows the result of the question if an independent auditor reviews their financial documents yearly. Accordingly, the ChSA requirement for consistent yearly independent

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

While being questioned about the extent of the Senior Management Group attention on audit reports, responses showed a mean result of 3.909. Audit reports provide an independent assessment of the organization strengths and weakness especially in terms of internal controls and genuinely of account transactions and detailed review of the audit report especially the management report part which details out the yearly findings is important. In-addition when respondents were asked a related question whether the Senior Management Group continuously reviews the organization financial statements to determine whether the use of the organization's resources are consistent with the organization's missions and priority, a mean response of 3.485 was provided from the collected data. And this result show high agreement with current management overview of organizational resources consistency with organization mission and vision and their senior management's due attention to this effect. As per the various interviews carried out it was stated that in addition to donor and funder compliance and restriction issues, what is seizing current senior management group attention is meeting the restriction of finance report requirement of the local country. Especially with the categorization of most technical support activities under administration, a lot of program revisions have been made and strict follow up is done on the ratio of administration and program activities to meet local requirements.

As it can be noted from the above discussion made on financial monitoring frameworks the assessment come-up with very good result. Current government and funder restrictions and regulation need the outmost attention of management and monitoring the financial progress and reports including audit reports help management stay on top of all critical issues. The assessment result shows the level of detailed review by management both programmatic and financial in that combined discussion and feedback system with highlights from finance unit for exceptional expenditure trends or any underspending or overspending enables all to address any problems on time. Also, the financial monitoring practice when substantiated by good audit reports attracts donor interest and work relationship and analysis shows a very good level of monitoring practices in the reviewed INGOs. On a similar study made by Fiador (2013) in NGO's located in Ghana, for the monitoring framework, the sample scored 2.85 out of 5 which leans towards a case of partial observance of the management set. This applies to monitoring which sees to match actual performance with targeted performance as stated by the researcher.

4.8. SUMMARY

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

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

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

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

One of the critical challenges raised during the interview was the issue of meeting the administrative vs program ratio on yearly plans that gets submitted to the ChSA as well as inclusion on yearly audits. Though all agree on the need to monitor incoming grants are applied for the purpose or objective approved for, given the standard project implementation plan whereby yearly expenditures vary from startup initiation up to completion of the project phase, adhering to the 30/70 requirement on yearly basis was raised as a challenge. As well, the issue of the categorization of project expenses that

deferrers from the standard accounting procedures was mentioned. All interviewees though they agree the recent revisions made by the ChSA shows the positive steps the government is taking to adjust the reporting guidelines which has affected many project plans in the past, they feel a lot of agreement needs to be reached for those INGO's working in the health sector to create a conducive and accountable working environment. The researcher has tried to provide workable recommendations for this in the next chapter.

Eventually, regarding the interview questions four finance managers and one senior finance officer were interviewed. As long as development is in-need in Ethiopia these INGO's or development partners have vast opportunities. The researcher noted from the interview, they have gone through different difficult stapes to win projects and raises funds, however they have project plan and realistic project activities based on valid assumption and done by expertise. During the interview the researcher understand that all INGO's are utilizing approved budget and have regular follow up on budget balances by preparing budget verses actual reports for the management and Government. The challenges raised almost by all the NGO's was the requirement of ChSA to meet the administrative program ratio. On top of these, the researcher noted that all INGO's have been working on having effective financial management through in placing proper financial planning, well organized accounting system, proper internal control and monitoring for the achievement of the organizational goal.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1. CONCLUSION

In conclusion, it can be said that the going concern of any organization depends solely on the effectiveness of its policies concerning planning and decision-making. Also, for any organization to maintain its reputation, respect and dignity, its financial reporting system must be given proper attention. Financial management effectiveness at the level of international non-governmental organizations is an indicator that, seen as a component of financial management, gives us clues about how the organization has conducted its activities, and whether it has reached its financial targets set for the period or not. Thus, the calculation of financial effectiveness gains importance.

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

5.2. RECOMMENDATION

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

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

- As observed in the analysis senior management group should continue maintaining continuous review process and monitoring in order to stay on top of all critical financial management issues and reviews as well as compliance requirements. Top management attention means lower level structure attention to meet performance requirements to be effective.

- The practice of having an internal auditor with separate reporting structure not linked with in country management helps make independent reviews and address findings objectively.

- Involvement of program managers in the financial planning and budgeting process is a must to capture detailed program components and activities and finance staffs can quantify this activity as well as consider all administrative related costs. This will make the financial planning and budgeting process which are linked strong and minimize the occurrence of unanticipated costs or forgotten embedded costs.

- The practice of having an internal auditor with separate reporting structure not linked with in country management helps make independent reviews and address findings objectively.

- Discussion forums need to be created in order to explain the project lifeline and implication of costing on reporting requirement. During initial project start up the cost of hiring staff, capital investment as well as baseline study costs are high which inflate the administration costs of the project. Review of overall project life cycle assessment and meeting the administrative vs. program ratio monitoring should be based over the lifetime of the project. That way the government can ensure overall project activity and financial effectiveness and the INGO's can plan their investment and intervention impact to the maximum focusing on effectiveness measurements applied to the life cycle of the project.

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

Creating an enabling environment to be more effective for the financial performance of international NGOs cannot be guaranteed by the enactment of the ChSA directives only unless it is accompanied by reducing the restrictions. In this regard it is better to give more emphasis to the activity/the output or

achievement evaluation to see whether the community benefited or not. Additionally, it is better to make development partners/international NGOs to involve in policy making which govern them.

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APPENDIX

QUESTIONNAIRE & INTERVIEW

QUESTIONNAIRE

This questionnaire is designed to collect primary data to conduct a research on the topic, "Assessment of financial management effectiveness in international non-government organizations in Addis Ababa, Ethiopia" in partial fulfillment of the completion of Master of Business Administration (MBA) in Accounting And Finance Program at St. Mary's University. In this regard you are kindly requested to provide reliable information that is to the best of your knowledge so that the findings from the study would meet the intended purpose. The information obtained will only be used for academic purpose and confidentiality of organization detail will be maintained. Researcher appreciates your objective and genuine response. In order to validate the response, you are graciously requested to answer all questions. You don't need to put in the organization name as well as your name on the questionnaire. This questionnaire has two parts. Part I. is designed to assess the organizational general profile Part II is designed to assess the practices on financial management using Likert scale. Values will vary from 5 (strongly agree) to 1 (strongly disagree).

Thank you in advance for your time and cooperation.

Sincerely;

Mihretu Benti

Part I.

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

1. Organization has been operating in Ethiopia for a. 1-5 years b. 6-10 years c. 11-15 years d. 16-20 years e. >20 years

2. Educational background of questionnaire responder a. Diploma b. Degree c. master’s d. PhD 4

3. Organization works in Ethiopia in a. 1-3 regions b. 4-6 regions c. 7-9 regions d. >10

4. How often does responder review and provide feedback on financial documents? a. Daily b. Weekly c. Monthly d. Semi Annually e. Annually

5. Last audit performed for FY 2019 a. Yes b. No

Part II.

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

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

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

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

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

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

Interview Question/Introduction

Dear,

I am a prospective MBA graduate collecting primary data for the research entitled, "Assessment of financial management effectiveness in international non-government organizations in Addis Ababa, Ethiopia" in partial fulfillment of an (MBA) in Accounting and Finance Program at St. Mary's University. In this regard I kindly request your availability for maximum 30-45 minute for interview to provide reliable information that is to the best of your knowledge so that the findings from the study would meet the intended purpose. The information obtained will be kept strictly confidential and will exclusively be used for academic purpose only.

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