

# Assessment of Financial Management Practices of International NGOs: The Case of International NGOs Operating in East Wollega Zone

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## Abstract

This study aims to assess financial management practices of International NGOs operating in East Wollega Zone. The main objective of the study is to assess and describe financial management practices of International NGOs under the study by identifying their area of strengths and weaknesses as well as encounters around the key financial management components and reporting requirements such as assessing budgeting process links with the financial planning process; extent of the record keeping system volubility, extent of internal control and financial reporting; and how they prepare their financial reports to monitor their budget and expenditure. Descriptive research method with purposive sampling technique was employed using 48 respondents selected from 12 International NGOs operating in East Wollega Zone of Oromia Regional State. In this study, reliability testing has been carried out to check the consistency of the responses. The major findings of the study indicate that finance staffs are rarely participating in budget planning and reviewing, procurement processes have hurdles of conformability in fulfilling the basic requirements of purchasing activities, presence of inconsistency and delay of payment procedures and beneficiaries' monthly reports respectively. Thus, it is recommended that finance staff should participate sufficiently in planning and budgeting activities, the basic pillars of payment procedures and procurement processes should be kept to improve quality of work, reduce costs and quickens responses time; and to get reports from beneficiaries and giving feedback timely for better decisions and actions.

**Keywords:** Financial Management, Financial Planning and Budgeting, Accounting Records, Internal Controls, Financial reporting, East wollega

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## 1. Introduction

Organizations are established for some purpose and they need financial resources that need to be managed effectively to contribute for their success. Watching finance related activities very closely, managing them wisely and effectively, ultimately lead to success. According to (Golda Akinyi,2012; financial management is a process of managing financial resources, including management decisions concerning financial reporting, forecasting, and budgeting comprising the processes, systems, internal controls and practices relating to managing revenues, expenses, assets, liabilities and contingencies by keeping an accurate record of all financial transactions, linking the budget to the firm's strategic and operational plans.

According to World Bank (2014) Operational Derivative 14.70, NGOs are characterized primarily by humanitarian or cooperative rather than commercial objectives that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic services or undertake community development in developing countries. As Zahir Uddin Ahimed (2004) indicates, NGOs perform an important role in the economic development of developing countries by providing services to society through welfare works for community development, assistance in national disasters, sustainable system development and popular movements.

In recent years, funding constraints, calls for management practice, media exposure and the development of a contract culture have brought demands for increased financial management practice in NGOs and control within the development sector. NGOs most often do not consider financial management to be a priority and consequently lack adequate financial knowledge. This is often characterized by poor financial planning and adequate financial systems in place. They pay little attention to financial control and this makes the NGOs vulnerable to financial losses.

In Ethiopia, all international NGOs have to make strategic choices regarding their resources by identifying priority activities, donor's interest & Government and Charities and Societies Agency (ChSA2009) 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.

In the absence of proper backup plans and funds, NGOs are unable to cope with funding crisis and as evidences indicate currently, NGOs are under pressure to undertake increased monitoring and evaluation and present measurable indicators of output, impact and capacity. Many of them command significant economic resources yet the accounting literature has largely ignored this sector in this stance. Due to yet the issue is untapped as expected, the knowledge and evaluation of effectiveness and efficiency of these organizations is poor

Currently, organizations are operating in a rapidly changing and competitive world. If the organizations are to survive in this challenging environment, managers need to develop the necessary understanding and confidence to make full use of financial management tools. Seblewongel Endeshaw (2015) states that effective and accountable financial planning and monitoring system is the basis for an NGO's accountability and sustainability. To be able to survive, grow and to continue securing operation approval in Ethiopia, INGO's as part of the CSO sector must have and must be able to implement an excellent financial management practice. Availability of an effective financial management system that can both fit organization donor's requirement as well as local requirement is a must and one of the key areas of focus by management. 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.

The research conducted by Raman Kumaret.al, (2014) and others understand financial management in the sense of effective funds management emphasizing on keeping accurate accounting records that overlooked the planning, controlling and monitoring of financial resources to achieve organizational objectives that ensures costs are properly categorized, tracked and charged to the appropriate accounts, and managers are able to report financial information accurately to the board and donors. Seblewongel (2015) has concluded that international NGOs operating in Ethiopia have a better financial management system that did not access financial management practice of other INGOs in Ethiopia but health sector. In the same manner Tegegn Bogale (2018) states that effect of internal control on financial performance of NGOs in Addis Ababa Arada sub city and his study found out that all component of control system has significant positive influence on the efficient and effective utilization of resource of NGOs. He states also ineffectiveness of operation of various NGOs operating in Ethiopia continues, their abilities of fund raising will be adversely affected. Tegegn used only internal control system to analyze financial performance of NGO and couldn't assess the effect of other elements of financial management practice of NGOs.

According to Dagne Negash (2017) NGOs in Ethiopia had invested about 1 Billion USD on various development projects across the country. This third sector also mobilized more than Birr 35.76 Billion (US\$ 1.788 Billion) to implement 2,604 projects. However, in terms of diversity, size and capacity, NGOs in Ethiopia are not well developed compared to many African countries.

Despite the financial management practices that exist in the organizations there have been many incidences of fraud and embezzlement in recent times partly due to ineffective financial management practice in operation. For instance, the reported cases of the collapse of Enron and WorldCom could be typical examples of ineffective financial management practices that could have been prevented the effective financial management system. Although there are researches having dealt about financial management practices exclusively in large privately owned companies of developed nations where location rarely becomes a hurdle for uniformity, institutions in developing nations can have different posture about it including NGOs. These institutions, profit making and non-profit making are exposure to irregularities, unethical and unwise practices, information distortion, lack participatory organizational culture, where errors cannot be detected quickly and corrective measures cannot be taken timely.

In Ethiopia few researches are available concerning International NGOs' financial management practice where others relatively focused on local NGOs around country's central areas. Additionally, the researchers are missing and showing inconsistency of concepts of financial management in case of International NGOs.

This study differs from those previously made studies by focusing on the building blocks of financial management practice including major elements financial management activities in detail in case of INGOs and assesses specifically the current state and functionality of financial management practice in the INGOs and how it helps them to achieves the organizational objectives effectively and efficiently by tapping these which were not easily accessible for others research Thus, this study is focused only on International NGOs operating in East Wollega Zone.

The main objective of this study is to assess the financial management practices of International NGOs operating in East Wollega Zone of Oromia Regional Sates. Specifically, the study is intended:

- ☞ To explore the budgeting process link with the financial planning process

- ☞ To assess the record keeping system
- ☞ To identify the internal control practices
- ☞ To investigate to what extent they prepare their financial report to monitor their budget and expenditure.

In order to attain the objectives, the researchers initiated to study the problem based on the following research questions:

1. How does the budgeting process link with the financial planning process?
2. To what extent the record keeping system is valuable?
3. What type of internal controls do they have?
4. To what extent they prepare their financial report in place to monitor their budget and expenditures?

The findings of this study are useful to identify the gaps of financial management practices of NGOs in Ethiopia and believed that those who are in charge with NGOs and other key stakeholders including the government to can take corrective measures to ensure effective attainment of organizational objectives regarding financial management practices.

## 2. Literature Review

### 2.1. Theoretical Review

Financial management is crucial for the success of any organization, be it private, government or non-government. Most businesses have a well structured finance department responsible for looking after the accounts and finances of the company. On the other hand, NGOs most often do not consider financial management to be a priority and lack adequate financial knowledge. This is often characterized by poor financial planning and adequate financial systems in place. Very often NGOs work effortlessly towards implementing projects that cater to the need of deprived people and in this process do not pay enough attention to financial control. This practice makes the NGOs vulnerable to financial losses.

Budgets occupy a leading place among the special tools of management employed to direct and control the affairs of large and multifarious organizations Burke and Modarresi, (2000). They are used not only by governments, where budgeting had its origins, but in other public bodies, in industry and commerce and in Non-Governmental organizations. A budget is a basic instrument in management. In this regard it serves as an instrument for planning and controlling the use of scarce financial resources in the accomplishment of organizational goals. The budget is an invaluable aid in planning and formulating policy and in keeping check on its execution (Premchand, 2004). It stipulates which activities and programs should be actively pursued, emphasized or ignored in the period under scope, considering the limited financial resources available to the organization.

Any good budget process needs to attain three important objectives, namely, maintenance of fiscal discipline, attaining allocative efficiency, and operational or technical efficiency. Attainment of fiscal discipline has been the main goal of budget reforms. Enlargement of the legislature's role in budgeting is a new contemporary issue budgetary approaches. With legislative budgeting, new responsibilities must be accommodated both to longstanding appropriation processes, and to political relations with government. Further, legislature's new role in budgeting cannot come from government's weaknesses. The budget is an end product of a lengthy process of monitoring and controlling public finances involving the Ministry of Finance and other agencies. If the government is incapacitated in managing the institution's finances, the legislature also will be unable to do so. Historical evidence also indicates that legislatures had fiscal powers before the executive, and the result was that legislative action became an inadequate means of fiscal control. This means that the legislature's role must be defined more in terms of policy, accountability and performance, and less in terms of control and restriction,(Wagacha,2000).

According to Lewis (2005) the basic reason for requiring guesses from subsidiary officials is that higher officials do not have sufficient detailed information, time or specialized skills to prepare the plans themselves. It is the decision maker at the subunit level who has the relevant facts to effectively classify activities into various categories according to their importance. It is also at this level, that projects and activities requiring attention and hence financial support can be identified and selected

Recording or basic accounting system is integral part of the management process in an organization, where it provides essential information to the business in its planning, evaluating, controlling and decision making process (Mahfar & Omar, 2004). Accounting information is provided by accounting systems. Accounting system comprises all the procedures necessary to record transactions, assets and liabilities in the books of accounts which will form a reliable basis for the preparation of the financial statements Sathyamorthi (2001). Without an accounting system, it would be very difficult for organizations to determine performance, identify customer and supplier account balances and forecast future performance of the organization (Stefanou, 2006). Padachi, (2012) also observed that proper system of accounting indicates how well the business is performing and what decisions are necessary to be made in order to keep the business in the market and emphasized the need for businesses to maintain proper books of accounts.

Ademola, Samuel & If edolapo, (2012) noted that in keeping proper accounting records, policies, systems, procedures, operations and personnel are required to administer the records. According to Reed (2010), proper record keeping provides evidence of how the transactions were handled and substantiates the steps that were taken in order to comply with business standards.

The success or failure of any business depends on keeping accurate and timely accounting information to give a clear financial business image (Ankrah, Mensah & Ofori-Atta, 2015). However, prior research reported that most SMEs did not keep complete records of accounts assigning several reasons. For example, a study by Maseko & Manyani (2011) established that most SMEs did not keep complete records of accounts due to lack of knowledge in accounting and the cost of engaging professional accountants. Consequently, the use of accounting information to support measurement of financial performance by SMEs was ineffective. The study proposed that regulatory bodies must develop specific guidelines for NGOs accounting and organize accounting training programs for NGOs businesses is mandatory for achievement of objectives as well as to ensure sustainability. They also recommend the application of mandatory record keeping to improve accounting practices of nonprofit able organizations

Financial reporting is the method of preparing and allocating financial information to users of such information in different forms. Accounting usually limits itself to information in a normal set of financial statements, that is, a balance sheet, a statement of income, and a statement of retained earnings (Anglo-Saxon countries), composed with various notes and supporting schedules. Notes and supplementary schedules may contain additional information that is relevant to the needs of users about the items in the balance sheet and income statement, such as disclosures about the risks and uncertainties disturbing the organization and any resources and obligations not accepted in the balance sheet (IASC, 1989). Although a published yearly report may include information about plans, new products, projected capital expenditures, and the like, this is generally presented in such a way that it is definitely separated from the ordinary financial statements. Flint (2002) states that fundamental questions in financial reporting are from which users' standpoint have the accounts to be considered and what level of understanding is to be assumed on the part of those who have to form opinions and take decisions. The most common format of formal financial reporting are financial statements.

Financial statements provide an overview of a business or person's financial condition in both short and long term. All the relevant financial information of a business enterprise presented in a structured manner and in a form easy to understand, is called the financial statements. The notes typically describe each item on the balance sheet, income statement and cash flow statement in further detail. Notes to financial statements are considered an integral part of the financial statements (Zadek, 2004).

## 2.2. Empirical Review

Although there have been various researches on financial management skills, Most of the studies has not touched on the influence of financial management practices on the financial health of INGOs. The previous research have dwell mostly on Information about the effectiveness of an NGOs depending on separate variables of building blocks of financial management practice, for example, Fasil Yisehak (2013) studies on effectiveness of internal control in World Vision Ethiopia Hawasa Program office and concludes internal control system of International NGOs are effective depend on the result he got from his study result, and Yesuf Ahimed (2015) studies on budget and budget monitoring practice in NGOs operating in Ethiopia and the his research findings in general shows that future studies should be carried out to establish the challenges related to the budgeting process among because of some of staffs which are mandatory in budget planning process are not involved, monitoring and analysis of budget are not made on a regular basis, low communication between departments for budget revision and some finance departments form the organizations under the study was made are not provide budget versus actual reports.

Previous studies have therefore, concentrated on budgetary process as well as internal control system on financial management practice of NGOs in developed countries leaving a gap of literature on effect of budgetary process and internal control system on financial magnet practice in NGOs in Africa and Ethiopia specifically. Most of studies were made only studding on single component or element of financial management. The researchers consider this as a gap and try's to study on the financial management topic by considering the building blocks of financial management such as: Budgeting and planning practice, Accounting record process, internal control and financial reporting's and identifies areas of weakness and strengths of INGOs in their working. This literature gaps were addressed by this study considering the other variables which was not considered in the past study in addition to the other constraints not considered by majority of passed researchers. On the other hand, Seblewongel (2015) assessed and described types of financial management practices in selected INGO's utilize to identify their area of strength and weakness as well as challenges around the key financial management components and reporting requirements; namely financial planning, budgeting, accounting records, internal controls and financial monitoring. Seblewongel concluded that international NGOs operating in Ethiopia have a better financial management system. Her 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. Her study was expected to provide the International NGO's detailed assessment tools to monitor each category of the financial management building blocks based on the results to better strengthen their system and work out an enabling environment with governing bodies. Her study also provided some important recommendations regarding policy implications in terms of adoptability by governing bodies and local non-government organizations as well as revising the regulatory assessment categories.

### 3. Research Methodology

The research areas, East Wollega Zone, western part of Oromia is located at latitude  $8^{\circ} 31' 52''$  South and longitude  $36^{\circ} 07' 51''$  East and Nekemte is capital city of the zone. Administratively managed into 17 Woredas, 43 towns and 287 rural kebeles. In the zone, agriculture is the dominant source of livelihood for the population. Most of agricultural activities are cash crops like maize, teff, sorghum and other pulses.

This study was employed descriptive research design and it is chosen to assess the current affairs of financial management practices of INGOs.

The target populations of this study were INGOs registered in East Wollega Zone of Oromia state which is 12 in number having 130 total employees. Due to purposive sampling technique is used needing the key informants; other staff members from other professions are not included. The total number staff working in finance, budget and program managers in the 12 INGOs were selected purposefully and particularly the finance department staff who directly deal with the management of the finance as well as the program of the INGOs. The researchers were selected 4 respondents from each NGOS (Program manager, Finance head, Finance officer, and Cashier /accountant) and totally 48 respondents are purposively selected because they are directly deal with the management of the finance as well as the program of the INGOs.

There are 12 NGO's in East Wollega zone. Due to small number of INGOs working in East Wollega Zone, all of the included in the study through their Program Manager, Finance Head, Finance officer and cashier/accountants

There are two sources of data used in this study and classified primary and secondary data. Primary data was collected using structured questionnaires and open-ended interviews. Secondary data was collected from different sources such as, internets and different published and articles and journals and different manuals on NGO financial management practices' as well as government policies in regards of NGO in general.

Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data was then coded to enable the responses to be grouped into different categories. Data collected were quantitative and qualitative was analyzed by descriptive analysis. The descriptive statistical tools used SPSS version 25 and MS Excel will help the researcher to describe the data and determine the extent used. Tables and charts are used to summarize responses for further analysis and simplify comparison.

Upon collection of all data, the data was processed, edited, classified and organized in order to enable the researchers interpret and summarize the data. The collected raw data was classified and compiled to make assessment manageable and understandable using Statistical Package for Social Sciences (SPSS) as well as Excel. Descriptive statistics using percentages and frequencies as well as mean and standard deviation were used to analyze the quantitative the data.

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

### 4. Discussions

#### 4.1 Background related of the respondents-A descriptive Statistic Analysis

In order to achieve the objectives of the study 48 purposively selected INGOs staffs with self-administered structured questionnaires were purposively distributed to the sampled INGOs in East Wollega Zone with an expected return of 100%. But, actually 46 questionnaires were collected back and posting a response rate of 95.83%; whereas the remaining 4.17% did not. The overall percentage of respondents on the 46 items over the five-points categorical responses were used as a known test value.

Regarding with the education levels of the respondents the study revealed that, 65.2% of them are BA degree holders as well as 34.8% of them are Masters and above and there is no Diploma holders from the respondents. As per the researchers sample says that it is purposive sampling and most of the respondents background is accounting and finance as well as related fields. So, the implication to these findings is that, most employees of INGOs in East Wollega Zone have sufficient education in order to manage their organizations financial management.

Concerning to the respondents year of experience in the current organization, the result reveals the summary of the respondents in table 1.

Table 1 Respondent's Work Experience Assessment Result

Years of experience you have in current organization you work in					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-2 years	8	17.4	17.4	17.4
	3-5 years	23	50.0	50.0	67.4
	6-8 Years	7	15.2	15.2	82.6
	9-10 years	5	10.9	10.9	93.5
	> 10 years	3	6.5	6.5	100.0
	Total	46	100.0	100.0	

Source: Primary (questionnaire) data, 2020 SPSS

Source: Primary data 2020 SPSS

Experience is one of the competences to understand topic under study that is financial management in INGOs. Experience also referred to as professional competence. In the literature, it is indicated that commitment to this competence by employees is one part of effective financial management system. The unis, keulder & Erika Bez (2011) Says Leaders and managers of NGOs have to develop, at the very least, basic skills in financial management and this skill is comes from experience as well as from education at all. The more experienced employees are the more they understand about the financial work they execute. Out of the respondents are, 50.0% of the respondents as indicated in table 1 were experienced with years of 3-5 and 17.4% of the respondent has an experience between 1-2 years. The left 15.2 %, 10.9% and 6.5% of the respondents are 6-8, 9-10 years and >10 years respectively. This indicates that the employees working in the key areas of financial managements system are well experienced, so that they can objectively respond to the questionnaire.

#### 4.2 Reliability Test of Instrument and Likert scale Statistical Data Analyzing Guidelines.

One of the common methods to test the reliability and validity of data collected through questionnaire is use of Cronbach's alpha coefficient. Lee Cronbach (1951) defines Reliability as an attribute of an instrument used to measure consistency. Consistency indicates that an instrument has constructive value it used to measure. Reliability on the other hand is the ability of the instruments to consistently yield the same results when repeated measurements are taken of the same individuals under the same conditions (Koul, 2004). This was ensured by carrying out Cronbach's (1951) alpha ( $\alpha$ ) test. Accordingly the following points shows. Cronbach's Reliability Estimation scales.

Cronbach's alpha internal consistency is stated as follows

Table 2 Lee Cronbach's Reliability Estimation Table

Cronbach's alpha	Internal consistence
$\alpha \geq 0.9$	Excellent
$0.8 \leq \alpha < 0.9$	Good
$0.7 \leq \alpha < 0.8$	Acceptable
$0.6 \leq \alpha < 0.7$	Questionable
$0.5 \leq \alpha < 0.6$	Poor
$\alpha < 0.5$	Unacceptable

Table 3 Reliability coefficient of the study variables.

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.792	.813	45

Source, SPSS primary data result, 2020

As indicated in the reliability statistics (table 3), the overall alpha coefficients for each component of building blocks of financial management is ranged between Cronbach's Alpha 0.792 and Cronbach's Alpha Based on Standardized Items is 0.813. Therefore, based on the coefficient values, the items tested were deemed to be reliable and consistent for this study.

Regarding to the Likert scale Statistical Data Analyzing Guidelines data was analyzed based on the statistical method suggested by Best & Khan (1998). According to Best & Khan (1998), the responses on Likert scale tool of 5-points were determined as the following ranges.

A mean value of **1.00 - 1.80** is the lowest or in this case, *highly disagree*; A mean value of **1.81 - 2.61** lower or in this case, *disagree (below mean value)*; A mean value of **2.62 - 3.41** moderate or in this case *average (mean*

value); A mean value of **3.42 - 4.21** is considered as *agree (above mean value)* and, Mean values of 4.22 - 5.00 are considered as very good or in this case very agree.

#### 4.3 Budget and Planning Process

Budget and planning practice is considered as one of the building blocks of the financial management practice. INGO's as part of the Civil and Society Organization (CSO) sector are required by the 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 budget planning practices the INGOs running in East Wollega Zone were asked ten key questions and analysis of their responses is listed in table 4. The analysis for the Likert questions are analyzed using the mean and standard deviation values processed through SPSS.

Researchers have 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 is. 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 ten questions asked with focus on budget planning practices are listed in the table 4.

The results revealed to fall under the range of good/agree to very good/ strongly agree mean values. Budgets are prepared in good time for all the costs of running the organization, Project budgets are based on the costs of planned activities, Budget worksheets include explanatory notes and clear calculations, Budget codes match (or correspond to) accounting codes showed mean values 4.23 to 4.39, which are strongly agree or 'very good' with SD result of less than 1 it means that the data was very near to average or mean.

On the other hand, the remaining five items are Both finance and program staff is involved in setting budgets, a separate budget is prepared for core costs (overheads), Organizational budgets are approved by the Board of Trustees, a named individual (budget holder) is responsible for implementing and managing each budget and all planned operational costs are adequately funded, revealed 'good' or 'agree' responses among participants with mean values ranging from 3.71 to 4.10 and SD of less than 1 meaning the response of respondents on data were very close to mean.. In other case "a cash flow forecast is prepared every month" shows a mean value of 4.36 and falls in the brackets of very good or strongly agree and its SD value shows 0.571 which is less than 1. Therefore, in INGOs of East Wollega Zone, the monthly cash flow for cast and its preparation for budget and planning process were very good by respondents (mean 4.36) with high closeness of responses of respondents to the average or mean value. The result was related to the data of AlemuK(2018) with mean value of 4.05 and but differ from his research's SD of 1.022 which shows that the respondents mean value is very far away from the average or mean value.

According to the results budgets are prepared in good time for all the cost of running the organization, project budgets are based on the costs of planned activities, budget worksheets include explanatory notes and clear calculations, budget codes match (correspond) to accounting codes, and a cash flow forecast is prepared every month and the respondents response on those questions are fall within the brackets of 4.23-4.39 which very good or strongly agree with SD vale of less than 1 and it pronounces to us an excellent result.

Even if the results of the stated questions are very good or strongly agree some of the respondents choose 2(Disagree). On this issue the researcher try to discuss with key informant interviewee members and conclude it as due to some activities were generated at HO level such a like options are created that makes some finance staff at filled level is not participate on it and gives such alike response. For example both finance and program staffs are involved in setting budgets shows mean value of 3.71 which is found in the range of agree or above mean value as per Best & Khan (1998) and shows SD value of 0.910 which is less than 1 even if it is the lowest grade of the respondents under this analysis result. The study made by Alemu (2018) shows means value of 4.29 (strongly agree or "very good") and SD of 1.015 which implies high variability of responses scoring a given SD value of 1.015 also studies done by Seblewongel (2015) shows mean value of 4.56 with a SD value of 0.659.

As general information the majority of the respondents agree with the existence of a formally assigned authorizing management body in Ethiopia 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. Likewise, interviewees said that most of the time budgets of International NGOs are top-down that makes some finance staffs are not participate on budget and makes some staff to choose 2(Disagree)

#### 4.4 Basic Accounting System / Recording Process

According to Lewis (2017) every financial transaction should be backed up by a 'supporting document', e.g. a receipt, invoice or sign sheet (e.g. for many travel reimbursements). This is the evidence that a specific transaction has taken place. Every transaction involving paying out or receiving money should be written down

in a cashbook

It is very essential to review the accounting record practices of any organization as every transaction should be backed up by complete documentation which consists of pure information for what that transaction was made for with clear approvals. Table 5 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 46 respondents showed 4.32- 4.80 value which categories it as very good value as confirmed by Best (1998) as a mean value equal or above 4.22 is considered as very good or strongly agree very high value. As well the standard deviations values are all less than 1.00.

The facts and figures under table 5, data of 12 items are displayed related to financial records, reporting and closure of projects. Table 4 also displays the descriptive statistics consisting of minimum and maximum response for 12 items as well as the mean and standard deviation of respondents was found. The analysis for each question posed is provided here below.

All the items in table 5, such as, the adherence of national standards, financial practices as complete and accurate records of financial documents and expenditures, the segregation of financial statements by project, the fact that records are kept for financial items, and the use of appropriate software for financial transactions. The mean values for all of the issues were 'very good' results (ranging the mean values from 4.32 to 4.80) as stated above. Since the standard deviation was less than 1.00 for each of the 12 items and high mean values, the result revealed agreement with most accounting practices.

Therefore, while a few key informant interviewee stated that INGOs has updated and very computerized software for their financial system and this make them competent enough as well as scoring very good result in this assessment. According to this result all international NGOs in East Wollega Zone record keeping system shows "good documentation of the work of activities as well as good technological utilization is still practiced in them." The other evidence for the results in basic accounting system in this study is that under the general knowledge assessment section of this study shows that most of employees in INGOs are more educated it means that no one employee is there less than BA degree holder, this also implies that the employees are competent enough for the accounting works and also as per the key informant interviewee statement the employees are working in standardized software as well as they agree with accounting software very easily. Considering this delay of reporting was not occurring many times except network and other security issues are occurred.

For accounting and recordkeeping in INGOs which may have huge financial transactions a concrete record keeping system is needed because of huge resources are passed in those like organizations which have huge contribution in the countries development. Even if the financial reporting and documentation of INGOs are more sophisticated, this study result and discussion above shows accounting records supporting document and books of accounts are kept properly.

#### **4.5. Financial Reporting Practice**

According to Lewis (2017) financial reporting and its detail components are stated as the Board of Trustees need financial reports to oversee the finances of the organization. Managers need up-to-date figures to monitor projects and make decisions. Donor agencies need reports to check the use of their money, and often as a condition for further funding. Increasingly, organizations are sharing financial information with beneficiaries to increase accountability and build confidence. An annual external audit verifies the accuracy of the financial statements. The monthly financial reports should include an income and expenditure report showing money coming into the organization and how it was spent. If the report compares the amount spent against budget, it is called a budget monitoring report.

The budget is supposed to be a tool not a strait jacket. Project managers should use financial reports to help make decisions so that the money is used efficiently and effectively to achieve desired outcomes. It is also important to report on balances held at the end of each month or quarter. Balances includes the amount of money held (cash and bank), as well as amounts owed to the organization (such as unaccounted working advances) and owed by the organization (e.g. to suppliers / tax authorities). Reports should be produced showing the relevant level of detail according to their use (e.g. for a single project or donor) or consolidated. Reports should also have the right format for their use, e.g. donor formats as per grant agreements, standard formats for annual audited accounts, accessible formats for beneficiaries, user friendly formats for managers.

The eight questions assumed to secure data on the key financial reporting practices listed in table 6 showed a minimum mean value of 3.47 with SD value of 0.960 which is falls in agree (good) or more than average standard by statistical measurements as per Best (1998). Individual analysis results by mean value are described below to show the detail aspects of the monitoring processes in the INGO's in East Wollega Zone under this study.

The existence board review financial documents per quarter as well as senior managements discuss on financial reports at least quarterly with mean value of 4.04 and 4.19 and with SD value of 0.728 and 0.542 respectively shows follow up of the projects and resource management is high that shows good result. Generally



all questions on the SPSS table under reporting practice result shows financial reporting practice of INGOs under study is fall in between the scale of more than average to good result as per Best (1998). INGO's use to monitor their progress. The below table under question "budget holders receive budget monitoring reports every month' it means that at least on monthly basis reports to enable program staffs review their utilization status is given by the fiancé unit frequently and as budget holders were also portion of the response group answers provided by the finance team were also confirmed by the program team with in confirmation of respondents mean value of 3.73 with SD value of 0.712 this practice is more than average (good)and it is acceptable but there is some respondent which choose 3 or neutral from the given Likert scale below and the researcher try to discuss on his interview with the interviewee and the occurrence of some such a like respondents is most of the time reports are processed at HO level and also due to connectivity problems in the country the budget monitoring reports are lagged and considering that some respondent choose 3(neutral) and this makes result to more than average and also the issue is the same with reports include details of cash and bank balances, amounts due(e.g. from staff) and owed(e.g. to suppliers) with Mean Value of 3.76 and SD value of 0.603 which is more than average or good value. The assessment result is shown in the following table.

The SPSS table result of financial reporting for decision-making practice shows that mean value of 4.43 and SD value of 0.501 which is range of very good and it shows on time financial management was produced and decisions are depend on it as well as it is also a clue for best monitoring system were applied in INGOs in East Wollega Zone. Under question in "budget monitoring reports include explanations and comments about differences" the practice shows also very good result and shows the budget monitoring report have detail explanation and comments very well that shows mean Value of 4.10 under good or agree and SD value of 0.604 which is less than 1 and it means that very close to the average.

One of the other question under this study is that "information is shared with beneficiaries at least once per year, at least in an accessible way" the respondents mean value under this question shows 3.47 with SD value of 0.960 the results falls in the range of good(agree) as per the standard stated in in this study and it provides the following explanation as per the discussion with interviewee respondents choose 2 most beneficiaries are live in the remote areas as well as network challenge for phone calling and there is inaccessibility of beneficiaries. Some beneficiaries are not get report on time concerning this there is also system (software challenge) as it was discussed above under this study in detail.

Reports include details of cash and bank balances, amounts due (e.g. from staff) and owed (e.g. to suppliers) shows mean value of 3.76 and SD value of 0.603 which is more than average or good value even if some respondents are choosing three but not change the result. Differences between the two balances are reconciled by listing the outstanding items between the two balances. In the cash book, all payments are subdivided (if applicable) to the line item columns of the projects' budget line items, and then summarized on the cash book schedule, adding up to total expenses of the month paid from the bank account. On the cash book schedule, petty cash expenses are also listed and added to the columns for line items. These show movement in funds available in both the bank account and the petty cash. The cash book summarizes movement in funds payable and receivable, and income received from donors.

Depending on principles of INGO reporting stated in in the literature of this study of reports will be as per the agreement between the donor and the organization for decision making. A financial report lists all expenses progressively during the period of the agreement. Under this study the respondents mean value in case of financial reporting is 4.43 and SD value is 0.501 it shows very good result and indicates East Wollega Zone INGOs financial reports are used to help make decisions.

Annual audits are up-to-date (signed within 6 months of the year end) this question shows mean and SD Value of 4.32 and 0.473 which is strongly agree or very good grade.

ChSA are expected to maintain a state of audit readiness. This means that financial and program -related records relating to their (INGOs) activates must be readily accessible for audit. Failure to provide the auditor with reliable documentation could lead to questioned costs and possibly result in cost disallowances. After the end of each financial year an annual audit must be performed by accredited auditors. Each donor is supplied with a copy of the audited financial statements. Donors often expect audited financial reports on their specific funding. This has to be agreed upon with the auditors at the start of the audit. The total period of the agreement with the donor has to be covered by audited financial statements. This specific reporting to a donor could span the audit reports of financial years of the organization, depending on the total period covered by the agreement. In case of INGOs in East Wollega Zone the study result shows mean value of 4.32 and SD value of 0.473 which very good result and the audit is usually done within given period of agreement after the close of the organization's financial year.

## 5. Summary and Interpretation of Findings

The main objective of this study was to assess the practice of financial management of INGOs operating in East Wollega Zone. Descriptive research design was adopted for this study. The sample of 12 INGOs a targeted

population of the overall operating in the study area taken and again 48 relevant respondents were purposefully selected from those INGOs to ensure that sample is representative of population (all INGO operating in East Wollega Zone). So the study used multi stage purposive sampling technique. The study used primary data collected from semi-structured questionnaires. Quantitative and Qualitative data were analyzed using descriptive statistics. The analysis was, then, based on descriptive statistics; of 1-5 sated Likert scale questions assess financial management of INGOs operating in East Wollega Zone

Starting the analysis result it can be seen INGO's have a lot of experience and practices and also the financial practices of the sampled INGOs under study have more than average or strong management system. This has been verified through the data analysis using mean and standard deviation. All of the financial management components are very important and intertwined in that as much as possible equal emphasis needs to be given to all the managerial components, in order to balance the strengths and weaknesses in each component and build upon existing resources to strengthen the financial management system.

Based on the finding, the researcher aspires to provide the INGOs under study with the study finding so as to enable each to further review internally their own system and use the information to further strengthen their system.

Theunis, keulder& Erika Bez (2011) Says Leaders and managers of NGOs have to develop, at the very least, basic skills in financial management. Expecting others in the organization to manage finances is clearly asking for trouble. Basic skills in financial management in areas of budgeting and planning, record keeping/basic accounting, internal control and monitoring reporting which should be carried out following certain financial controls to ensure their integrity in the management process. New leaders and managers should swiftly learn how to generate financial statements (from bookkeeping journals) and analyze those statements so as to develop a real understanding of the financial condition of the organization. Financial analysis shows the 'reality' of the situation of an organization and as such, is one of the most important practices in management. This guide will provide INGOs with an understanding of common practice in financial management, and help organizations to build the basic systems and practices needed in a healthy organization and accordingly the researcher summarizes results of INGOs financial management practices as follows.

The study has tried to assess the best financial management practices of twelve INGOs in East Wollega Zone, in order to review what type of financial management practices they have in place by reviewing against confirmed financial management evaluating frameworks. The study outcome has shown the degree of diversity of INGO's in most regions of Ethiopia covering a varied range of places. A lot of resources are spent by these organizations, and the financial management process study tried to express into the financial management practices of twelve INGOs to assess their financial management practice depending on building blocks of financial management: Budgeting and planning, accounting records, internal controls and financial reporting practices. All INGOs registered with the ChSA are required to have well organized and clear financial management practice for successful accomplishment of approved objectives. When well executed, the financial management function forms the basis for growth, development and sustainability"

One of the critical challenges raised during the interview was the issue of Network and case of Covid - 19 which is the many problem the world not only Ethiopia and also the main issue of obstacle currently faced INGOs in the area of study because of they can't work their planed actives as per the plan as well as not keeping due dates of reports, and it is the main agenda that irritates the donor or support office and makes them frustrates on the fund they release or donates for the established project under the study area and the researcher has tried to deliver practical recommendations for this in this study.

## 6. Conclusion and Recommendations

Better financial management performance cannot be achieved unless overall financial management system works namely, financial budgeting and planning, recording, and internal controls and reporting. Comparatively even though financial planning and budgeting process result is above average, it is noticed that the involvement of finance staff in the work is superficial which creates cumulatively weak financial management. Low consideration of lower-level staff is the source of administrative related costs and cause of inefficiency. This will also make the financial planning and budgeting process at its low linkage level between finance, program and maximize the occurrence of unanticipated/hidden costs.

The overall internal control system of INGOs under the study shows very good result or very acceptable even if the procurement process deviates boldly from the expected procedures and sometimes inflated purchases are conducted without scanning the general markets. It is known that a minor mismanagement/malfunction in procurement can be resulted in devastating consequences since it is an area where an organization's expenditure accounts biggest share.

Payment procedures as well as fixed asset registration and controlling sometimes are deviating from the line. Sharing and collecting important information from/to beneficiary's shows that the presences of distortions and delays due to some constraints like the remote location of beneficiaries, unsolvable network challenges for

calling that makes beneficiaries inaccessible.

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

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

Even though it might be difficult to conclude all INGOs have the best financial management system with assessment of only twelve organizations, looking at the assessment results it can be inferred INGO's operating in the country have a superior financial management system. This study has also attested that the current financial management practices are working and are at good standard as in most of the major categories reviewed, they have well positioned procedures and processes.

A good financial management system will avert expenditure of resources enhancing performance and ensuring control of funds that can carry the organization through more stringent periods or fund shortages. As long as the good practices are conserved and policies and procedures revised on timely basis to align with current country reporting requirements, documented practices can be positively exploited and adopted by similar organization to have an overall strong financial management system in all NGO's.

Based on the findings of the study, it is advisable to INGOS to give attention and focused on high quality management system on the following points.

- ☞ The overall internal control system of INGOs under the study area shows some acceptable results in other dimensions, but it needs emphasis and determination on planning and effective execution on procurement activities due to it is an area substantial expenditure, source of conflict of interests, and highly exposed for tempting practices. For the effective decision making and attainment of value for money, the procurement activities should be conducted in very wise, reasonable, professional and ethical manner by surveying the current market situations that protect inflated purchase. This inclusively, increase effectiveness and efficiencies that can help to maintain the interest of the INGOs and other stakeholders.
- ☞ Payment procedures as well as fixed asset registration and controlling are the hearts of the organization and these should get adequate concern.
- ☞ Senior management group who works at top of the organization's hierarchy should continue on maintaining continuous review process and monitoring by allowing the participation of lower-level employees to meet performance requirements. Unless engagement of different individuals working on different hierarchy and role come together, it is difficult to bring creativity and expect excellence in services or operations.
- ☞ Currently, information is becoming an invaluable resource for sound full decision making, right action and better competition and thus it should be shared and collected timely with/from beneficiaries/ users by using any optional means and discussion with concerned bodies since most beneficiaries are living in the remote areas where network has full of challenges making accessibility difficult.
- ☞ To excel in financial management system, it needs to attract funders and make it easier to be accountable to partners, donors, and all stakeholders since this helps to enhance respect and confidence in the organization. This in turn helps an INGO to be competitive for major fund-raising opportunities as well as increase its chance of maintaining long term financial health.

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## 8. Appendices ( SPSS results)

Table 4 Budget and planning process assessment result.

	Mean	Std. Deviation	Minimum	Maximum	N
Budgets are prepared in good time for all the cost of running the organization	4.2391	.73590	2	5	46
Both finance and program staff are involved in setting budgets	3.7174	.91075	2	5	46
Project budgets are based on the costs of planned activities	4.3696	.48802	4	5	46
Budget worksheets include explanatory notes and clear calculations	4.2609	.53478	3	5	46
A separate budget is prepared for core costs (overheads)	3.8696	.80578	2	5	46
Organizational budgets are approved by the board of trustees	4.0870	.75502	2	5	46
A named individual (budget holder) is responsible for implementing and managing each budget	4.1087	.76676	2	5	46
Budget codes match (correspond) to accounting codes	4.3913	.68242	3	5	46



	Mean	Std. Deviation	Minimum	Maximum	N
All planned operational costs are adequately funded	3.9565	.59466	3	5	46
A cash flow forecast is prepared every month	4.3696	.57189	2	5	46

Table 5 Basic Accounting System/Recording Process result

**Item Statistics**

	Mean	Std. Deviation	Minimum	Maximum	N
Every payment made has a supporting document providing evidence	4.3261	.55993	3	5	46
All cash or cheques received are recorded on pre-numbered carbon copy receipts	4.5652	.50121	4	5	46
All payments and receipts are recorded in cash books (date, description, amount)	4.5217	.54728	3	5	46
There is a separate cash book for each bank and cash account	4.5217	.54728	3	5	46
Every entry in the cash books is cross referenced to a supporting document	4.6739	.51873	3	5	46
All cash books are updated at least once per month	4.7826	.41703	4	5	46
All cash books are Witten neatly in permanent ink or on computer	4.7826	.46729	3	5	46
A standard chart of accounts is used to code (or classify) each transaction in the cash books	4.6087	.64904	3	5	46
Transactions are also classified by project or donor using a standard list of 'cost centers'	4.8043	.49976	3	5	46
A bank reconciliation is done each month, for every bank account	4.8043	.49976	3	5	46
A cash account reconciliation is witnessed and recorded each month	4.6522	.48154	4	5	46
The organization keeps track of amounts owed to others (e.g. suppliers) and owed by others(e.g. Staff)	4.4348	.65497	3	5	46

Table 6 financial reporting Practice assessment result

	Mean	Std. Deviation	Minimum	Maximum	N
The board reviews financial reports every quarter	4.0435	.72897	3	5	46
Senior managers discuss financial reports at least once every three months	4.1957	.54240	3	5	46
Reports include details of cash and bank balances, amounts due(e.g. from staff) and owed(e.g. to suppliers)	3.7609	.60313	3	5	46
Budget holders receive budget monitoring reports every month	3.7391	.71289	3	5	46
Budget monitoring reports include explanations and comments about differences	4.1087	.60473	3	5	46
Financial reports are used to help make decisions	4.4348	.50121	4	5	46
financial information is shared with beneficiaries at least once per year, at least in an accessible way	3.4783	.96007	2	5	46
Annual audits are up-to-date (signed within 6 months of the year end)	4.3261	.47396	4	5	46

Source: Primary (questionnaire) data, 2020 SPSS